

BANK OWNERSHIP QUALIFICATIONS SUMMARY

- 1) First of all forget trying to start a bank from scratch. It is time consuming and it is expensive and no guarantee of approval.
- 2) The best way to buy a bank is with a group of over 10 and less than 100. Eleven would be the ideal number so no one owns outright 10% of the bank.
- 3) Anyone or any "control group" that owns 10% or more of a bank requires regulatory approval. If no one owns 10% or more than regulatory approval is not needed.
- 4) The second best way to buy a bank is with someone who already is approved by the regulators as a 10% + stockholder, board member or executive officer of a bank insured by FDIC.
- 5) This may be the best time in history to purchase a bank with upside potential.
- 6) The political climate needs small community oriented banks.
- 7) Let's say we have 1-10 people who want to own 10% or more of the bank stock, then of course the question arises as to how to get them approved.
- 8) First the buyer needs to deal with a person (broker-consultant) that deals regularly with banks, and know which ones are under or are about to be under regulatory order of some type, or are undercapitalized or are losing money.
- 9) The buyer meets with bank consultant to determine what type bank meets with their purchase criteria, the bank consultant introduces buyer to bank president to discuss what they would like to do.
- 10) Next the buyer issues a "Letter of Intent" to purchase some or all of the bank stock. This will probably be a new issue.
- 11) We have a format for the "Letter Of Intent" as if it is incomplete a buyer usually only gets one chance, and then if it is improperly done the bank and the regulators know the buyer does not know what they

are doing and it is blown out. They know it is not real and the investors are not real.

- 12) A buyer of over 10% needs a strong financial statement. They do not like a majority owner of a bank to have all or most of their assets in the bank investment.
- 13) Bankruptcy will probably eliminate investor from the Board of Directors and executive Management, but maybe not ownership.
- 14) Any regulatory disputes by the investor will probably eliminate them from eligibility of bank ownership control and board membership.
- 15) Excessive litigation will eliminate them from board membership and probably from majority stock ownership.
- 16) If they are in the porn industry or immoral and unethical business ventures that will probably eliminate them from regulatory approval.
- 17) IRS problems will probably eliminate them from regulatory approval.
- 18) With or shortly thereafter, because any LOI will be subject to a "Proof of Funds" letter will need to be submitted to the regulators. The "Proof of Funds" needs to show the money is in an account or in an escrow account with account # and the name of the proposed stock holder and account being one and the same.
- 19) The money cannot show it is borrowed or that the stock will be pledged to borrow the money.
- 20) Marketable securities are sometimes accepted as a "Proof of Funds"; letter.
- 21) Real estate to be sold is not acceptable, and to be borrowed is not acceptable.
- 22) Now if money is borrowed before the fact on real estate or other assets, then it shows assets and liabilities on the investor's financial statement so the money is already there in an account.
- 23) Of course after the escrow or purchase is complete then the investor is eligible to pledge his stock for loans.

- 24) A resume is required on the investor or Board Member.
- 25) If the business plan of the bank is going to change with new ownership, then a business plan is required by the regulators.
- 26) The above are a few of the reasons a potential bank investor should work with a banking professional and a banking attorney. You usually only get one chance to do it right.