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Community Banks Say Goodbye to SEC Registration

The Washington Post

By Danielle Douglas / reprinted from *The Washington Post*

John Marshall Bank in Reston has de-registered its shares with the Securities and Exchange Commission, taking advantage of a provision in the JOBS Act permitting small banks to opt out of the costly regulatory requirement.

The statute was designed to make it easier for small institutions to raise capital without contending with tens of thousands of dollars in compliance costs. When a bank raises money by issuing stock, it could be required to report its financial activities to the SEC once it reaches a certain number of shareholders.

Since the JOBS Act was signed into law on April 5, officials at the SEC said 35 banks across the country have chosen to end registration with the agency.

"I'm not surprised," said Paul Merski, chief economist at the Independent Community Bankers of America, a trade group. "Every dollar of savings improves profit margins, and banks are operating on extremely thin margins because of the low interest-rate environment. The way to remain viable is to look at all ways to reduce costs."

Raising the registration threshold, he noted, should help some 300 banks that are close to having 500 shareholders or already in the danger zone. Merski estimates that

another 40 banks may become eligible to "de-register" once the SEC finalizes guidance on thrift holding companies.

At John Marshall, President Bill Ridenour began weighing the pros and cons of opting out of registration once he learned about the change in the regulation.

On the one hand, no longer filing public financial statements would save the bank about \$150,000 a year in legal and accounting fees. But if the bank bumped up against the 2,000 shareholders cap in a year or two, registering all over again would be pricey.



"We've raised close to \$40 million over the last couple of years with 800 shareholders. Even if we raise a similar amount and added another 1,000 shareholders, we'd be below the threshold," Ridenour said. "Given that and the cost savings, we thought it would be prudent to de-register."

John Marshall has about 834 shareholders, a number reached, in part, because of a private placement offering that raised \$27 million in the spring of 2008. As a result, the bank had to start filing quarterly and annual reports, proxy solicitations and trading notifications with the SEC — plus certify internal controls as required by Sarbanes-Oxley.

The bank, with \$436.9 million in assets, had its stock registered, but not publicly traded because most trades are done privately between sellers and buyers.

"Most of our shareholders are customers or business associates that we've known over a number of years," Ridenour said. "They can come into the bank or call with questions, and we'll always make time for them. Public reporting just doesn't make sense for us." ★ May 2012