

# Structured Transaction Overview



# Introduction to Structured Transactions

- FDIC serves as an equity partner in its Receivership capacity for a single or multiple institution transaction.
- Joint Ventures (Partnerships) between FDIC as Receiver and Private Sector Entity.
  - Formed as limited liability companies (“LLC”).
- Used to sell loans and some owned real estate.



# Introduction to Structured Transactions

- FDIC as Receiver and its partner retain their equity interests in all future cash flows generated by the workout of the assets over time.
- FDIC partnerships – continuing relationship.
  - Up to 7 years for commercial loans.
  - Up to 10 years for single family loans.
- LLC Oversight and Reporting.



# Why Structured Transactions?

- FDIC goal - maximize recoveries on failed bank assets and minimize the losses to its creditors.
- Long term intrinsic value exceeds current depressed market.
- Past success.



# Why Structured Transactions? (Cont.)

- Structured transactions enable FDIC to:
  - Retain an interest in the assets.
  - Transfer day-to-day management responsibility to private sector with a financial interest.
  - Utilize the expertise of private sector in maximizing returns.
  - Share in costs and risks.
  - Create investor opportunities.



# Assets Targeted for Sale



- Real Estate secured loans.
  - Commercial Real Estate
  - Commercial / Residential ADC
  - Single Family Residences
- Performing and Non-Performing.
- Loans from a single institution or multiple failed institutions.

# How are Structured Transactions Created?

- FDIC as Receiver forms a Limited Liability Company (LLC) and conveys loans to the LLC.
- FDIC as Receiver holds 100% interest in the LLC.
- FDIC offers to sell an equity interest in the LLC to 3rd party bidder (e.g., 40%).
- FDIC retains the remaining equity interest in the LLC.



# Participants in Structured Transactions

- Initial Member (FDIC as Receiver) contributes in part [and sells in part]\* the Assets to the Company.
  - In return, the Initial Member receives:
    - 100% of the equity interest in the Company.
    - Leveraged transaction only, Purchase Money Notes.
- Private Owner/Manager purchases a portion of the equity interest from the Initial Member for cash at closing (the “Private Owner Interest”).

\*Leveraged Transaction only

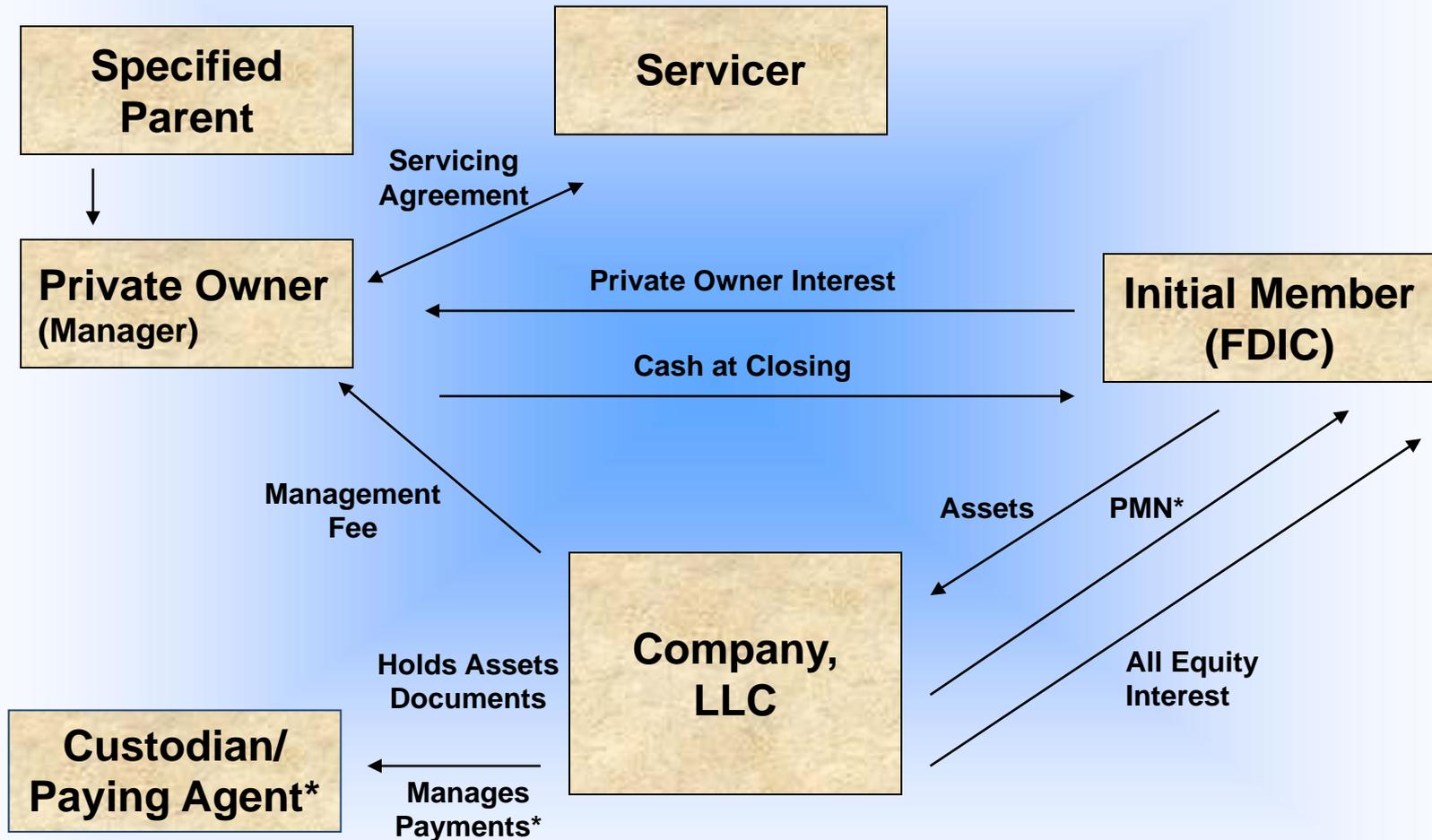
# Participants in Structured Transactions

## – The Private Owner:

- Newly formed entity (corporation or LLC).
- Manages the Company (the “Manager”).
- Selects a Qualified Custodian and Paying Agent – subject to approval of the Initial Member.
- Selects the Servicer – and enters into a Servicing Agreement between the Manager and the Servicer.
  - Servicer is qualified as part of the Bidder Qualification Process.
  - Servicing Fees paid by the Manager from the Management Fee.



# Structured Transaction Diagram



\* Leveraged Transaction

# Financing/Leverage

## Non-Leveraged vs. Leveraged Transactions

- When FDIC offers Seller Financing, bidders may bid to acquire the Private Owner Interest from the Initial Member using either of the following methods:
  - An all-cash offer (the “Unleveraged Structure”) or
  - With Seller Financing (the “Leveraged Structure”)

**BID**



# Structured Transaction Calculation with Leverage

UPB \$500 Million

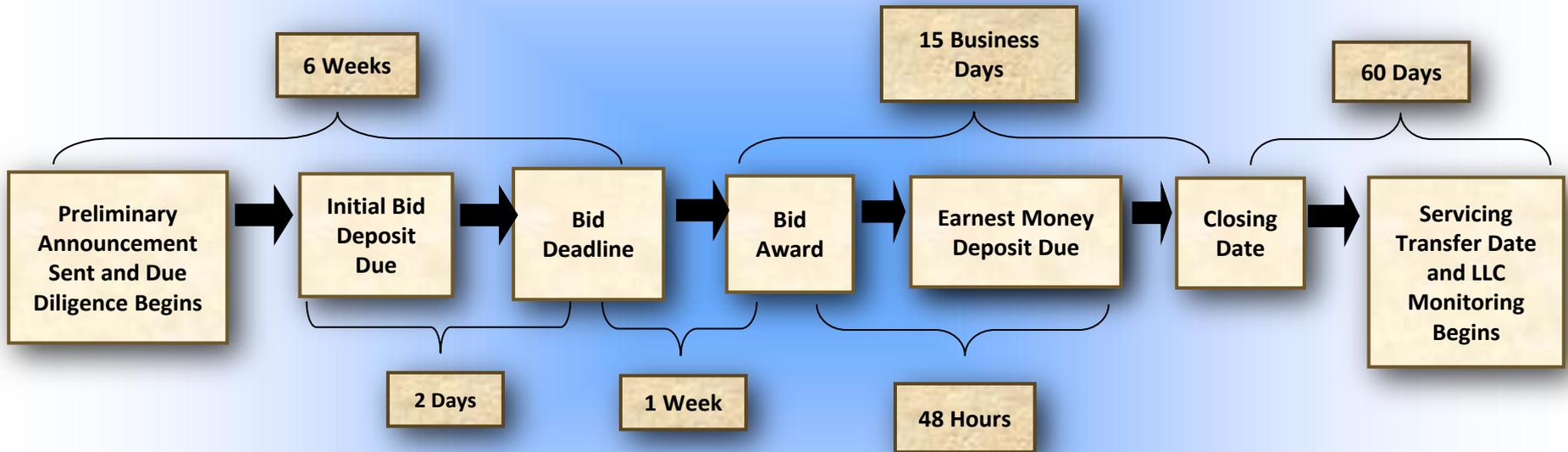
Bid % = 60%

1:1 Leverage

Price Paid for 40% Equity - \$60 Million

<b>\$300MM</b> <b>(UPB X Bid%)</b>	<b>\$150MM (Debt)</b> <b>(excluding guaranty fee)</b>
	<b>\$150MM (Equity)</b> <b>FDIC 60% / Buyer 40%</b>

# Typical Process Timeline



# Key Events / Dates



- **Preliminary Announcement** - sent to pre-qualified prospective bidders.
- **Investor due diligence** - review period typically lasts six weeks.
- **Cut-off date** – date economic interest in assets passes to the LLC – bidders submit bids on cut-off date balances.

# Key Events / Dates (Cont.)

- **Bid Date** – deadline for submission of bids.
- **Bid Award Date** – transaction is awarded to winning bidder.
- **Earnest Money Deposit Due** – typically 10% of purchase price due within 48 hours of award.



# Key Events / Dates (Cont.)

- **Closing Date**

Transaction documents executed – generally 15 business days after award.

- **Servicing Transfer Date**

FDIC provides limited servicing until loans are service transferred – generally all transfers are completed within 60 days of closing.

- **LLC Reporting**

Begins after transaction closes and is monitored by Risk Sharing Asset Management.



# Investor Due Diligence

- Online due diligence
  - Imaged loan files
  - Loan level reports
  - Data tapes
  - Asset/Loan Summary Reports (LSR/ASRs)
  - Site inspections / BPO' s
  - Title searches
  - Litigation reports
- Information/data – updated regularly
- Due diligence qualification process
  - \$250,000 security deposit



# Sealed Bid Process

- FDIC conducts a sealed bid sale to auction off the equity interest.
- Structured transactions currently offered with and without leverage and on an all cash basis.
- Initial bid deposit required – typically \$300K.
- Bidder must be qualified in order to submit bid.
- Successful bidder offers the highest price for the portfolio and enters into the LLC partnership with FDIC.



# Bid Award / Transaction Closing

- Upon receipt of an acceptable bid, FDIC awards the transaction to the winning bidder via a Bid Confirmation Letter, which:
  - confirms acceptance of bid.
  - provides earnest money deposit requirements.
  - sets forth documentation / funding requirements for closing.
  - schedules the closing date.
- Closing takes place in person at designated law office.
  - transaction documents are executed.
  - payment of purchase price and funding of any specified financial accounts are due.



# Interim Servicing Period

- FDIC (Initial Member) provides interim servicing through the servicing transfer date (typically 60 days after closing).
  - Receipt and posting of payments.
  - Maintenance of records reflecting payments received.
- Interim servicing protocols established between parties.
- Loans transferred on a servicing released basis.
- After the closing date, Manager is involved in credit decisions.