Legislation Introduced to Support New and Rural Banks by Easing Regulatory Requirements

Banking Brief: Financial Services Insights

By Martin Kiernan on March 19, 2025

On January 16, 2025, Representative Andy Barr (R-KY) introduced a bill aimed at increasing the formation of new banks by easing regulatory requirements, particularly for de novo and rural financial institutions.

The legislation seeks to address the declining number of new bank charters in recent years by phasing in capital standards and allowing greater flexibility in business plans for both depository institutions and bank holding companies.

One of the greatest barriers to de novo bank formation has been stringent capital requirements, which often deter potential entrants from establishing new institutions. The bill proposes a three-year phase-in period for capital requirements, allowing new banks time to build financial stability before meeting full federal capital standards. This phase-in would apply from the time an institution becomes an insured depository institution, and for bank holding companies, from when their subsidiary depository institution gains insured status.

Additionally, the bill seeks to provide greater flexibility in business planning during this three-year period. De novo banks and their holding companies would be allowed to request modifications to their approved business plans, requiring federal banking regulators to respond within 30 days. This provision is designed to give new institutions the ability to adjust to market conditions without facing prolonged regulatory delays.

The bill comes at a time when the de novo banking sector has seen significant stagnation due to regulatory challenges. Supporters argue that reducing these capital and procedural barriers will encourage financial institutions to form in underserved areas, improving access to banking services in rural and low-income communities.

Given the bipartisan nature of concerns around banking access and small business growth, the bill could gain traction in Congress. If passed, it would mark a shift in the regulatory approach to new bank formation, potentially opening the door for increased competition and financial services expansion.

Banks, financial institutions, and industry stakeholders should monitor this legislation closely, as it could present new opportunities for growth and investment in already existing and emerging markets.