FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC APPROVES ASSISTANCE PLAN FOR BOWERY SAVINGS BANK

The Board of Directors of the Federal Deposit Insurance Corporation has approved a financial assistance package to recapitalize the Bowery Savings Bank, New York City, and facilitate its acquisition by an investor group led by Richard Ravitch, former Chairman of both the Metropolitan Transportation Authority and the New York State Urban Development Corporation.

The assistance package from the FDIC is estimated to have a present value cost of $273 million. In addition, the FDIC will purchase a $100 million subordinated note in Bowery, and the private investor group will contribute $100 million in equity and install a new management team headed by Mr. Ravitch as Chairman and Chief Executive Officer.

The transaction was consumated on October 1, 1985, through the technique of merging Bowery into a newly-chartered stock savings bank using the Bowery name. All loan and deposit customers of Bowery will automatically become customers of the new Bowery on the same terms without the necessity of any action on their part.

FDIC Chairman William M. Isaac said: "The FDIC assistance plan, which is the first of its kind, provides Bowery Savings Bank the financial strength and managerial leadership to once again play a leading role in the New York market. The plan has been carefully structured to resolve Bowery's problems at a reasonable cost to the FDIC, while maintaining the institution entirely under private ownership and control. Our staff and the Ravitch group have

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labored for months in an effort to put together a package that would protect Bowery's customers and enable the bank to provide the full range of financial services to its community."

Bowery, with assets of $5.3 billion, has experienced substantial losses each year since 1979, due primarily to the interest rate environment which drove up the cost of deposits much faster than Bowery could raise the yields on its loans and investments. Based upon Bowery's current negative book capital and the market depreciation in its asset portfolio, it is estimated that a payoff of the bank's insured depositors would have cost the FDIC about $620 million.

The Bowery assistance package is the culmination of a competitive, nationwide process begun last year. A sizeable number of FDIC-insured institutions and other interested parties were invited to submit proposals for the acquisition of Bowery. The Ravitch proposal was the least costly and most attractive of the proposals received by the FDIC.

The transaction was approved under the FDIC's "Voluntary Assisted Merger Program," which establishes criteria for granting financial assistance to facilitate a voluntary merger or acquisition involving an FDIC-insured savings bank that is in a weakened financial condition. The FDIC financial assistance will consist of the following:

- Existing net worth certificates under Section 13(i) of the FDI Act, amounting to $220.1 million, will continue in effect in accordance with their terms. Because net worth certificates involve no exchange of money or other subsidy, the cost of this to the FDIC is zero.
- The FDIC will make a payment in an amount sufficient to bring Bowery's negative net worth (with certain adjustments) up to zero under generally accepted accounting principles. The amount of this

payment will be determined by an independent audit, but is currently estimated at about $165 million.

- The FDIC will support Bowery's existing low-yielding assets for 15 years under an Income Maintenance Agreement (IMA). The FDIC will provide quarterly payments (adjusted to provide a declining contribution toward overhead expenses) to cover the difference between the yield on Bowery's defined asset base and the average cost of funds for large savings bank peers. Bowery will pay the FDIC 100 percent of this difference if and when the assets yield more than the average cost of funds. The IMA assistance is expected to result in an approximate present value cost to the FDIC of $107 million. This estimate is based on a continuation of current interest rate levels and may be revised periodically depending on the future course of interest rates.

- The FDIC will purchase a 15-year nonamortizing subordinated note from the new Bowery in the amount of $100 million. The note will carry a floating market rate of interest and is therefore considered a no-cost item to the FDIC

In 1984 the FDIC implemented a policy of charging off outstanding net worth certificates in savings banks to the extent that the savings banks had negative book capital. Bowery's negative net worth at that time was $121 million. This means that of the $273 million estimated cost of the Bowery assistance package, $121 million was charged off by the FDIC in 1984 and the balance of $152 million will be charged off in 1985. Sixty percent of all FDIC losses are recouped in the form of lower assessment rebates to insured banks, so the net impact on the FDIC insurance fund in 1985 from the Bowery transaction will be $54.4 million.

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