

July 29, 1988

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Federal Deposit Insurance Corporation  
Office of the Comptroller of the Currency  
Federal Reserve Board

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FOR IMMEDIATE RELEASE

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REGULATORS ANNOUNCE APPROVAL OF ACQUISITION OF  
SUBSIDIARY BANKS OF FIRST REPUBLICBANK CORPORATION, DALLAS, TEXAS  
BY NCNB CORPORATION, CHARLOTTE, NORTH CAROLINA

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The Federal Deposit Insurance Corporation, the Comptroller of the Currency and the Board of Governors of the Federal Reserve System today announced approval of the acquisition by NCNB Corporation of subsidiary banks of First RepublicBank Corporation, Dallas, Texas.

The arrangement approved in principle by the regulators accomplishes the restructuring and recapitalization of First Republic banks in Texas, and ensures the full protection of all depositors and general creditors. All of the banking offices will continue to operate without interruption.

FDIC Chairman L. William Seidman said: "The selection of NCNB Corporation's proposal for restoring First Republic's banks to financial health concludes an extensive and spirited bidding process involving a number of very capable parties. The FDIC selected this restructuring as the lowest cost acceptable plan. NCNB Corporation brings to the task an exceptionally talented and deep management team, a reputation for innovation and accomplishment and a strong commitment to the revitalization of the First Republic banks. We are confident that this choice will be best for First Republic and for Texas."

Major features of the restructuring and recapitalization program include:

- ° The establishment of a new bank, to be called NCNB Texas National Bank, with one hundred percent of the voting stock to be owned by NCNB Corporation.

- ° The FDIC, as receiver for First Republic banks, will transfer their assets and liabilities to the NCNB Texas National Bank.

- ° NCNB Corporation, based in Charlotte, North Carolina, has agreed to infuse between \$210 million and \$240 million in NCNB Texas National Bank, an amount equal to 20 percent of the new bank's total equity capital.

- ° The FDIC will infuse between \$840 million and \$960 million in new equity capital into NCNB Texas National Bank, an amount equal to 80 percent of its total equity capital.

- ° The FDIC will retain an 80 percent nonvoting equity interest in NCNB Texas National Bank. NCNB Corporation will, during the next five years, have an exclusive option to purchase the FDIC's 80 percent equity interest. NCNB Corporation will pay the FDIC a premium over the book value of the bank's stock at the time of purchase.

- ° The FDIC will provide assistance to NCNB Texas National Bank in the form of a capital contribution in order to eliminate negative net worth. The FDIC will also guarantee certain problem assets.

- ° NCNB Texas National Bank will be responsible for administering and collecting the problem assets.

- ° NCNB Corporation will manage NCNB Texas National Bank under contract during the interim period until the recapitalization is consummated. After implementation of the restructuring, NCNB Corporation will continue to manage the new bank.

The FDIC's initial outlay for this transaction is expected to be approximately \$2 billion, in addition to the \$1 billion advanced in March. Further outlays are expected to be about \$1 billion. Although it cannot be accurately estimated at this point, the FDIC's net cost for this transaction is expected to be significantly lower than its total outlays.

Today's action follows the FDIC's decision on March 17, 1988, to provide \$1 billion in emergency assistance to the subsidiary banks of the First RepublicBank Corporation. That assistance was advanced because of concerns among depositors regarding the safety of their funds.

All of the deposits of the failed banks have been assumed by NCNB Texas National Bank and service will continue without interruption. The FDIC's assurances given in March with respect to depositors and general creditors of the banks will remain in place until the consummation of the transaction at which time the new bank will be recapitalized. Consummation of the transaction is expected as soon as legal documentation and a final accounting of the bank's financial condition are completed.

The obligations of the failed banks' parent companies, First RepublicBank Corporation and IFRB Corporation, including approximately \$1.2 billion in debt and preferred stock, will remain with the parent companies. NCNB Texas National Bank will not assume any of the obligations of the holding companies.

Today's decision to proceed with the restructuring and recapitalization plan proposed by NCNB Corporation follows extensive negotiations with several interested parties, including a plan proposed by the company. The FDIC Board of Directors determined that NCNB Corporation's plan represented the most effective, most viable, and least costly approach for preserving existing

banking services in the affected communities and promoting stability in the Texas banking system. Following this determination, the FDIC notified the Office of the Comptroller of the Currency and the Texas Commissioner of Banking that it would not provide additional assistance to subsidiary banks of First RepublicBank Corporation and not renew the \$1 billion loan when it becomes due in September.

In response to the FDIC's decision, the Comptroller of the Currency notified the Federal Reserve Bank of Dallas that First RepublicBank Dallas, N.A. was no longer a viable bank. The Office of the Comptroller of the Currency's notice was based on continuing severe loan losses at First RepublicBank Dallas, N.A. which had already more than depleted the institution's equity capital, the FDIC's decision on open bank assistance, and a determination that FirstRepublicBank Dallas, N.A. would be unable to meet its daily funding needs without the continuing substantial support of the Federal Reserve Bank.

The Federal Reserve Bank then requested repayment of the Dallas bank's borrowings. First Republic Bank Dallas, N.A. was unable to repay its obligations, which resulted in its closure by the OCC and the appointment of the FDIC as receiver.

Under the terms of the emergency assistance from the FDIC, the insolvency of the Dallas bank was an event of default that resulted in the FDIC's demanding immediate repayment of its \$1 billion loan. This loan had been guaranteed by the subsidiary banks. The amount of the banks' guarantee was charged against their capital accounts. Losses as a result of these charges and other intracompany transactions rendered other banks insolvent.

The 41 banks of the First Republic system, including the \$17.0 billion lead bank in Dallas, had total assets of approximately \$32.5 billion.

## COMPREHENSIVE STATEMENT

### A. BASIC ASSISTANCE.

Upon the implementation of the assistance program, all loans, real estate properties and other assets acquired by NCNB Texas National Bank, including all performing and nonperforming assets, will be written down to their market value as appropriate. The FDIC will provide direct assistance to NCNB Texas National Bank in a combination of cash, notes, and debt relief, in an amount sufficient to eliminate the negative net worth.

### B. CAPITAL INFUSION.

NCNB Corporation will acquire 100% of the voting stock of NCNB Texas National Bank, representing 20% of the total equity, for a minimum investment of \$210 million in cash and a maximum of \$240 million, and will have an option to acquire the remaining 80%. The FDIC will acquire nonvoting stock representing 80% of the total equity, for a minimum investment of \$840 million in cash and a maximum of \$960 million. The equity infusion of at least \$1.05 billion and the direct assistance provided by the FDIC will create an institution with at least 6.0% primary capital.

NCNB Corporation will have the exclusive, nontransferable option, exercisable at any time during the first five years, to purchase the FDIC's 80% interest. The exercise price per share will be the amount of the FDIC's original investment per share plus, in the first three years, 115% of the net increase in book value per share, with the premium increasing to 120% in the fourth year and 125% in the fifth year.

C. SEPARATE ASSET POOL.

The assets transferred to NCNB Texas National Bank from the First Republic banks included a substantial volume of troubled loans, real estate properties and other troubled assets. A major feature of the financial assistance program is the transfer of most of those assets to a separate asset pool in the new bank. The troubled assets will be transferred to the pool, marked down to fair market value, and accounted for by separate bookkeeping entry within NCNB Texas National Bank. NCNB Texas National Bank will be responsible for the administration of and collections on the asset pool.

While the pool remains owned by NCNB Texas National Bank, it will be administered as a separate profit center. The new bank will assign a full-time dedicated management team to manage collection and liquidations of the assets in the pool, with incentive programs based on performance of the pool assets. In addition, the new bank's share of any ultimate gains on the pool will be tied to efficiency of pool administration and pool performance.

At the end of three years, if NCNB Corporation has increased its ownership of NCNB Texas National Bank to 51% as expected, the entire remaining asset pool will be spun off to a new liquidating bank operated by NCNB Texas National Bank under continuing incentive programs.

D. NCNB CORPORATION'S MANAGEMENT.

As an essential part of the program to revitalize the First Republic banks, NCNB Corporation will immediately assign a team of experienced bank managers more than 250 strong to work with existing management and staff of

the former First Republic banks. In the interim period prior to the completion of the assistance program, NCNB Corporation will manage NCNB Texas National Bank under a management agreement providing full supervisory authority to NCNB Corporation, subject to FDIC consultation, and a board of directors nominated by NCNB Corporation and appointed by the FDIC.

After implementation and while NCNB Corporation is a minority owner, it will continue to manage the new bank substantially as if it were its subsidiary. Finally, upon NCNB Corporation's exercise of the purchase option to increase its ownership to 51% or more, it will assume full control. After that time, the FDIC will have the right to sell its stock only in a public offering and subject to a right of first refusal in favor of NCNB Corporation. NCNB Corporation increases its ownership to 80% or more, it will be required to purchase the FDIC's remaining interest at the agreed premium.

E. FDIC ASSURANCES.

The assurances given by the FDIC on March 18, 1988, that "all depositors and other general creditors of the bank will be fully protected and service to the bank's customers will not be interrupted" remains in full force and effect until this permanent assistance package is consummated.

F. COST TO FDIC.

The FDIC's total outlay after consummation of the permanent assistance program will be approximately \$4.0 billion, including the \$1.0 billion loaned to the First RepublicBank banks on March 17, 1988, and not repaid. The ultimate cost to the FDIC from the permanent assistance program depends on the amount

of collections on and the value of the assets in the special asset pool; the amount of troubled assets transferred to the separate asset pool; the amount of dividends received by the FDIC while it holds stock of NCNB Texas National Bank; and the price the FDIC receives on the sale of its stock in NCNB Texas National Bank on sale to the public or to a third party or on the exercise by NCNB Corporation of its option to purchase the FDIC's stock.

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