FinPro
Building value together

February 5, 2019

Robert E. Feldman
Executive Secretary
Attention: Comments RIN 3064-ZA03
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Mr. Feldman:

FinPro, Inc. ("FinPro") offers the following comments in response to the Request for Information ("ROI") on the FDIC's Deposit Insurance Application Process. FinPro is a bank consulting company located in Gladstone, New Jersey. It was formed over 30 years ago by Don Musso, its President and CEO. FinPro has supported dozens of de novo groups that have received FDIC deposit insurance and successfully operated through various economic cycles. It is with this significant de novo experience that we offer the below commentary.

Don Musso is also pleased to participate in the FDIC New York Region's Roundtable on the Deposit Insurance Application Process, scheduled to be held on March 8, 2019, in New York.

While there are always opportunities for enhancement, FinPro has noted significant improvement with both Washington, D.C. and Regional staff's engagement and communication in the de novo process. Regional Office staff is open and helpful during pre-application meetings. Washington, D.C. staff has proven willing to schedule meetings and phone calls to discuss high level or unusual application issues. In FinPro's opinion, the entire atmosphere with FDIC staff has changed from "how to find reasons to prevent this application from moving forward" to "helping the applicants understand and address issues in anticipation that the application can move forward."

Nonetheless, there are always areas that can be improved. FinPro offers the following comments pursuant to the FDIC's Statement of Policy aligned with the below two statutory factors enumerated in Section 6 of the FDI Act:

1. The adequacy of the institution's capital structure
2. The general character and fitness of the management of the institution

Capital

There is no doubt that a de novo must maintain sufficient capital for its risk profile, initially measured as its first three years of operations. However, the ability for a de novo to raise the targeted level of capital is often predicated on a number of factors, including overall economic conditions as well as volatility within the banking sector equity market. That being said, there are times when it is difficult to predict whether the capital raise will be at the minimum threshold or be oversubscribed.

The FDIC currently requires the submission of de novo strategic business plan that identifies a specific capital amount. Said another way, it does not allow for the submission of a de novo strategic business plan with a baseline capital scenario and multiple variations for a mid-point capital raise and a maximum capital raise. The reality, though, is that no one can absolutely know the specific dollar amount of capital that can be raised before the submission of the strategic business plan. The timing of the capital raise prevents knowing with absolute certainty. As a result, a de novo group is forced to submit a business plan with capital levels representing the most conservative (i.e. highest confidence) capital raise.

From a regulatory perspective it may make sense to use this approach as regulators may consider any additional capital raised as a risk cushion for operations. The reality, though, is that investors expect full deployment of their investment with an eventual return (e.g. tangible book appreciation). It only makes sense that a strategic business plan will change if an applicant raises more capital than described in the strategic business plan.

The impact of a successful capital raise that exceeds conservative estimates is either (1) a subsequent request for approval of material deviations from the approved strategic plan or (2) the need to submit another capital plan that will delay ultimate approval of the application. Both outcomes are problematic and result purely because the FDIC will not consider various alternatives in a Strategic Business Plan. The FDIC could avoid both such scenarios by accepting a strategic business plan with two capital projections, clearly delineating the operating strategies and risk mitigation strategies for both levels.

General Character and Fitness of Management

FDIC staff has generally taken the position that a de novo group Chief Executive Office must have occupied a similar position at a community bank to be deemed an acceptable candidate. FinPro requests that the FDIC assess the management team in its entirety and recognize that an experienced CLO, CRO, CCO, team can more than compensate for a proposed CEO who previously lacks that exact experience. In fact, given today's technologies in banking and demographic changes in customer base, there are many skills and competencies that could define a successful de novo CEO beyond past community bank CEO experience.

FinPro notes that the FDIC has at times deployed the above approach in its analysis but as a whole there is a lack of consistency within the agency. The de novo process would benefit if the above approach was better articulated in policy and procedure.

Lastly, FinPro urges the FDIC to improve the Interagency Biographical and Financial Report ("IBFR") process and to correct the below problems:

- The IBFR form often cannot be accessed by device using the Apple Software
- The IBFR form cannot be saved. A user must complete it online in one session and print the form before leaving the website.
- The IBFR form truncates answers, causing confusion and problems when reviewed
- The IBFR form requires financial statement "as of" dates to be within 90 days of application submission, rather than using calendar year-end financial and cash flow statements with an acknowledgement that there has been no material change.

FinPro appreciates the opportunity submit these comments in response to the ROI, and would be pleased to answer any questions or provide any additional clarity if desired.

Thank you,

[redacted]

Scott Polakoff
Executive Vice President |FinPro