

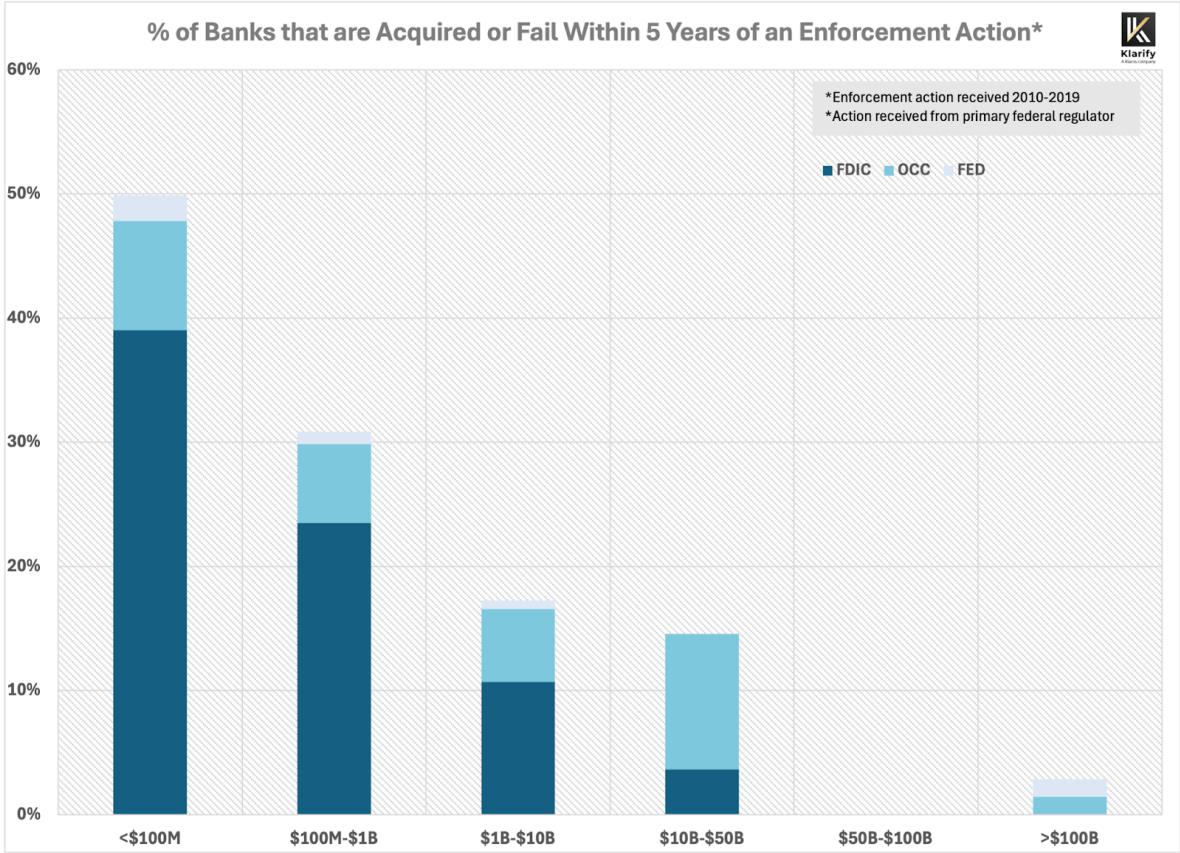


Klaros Advisors Insights

June 1, 2025 - CORRECTED

NOTE: After sending Sunday’s newsletter, we discovered an error in the state member bank data cited in the Klaros Quick Take. We’ve updated our chart and the related discussion, and apologize for any inconvenience.

The Klaros Quick Take



Is a formal enforcement action the kiss of death for the bank that receives one?

Not necessarily, but the data paint a scary picture for small community banks, especially state non-member banks (FDIC-regulated).

We took the entire population of banks that received formal enforcement actions from their primary federal regulator from 2010 through 2019. Then, we looked at the period 2015-2024 to see how many of those banks had failed or been acquired five years after their action dates. Finally, we cut the results by asset size and primary federal regulator.

This week's chart summarizes the results.

Key observations:

- For the population as a whole, only 69% of the banks that received formal enforcement actions during this period remained open and independent five years after the action date.
- But that average conceals significant disparities between banks of different asset sizes and with different charters/regulators:
- If you’re a state non-member bank of any size, your odds of survival five years after receiving a formal order from the FDIC were just 64%. Really small state non-member banks had it worst. For state non-member banks with less than \$100 million in assets in our population, the five-year survival probability was just 41%.
- It’s a different story for national banks (OCC-regulated). For the entire set of national banks in our population, the overall five-year survival probability was 73%. But small national banks had a higher survival probability than small state member banks (68% vs. 41%), while the opposite was true for mid-size national banks (77% survival probability for national banks between \$120-50 billion, vs. 91% for state non-member banks).

- The picture for state member banks (Fed-regulated) seems completely different, and far less bleak. Five years after receiving enforcement actions, 91% of the state member banks in our population remained open and independent.
- Finally, as we already knew, big banks live in a different world. From 2010 through 2019, the federal banking agencies brought formal enforcement actions against 77 banks with assets exceeding \$50 billion. Five years after those actions ended, all but two of those banks (97.5%) remained open and independent.

Does this mean that if you're a bank about to receive a formal enforcement action from your primary federal regulator, it pays to be large, a member of the Federal Reserve System, or both?

Maybe not. Look for our upcoming LinkedIn post.

Klaros in the media:

- Robin Dull shared insights with **U.S. News & World Report's** Greg Garrison on the NY Attorney General's [lawsuit against Capital One](#).
- Michele Alt spoke with Lithic's Reggie Young on all things bank charter-related on the [Fintech Layer Cake podcast](#), released on May 22.

Our top posts on LinkedIn, based on your feedback:

- Adam Shapiro: [We've been seeing a lot of discussion around crypto firms pursuing federal bank charters.](#)
- Michele Alt: [So pleased to announce Klaros Talent!](#)
- Konrad Alt: [Hey, all you enforcement geeks out there, what can we learn from the recent history of civil money penalties \(CMPs\)?](#)

Conferences & events

- [David Portilla](#), partner at Davis Polk, joined Michele Alt on **Radically Clear** to discuss what makes an effective bank license team - you can catch up with this and all our **Radically Clear** episodes [here](#)!
- David Simon attended **Bitcoin 2025** in Las Vegas May 27-29.
- Catch up with Brian Graham at the [FTA CEO Summit: Fintech as the Catalyst for Innovation](#) in Washington D.C. on June 25!
- Virginia Varela will speak at the California Bankers Association 2025 [Women in Banking Forum](#) in Garden Grove, CA on June 24-25.

Get in touch

As always, if you're facing a challenge or have a topic you'd like to discuss, reach us at hello@klaros.com. We'd love your feedback and thoughts on other topics you'd like us to cover!

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