FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC APPROVES ASSUMPTION OF DEPOSITS OF SOUTHEAST BANK, N.A., MIAMI, AND SOUTHEAST BANK OF WEST FLORIDA, PENSACOLA

The FDIC Board of Directors has approved the assumption of the deposits and certain other liabilities of Southeast Bank, N.A., Miami, Florida ("Southeast"), and Southeast Bank of West Florida, Pensacola, Florida ("Pensacola"), by First Union National Bank of Florida, Jacksonville, a subsidiary of First Union Corporation, Charlotte, North Carolina, at an estimated cost to the Bank Insurance Fund of approximately $350 million.

Southeast's 218 offices and Pensacola's six offices, all located in Florida, will reopen on Friday, September 20, 1991, as branches of First Union National Bank of Florida, and depositors automatically will become depositors of the assuming bank. The two failed institutions are the only banking subsidiaries of Southeast Banking Corporation, Miami.

Southeast, with total assets of $10.2 billion, was closed today by the Office of the Comptroller of the Currency, and the FDIC was named receiver. The bank was closed after it was unable to repay a loan from the Federal Reserve Bank of Atlanta. The $93 million-asset Pensacola bank also was closed today by Florida State Comptroller Gerald Lewis as the bank was unable to cover its share of the FDIC's anticipated loss from the resolution of Southeast.

The transaction announced today features a new form of FDIC assistance that is expected to reduce losses by the Bank Insurance Fund, while providing adequate protection to the acquirer, in part by minimizing disruption to loan customers and by reducing the number of relationships placed in liquidation.

First Union will retain ownership of the failed banks' problem loans. No fee will be paid to First Union for managing these assets, but the FDIC

-morewill reimburse First Union for 85 percent of the net charge-offs from the failed banks' portfolios during the next five years. The bank will absorb the remaining 15 percent. With credit card and home equity loans, First Union's loss-sharing gradually will increase from 15 percent to 35 percent (five percentage points a year during years two through five).

This differs from the FDIC's sale in April of the failed Bank of New England franchise to the Fleet/Norstar Financial Group. In that transaction, the acquiring institution was given the right to return to the FDIC any of the failed bank's classified loans and repossessed assets within a three-year period, thereby transferring all risk of loss on those assets to the FDIC. Fleet agreed to collect the loans for the FDIC under a service agreement on a cost-plus-incentive fee basis.

The FDIC said the new loss-sharing structure employed in the Southeast resolution is intended to reduce any "credit crunch" for existing borrowers at the two failed banks because the problem assets will remain in the private sector. First Union's 15 percent exposure will encourage the bank to make business decisions that will minimize its own costs as well as those of the FDIC. Under this arrangement, the bank can be given the flexibility to affirm previous loan commitments, restructure problem loans and even extend limited amounts of additional credit as part of a loan workout.

FDIC Chairman L. William Seidman said the loss-sharing arrangement "should help reduce the insurance fund's losses significantly and greatly reduce the typical hardships suffered by loan customers at failed banks."

The Bank Insurance Fund should realize cost savings from this approach for three chief reasons: (1) a forced liquidation of the problem loans will be avoided, (2) the FDIC's administrative expenses will be lower than under a service agreement, and (3) the failed banks' franchise value will be better preserved.

In general, the FDIC and First Union entered into two matching assistance agreements for the two failed banks. First Union agreed to assume about $8 billion in 1.1 million deposit accounts at Southeast and $85 million in 13,000 deposit accounts at Pensacola. First Union also agreed to purchase all of the failed banks' assets except their premises, repossessed real estate and subsidiaries of the banks. It can occupy and pay rent on any of the premises and has an option to purchase the property at fair market value within the next several months.

The FDIC will pay First Union for carrying non-accruing loans by accepting a five-year, $631 million note from First Union upon which the FDIC will earn an interest rate of one-eighth of one percent per year. The amount of the note will increase or decrease as non-accruing assets rise or fall during the five-year period.

To further facilitate the transaction, the FDIC has agreed to purchase $150 million of 11 percent perpetual preferred stock from First Union that is redeemable at par within one year. The FDIC expects First Union to refinance this stock at a better rate within the next year. The FDIC also has agreed to repay Southeast's $568 million loan from the Federal Reserve Bank of Atlanta.

The FDIC Board is authorized to protect all depositors of a failed bank through a deposit assumption instead of arranging a payout of only insured deposits whenever the agency determines that the former will reduce the potential loss to the FDIC. The agency in this case has determined that a deposit assumption would be the least costly approach.

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