After 10-year absence of new local banks, could we soon see some startups?

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When Spring Bank opened its doors in Brookfield during the summer of 2008, no one figured it would be the last new commercial bank to start up in Wisconsin for at least the next decade.

During the previous 15 years, Wisconsin had averaged more than two new bank openings — totally new local banks, not branches — per year as executives from large financial institutions left to set up their own shops. Among the names established in that period and remaining in business today: Green Bay's Nicolet National Bank, West Bend's Commerce State Bank and Hartland's Town Bank.

Little did anyone know that the just-around-the-corner Great Recession and financial crisis would put the brakes — with a loud screech — on startup banks not only in Wisconsin, but nationwide.

Now, 10 years later, with the economy on solid footing, interest rates rising and many other local banks acquired or merged out of existence, more would-be bank entrepreneurs are at least looking into the possibility of starting up what are known in the industry as "de novo" banks, experts say.

"There are a few things kind of coming together that make me think our state is going to see a de novo in the not-too-distant future," said Peter Wilder, a shareholder with the Banking and Financial Institutions Practice Group of the Milwaukee law firm Godfrey & Kahn. "One is the consolidation that's happened. It's pretty significant over the last 10 years. Two, is we've got the Great Recession far enough in the background that all of a sudden you've got this loan growth."

In addition, Wilder said, interest rates "have thawed a little bit so the margins are getting a little better." At their most basic level, banks make money by charging higher interest rates on loans than they pay for deposits. The long-running low interest rate environment has kept those margins narrow for many banks.

"And when you take into account tax reform, there's big savings there for banks," Wilder said.

Historically, industry consolidation has been a big factor in the rise of startup banks. Consolidation — typically a bigger bank buying a smaller one — erases a community bank from the local landscape and automatically transfers its accounts to the acquiring bank. Some customers, in particular small and midsize business borrowers, aren't always happy about the approach of the big institution, which leaves them itching to work again with a smaller bank.

That can present an opportunity for a fresh new bank that is looking to handle smaller businesses and create a market for a startup that stresses a more personal relationship with its commercial customers, said David Schuelke, founder and chief executive officer of Spring Bank.

Schuelke said that although nobody foresaw such a devastating recession coming at the time he was organizing and opening his new bank, the treatment of small-business customers by their big banks during the economic downturn set the stage for lending opportunities to good companies that had been treated badly by their previous lender.

"The phone started ringing from borrowers," Schuelke said. "They'd say, 'My bank asked me to leave. My bank told me they don't do this (type of lending) anymore. Are you lending money?'"

Consolidation also can create unhappy loan officers — lenders who liked the more-personal approach of their previous owner — and make them candidates to join a startup or community bank and bring their previous loan customers with them.

Since 2008, the number of banks based in Wisconsin has dropped 28 percent, to 208 from 290, according to the Federal Deposit Insurance Corp.

The return of startup banks has been slow nationally in what bankers often assert is an over-regulated industry. Four opened in the U.S. in 2017 and five have started so far in 2018, according to Wilder.

There might be more by now except for the amount that capital regulators now are requiring bank-starters to raise to get approval, said Schuelke and Rose Oswald Poels, who is president and chief executive of the Wisconsin Bankers Association. Regulators require certain levels of capital so a bank can absorb losses on loans.

Most of the recent startups, generally banks on the East and West Coasts, required banks to raise more than $20 million in capital. In contrast, Schuelke needed to raise no more than $13 million from investors when he started Spring Bank 10 years ago. The higher amount can make it take longer for investors to receive a return on their investment, said Oswald Poels.

"One of the biggest factors I attribute it to are the high capital levels that are required by the regulator today to start a bank," Oswald Poels said.

But Wilder said capital requirements for startup banks aren't necessarily going to be $20 million or more, especially in the Midwest.

"There is no magic number that regulators are requiring," Wilder said. "It's just not true. It all depends on your business plan, how quickly you're planning to grow, what market you're in, the type of products you're going to be offering."

But do we need more banks?

Schuelke says yes. He points to how consolidation in the industry has eliminated many community banks. That's a lot of local decision-making gone somewhere else, he said.

"Community banks support the local economy, they make local decisions. If they are headquartered out of state, that's not their same market," Schuelke said. "Community banks are relationship-based. We make decisions that work in our market — they *have* to work in our market. They have to work in a local economy."

Said Oswald Poels: "The more competition that exists, I think the better it is for consumers. You want to have a lot of healthy choices. Banks of all sizes offer a lot of different benefits to consumer. Economies are stronger when you have a very diversified, healthy banking system in your market area."