

## Klaros Viewpoints | Volume 13 | April 1, 2025

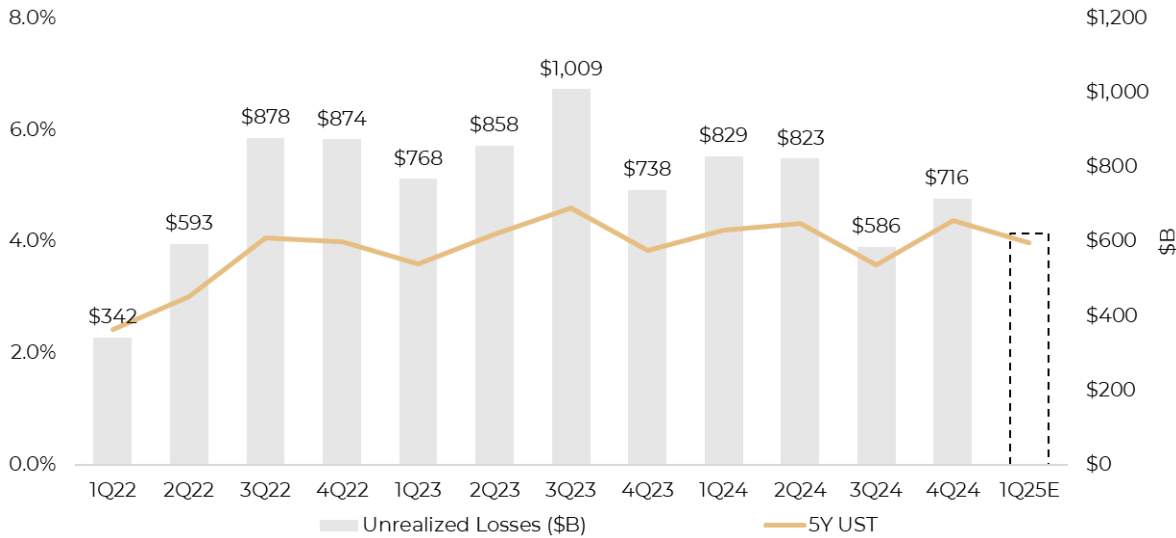
Warren Buffett said, "We always live in an uncertain world. What is certain is that the United States will go forward over time." We are trying to keep that in mind as we contemplate the changes we are seeing in the regulatory environment for banking. We are pleased to share our latest views.

### Industry Unrealized Losses Are Melting Off Slowly

In the immediate aftermath of the presidential election, bank indices leaped about 15%, mainly on hopes of a more favorable and friendly regulatory environment. While bank indices have retreated, early signs suggest that regulatory-friendly expectations are well-founded. Several existing and proposed regulations opposed by the banking industry have been withdrawn. Critically for the market on which Klaros focuses, bank merger approval timelines have already accelerated dramatically. The WesBanco/Premier transaction, for which Klaros was an investor, closed in 7 months compared to 16 months on average for transactions in the 2021-2023 timeframe.

Just after the election, Klaros was cautiously optimistic while also concerned that initial industry and market reactions may have been overlooking some challenges as well. The long-term rate environment has shifted up materially reflecting fears of higher inflation driven by the new administration's policies. Consequently, the banking industry continues to navigate a volatile interest environment, managing unrealized losses of over \$700 billion at year-end 2024. At Klaros, we include unrecognized bond and loan losses in our calculation of unrealized losses. Such losses melt away slowly through maturities or more rapidly, sometimes painfully, through asset sales, balance sheet restructurings, or M&A. In addition, even with this new administration's less adversarial regulatory approach, the fixed costs inherent in being a highly regulated bank continue to argue for further consolidation among mid-sized banks.

**Banking Industry Unrealized Losses**  
Q1 2022 - Q1 2025



### Klaros in the Media

Michele Alt and Patrick Haggerty were quoted in an American Banker [article](#) on the FDIC rescinding its merger review policy.

- "The FDIC's move to soften merger guidelines is also likely part of a broader push across regulatory agencies to soften the Biden-era stance on M&A. The Office of the Comptroller of the Currency — which reviews mergers involving nationally chartered banks — will likely also move to rescind its merger rules to align with the FDIC." - Michele
- "While the merger policy is relaxed for now, banks can't fully relax, as the situation could quickly shift again. Companies have to be cautious in their responses because these changes may not be permanent. There's always the possibility of being whipped back to where we were four years ago." - Patrick

Brian Graham was quoted in a Banking Dive [article](#) on OakNorth's imminent acquisition of Community Unity Bank.

- “OakNorth is pursuing a US banking license for the simple reason that the US is a large and attractive market and the new administration, unlike the previous regime, appears to be open to approving such transactions, just like it is open to reviewing and approving applications for new bank charters.”

Michele was quoted in a Banking Dive [article](#) on bank M&A activity.

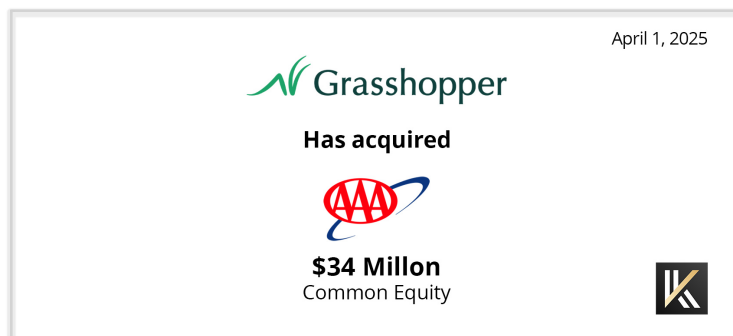
- “Whoever is in the leadership of the federal regulatory agencies in the next four years, they’ll definitely be more open to applications than the regulators were during the Biden era.”

Michele’s [open letter](#) to incoming regulators outlining suggestions on encouraging new and innovative bank formation in the bank charter application process was quoted in an S&P [article](#).

- “In the letter, addressed to the new leadership of banking agencies, the lawyers criticized the existing “bureaucratic inefficiencies” that create significant barriers to entry for new banks and urged regulators to foster competition by facilitating the formation of these institutions, according to the report. To encourage innovation, the lawyers urged regulators to set realistic expectations for new bank applications and to acknowledge that failure is a natural part of the process. They also reportedly called for improved transparency in the application process and a commitment to a 120-day review period.”

## Recent Investments

Congratulations to the Grasshopper Team! We are pleased to announce that consistent with our investment strategy, Klaros Capital participated in the following bank transaction:



## Upcoming Conferences

Michele Alt will speak at [“The Great Debate: How to Modernize Financial Regulation and Create Economic Stability in a Digital Age”](#) on April 17, 2025, joining experts at George Mason University on establishing a financial regulatory structure that can promote economic growth, U.S. global competitiveness, financial stability, and protection of investors and consumers. Kevin Stein and Senior Advisor Bob Hartheimer will also attend. Please contact Kevin if you plan to attend or want to hear more about the event.

. . . . In Other Klaros News

[Klaros is hiring!](#)

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