

Can Microsoft Co-Founder Paul Allen Revolutionize Banking?

By Bob Evans, SAP



Tom Depping
Ascentium Capital

Microsoft co-founder Paul Allen is funding a Texas bank's bid to shed its formal designation as a chartered bank so that it can transform itself into a financial institution that offers loans and other services without having to deal with the federal government's increasingly complex regulatory burdens.

From a Wall Street Journal article: *In an extreme example of the frustration felt by many bankers as regulators toughen their oversight of the nation's financial institutions, Main Street's chairman, Thomas Depping, is expected to announce Wednesday that the 27-year-old bank will surrender its banking charter and sell its four branches to a nearby bank. Mr. Depping plans to set up a new lender that will operate beyond the reach of banking regulators—and the deposit-insurance safety net. Backed by the private investment firm of Microsoft Corp. co-founder Paul Allen, the company won't be able to call itself a bank, but it will be able to do business the way Mr. Depping wants.*

The new firm, which we could describe as a company that looks, walks, and smells like a bank but isn't a bank, will be called Ascentium Capital and be funded by Allen's Vulcan Capital investment firm plus other investors, the article said.

Now, while it's clear that one bank making such a move doesn't constitute a revolution, it's also clear that Allen and

Vulcan are anything but bit players in some small-time game—and if they're willing to back this radical move by Depping and his exquisitely named Main Street bank, then we have every reason to believe Allen will likely back more and more banks in their efforts to escape regulatory overreach.

Indeed, a Vulcan press release about the investment oozed confidence in not only the deal with Depping but also the broader category of making loans to small businesses: *We see a tremendous opportunity to meet the lending needs of small businesses. We believe Tom and his team are well positioned to capitalize on this opportunity given their outstanding long-term track record and proven commitment to high standards of integrity and customer service,* said Geoff McKay, a managing director of Vulcan Capital.

That level of excitement about the new opportunity was matched only by the frustration Depping and others have experienced in trying to run their businesses successfully while also keeping up with relentlessly increasing regulatory demands. Again, from the Journal's article: *"The regulatory environment makes it very difficult to do what we do," says Mr. Depping, who last summer saw his bank hit with an enforcement order from the Federal Deposit Insurance Corp. . . . Bankers have long complained about their overseers, but it is rare for a bank to basically close its doors aside from an acquisition or failure. Mr. Depping blames the move on a tightening regulatory noose. . . . "The No. 1 complaint that we hear from*

community bankers is that they feel that regulators have gone one step too far and are choking off lending," says Paul Merski, chief economist at the Independent Community Bankers of America, a trade group that represents small banks.

Based on some details in the article, it's easy to see why both Depping and Allen are bullish about the potential for greater profits outside of the FDIC's jurisdiction: Main Street, which earned \$11 million in the past year, reported that in its most-recent quarter, it had to write off only 1.25% of its loans as uncollectible, well under the industry-wide rate of 1.82%.

For anyone bearing responsibility for exploring and evaluating new business models, the WSJ article is both intriguing and sobering. The excitement comes from the chance to see your business in a whole different light, while the cautionary note comes from the realization that the whims of politics can wreak havoc on even the best-laid business plans.

As Depping stated in the piece, "We felt that servicing small business is something the country needs and that we're really good at it. I thought the model was working just fine."

Clearly, providing small-business loans is something the country definitely does need—and we shall see if Paul Allen has picked a winner in betting that a new and less-burdensome approach will be the better approach.

(About the author: after many years as an editor and analyst with InformationWeek and TechWeb, Bob Evans joined SAP in April as VP of strategic communications.) **F**

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Ascentium Capital | 866.722.8500 | info@AscentiumCapital.com

