FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC APPROVES ASSUMPTION OF DEPOSITS OF SEVEN NEW HAMPSHIRE BANKS BY FIRST NH BANK, CONCORD, AND NEW DARTMOUTH BANK, MANCHESTER

The FDIC Board of Directors has approved the assumption of deposits and certain other liabilities of seven New Hampshire banks closed by their respective chartering authorities earlier today. The transactions announced today follow months of discussions between the FDIC and New Hampshire officials aimed at resolving problems at several of the state's largest banks while minimizing the disruptions of the bank failures to the area's economy.

Four commercial banks closed today will reopen Friday as branches of the $1.25 billion-deposit First NH Bank, Concord, New Hampshire. They are the $741 million-deposit Amoskeag Bank, Manchester; the $593 million-deposit BankEast, Manchester; the $384 million-deposit Nashua Trust Company, Nashua; and the $106 million-deposit Bank Meridian, N.A., Hampton. Depositors automatically will become depositors of First NH Bank, a subsidiary of Bank of Ireland First Holdings, a U.S. subsidiary of Bank of Ireland, Dublin.

Three savings banks closed today will reopen Friday as branches of New Dartmouth Bank, a newly chartered bank to be headquartered in Manchester. They are the $917 million-deposit New Hampshire Savings Bank, Concord; the $818 million-deposit Dartmouth Bank, Manchester; and the $453 million-deposit Numerica Savings Bank FSB, Manchester. New Dartmouth Bank is owned by an investor group led by William F. Craig, Boston, a former vice chairman of the Shawmut Corporation, Boston.

The estimated cost to the Bank Insurance Fund of the four commercial bank failures is approximately $342 million. The estimated cost of the three savings bank failures is approximately $624 million.

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FDIC Chairman L. William Seidman said: "In February of this year, I came to New Hampshire to participate in a summit with hundreds of the region's government officials and business leaders to address problems facing New England's banks and borrowers. Because of the severity of the recession in New Hampshire in particular, and the much-publicized problems facing several of the largest banks in the state, I vowed then that the FDIC would do everything we could to find the most innovative, least costly and least disruptive alternatives to the area's banking crisis.

"Today," Chairman Seidman continued, "we are announcing an infusion of public and private sector funds that will result in a New Hampshire banking system better positioned to meet the credit needs of the area's businesses and consumers, and better able to weather future economic storms."

The transactions announced today are unusual for several reasons. First, instead of marketing the failed banks individually to potential purchasers, the FDIC packaged the four commercial banks as one franchise for sale and placed the three savings banks into another franchise for sale. Other noteworthy elements of the transactions include:

- A "shared equity" feature whereby the FDIC will temporarily infuse cash into First NH Bank and New Dartmouth Bank by agreeing to a short-term purchase of perpetual preferred stock of the two institutions. This is designed to help the acquiring institutions obtain the capital needed to complete the transaction but on terms favorable enough to the FDIC that the banks will want to redeem the stock relatively quickly.

- A "loss sharing" component whereby the acquiring bank will retain ownership of the failed banks' problem residential mortgages and other consumer loans, and will be reimbursed by the FDIC for most, but not all, of the future losses.

will 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.

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o The establishment of a "separate asset pool" for the failed banks' classified assets, repossessed real estate, subsidiaries and unwanted bank premises. This pool will be owned by the FDIC and managed by a third party under FDIC supervision. Classified assets are those designated by government examiners as having some degree of potential loss to the bank.

Under the shared equity arrangement with First NH Bank, the FDIC will purchase $50 million in non-voting preferred stock of the bank, redeemable by the bank after seven years. The stock will pay the FDIC a 10.25 percent dividend. Bank of Ireland will have the authority to purchase the FDIC's stock in First NH Bank at any time and the FDIC will have the ability to require Bank of Ireland to purchase the stock after year-end 1993. The redemption and repurchase prices are established under a set formula.

Under the transaction with New Dartmouth Bank, the FDIC will purchase $31.5 million of non-voting preferred stock in the bank. That represents about 45 percent of the new bank's initial capital, with the rest coming from the investor group led by Mr. Craig. For the first four years, the dividend to be paid the FDIC is the same as the dividend on the bank's common stock. The dividend to the FDIC increases to 110 percent of the common stock dividend in the fifth year and to 125 percent of the common stock dividend thereafter. The stock may be redeemed at any time under a formula that increases the price over time. The redemption price formula is intended partly to minimize the bank's financing burden in the early years while giving the private investor group strong incentives to redeem the FDIC's shares as soon as possible.

The FDIC's three-year loss sharing agreements with First NH Bank and New Dartmouth Bank are the same. In general, the FDIC will reimburse the banks for 90 percent of the failed banks' net loan losses on residential mortgages and other consumer loans in excess of specified threshold levels for three years.

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As for the separate asset pool, First NH Bank and New Dartmouth Bank initially will manage these assets for the FDIC as two pools until a third-party servicer for a single pool is hired. While the FDIC agrees to absorb losses on these problem assets, the agency benefits by having fewer assets to liquidate and by working with private specialists who can help maximize the financial return to the insurance fund. Securities, residential mortgages and consumer loans will be excluded from the separate asset pool.

The FDIC Board is authorized to protect all depositors of a failed bank through a deposit assumption if the agency determines that this would be less costly to the insurance fund than a payout of only insured deposits. Such a determination was made in the case of the seven New Hampshire bank failures.

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