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Media Contact:
David Barr (202) 898-6992

FDIC Closes on a $1.45 Billion Structured Sale of Distressed Loans

The Federal Deposit Insurance Corporation (FDIC) today announced the conclusion of the sale of $1.45 billion of performing and nonperforming residential and commercial construction loans in distressed markets through the use of two private/public partnership transactions. These structured sales utilize the asset management expertise of the private sector, while retaining for the FDIC a participation interest in all future cash flows generated by the workout of the assets over time.

In the two recent transactions, the FDIC placed the loans, which were exclusively from the failed First National Bank of Nevada, into a limited liability corporation (LLC). The FDIC retained an 80 percent interest in the assets with the winning bidder picking up an initial 20 percent stake. Once certain performance thresholds are met, the FDIC's interest drops to 60 percent. The future expenses and income will be shared on the percentage ownership of the purchaser and the FDIC.

"The FDIC is drawing on its previous successes and those of the Resolution Trust Corporation," said James Wigand, Deputy Director, Division of Resolutions and Receiverships. "During the last banking crisis, when asset values were similarly difficult to ascertain, these types of structures ultimately resulted in superior recoveries relative to the then-depressed market valuations."

By retaining a participation interest in the structure, the FDIC as receiver will benefit in the future return of the portfolio in addition to receiving immediate proceeds from the purchaser for its 20 percent interest in the portfolio.

The successful bidders on the two transactions were Diversified Business Strategies and Stearns Bank NA. The FDIC hired the financial advisor Keefe Bruyette Woods to market the LLC to potential bidders. In all, 18 separate bidders submitted 30 unique bids for both pools of loans.

The closure of this sale brings the total amount of assets sold utilizing private/public partnership transactions to approximately $3.2 billion over the last year, in five separate transactions. Based on the success of the program and the positive feedback received from the private sector, the FDIC anticipates it will utilize this and similar sales strategies in the future.