

Creating a Business Plan for a De Novo Bank

Kevin Stevenson · January 25, 2020

Before you open the doors of your De Novo Bank and start accepting customers, there are a few hurdles to overcome. One of the first ones is to create a business plan for your new bank.

Breaking into the banking industry takes a lot of planning and organization. A business plan, which serves as a roadmap for the new bank, provides the structure needed to start a successful bank. The business plan is used with both regulators and potential investors when seeking funding. De Novo banks should be prepared with all the required documentation before they begin speaking with investors.



How to Start a Bank

Like any business, launching a bank isn't easy. It takes a lot of time, funding, and risk to establish a new bank. For those embarking on the ambitious journey, there are critical steps to be planned for accordingly. The steps below explain how to start a successful bank.

Establish an Organizing Group

One of the first steps to starting a bank is to determine who your partners will be. Together, the partners are referred to as the organizing group. This group is made up of five or more people who can invest in the bank's founding.

The collective amount required is between 10 to 25% of the total capital needed to start a bank. Each member of the organizing group should have excellent credit, balance sheet, financial statement and be a trustworthy individual. Together, the organizing group applies for the necessary permissions to start a bank.

A senior management team and board of directors should also be established early in the process. Investors will consider the experience and investment of partners, directors, and executives.

Write a Business Plan for Your Bank

Typically, there are two different types of business plans needed to create a bank. The first one is used during presentations with initial investors. It should contain the basic information of the new business, such as the first 3 year financial and income projections, physical location and what products and services it will offer. The initial business plan should also include an analysis of competitors and a complete marketing plan.

The second business plan is used in the application to state or federal banking authorities. It contains more detailed information. A De Novo business plan template can be used as a reference.

Collect the Necessary Capital

A bank needs access to a sufficient sum of money before it can be approved. The required capital differs from state to state, so make sure to check with your department of financial institutions and regulatory authorities. The funds can come from the following places:

- Investors
- The community
- Private equity funds
- Bank holding company
- Existing Financial Institutions
- Supporting financial institutions



Why You Should Create a Business Plan for a De Novo Bank

A business plan is essentially a step-by-step guide to becoming a successful and profitable business. The main purpose is to secure funding for your De Novo bank, but it has several other benefits. Those benefits are:

- Makes it possible to secure funding
- Helps new banks create achievable goals
- Tracks progress and measures results
- Narrows down the target market and marketing plan
- Determines the short- and long-term financial goals

Parts of a Business Plan for Investors

A comprehensive, well-thought-out business plan establishes a strong foundation for your new bank. It shows investors that the bank partners are organized and dedicated to the process, and increases the investors' confidence in them.

An initial business plan includes several components. They include:

Proposed Location & Target Market

Provide details about the proposed location of your bank and the demographics of the population you intend to serve. Information about your target market should also be provided.

Competitive Analysis

Investigate your immediate competitors, and explain how you plan to stand out from them. The goal is to show that the public's conveniences and needs are not currently being met, then explain how you plan to meet them with your de novo bank.

Products & Services

What products and services do you intend to offer your customers? Provide a basic breakdown of your offerings, and explain how they will be profitable for your bank. You should also explain how your services are safe for consumers.

Marketing Plan

A detailed marketing plan should be included in your bank's business plan. This plan should estimate the cost per customer acquisition as well as revenue forecasts.

Financial Documentation

Financial projections and a pro forma should be provided, as well as the cost of:

- Staffing
- Launch
- Charter application and preparation



You should also provide an estimate of the revenues from deposits, loans, and any other services offered. Any additional financial resources and prospects for success must be included in the business plan.

A business plan sets a de novo bank up for success. Dedicating time to performing deep research and compiling all the pertinent documentation is a must.

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