



What You Need to Know About Bidding on Failed Banks

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Presented By:

Barry Taff, Silver, Freedman & Taff, L.L.P (202) 295-4500 – bstaff@sftlaw.com

Jeanne F. McBride, Regional Manager, San Francisco, FDIC Division of Resolutions and Receivership – (415-808-8050) – jemcbride@fdic.gov

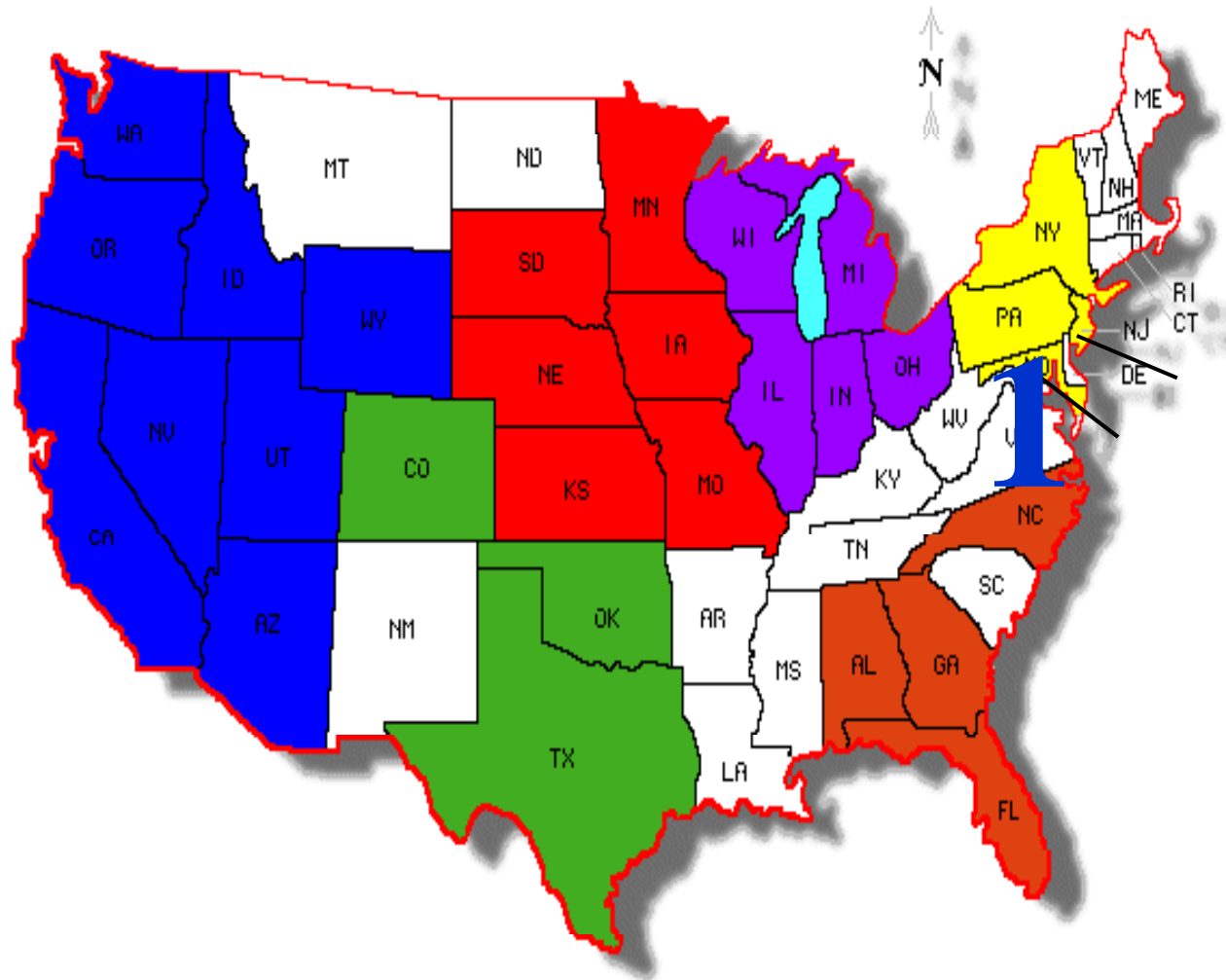
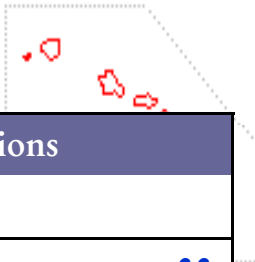
AGENDA

- Update on Failure Activity
- How do I get on the Bid List?
- Marketing Process
- Marketing Transactions
- Whole Bank and WB with Loss Share Transaction
- Questions

Bank Failures

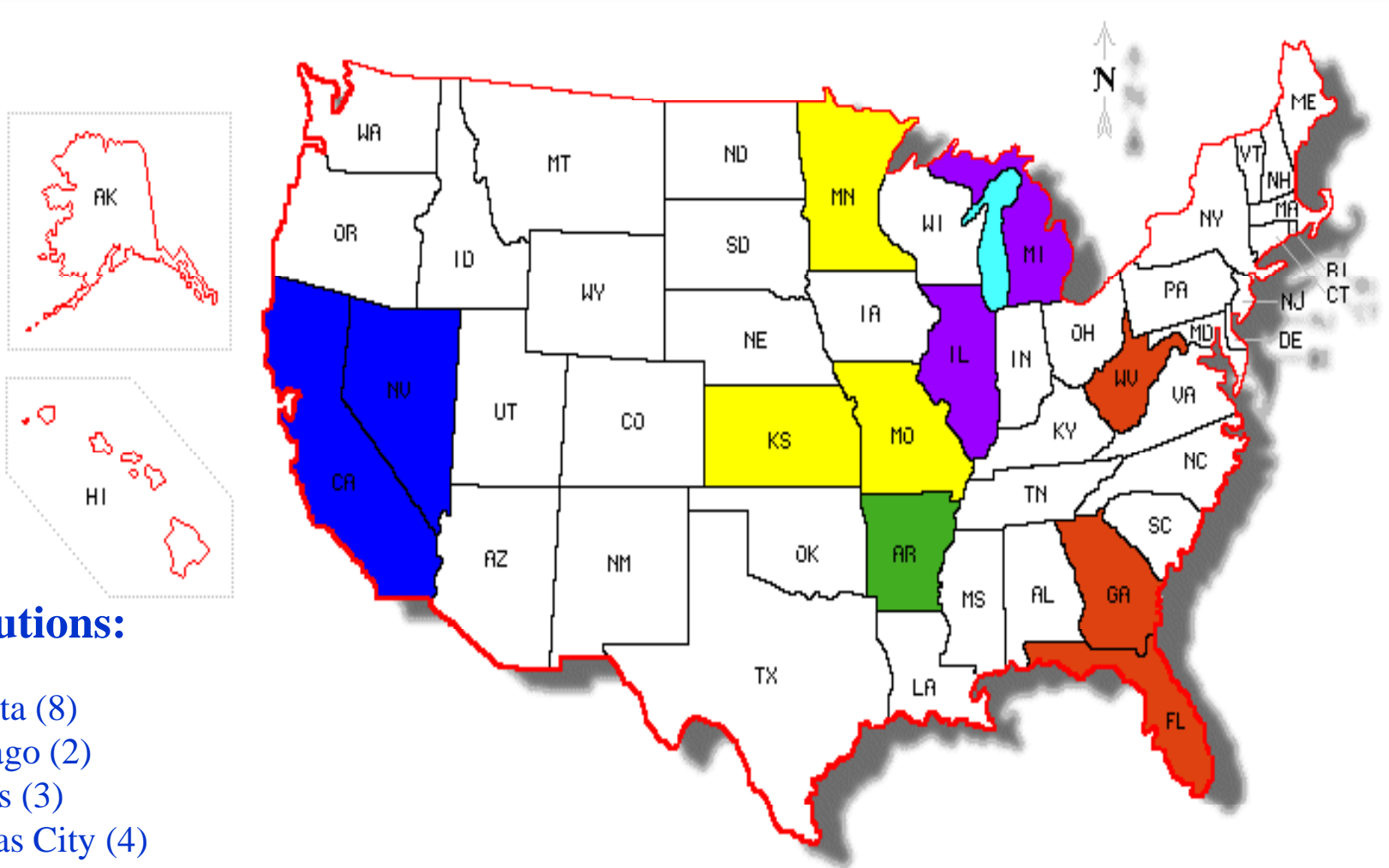


2009 Failures through 10/31/09



2009 Resolutions	
Regions	
Atlanta	33
Chicago	25
Dallas	9
Kansas City	12
New York	6
San Francisco	30
TOTAL	115

2008 Failures



25 Institutions:

- Atlanta (8)
- Chicago (2)
- Dallas (3)
- Kansas City (4)
- San Francisco (8)

*As of 12/31/08



Bank Failures: Historical Review

Year	Near-Failures	Actual Failures
2009	70	95
2008	31	25
2007	5	3
2006	2	0
2005	1	0
2004	2	4
2003	11	3

*As of 9/30/09



Interested in Bidding?

- Banks can use FDICconnect to provide M&A contact information for invitations to bid occurs
 - Banks may complete a survey to record their areas of geographic interest
 - Submitting geographic preferences does not imply that a bank will be notified or all potential failing institutions in that state.
- Banks may also send an email to provide contact information to institutionsales@fdic.gov



Bid List Criteria

- ❑ Supervisory Criteria
 - Total Risk Based Capital ratio of 10% or higher
 - Tier 1 Risk Based Capital ratio of 6% or higher
 - Tier 1 Leverage Capital ratio of 4% or higher
 - CAMELS composite rating of 1 or 2
 - CAMELS Management component rating 1 or 2
 - Compliance rating of 1 or 2
 - RFI/C rating of 1 or 2
 - CRA rating of Satisfactory or Outstanding
 - Satisfactory Anti-Money Laundering Record
- ❑ Total Asset Size & Geographic Criteria
 - Total asset size threshold established for invitation is roughly double core deposits of failing bank when bidder is in geographic proximity to failing bank
 - Larger total asset size requirements when bidder is located in other states
 - Bidders may express preferences for invitation by state

Bid List Criteria Example

- Failing bank located in “X” State with \$100 million in Total Deposits, \$20 million in Brokered Deposits
- Bid List Criteria Used:
 - Insured financial institutions in “X” State with at least \$160 million in total assets (*roughly double core deposits of failing bank*)
 - Insured financial institutions in contiguous states with at least \$300 million in total assets (*roughly double criteria used above for bidders located farther away from failing bank*)
 - Insured institutions nationwide with at least \$400 million in total assets that have expressed an interest in acquiring institutions in “X” state.
- Criteria used will vary from project to project based on characteristics of potentially failing bank, time available for marketing, and other factors.

Marketing via IntraLinks

- ❑ Marketing Process starts with email to Prospective Bidders inviting them to IntraLinks for a specific resolution project
- ❑ After executing electronic Confidentiality Agreement, bidders may read an Executive Summary & Transaction Recap
- ❑ If interested, may request access to Project's data room for information about failing bank & transaction terms
 - ❑ Deposit & Loan Downloads (Customer identifiable information redacted)
 - ❑ Premises, IT and Other Operational Information
 - ❑ Legal Documents (bid forms, instructions, P&A documents, etc.)
 - ❑ Regulatory Contact information
 - ❑ Key dates, Bid Instructions

On-Site Due Diligence

- Opportunities for On-Site Due Diligence is not always available, depends upon Resolution Timeline.
- Due Diligence scheduled “First Come, First Serve”.
 - Time allowed averages one to two days
 - Team sizes average three to five
 - Affords the review of more detailed information
- Structured Program with FDIC hosting bidder access.

Bid Submission

- ❑ FDIC establishes deadline for bid package
- ❑ Bid Packages include:
 - Bid (on bid form provided)
 - Purchaser Eligibility Certificate
 - Board Resolution
 - Reaffirmation of Confidentiality Agreement
- ❑ FDIC selects winning Bid using “Least Cost Test” (proprietary). Additionally, FDIC is required by FDICIA to complete the Least Costly Resolution.
- ❑ Once winning bidder is selected you will be notified by the Marketing Specialist and Receiver in Charge/Closing Manager

Marketing: Transaction Structures

□ Purchase and Assumption (P&A)

- Whole Bank
- Whole Bank with Loss Share
- P&A with Optional Loan Pools
- Clean P&A

□ Other Resolution Methods

- Bridge Bank
- Deposit Payout
 - Deposit Insured National Bank (DINB)
 - Straight Payout

Whole Bank with NO Loss Share

- ❑ “Whole Bank” is a misnomer
- ❑ Transfers assets (including loans, ORE, securities) to Assuming Bank unless items are specifically excluded
- ❑ Transfers related, bank-owned, businesses (Credit Cards, Safe Deposit Box, Trust, Acquired Subsidiaries, etc.)
- ❑ Franchise acquisitions can be for All Deposits or Insured Deposits Only

Whole Bank with Loss Share

- ❑ As previously stated “Whole Bank” is a misnomer
- ❑ Transfers assets (including loans, ORE, securities) to Assuming Bank, with a 80% or 95% loss share basis, unless specifically excluded.
- ❑ Transfers related, bank-owned, businesses (Credit Cards, Safe Deposit Box, Trust, Acquired Subsidiaries, etc.)
- ❑ Franchise acquisitions can be for All Deposits or Insured Deposits Only

Typically Excluded Assets

- Bank Premises along with Contracts and Leases (offered under Separate 90-Day Options)
 - D&O Liability Claims
 - Prepaid Regulatory Assessments
 - Tax Receivables
 - Loss Reserves (General and Specific)
 - Private Label Asset Backed Securities
 - Asset that may be involved in Fraud.
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- If it's not specifically excluded in P&A, the asset passes to the Assuming Institution
 - Example-intellectual property – domain names, etc.

What is Loss Share (LS)?

- ❑ Receiver & Assuming Bank share in losses & recoveries on LS assets (80/20)
- ❑ Applies to Loans, ORE & (infrequently) certain Securities
- ❑ Single Family LS – 10 year term
- ❑ Commercial LS – 5 year term + 3 years for Recoveries
- ❑ Cannot (currently) obtain loss share without a Deposit Franchise
- ❑ Contemplates a “State Threshold” which below 80/20 and above 95/5

What is Loss Share? – Cont.

- Permits Assuming Bank to formulate bid to recover all or portions of at least the following (subject to competitive conditions):
 - 20% and 5% credit losses
 - Future income statement vulnerabilities from acquisition of impaired ORE/Loan/MBS “books”
 - Asset management expenses not otherwise reimbursable under the Loss Share
 - Other

Whole Bank with Loss Share Bids

- Bids for a Whole Bank with Loss Share Transaction are submitted in two components
 - Deposit premium bid (stated as a % of adjusted, assumed deposits – i.e. All deposits, less brokered, CDARS and listing service deposits)
 - Asset premium/(discount) bid (stated in \$'s)

Whole Bank w/Loss Share Bid Construction

Whole Bank with Loss Share Example Bid Construction

(Securities are valued at market value)

Sample Bank Transaction Financials:

Assets Purchased
Deposits Assumed
Other Liabilities Assumed
Net Worth Position ("Equity Adjustment")

Book Value	Financial Assumptions:
400,000,000	Loans and CRE 350,000,000
(365,000,000)	Stated Threshold 100,000,000
(15,000,000)	Bidder's Projected Losses 110,000,000
20,000,000	

Franchise Value Factors

Franchise Value Factors	Comments
Branch Location & Number	
Buy versus Build	
Net Interest Expense	
Deposit Structure & Types	
Business/Strategic Plan Fit	
Competitive Edge In Marketplace	
Total Franchise Value	

Deposit Premium Bid (Franchise Value ÷ Deposits Assumed)

Assigned Value

	Bid
7,300,000	Deposit Premium
7,300,000	Asset Premium or Discount \$ (22,875,000)
	2.00%

Asset Adjustments & Transaction

Income/Expense Elements

Income/Expense Elements	Comments
Credit - Principal Losses @ 20%	(Threshold x 20%)
Credit - Principal Losses @ 5%	(Bidder estimates losses beyond the Thrshld at 5% risk)
Credit - Earnings Losses	
Operating Expense	
Reporting Expense	
Net Interest Expense	
Other	
Total Adjustments	

Asset Premium / (Discount) Bid

Adjustment Value
(20,000,000)
(500,000)
(250,000)
(400,000)
(75,000)
(150,000)
(1,500,000)
(22,875,000)
(22,875,000)

Whole Bank with Loss Share First Loss Tranche Calculation

Whole Bank with Loss Share Example First Loss Tranche Calculation

(Securities are valued at market value)

Sample Bank Transaction Financials:

Assets Purchased
Deposits Assumed
Other Liabilities Assumed
Net Worth Position ("Equity Adjustment")

Book Value	Financial Assumptions:	
400,000,000	Loans and ORE	350,000,000
(365,000,000)	Stated Threshold	100,000,000
(15,000,000)	Bidder's Projected Losses	110,000,000
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20,000,000		

Franchise Value Factors Comments

Branch Location & Number
Buy versus Build
Net Interest Expense
Deposit Structure & Types
Business/Strategic Plan Fit
Competitive Edge In Marketplace
Total Franchise Value

Assigned Value

First Loss Tranche/(FDIC Wire) Calculation	
Deposit Premium Bid Value	\$ 7,300,000
Asset Prem / (Disc) Bid	(22,875,000)
Equity Adjustment	20,000,000
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Total	\$ 4,425,000
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First Loss Tranche	\$ 4,425,000
FDIC Wire to Assuming Bank	NONE

Deposit Premium Bid (Franchise Value ÷ Deposits Assumed) 2.00%

Asset Adjustments & Transaction

Income/Expense Elements	Comments	Adjustment Value
Credit - Principal Losses @ 20%	(Threshold x 20%)	(20,000,000)
Credit - Principal Losses @ 5%	(Bidder estimates losses beyond the Thrshld at 5% risk)	(500,000)
Credit - Earnings Losses		(250,000)
Operating Expense		(400,000)
Reporting Expense		(75,000)
Net Interest Expense		(150,000)
Other		(1,500,000)
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Total Adjustments		(22,875,000)

Type of Loss Share Bids

- Aggressive
- Conservative
- Other

Loss Share Transaction Documents

- Type of Documents
 - P&A Agreement
 - Single Family Loss Share Agreement
 - Commercial (Non-Single Family) Loss Share Agreement
- Significant revisions were made to the Loss Share Agreements in June, 2009 with most of the changes being very beneficial to Assuming Bank.
- Certain Key Provisions in Transaction Documents
 - FDIC as Receiver (not in its corporate capacity) is the party to the Agreements. FDIC corporate only guarantees indemnification obligations of the Receiver.
 - If Assuming Bank or its holding company is acquired, the Receiver must consent to the transaction to preserve loss sharing.
 - If Assuming Bank or its holding company issues more than 9% of its capital stock during the three year period after acquisition of a Failed Bank, the Receiver must consent to such issuance to preserve loss sharing.
 - Mistake in complying with Permitted Advance and/or Permitted Amendment Provisions of Commercial Loss Share Agreement results in forfeiture of FDIC loss coverage with respect to the affected loan.
 - True - Up Payment to FDIC

Closing Process when Bidding under the Whole Bank with Loss Share

- At Closing, FDIC Pro Forma –
 - Prepares balance sheet of acquired assets and assumed liabilities at book value after reversal of loan reserves with selected investments valued at fair market value
 - Net of same is “Equity Adjustment (EA)”
 - Then nets EA with asset discount bid and deposit premium bid
 - If result is positive, Assuming Bank does not pay any money to the FDIC but instead will absorb 100% of credit losses until this sum is reached – thereafter loss sharing begins (“First Loss Tranche”)
 - If result is negative, FDIC pays Assuming Bank amount and loss sharing begins on the first day following bank closing

Examples of First Loss Tranche

Example 1

- Negative Asset Bid = (\$15 million)
- Positive Deposit Bid = \$ 2 million
- Positive Net Equity of Assets
Acquired minus Liabilities Assumed = \$ 5 million
- First Loss Tranche = (\$ 8 million)

Since First Loss Tranche is a negative number, the negative amount (i.e. \$8 million) is paid in cash by the FDIC to the Assuming Bank.

Examples of First Loss Tranche (cont'd)

Example 2

■ Negative Asset Bid	= (\$15 million)
■ Positive Deposit Bid	= \$ 2 million
■ Positive Net Equity of Assets Acquired minus Liabilities Assumed	= \$14 million
<u>First Loss Tranche</u>	= \$ 1 million

Since First Loss Tranche is a positive \$1 million, the Assuming Bank absorbs the first \$1 million of losses on acquired loans before loss sharing starts.

Closing Procedures

- ❑ Prior to closing, the FDIC and the Assuming Bank will execute the transaction documents.
- ❑ At closing, the Chartering Authority will close the Failed Bank and appoint the FDIC, Receiver.
- ❑ FDIC will have personnel available to cover the branches but in the case of a Whole Bank transaction, they will coordinate coverage with the Assuming Bank.
- ❑ Assuming Bank personnel will be needed over the weekend and FDIC will work with the Assuming Bank on who and when needed.



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