Testimony of

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Before the

U.S. House of Representatives

Committee on Financial Services

Subcommittee on Financial Institutions

Hearing on

“Enhancing Competition: Shaping the Future of

Bank Mergers and De Novo Formation”

May 14, 2025

Washington, D.C.

Introduction

Chairman Barr, Ranking Member Foster, distinguished Members of the Committee, I am honored to testify before you today about the value de novo banks bring to our economy and communities. In my nearly 40-year banking career, I had the good fortune of seeing my mentors in banking do well by doing good. That is what drove me to start two de novo banks, and I wish I had started sooner. At the same time, the barriers are higher than they need to be, and addressing unnecessary regulatory hurdles could make a significant difference in enhancing healthy competition.

I am the Chairman, President, Chief Executive Officer (CEO), and co-founder of Locality Bank, a community bank which opened in Fort Lauderdale, Florida, in 2022. It was the first new bank opened in South Florida since 2009. And I am incredibly proud to note that we successfully exited de novo status earlier this year.

That last Fort Lauderdale bank opened in 2009 was Broward Bank of Commerce, where I served as President, CEO, and an organizing director. These two de novo experiences took place in very different economic times and regulatory environments. Yet the mission of serving our communities and the needs of our customers is a common thread.

Differences between 2009 and 2022

My inspiration to start Locality Bank stemmed from missing out on one of the most heroic efforts in community banking history – implementation of the Paycheck Protection Program (PPP) during the pandemic. I had just sold a bank in Orlando and, pursuant to a non-compete, I was on the sidelines. During that time, I got a lot of phone calls from local business people in Fort Lauderdale who had been customers in the past, and they were frustrated with their access to PPP and the service level they were getting from their financial institutions. It took me back to the formation of Broward Bank of Commerce, and I began looking at the market.

In 2015, 11 banks were headquartered in Broward County. By 2020, there were only three. The assets in those community banks had dropped from $11 billion to about $600 million. Given that reality, I began approaching business groups in the community to assess interest in investing in a de novo bank. While not unanimous, we got an overwhelming response. We raised $38 million from local businesses to launch Locality Bank. In three years, we have grown to $300 million in assets.

Raising capital is one of the hardest things for new businesses, particularly for those who are doing it for the first time. With Locality Bank, it was easier than in 2008, because we had a proven track record and knew what needed to be done. At the same time, the capital requirement was two times what it had been just 13 years earlier in the same market. To launch Broward Bank of Commerce, we managed to scrape together $12.5 million before the regulators closed the door on de novo approvals in 2009.

The other significant challenge stems from the costs of starting a bank. It was hard enough in 2008 to resign from my job, raise money, and support my family for the 18 months it took to get the bank open. By 2022, the regulatory environment had changed substantially for all banks. So, our business had to be different due to the high regulatory compliance costs. We could not be profitable in consumer lending or residential mortgage lending.

For a de novo bank, all of these decisions are codified in the business plan we submit to the regulators for our charter application. That business plan has to endure from submission to the regulators through opening to three years of operations. Any deviation from that plan creates significant work because regulators perceive a change as all risk rather than the strength of an adaptable, resilient team responding to market conditions and feedback.

Investors expect a return on their investment – rightfully so – but today there is fierce competition for that capital. Investing in a bank basically means ten years of an illiquid investment. With other options for better, faster returns, it is hard for banks to compete. It is hard for bankers to be entrepreneurial and even harder for younger bankers who are doing it for the first time. I truly commend Mary Usategui of BankMiami for taking on this challenge and will do everything I can to encourage others who are interested. We have to get back to a more economical model that recognizes banks need to make money for their investors – that is what enables them to be in business to serve their customers.

The competitive dynamics are also different than they were 13 years ago. At Locality, we are heavily focused on small business lending. Without community banks in Broward County, many of the businesses were going to fintechs, merchant cash advance lenders, and various other private lending sources that are higher cost, less relationship based and have different regulatory requirements. They did not realize what a bank can do for them compared to other types of lenders. In some respects, we have to look at how that happened in the marketplace as banks becoming complacent and not adapting fast enough to changing technology and customer expectations. In other respects, the risk-elimination regulatory landscape has created an overwhelming pressure to stick to the status quo. We need a more balanced and tailored approach from regulators and policymakers that recognizes community banks are not causing systemic risk. In fact, the systemic risk is created by the lack of community banks providing that local, catered service to our small businesses which are the engine of the U.S. economy.

Encouraging De Novo Formation

Ensuring there is still a place for entrepreneurial community banks serving their local markets is a true passion for me. I chair task forces at both the Florida Bankers Association and the Independent Community Bankers Association on de novos. I am also a member of the American Bankers Association.

That is why I wholeheartedly support the efforts of this Committee to ease the process for forming de novo banks and ensuring a robust, competitive marketplace for banking services. I know from my work with bankers across the Nation that banking services in rural parts of the country are a true concern. Yet, as a community banker in urban, populated South Florida, I can attest to the needs in our markets as well.

I support enactment of H.R. 478. The bill proposes tiering capital requirements for de novo banks, addressing the very real challenges I laid out in raising capital. It proposes a more reasoned approach by regulators in responding to changing business plans given the many appropriate reasons a bank would need to deviate from the plan.

While I did not take the path that many other Florida de novo banks have taken in going with an S-corp structure, I also support Chairman Hill's bill, the S-Cap Act (H.R. 2777), to increase the shareholder cap from 100 to 250 for S corporations. Legislation to allow Individual Retirement Accounts (IRAs) to invest in S-corp bank shares, which has been introduced in past Congresses, would also open a critical source of capital. Enabling community members to invest in the bank is a path to success, and given the capital requirements, the number of potential investors and sources of capital should be increased.

While my testimony is focused on de novo formation, I have successfully exited banks as a CEO through acquisition. The process by the federal banking regulators of reviewing bank mergers and acquisitions is overly time-consuming and applies too much scrutiny to community bank mergers that do not pose any legitimate threat to competition. Merger transactions are frequently delayed by months or even years by regulatory reviews, which has the net effect of discouraging or preventing transactions that may have positive effects for consumers.

Because of these frequent delays, Congressman Barr's Bank Failure Prevention Act of 2025, which would require the Federal Reserve Board to grant or deny merger applications no later than 90 days after the application was submitted to the Board, is an important step to address the barriers to community bank mergers.

Conclusion

I appreciate the opportunity to appear before this Committee and thank you for your leadership in examining these important issues for the future of our communities, our banking industry, and our Nation's economy. Simply put, in my view, it is about releasing the power of free enterprise, that powerful force that has made our country the greatest in the world. If you can help make de novo banking more economically viable for entrepreneurial community-minded bankers and local investors, we wouldn’t need to hold congressional committee hearings.

Thank you for your time and attention. I look forward to your questions.