Florida Trend

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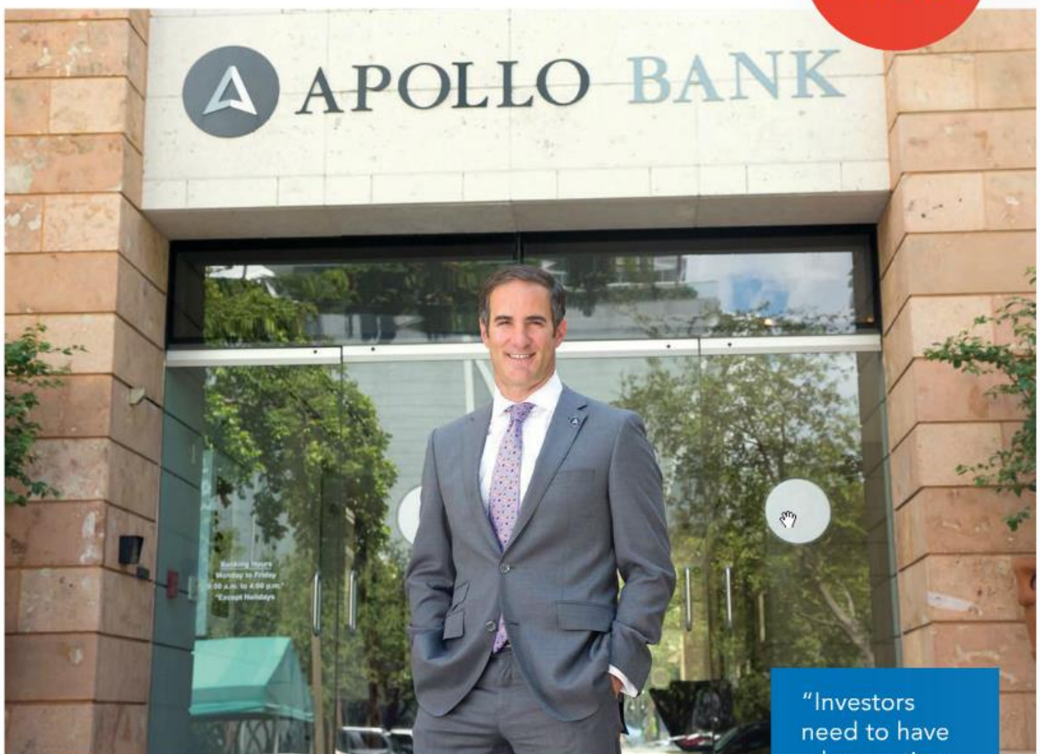
ECONOMIC BACKBONE

FINANCE



"Investors need to have a longer time horizon to buy and hold," says Eddy Arriola.

No De Novos

Market conditions and red tape make bank startups non-existent.

By Teresa Burney

Eddy Arriola and his investors at Apollo Bank in Miami have the distinction of gaining the most recent new bank approval in Florida. That was 2009. There hasn't been another de novo bank charter approved since.

A few months after receiving the approval, however, Arriola's group decided to buy another bank rather than proceed with a new one. The group bought Union Credit Bank in March 2010 and renamed it Apollo Bank. Since the purchase, Apollo has grown from assets of $120 million to $550 million.

The factors that led Arriola to turn down the new bank charter in favor of buying an existing institution are still relevant today.

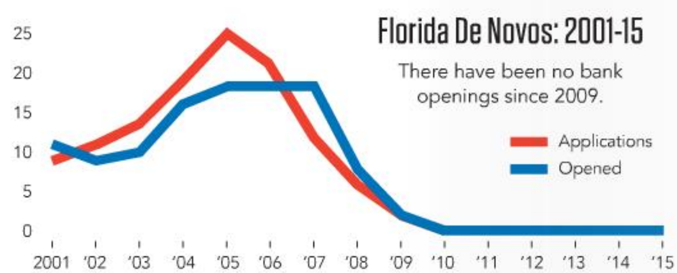
"Reason No. 1 — it's better economically," he says. "The banks were trading below book value (in 2009) so we were able to make a good acquisition, and we were able to buy right."

Even now it continues to be a better value in most cases for investors to buy a bank rather than charter one because the cost and time it takes to get approval is higher. Increased regulation makes the process drag out longer, and the slower process increases costs and lengthens the time it takes to become profitable.

"It's different now from 20 years ago or even 10 years ago," says Arriola. "Investors need to have a longer time horizon to buy and hold. Investors need a 10-year horizon and that is a pretty special investor."

"A lot of people thought we were nuts, that we were too early or too late."

— Eddy Arriola



Source: Florida Office of Financial Regulation

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— Eddy Arriola

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Arriola says that "back in the day you would meet with an expert, a consultant who does this (handles bank charter applications) and from the day you hire them to the day you open, it would be nine to 12 months."

Now, he says, it takes at least two years to get through the regulatory process, raise the capital and create a business plan. Capital requirements also are greater as well, increased from about $8 million in the mid-2000s to a minimum of $20 million or higher.

Then there is also an increased cost of staffing during the process. Before, Arriola says, a new bank might have perhaps two people on staff in the beginning and then open with five more positions that don't make revenue right away. Because of compliance regulations, it might take a minimum of about 14 people not generating revenue for a while to open a bank — "everything has tripled, the time to open, the amount of capital, the number of people," he says.

Another reason why chartering a new bank is out of favor, says Arriola, is that low interest rates are hurting profitability. FT