

COMMUNITY CORNER

Community banks investing in start-ups to gain fintech edge

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By Zach Fox
Market Intelligence

Community and regional banks from across the country are teaming up with entrepreneurs to launch an investment fund to target financial technology start-ups.

For the 66 banks participating in the investment vehicle, the start-ups present both a return-on-investment opportunity and a potential upgrade for their own digital offerings. The banks will act as limited partners in the \$150 million fund. Jacobs Asset Management's affiliate, JAM Special Opportunity Ventures, and FINTOP Capital, a venture capital firm, will act as co-general partners. The JAM FINTOP Banktech fund will focus on business-to-business fintechs that provide solutions for banks' top pain points.

Banks investing in new fintech fund		Dec. 31, 2020, total assets (\$B)
Company (ticker)	City, state	
New York Community Bancorp Inc. (NYCB)	Westbury, NY	56.31
East West Bancorp Inc. (EWBC)	Pasadena, CA	52.16
Valley National Bancorp (VLY)	New York, NY	40.69
Sterling Bancorp (STL)	Pearl River, NY	29.82
Umpqua Holdings Corp. (UMPQ)	Portland, OR	29.24
Stifel Financial Corp. (SF)	Saint Louis, MO	26.60
Simmons First National Corp. (SFNC)	Pine Bluff, AR	22.37
Ameris Bancorp (ABCB)	Atlanta, GA	20.44
Atlantic Union Bankshares Corp. (AUB)	Richmond, VA	19.64
Heartland Financial USA Inc. (HTLF)	Dubuque, IA	17.91
Columbia Banking System Inc. (COLB)	Tacoma, WA	16.58
Home Bancshares Inc. (HOMB)	Conway, AR	16.40
First Financial Bancorp. (FFBC)	Cincinnati, OH	15.97
Eastern Bankshares Inc. (EBC)	Boston, MA	15.96
Banner Corp. (BANR)	Walla Walla, WA	15.03
Renasant Corp. (RNST)	Tupelo, MS	14.93
Community Bank System Inc. (CBU)	Onondaga, NY	13.93
OceanFirst Financial Corp. (OCFC)	Red Bank, NJ	11.45
FB Financial Corp. (FBK)	Nashville, TN	11.21
First Busey Corp. (BUSE)	Champaign, IL	10.54
OFG Bancorp (OFG)	San Juan, PR	9.83
Veritex Holdings Inc. (VBTX)	Dallas, TX	8.82
Flushing Financial Corp. (FFIC)	Uniondale, NY	7.98
ConnectOne Bancorp Inc. (CNOB)	Englewood Cliffs, NJ	7.55
1st Source Corp. (SRCE)	South Bend, IN	7.32
Premier Financial Corp. (PFC)	Defiance, OH	7.21
Luther Burbank Corp. (LBC)	Santa Rosa, CA	6.91
Midland States Bancorp Inc. (MSBI)	Effingham, IL	6.87
National Bank Holdings Corp. (NBHC)	Greenwood Village, CO	6.66
FB Corp.	Creve Coeur, MO	6.64

"It's one of the only funds that is specially dedicated to investments by banks into fintechs that support banks," said Frank Sorrentino, CEO of ConnectOne Bancorp Inc. CNOB, one of the participating banks. "I've seen other funds that have been formed in the fintech space, but a lot of those fintechs are competing with banks."

With \$7.55 billion in assets, ConnectOne is right around the middle, in terms of asset size, among the 65 publicly disclosed banks in the investment fund; one bank opted to not disclose its participation.

New York Community Bancorp Inc. is the largest bank in the fund with \$56.31 billion in assets, followed by a handful of other regional banks in East West Bancorp Inc., Valley National Bancorp, Sterling Bancorp and Umpqua Holdings Corp. But the vast majority — 45 of the 65 disclosed banks — have total assets of less than \$10 billion, including three banks with less than \$1 billion in assets. The participating banks are headquartered across 29 states and the territory of Puerto Rico, spanning from New York to Texas to California.

Fintech has evolved from a selling point to a necessary offering for banks.

Central Pacific Financial Corp. (CPF)	Honolulu, HI	6.59	Community banks have faced threats from both smaller, nimble fintechs with few legacy costs as well as the megabanks that are spending billions per year on technology.	
Horizon Bancorp Inc. (HBNC)	Michigan City, IN	5.89		
QCR Holdings Inc. (QCRH)	Moline, IL	5.68		
CrossFirst Bankshares Inc. (CFB)	Leawood, KS	5.66		
Happy Bancshares Inc.	Canyon, TX	5.64		
First Mid Bancshares Inc. (FMBH)	Mattoon, IL	4.73		In numerous mergers over the last couple of years, bankers have cited additional scale and the accompanying ability to invest in fintech as a top motivating factor. Community banks have also pointed to the need to invest in fintech as a driver of deals, including an uptick in transformative mergers-of-equals, which have been on the rise.
First Internet Bancorp (INBK)	Fishers, IN	4.25		
Business First Bancshares Inc. (BFST)	Baton Rouge, LA	4.17		
RBB Bancorp (RBB)	Los Angeles, CA	3.35		
Primis Financial Corp. (FRST)	McLean, VA	3.09		
Reliant Bancorp Inc. (RBNC)	Brentwood, TN	3.02		
Alerus Financial Corp. (ALRS)	Grand Forks, ND	3.01		
Bridgewater Bancshares Inc. (BWB)	Saint Louis Park, MN	2.93		
Guaranty Bancshares Inc. (GNTY)	Addison, TX	2.74		
Red River Bancshares Inc. (RRBI)	Alexandria, LA	2.64		
Southern Missouri Bancorp Inc. (SMBC)	Poplar Bluff, MO	2.62	Sorrentino said that he expects the primary benefit from his bank's participation in the JAM FINTOP fund to be an ability to harness innovation and put it to work in the bank's operations.	
Investar Holding Corp. (ISTR)	Baton Rouge, LA	2.32		
ChoiceOne Financial Services Inc. (COFS)	Sparta, MI	1.92		
Sunwest Bank	Irvine, CA	1.91		
First National Bank of Fort Smith	Fort Smith, AR	1.78		
Coastal Financial Corp. (CCB)	Everett, WA	1.77		
Colony Bankcorp Inc. (CBAN)	Fitzgerald, GA	1.76		
Texas First Bank	Texas City, TX	1.73		
Blue Ridge Bankshares Inc. (BRBS)	Charlottesville, VA	1.49		
First Community Corp. (FCCO)	Lexington, SC	1.40		
Private Bancorp of America Inc. (PBAM)	La Jolla, CA	1.33		"I do think there will be a return on our invested dollars, but I think the real value is the access to all these companies," Sorrentino said in an interview. "We would never be able to hire all the types of people that are running these businesses, so the ability to sit in a room with them and have that exposure and truly develop a bonded relationship with these companies, I think, is invaluable."
Fentura Financial Inc. (FETM)	Fenton, MI	1.25		
Eagle Bancorp Montana Inc. (EBMT)	Helena, MT	1.25		
CoastalSouth Bancshares Inc. (COSO)	Hilton Head Island, SC	1.15		
Blackhawk Bancorp Inc. (BHWB)	Beloit, WI	1.14		
Centric Financial Corp. (CFCX)	Harrisburg, PA	1.12		
Mountain Commerce Bancorp Inc. (MCBI)	Knoxville, TN	1.11		
Community National Bank & Trust of Texas	Corsicana, TX	0.93		
Encore Bank	Little Rock, AR	0.84		
Saint Louis Bank	Saint Louis, MO	0.65		

Data compiled April 13, 2021.

Analysis limited to banks identified as investors in JAM FINTOP Banktech, a new financial technology fund that raised \$150 million from 66 banks.

One bank investing in the fund has chosen to not be identified.

Total assets shown for the highest entity in each bank's corporate structure with available data, based on regulatory filings as of Dec. 31, 2020.

Sources: Jacobs Asset Management; S&P Global Market Intelligence

manager, brings financial experience and recruited the community banks as investors.

"We endeavor to build an ecosystem for the community banks to access new technologies and stay ahead of the curve on bank technology," wrote Adam Aspes, general partner for JAM Special Opportunity Ventures, in an email.

In terms of investment types, Aspes wrote that the fund plans to focus on "shovel-ready" technologies that solve problems facing community banks on a day-to-day basis.

Aspes wrote that the partnership will generally seek companies focused on workflow automation for tasks such as loan approval, data analytics, digitization of difficult processes such as accounts payable, embedded treasury services and technologies that allow banks to plug applications into their core systems at a lower cost.

Sorrentino said that ConnectOne has been focused on improving its efficiency, removing friction and providing a better payments platform.

"Not every bank investor is going to develop a working partnership with every single fintech," Sorrentino said. "I do think the idea of having a larger number of banking institution investors will provide a high level of diversity in

thought and diversity in the types of fintech companies that will be invested in."

Robert Clark contributed to this article.

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