Investors should encourage a resurgence of local community banking

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The number of community banks in our nation is at the lowest point in recent history. From a high of 18,033 in 1985, there were 5,477 as of the third quarter of 2018. Because of the interest and value in community banks, many have sold to larger institutions as heavy consolidation has occurred in the banking sector. This consolidation creates opportunities for investors to start new community banks.

In sunbelt states like Florida, where we have more than 900 new Floridians daily, some of our major metropolitan areas lack a locally-headquartered community bank. As a result, several new banks have opened in Florida, including Winter Park National Bank in Orlando and Gulfside Bank in Sarasota. There have also been recapitalizations of old banks under new management, such as Beach Community Bank and One Florida Bank. These four banks combined have raised more than $200 million from investors.

Local banks are important because our country thrives on small businesses, which employ a majority of Americans. According to the Small Business Administration, small businesses make up 99.7 percent of U.S. employer firms, 64 percent of net new private-sector jobs, and 49.2 percent of private-sector employment. Their lenders of choice tend to be community banks.

In an op-ed published by *The Wall Street Journal* in 2016, JP Morgan Chase Chairman and CEO Jamie Dimon wrote: “In this system, regional and smaller community banks play an indispensable role. They sit close to the communities they serve; their highest-ranking corporate officers live in the same neighborhoods as their clients. They are able to forge deep and long-standing relationships and bring a keen knowledge of the local economy and culture. They frequently are able to provide high-touch and specialized banking services.”

Dimon is correct. Our nation needs community and regional banks just as we do national banks. Each plays an important role in the U.S. economy and places U.S. companies in a strong position at home and globally. With almost 50 percent of all business loans coming from community banks, that sector of the banking industry must remain strong and vital.A Harvard University study concluded that the Dodd-Frank regulatory environment caused consolidation in the country’s banking sector, especially among community banks, raising a concern. A few years ago, the FDIC conducted a study on the role and impact of community banks on the U.S. economy and found:

"Community banks tend to be relationship lenders, characterized by local ownership, local control, and local decision making. By carrying out the traditional banking functions of lending and deposit gathering on a local scale, community banks foster economic growth and help to ensure that the financial resources of the local community are put to work on its behalf. Community banks have always been inextricably connected to entrepreneurship. As of 2011, they held 14 percent of banking industry assets, but 46 percent of the industry's small loans to farms and businesses."

More recently, the regulatory environment has improved. In 2016, the FDIC cut by more than half the amount of time new community banks are subjected to more stringent regulatory exams. This move should encourage investors to form much-needed new community banks.

Currently there are 17 (as of Feb. 2019) new bank applications or start-ups in the U.S. In Florida, several more are planned and are being organized. Generally, when a community bank becomes profitable and well-entrenched, there is interest from buyers. At that point, community banks can either go public (allowing new and original investors to enter or exit ownership by creating a publicly traded stock) or sell to a bigger institution.

Conservatively speaking, in the current M&A market, returns to bank investors are at least 200 percent of the original investment. A very smart and excellent choice. Starting community banks is a great investment.

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