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# **FDIC Assisted Transactions: Beyond the Basics**

**SNL Financial Webinar  
November 9, 2010**

# FDIC Acquisitions



## *Executive Summary*

- The current environment in the banking industry has presented an extraordinary opportunity for well capitalized banks.
- The list of problem banks is increasing with the FDIC predicting around 160 resolutions in 2010, down from their earlier estimates of 300.
- The current FDIC list of problem banks after 6/30/10 numbers is 829, a significant increase over the 3/31/10 numbers.
- FDIC acquisitions offer an attractive and low priced strategy for banks to expand their geographic footprint and core banking assets even under the changing loss share provisions.

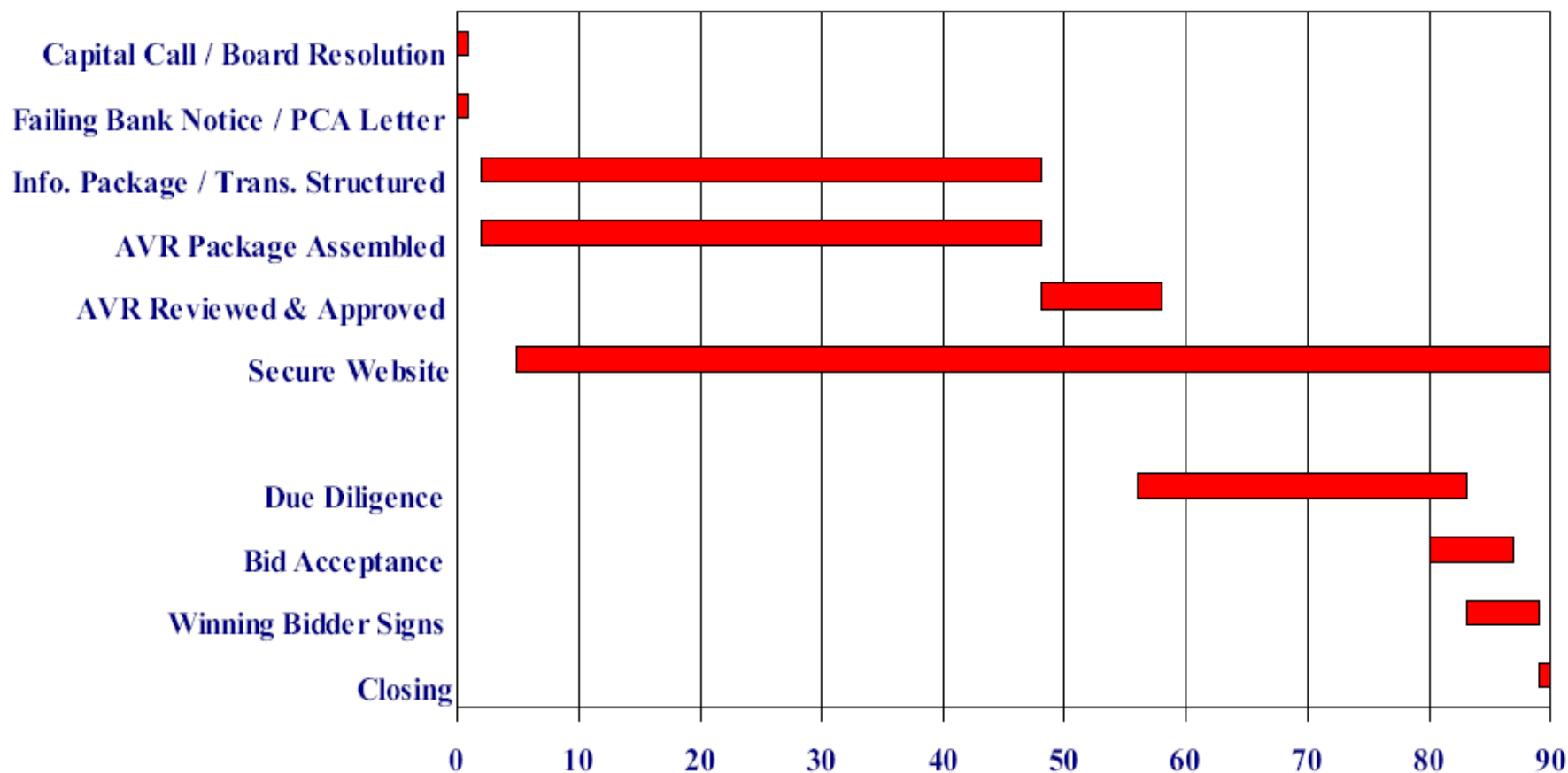
# FDIC Acquisitions



## *However...*

- The FDIC transactions have highly compressed timeframes for due diligence, bidding and closing.
- Often the transaction closes as quickly as two to three weeks from the initial FDIC marketing.
- Very limited information is provided on the reasons for the failure, the assets and the staff
- Very limited time is provided for due diligence - usually four to six days, for six to eight people

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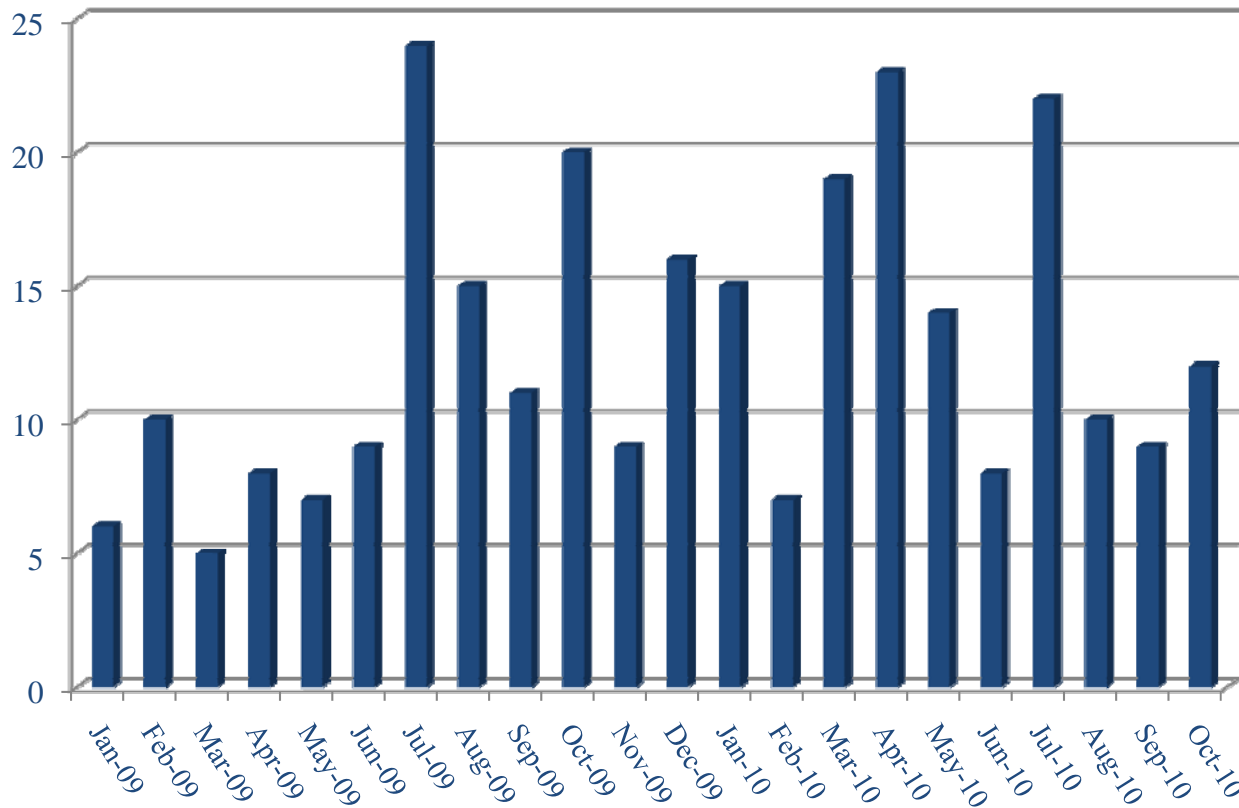
## *Nevertheless...*

- Your understanding of the Financial Risk in light of the changing deal structures is more important than ever
- Your ability to successfully execute an assisted transaction from an organizational, marketing and operational perspective is more critical than ever to minimize Execution Risk
- Your failure to correctly estimate the Financial Risk or to successfully execute the acquisition can materially increase your Reputation Risk

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## Failed Banks Per Month



2009		2010	
State	# Closed	State	# Closed
GA	25	FL	27
IL	21	IL	16
CA	17	GA	16
FL	14	CA	10
MN	6	WA	10
TX	5	MN	7
AZ	5	MO	6
MI	4	MI	4
WA	3	NV	4
CO	3	SC	4
MO	3	MD	3
NV	3	NY	3
OR	3	OR	3
KS	3	PR	3
AL	3	UT	3
UT	2	AZ	3
MD	2	KS	3
NC	2	NM	2
NJ	2	OH	2
OH	2	AL	1
IA	1	LA	1
ID	1	MA	1
IN	1	MS	1
KY	1	NE	1
NE	1	NJ	1
NY	1	OK	1
OK	1	TX	1
PA	1	VA	1
SD	1	WI	1
WI	1		
WY	1		
VA	1		
	<b>140</b>		<b>140</b>

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## Texas Ratios

**Total Nonperforming Assets (including loans & leases 90 days Past Due) /  
Tangible Total Equity + Loan Loss Reserves**

**15 Highest Texas Ratios In The U.S.A.  
as of 9-30-10**

Company Name	City	State	Total Assets (\$000)	Leverage Ratio (%)	Liquidity Ratio (%)	Texas Ratio (%)
Chestatee State Bank	Dawsonville	GA	244,376	0.85	14.85	<b>1,085.44</b>
Copper Star Bank	Scottsdale	AZ	203,955	(1.17)	18.04	<b>1,042.77</b>
Enterprise Banking Company	McDonough	GA	100,782	1.37	19.43	<b>1,037.22</b>
Montgomery Bank & Trust	Ailey	GA	219,380	1.32	19.68	<b>906.77</b>
Gulf State Community Bank	Carrabelle	FL	112,144	-0.53	13.64	<b>763.20</b>
North Georgia Bank	Watkinsville	GA	166,332	2.20	20.08	<b>755.26</b>
Habersham Bank	Clarkesville	GA	395,919	2.28	12.12	<b>680.60</b>
Oglethorpe Bank	Brunswick	GA	230,585	1.03	17.19	<b>646.71</b>
American Trust Bank	Roswell	GA	249,285	2.23	20.12	<b>589.83</b>
First State Bank	Stockbridge	GA	563,426	3.13	14.14	<b>582.34</b>
Security Exchange Bank	Marietta	GA	178,086	4.49	21.66	<b>563.21</b>
Douglas County Bank	Douglasville	GA	335,877	4.61	11.54	<b>539.09</b>
Blue Ridge Savings Bank, Inc.	Asheville	NC	182,792	4.89	14.55	<b>537.21</b>
Darby Bank & Trust Company	Vidalia	GA	654,714	1.20	25.00	<b>521.02</b>
United Americas Bank, NA	Atlanta	GA	242,339	-0.81	14.34	<b>513.75</b>

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## *Types of Transactions*

- Whole Bank – the prevalent transaction in 2010
  - Loss sharing – 80% / 20% (a change from the 2009 transactions)
    - Negative bids – Front end cash from the FDIC
    - Deposit bids – Premium on deposits to the FDIC
  - Modified loss sharing – Clean(er) bank acquisitions
  - The New Loss Share “Donut” transaction
  - Whole bank walk-away, no loss share
- Deposit bids – the prevailing bid types for 2008
  - Insured or total – generally total but only used if no whole bids are forthcoming

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## *Types of Transactions – The New Loss Share*

- The FDIC's loss share program has continued to change as more banks take advantage of the opportunities.
- On September 10, 2010, Horizon Bank in Florida became the first bank to be closed under the newest version of the loss share agreement, marking the third major structural change to this type of bid.
- Through October, 17 banks have been closed using the newest version of the loss share agreement.

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## *Types of Transactions – The New Loss Share*

### ■ Definitions

- **Intrinsic Loss Estimate** (“ILE”) – The FDIC’s projected loss on assets covered under loss share. Estimated losses are provided on single family and commercial portfolios (which includes OREO).
- **Deposit Premium** – The amount a bidder is willing to offer for the failed banks deposits. Amount is expressed as a percent of deposit liabilities excluding Cede & Co deposits, other brokered deposits, CDARS and Market Place (or Internet) deposits.
- **Asset Premium (Discount)** – The amount a bidder is willing to offer/ask for related to the total assets being purchased. Expressed as a dollar amount and should represent an estimate of your credit/operational gains, losses and expenses in the transaction.
- **Shared Loss Assets** – Refers to Shared-Loss Loans, Other Real Estate purchased by the Assuming Institution, Additional ORE, Shared-Loss Subsidiaries, and Capitalized Expenditures, but does not include Shared-Loss Securities. The Shared-Loss loans may be either single family (Exhibit 4.15A) or commercial (Exhibit 4.15B).

# FDIC Acquisitions



## *Types of Transactions – The New Loss Share*

- Definitions
  - **Applicable Percentage Shared Loss/Bid Tranches** – For failed banks over \$500 million in assets, losses on Shared Loss Assets are separated into three tranches for each of the single family (SF) and Commercial Shared-Loss Agreements. The size of each tranche will be set by the FDIC when the ILE is provided.
    - The FDIC will provide the specified percentage of FDIC shared loss coverage (bidder % /FDIC %) for Tranche 2, usually around 20/80 or 30/70 but may be as low as 0/100. This is informally referred to as the “donut” tranche.
    - The Bidder will provide the amount of FDIC loss share coverage for Tranches 1 and 3 in the bid.
  - Under \$500 million failed banks only have two tranches, below ILE and above ILE and the bidder sets both.

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## *Types of Transactions – The New Loss Share*

- While 95/5 loss share ended on March 31, 2010, the FDIC no longer automatically covers all loss share assets on an 80/20 basis.
  - For Banks with under \$500 million in assets, losses on shared loss assets are treated the same as post 3/31/10 (initially, the break was at \$100 million).
  - You are offered 2 tranches (one below ILE and one above ILE) for both single family and commercial with loss share at a maximum of 80/20, but you can reduce the FDIC's share to improve your bid.

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## *Types of Transactions – The New Loss Share*

**This Bid is for**

**All Deposits**

**Insured Deposits Only**

**The Deposit premium bid is:**

**%**

**The Asset premium (discount) bid is:**

**\$**

**The SF1-4Applicable Percentage bid  
below the SF1-4 Intrinsic Loss Estimate is:**

**(1)**

**%**

**The SF1-4Applicable Percentage Bid  
above the SF1-4 Intrinsic Loss Estimate is:**

**(2)**

**%**

**The Commercial Applicable Percentage bid  
below the Commercial Intrinsic Loss Estimate  
is:**

**(1)**

**%**

**The Commercial Applicable Percentage bid  
below the Commercial Intrinsic Loss Estimate  
is:**

**(2)**

**%**

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## *Types of Transactions – The New Loss Share*

- For Banks with over \$500 million in assets, losses on shared loss assets have additional tranches:
  - As with the under - \$500 million banks, the ILE has been split into 2 categories, single family 1-4 and commercial.
  - However, each of these divisions have three tranches.
  - The size of each tranche is determined by the FDIC once the ILE is provided.
  - You bid on the upper and lower tranche and the FDIC sets the parameters of the middle tranche

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## *Types of Transactions – The New Loss Share*

**This Bid is for**

**All Deposits**

**Insured Deposits Only**

**The Deposit premium bid is:**

\_\_\_\_\_ %

**The Asset premium (discount) bid is:**

\_\_\_\_\_ \$

**The SF1-4Applicable Percentage  
bid for the SF Tranche 1 Amount is:**

\_\_\_\_\_ (1) %

**The SF1-4Applicable Percentage  
bid for the SF Tranche 3 Amount is:**

\_\_\_\_\_ (2) %

**The Commercial Applicable Percentage  
bid for the Commercial Tranche 1 Amount is:**

\_\_\_\_\_ (1) %

**The Commercial Applicable Percentage  
bid for the Commercial Tranche 3 Amount is:**

\_\_\_\_\_ (2) %

## *Types of Transactions – Emerging Issues*

- Whole Bank Transactions – The Bidding Process
  - Higher regulatory pre-scrutiny (required management and integration plans, mandatory waiting period between closings, no reliance on bargain purchase, anticompetitive issues)
  - Increased importance of due diligence
    - No loss share on consumer loans – typically miscoded loans (stock loans or other C&I loans)
    - More reliance on internal loss estimates with multiple tranches
    - Ability to revise and prepare new bids based on FDIC exclusions
    - Understanding of data processing and other contracts
    - Clear identification of OREO – loss share subsidiaries versus bank
    - Potential liability for charged off assets – litigation

## *Types of Transactions – Emerging Issues*

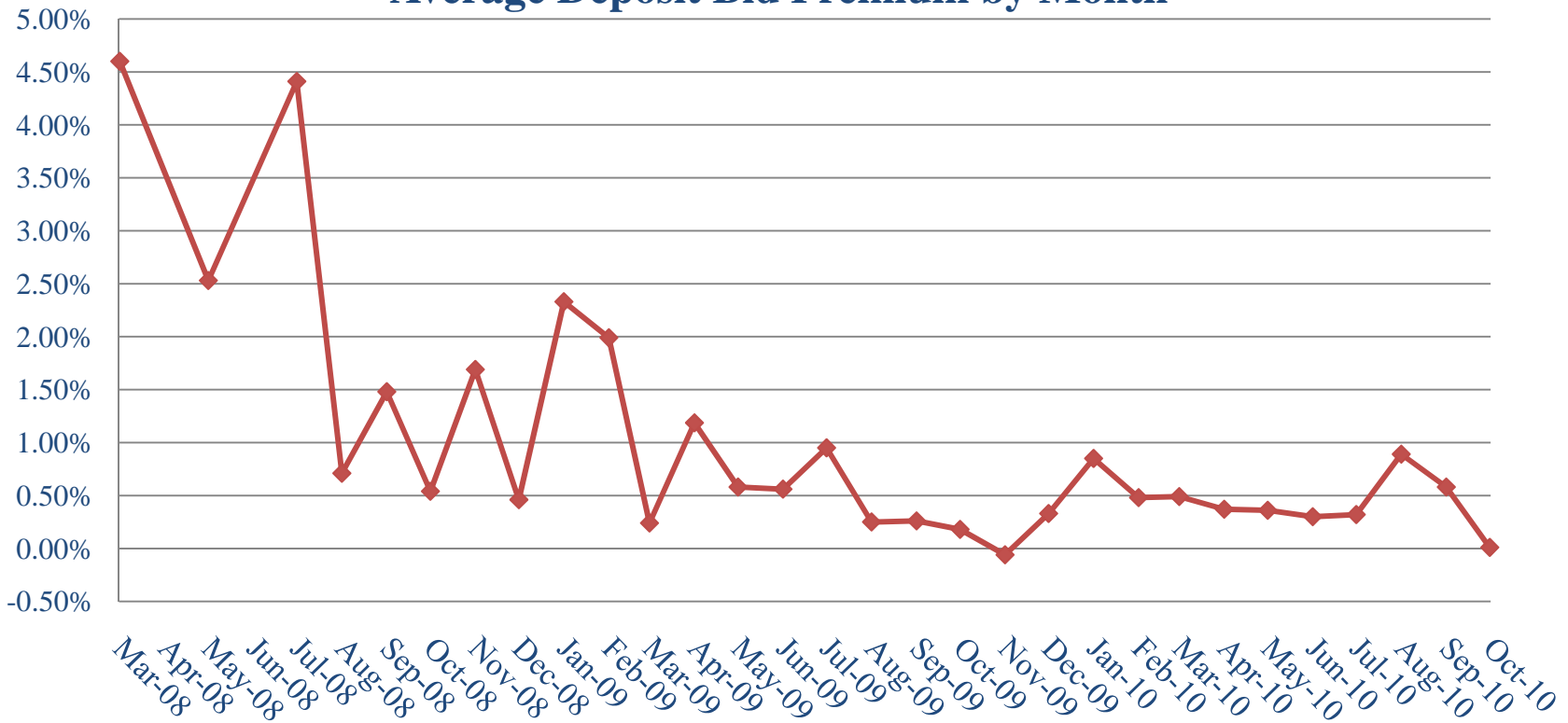
- Whole Bank Transactions – The Bidding Process
  - Modified P&A transactions – FDIC may exclude accruing loans to securitize, non accrual loans and OREO while providing loss share on performing loans.
  - Changes in the loss share coverage increase potential risk to winning bidder.
  - Increasing competition and riskier bids (in some markets).
  - Overall, though, bidders are being more conservative – see following charts.

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## Deposit Pricing

Average Deposit Bid Premium by Month

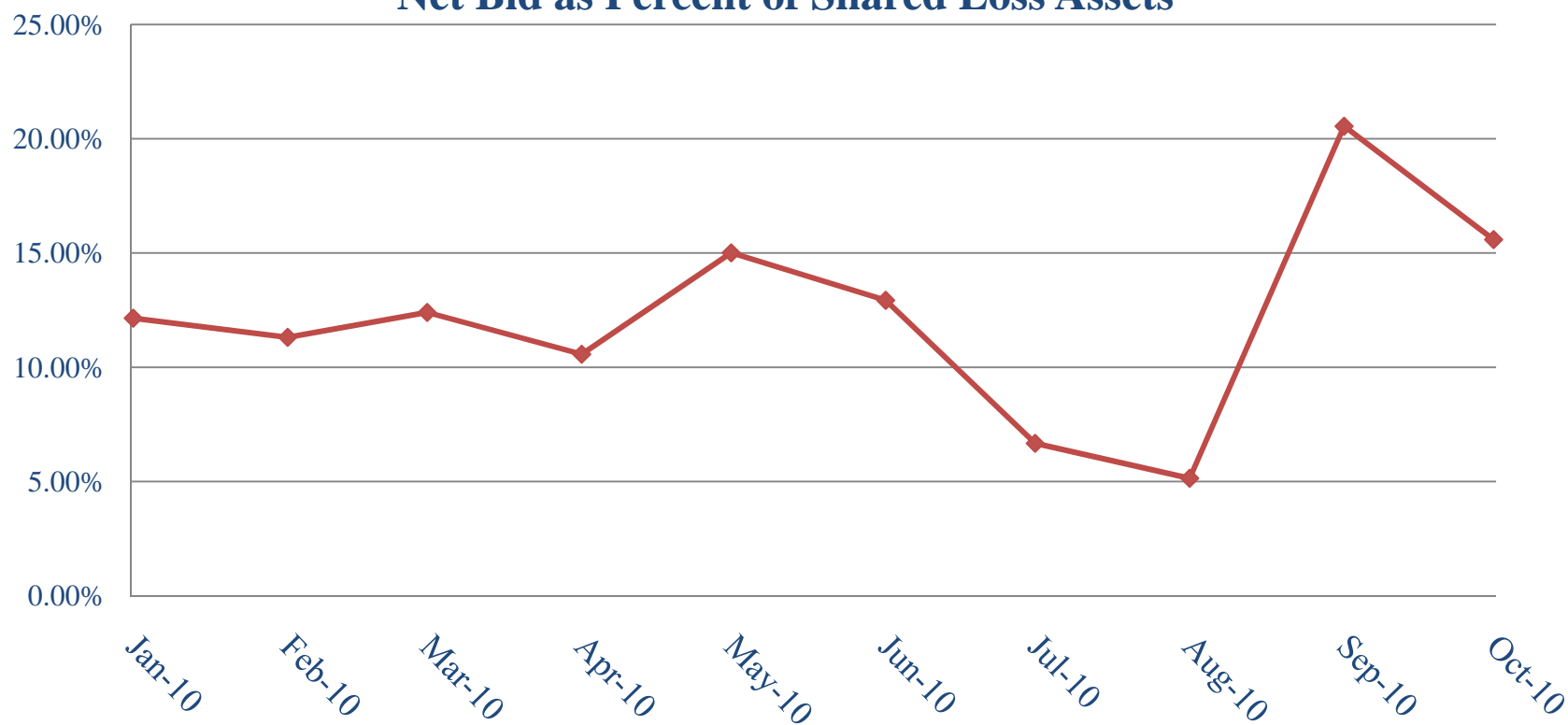


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## Asset Pricing

Net Bid as Percent of Shared Loss Assets



## *Types of Transactions – Emerging Issues*

- Whole Bank Transactions – Miscellaneous Misery
  - Increased post-acquisition time spent with regulators discussing accounting, bargain purchase, treatment of loss share assets in capital and classified reports (that's before the new tranches)
    - FAS 141r – Retain an experienced valuation expert
    - Be sure your asset valuation papers are in good order
  - More formal data retention requirements for failed bank records are being imposed by the FDIC.
  - Integration of current employees, current policies, current data processing, current approval authorities with the newly acquired bank is a significant challenge – we have a comprehensive project plan just for this phase.

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## *Types of Transactions – Emerging Issues*

- Whole Bank Transactions – Sharing the Loss
  - Increased number of loss share “compliance” issues, especially in the southeast and with regard to SF loan modifications.
  - Banks are frustrated with loss share electronic solutions – slow to come on line.
  - Changing loss share reporting – Additional data points in SF (50+ to 70) and Commercial (80+ to 115), confusion on donut loss sharing.

## *Types of Transactions – Emerging Issues*

- Whole Bank Transactions – Sharing the Loss
  - Assuming institutions (AI's) have little experience with troubled asset management or restructuring
    - The test – treat loss share assets like you treat your legacy assets.
    - Most AI's do not have a sufficient special assets department – size or expertise.
    - The AI's legacy policies and procedures are inadequate for loss share management.
    - Reporting involves data mapping at least twice, significant accounting assistance and support for the excel reporting issues.
    - The AI's internal loss share specialist must have a clear understanding of the Exhibit 4.15A and B Loss Share Agreements.

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*Closing Questions ?*



*For additional information ...*

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