Promoting New Bank Formation Act of 2024

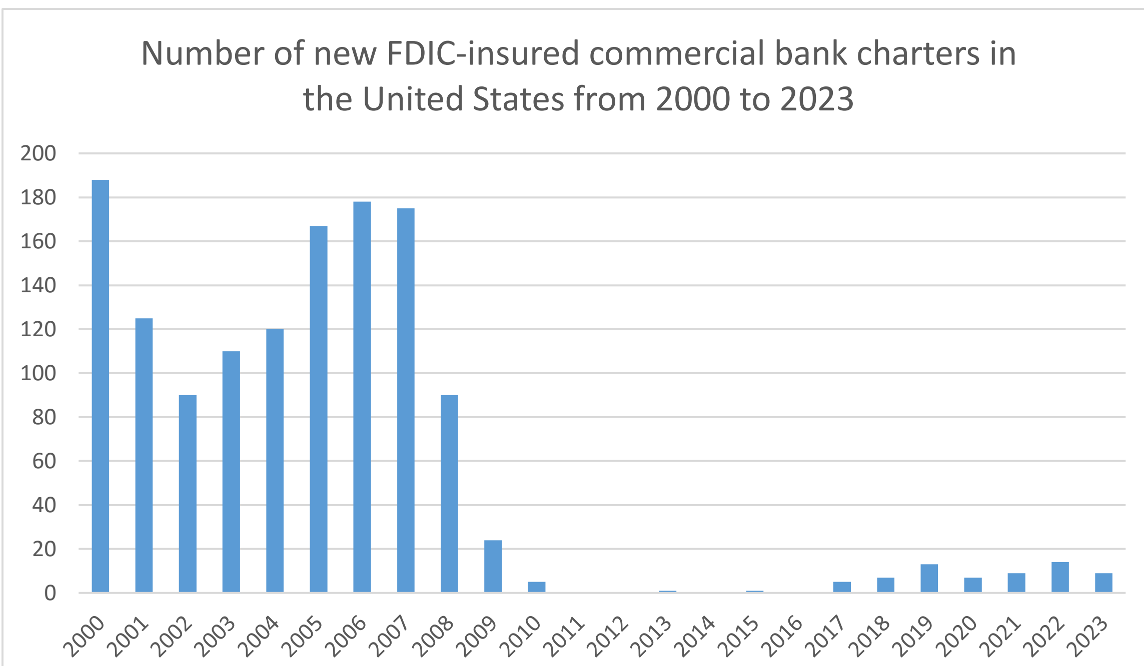
U.S. Senator Cindy Hyde-Smith (R-Mississippi)

Overview

Community banks are vital to the economic health of rural and underserved communities, providing access to capital for small businesses and individuals often overlooked by larger financial institutions. These banks play a pivotal role in growing and sustaining local economies.

However, since passage of the Dodd-Frank Act in 2010, the creating of new, or de novo, banks has plummeted. In 2007, 181 new bank charters were issued, but from 2010 to 2023, the U.S. averaged fewer than 6 new charters annually, with many states seeing none at all in that time period. At the same time, bank mergers and acquisitions have reduced the number of community banks significantly, particularly in rural areas.

In Mississippi, for example, the number of banking institutions has declined by 36 percent over just the last 15 years, dropping from 97 to 62, leaving many underserved areas without adequate financial services. When a community bank closes or is absorbed, the local capital and economic vitality often disappear with it.



Solution

The Promoting New Bank Formation Act aims to encourage the formation of new de novo banks by instituting a three-year phase-in period. During this period, newly chartered de novo banks will face less stringent capital requirements, still within the law, allowing them time to get off the ground and adapt to a business model that aligns with their specific needs and circumstances.

The Details

The Promoting New Bank Formation Act would ease the formation of de novo banks by:

- Requiring the federal banking regulatory agencies to jointly issue rules to allow de novo banks up to three years to meet capital requirements otherwise applicable. This measured phase-in of capital requirements will mitigate the up-front resource strains of starting a new bank.
  - Three years of lowered capital requirements, still within the law, for small banks will not threatening safety and soundness of the institution or its counterparties.

- Allowing de novo banks flexibility to modify their business plans to account for changing market conditions by directing federal banking regulators to replace their cumbersome pre-approval process for changes to business plan with a more dynamic review.

- Incentivizing de novo bank formation and broader financial inclusion in underserved rural communities by:
  - Directing the federal banking regulators to set the Community Bank Leverage Ratio at 8 percent for de novo banks that open in qualifying rural communities, which is aligned with the lower bound of the range established in S.2155/PL. 115-174.
  - Eliminating agriculture loan concentration limits for qualifying lenders in rural areas.

- Requiring a joint report to Congress from the federal banking agencies on the principal causes for the low number of de novo banks in the past 10 years and ways to promote more de novo banks in areas currently underserved, including rural and urban areas.

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