Overview of the Shared Loss Program

May 21, 2013

Shared-Loss Program Goals and FDIC Expectations

Goals of the Shared Loss Program

- Keep the assets in the banking sector
- Encourage resolution strategies that result in least loss
- Minimize losses to the FDIC by requiring Assuming Institutions to maximize collections consistent with the Shared-Loss Agreement

FDIC's expectations of Assuming Institutions

- Use its best efforts to maximize collections
- Assimilate shared loss assets into legacy portfolio
- Treat shared loss assets the same as legacy assets

Portfolio Summary (Dollars in Billion)

Shared-Loss	No. of Failures	Single Family Assets		Comm & Other Assets		Total Assets	
Total resolutions through February 28, 2013	301	$75.4		$139.3		$214.6	
Terminated agreements February 28, 2013	(3)	-		(0.2)		(0.2)	
Adjusted initial balance through February 28, 2013	**298**	**$75.4**		**$139.1**		**$214.4**	
Less: [1]							
Net principal pay-down		(23.4)	69%	(55.1)	67%	(78.4)	67%
Net principal write-down		(10.7)	31%	(27.1)	33%	(37.8)	33%
Total principal change		(34.1)	100%	(82.1)	100%	(116.2)	100%
Reported balance as of February 28, 2013	**298**	**$41.3**		**$56.9**		**$98.2**	
Percent of total		**42%**		**58%**			

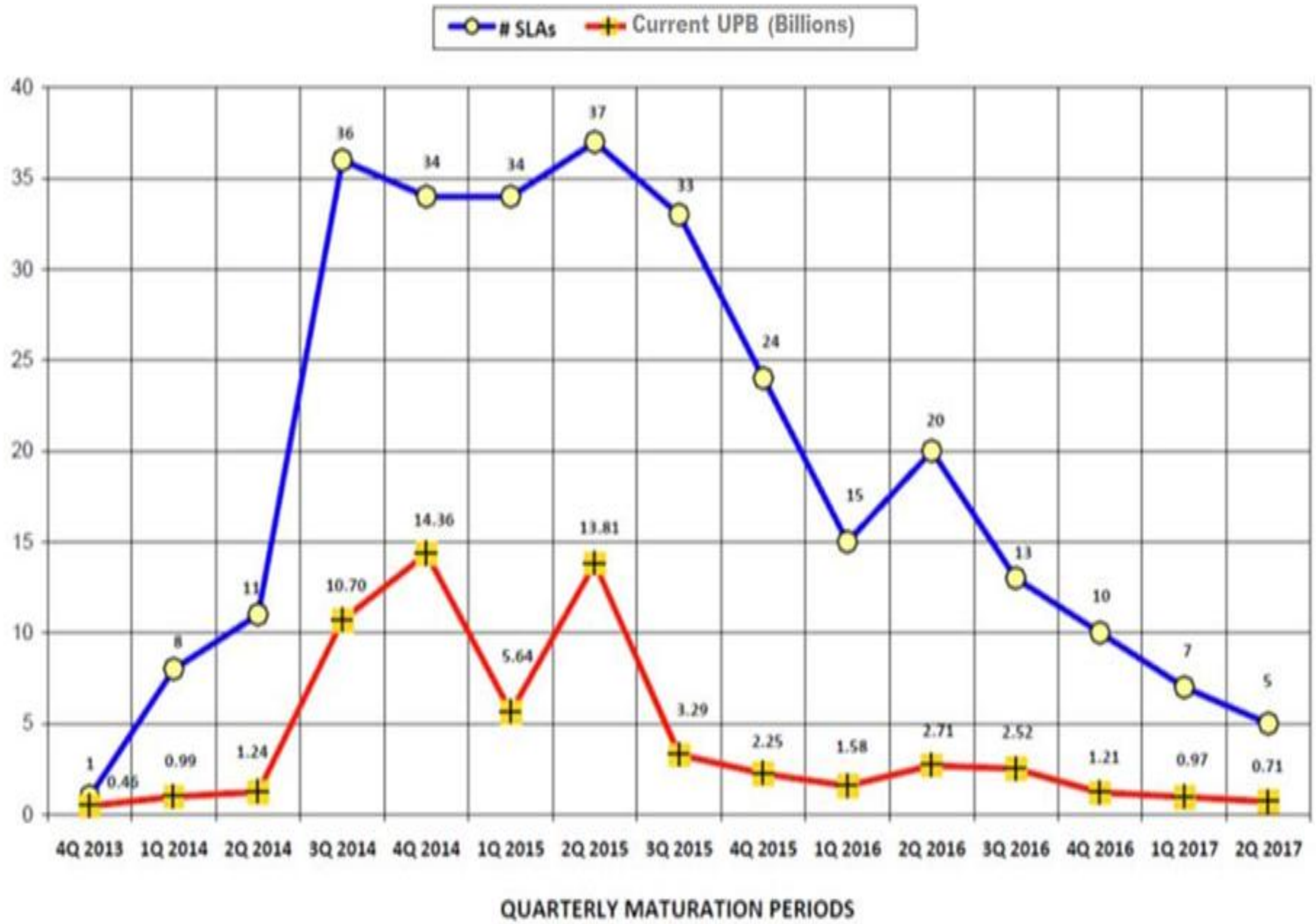
Notes:

[1] Net principal pay-down includes estimated: principal pay-offs, pay-downs, short sales, foreclosure sales, and funding draws.

Net principal write-down includes estimated: charge-off losses on short sales, losses on foreclosure sales, principal write offs, and capitalized expenses for LLC.

SLA Terminations Looking Ahead

Non Single Family Portfolios Only



Early Termination of Shared Loss Agreements

Focus of the program is on portfolios with the smallest balances

- Smaller portfolios have high administrative expenses relative to total exposure, making them attractive termination candidates
- Acquirers likely interested in eliminating the perceived regulatory burden associated with small portfolios
- Pilot program for acquirers with single family and non single family SLAs each with balances of less than $20MM

Public Law 112-88 (HR 2056)

- Congress required the FDIC's Office of Inspector General (OIG) to conduct a study on the impact of the failure of insured depository institutions

- The OIG study was completed in January, 2013 and addresses matters pertaining to the impact of shared loss agreements (SLAs) and seven other areas including the significance of losses at institutions that failed, the impact of examiner actions, and the impact of FDIC policies on investments in institutions

- The study found that regulators generally implemented their policies appropriately

- In the interest of strengthening the effectiveness of supervisory and resolution activities, the report did identify certain areas for improvement

- The report can be found at: www.fdicig.gov

Public Law 112-88 (HR 2056)

- In reviewing the impact of SLAs, the report concluded generally that SLAs kept borrowers in a banking relationship with healthy, often local Assuming Institutions (AIs), and helped to preserve asset values in the markets of surviving institutions
- The OIG report made two recommendations regarding the management of SLAs:
  - Develop a strategy for mitigating the impact of impending portfolio sales and SLA terminations on the Deposit Insurance Fund (DIF) and ensure that procedures, processes, and resources are sufficient to address the volume of terminations and potential requests for asset sales
  - Research risks presented by commercial loan extension decisions and determine whether DRR should develop additional controls for monitoring AIs' efforts to extend the terms of commercial loans

Public Law 112-88 (HR 2056)

DRR will develop an Action Plan by September 30, 2013 for each of the recommendations regarding SLAs:

- Mitigate the impact of impending portfolio sales and terminations
- Enforce the SLA's provision that requires DRR's prior consent of any portfolio sale
- Develop and communicate clear expectations to the AI
- Establish a Loan Sale Review Committee
- Monitor sales activity
- Research risks presented by commercial loan extension decisions and determine whether additional controls are necessary to monitor AIs
- Reinforce the FDIC's expectation the AIs use best efforts to maximize recoveries when making loan modification decisions
- Revise the CMC Statement of Work (SOW) to emphasize the requirement to review a sample of AI loan mods for maturing loans during CMC onsite visits

Common Misconceptions with Shared Loss Program

Banks with shared loss coverage are quick to foreclose and are not interested in working with their commercial borrowers

Reality: The Shared Loss Agreement sets minimum asset administration standards of Assuming Institutions (Section 3.2). These standards require the banks to manage assets:

1. Using its best efforts to maximize collections
2. In a manner consistent with its own policies and procedures
3. In a manner consistent with normal and prudent banking practices

Banks may use aggressive approaches to real estate valuation in order to maximize charge offs

Reality: The Shared Loss Agreement requires that Assuming Institutions support all charge offs based on Examination Criteria:

1. Valuations based on Market Value, not Liquidation Value
2. Performing loans must be impaired and collateral dependent

Banks will choose to dump the remaining shared loss assets near the expiration of the shared loss coverage depressing market values

Reality: The Assuming Institutions' right to conduct a Portfolio Sale under Section 4.1 of the Agreement is conditional on FDIC's consent.

The Assuming Institution must:

1. Demonstrate that the sale maximizes collections on an asset by asset basis
2. Analyze alternative exit strategies
3. Must be consistent with bank policy for legacy assets

Enforcing the Shared Loss Agreement

Enforcing the Agreement

FDIC's Risk Share Asset Management Department is tasked with enforcing its rights and remedies under the Shared Loss Agreements

Resources include:

- Substantial internal staff (192)
- Compliance Monitoring Contractors
  - Conduct on-site reviews of the Assuming Institutions
- Loss Mitigation Team
  - Focused on loan administration activities
- Targeted reviews

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