



## NEWS RELEASE

FOR IMMEDIATE RELEASE

PR-82-88 (4-20-88)

### FDIC GRANTS FINAL APPROVAL TO ASSISTANCE PLAN FOR SUBSIDIARIES OF FIRST CITY BANCORPORATION, HOUSTON, TEXAS

The Board of Directors of the Federal Deposit Insurance Corporation has granted final approval to an assistance plan to recapitalize and restore financial health to the subsidiary banks of First City Bancorporation of Texas (First City). The assistance plan is the second largest in FDIC history. First City is an \$11 billion organization headquartered in Houston, Texas, with 59 banking subsidiaries.

The rehabilitation plan announced September 9, 1987, is essentially unchanged. Key elements include the following:

- \$500 million in new capital has been raised through a stock offering. The offering was arranged by Donaldson, Lufkin & Jenrette Securities Corporation, joined by Drexel Burnham Lambert Corporation. New private investors, led by A. Robert Abboud, have assumed control of the First City banks through a newly formed holding company. As a result of this new capital, the ownership of First City's common shareholders has been reduced to less than two percent of total equity.
- Management and policy direction of the company will be provided by a new management team and board of directors headed by Mr. Abboud.
- Assistance to the First City subsidiary banks takes the form of \$970 million in notes from the FDIC. The FDIC notes bear interest at the Treasury bill rate plus one-half of one percent with principal payable in 10 equal semi-annual installments.

- more -

- ° Approximately \$1.7 billion in nonperforming and troubled assets are being transferred to a separate entity created to service such assets, funded by notes from the First City subsidiary banks. Collections by this new entity will go first to repay the subsidiary banks, then to the FDIC and finally to the previous shareholders of First City. The FDIC will not purchase any assets held by the assisted banks, and will be guaranteed a minimum repayment of \$100 million from collections.
- ° The FDIC has received warrants, exercisable for five years, to purchase five percent of the common stock of First City at a price equal to the initial offering price of the stock. In addition, the FDIC has purchased \$43 million of junior preferred stock convertible into a 10 percent interest in the common stock of the restructured holding company. The FDIC may elect to purchase additional amounts to the extent that a rights offering to existing shareholders of \$43 million of additional stock is not fully subscribed by these shareholders and the new investors.
- ° The holders of First City's preferred stock and publicly-held long-term debt agreed to substantial concessions as a requisite to the transaction. Since the announcement last September of the FDIC's agreement in principle of the transaction, significant deterioration in the financial condition of one First City subsidiary, McAllen State Bank, caused Texas Banking Commissioner Kenneth W. Littlefield to declare the bank insolvent and close it. All deposit liabilities, including uninsured deposits, were transferred today to First City National Bank of Houston. All customer services at the McAllen facility are being provided without interruption and the McAllen office now functions as a branch of First City National Bank of Houston.