August 11, 2009

Sent via Regular Mail and Electronic Mail

Chairman Sheila Bair
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Proposed Statement of Policy on Qualifications for Failed Bank Acquisitions

Dear Chairman Bair,

As an active investor in financial institutions, Lee Equity Partners ("Lee Equity") would like to join other institutional investors, including private equity firms, in commenting on the Federal Deposit Insurance Corporation's ("FDIC") Proposed Statement of Policy on Qualifications for Failed Bank Acquisitions (the "Proposed Policy Statement"). Private equity has played a critical role in financing the U.S. economy in both expansionary and recessionary times by providing much needed capital to thousands of companies over the past forty years. As a result, private equity can serve an important role in the capital re-formation and deleveraging process occurring in the U.S. banking sector under the guidance and supervision of the FDIC and other federal and state regulatory authorities. We believe the healing of the banking system is a critical component of sustained U.S. economic recovery, and the banking sector will be unable to recover without a significant amount of new capital.

Lee Equity's principals have been active investors for over 35 years and have made more than 30 investments in financial institutions, investing in excess of $3.5 billion in the sector (in aggregate). These investments include TAC Bancshares, a Florida-based savings and loan build-up which reached nearly $3 billion in assets prior to its sale to Nations Bank; HomeSide Lending, a unique mortgage joint venture with the Bank of Boston; and two investments in leading European banks (Bank Handlowy, the largest bank in Poland, and Česká Spořitelna, the largest Czech savings bank).

In each of these transactions, and in all of our investments, we seek to invest in companies led by world-class management teams who share our desire to build great companies. While the term "private equity" describes many firms with varied investment styles, Lee Equity devotes a

substantial proportion of its time to supporting and enhancing the profitable and stable growth of its portfolio companies through thoughtful board participation. We are currently working with several executives in the bank sector, most notably Robert M. Mahoney, former Executive Vice Chairman of Citizens Bank. Mr. Mahoney has assembled a team of former Citizens Bank executives to acquire and build a sizeable new community bank. We believe that investors who can identify and work with successful management teams to build world class institutions can play an important and valuable role in re-capitalizing the U.S. banking sector.

It is important to note that private equity managers are fiduciaries of our limited partners' capital. We represent the interests of numerous pension funds, endowments, retirement funds, and individuals. Our institutional limited partners represent real people – firefighters, teachers, policeman, and other beneficiaries – who rely on consistent investment returns to finance their expenditures. Therefore, we believe that private equity managers are well qualified to serve as responsible custodians of the public interest as investors in U.S. bank holding companies.

We understand and acknowledge that this is a trying time for the U.S. banking industry and its regulators. As we have shared with your staff in prior discussions, we believe that the executives at the FDIC and other federal and state regulatory authorities are doing an admirable job in stabilizing the economy, one bank at a time. We know first hand that many staff members did not sign up for the additional stress, scrutiny and workload which they bear today. We further understand that many staff members may not have had sufficient exposure to private equity investment firms and as a result have reasonable questions regarding how we would behave as owners and directors. With that in mind, we are pleased to provide our comments on the items outlined in the Proposed Policy Statement.

1. **Proposed Applicability of Policies** – The Proposed Policy Statement will not apply to entities that accept responsibilities under existing law to serve as responsible custodians of the public interest that is inherent in insured depository institutions. We believe that private equity investment firms fit this description. The Proposed Policy Statement should clearly define the class of investors to which any special restrictions apply.

2. **Silo Structures** – Lee Equity supports the FDIC's perspective that regulators must be able to determine the beneficial ownership of acquired institutions and that ownership and control are adequately separated.

3. **Very Well Capitalized Status** – We agree with the FDIC that the capitalization level of failed banks is one of the most important elements of the Proposed Policy Statement. However, we would question the benefits of imposing higher capital levels on failed banks acquired by private equity firms for several reasons.

As you know, U.S. banks are currently held to a well capitalized standard which requires minimum ratios of at least 5% Tier 1 Leverage, 6% Tier 1 Risk-Based Capital and 10% Total Risk-Based Capital. Furthermore, only at a critically undercapitalized level (below 2% tangible capital), would significant regulatory intervention occur. Tripling the Tier 1 Leverage Ratio requirement, and potentially also lowering the threshold for regulatory intervention, will likely reduce the amount of capital available to U.S. regulated banks from private equity as an asset class.

Additionally, we caution the use of a single measure in setting capital levels. The appropriate capital levels for an institution should be ascertained after an exhaustive review of the ability of the bank's management and professional staff, credit quality, profitability, interest rate risk, available liquidity and the prevalence of hybrid instruments in its capital structure (among other factors). It is important to note that failed bank transactions have lower risk weightings and higher levels of tangible common equity than most regulated banks; therefore adopting solely a Tier 1 Leverage standard is unduly harsh.

Furthermore, one must consider the banking peer group and the broader macroeconomic environment. Our research indicates that as of June 30, 2009, approximately 12% of U.S. depository institutions have capital ratios in excess of 15% Tier 1 Leverage. More importantly, only 5% of banks with assets above $1 billion exhibit this level of capital. It is unfair to place private equity-owned depository institutions at a meaningful disadvantage to 95% of the banks in the country (within a comparable size range). Doing so will either ensure that these banks underperform – diminishing ongoing investor interest in these institutions – or encourage them to take excessive risk to drive adequate returns on capital, causing safety and soundness concerns. Lastly, raising capital requirements to this level may cause depository institutions to hoard capital, which could decrease the supply of credit to the economy and increase its cost, thereby lowering economic growth.

4. **Source of Strength** – We believe that requiring private equity investment firms to serve as a source of strength for banks in which they invest would substantially diminish, if not eliminate, private equity investment in banks. Private equity managers represent limited partners and do not have the authority to subject their investors to unlimited liability. A potential compromise would be to ensure that private equity investors, in their capacity as directors of bank holding companies, do not stand in the way of an institution's ability to raise capital. For example, a customary provision in transactions of this type provides investors with pre-emptive rights – which simply allow investors to buy their pro rata share of a future equity offering. In the event that an investor does not exercise this right within a

reasonable period of time, the institution should raise capital from new sources. We would support such a provision because we believe it would be fair, reasonable, and in keeping with safety and soundness guidelines. We recommend that the FDIC remove the source of strength provision from the Proposed Policy Statement.

5. **Cross Guarantee** – Similar to the source of strength provision, the assertion of cross guarantee liability on private equity investors would substantially diminish, if not eliminate, private equity investment in banks because most, if not all, limited partnership agreements prohibit private equity managers from providing such a guarantee. If the provision related to cross guarantee liability is not removed from the Proposed Policy Statement, few if any firms would make more than one bank investment (and, at present, many firms including ours are evaluating multiple bank investments). As a matter of fairness, if a fund does not control a bank – which will be affirmatively stated in a formal regulatory agreement at closing – regulators should not assert cross guarantee liability.

6. **Location of Entities in Bank Secrecy Jurisdictions** – As with the so-called "silo" structure, we believe that all ownership should be clear and open. While Federal Reserve Board supervision may or may not be appropriate, we believe that sufficient disclosure is a reasonable requirement for eligible bidders. We ask the FDIC to clearly indicate that reputable private equity investment firms with customary offshore structures are compliant with their regulations so as not to unintentionally diminish investor interest.

7. **Holding Period** – Lee Equity understands the need for stability of acquired institutions, especially after recovering from the events which gave rise to the need for FDIC assistance. However, we do not believe that a rigid three-year time horizon is appropriate in all circumstances. The existing framework, which requires regulatory approval for mergers and acquisitions, provides appropriate oversight. Each transaction should be evaluated independently based on its own facts and circumstances.

   In addition, we ask the FDIC to allow qualified initial public offerings ("IPOs") of acquired institutions. In many IPOs, existing stockholders elect to participate in a company's offering in order to provide a more liquid marketplace for the issuer's securities, which benefits new investors and increases investor demand. It would be unfortunate if the Proposed Policy Statement inadvertently diminished future investor interest in banks.

8. **Limitations on bidders with 10% or greater ownership** – We support the FDIC's position that investors who directly or indirectly own 10% or more of the equity of a bank or thrift in receivership should not be considered eligible bidders for failed bank acquisitions.

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9. **Phase-out of restrictions** – Consistent with our prior comments, Lee Equity believes that specific restrictions should be re-examined as the institution and its management team demonstrate safe and sound banking practices, in consultation with the institution's primary regulator.

Lastly, we would like to comment on the process surrounding failed bank acquisitions. We recognize the rigor and fairness of the existing evaluation process and its necessity in ensuring the safety and soundness of the banking industry. However, we caution against the addition of further requirements which could result in a screening process so stringent as to discourage qualified and well-intentioned investors. Presently, it is very difficult to enter the failed bank bidding process – even for a reputable private equity firm, like Lee Equity, which has attracted a highly qualified and experienced team of banking executives and raised a sizable pool of capital from numerous sophisticated institutional and individual investors. We fully support that there should be a comprehensive evaluation process and that would-be bidders should not be allowed to participate in assisted transactions without having been pre-qualified by the FDIC and other appropriate regulators. However, the requirement that qualified bidders must own a banking charter before entering the process creates a very high hurdle. This decreases the number of qualified bidders in FDIC auction processes. Lowering this hurdle would increase the number of qualified bidders, resulting in more bids and lower losses for the Deposit Insurance Fund. Equally important, increasing the number of qualified private equity bidders will return several proven executives currently working with private equity firms to the banking system. The shelf registration process sought to address this issue, but has not been widely adopted. The establishment of a clearly defined, more widely adopted process strikes us as an appropriate mechanism to effectuate a mutually agreeable outcome in this regard.

We are honored to provide our comments on the Proposed Policy Statement. We would be pleased to further discuss any of our comments in greater detail. If you have any questions or require additional information, please do not hesitate to call Mark Gormley or Bharath Srikrishnan at (212) 888-1500.

Very truly yours,

LEE EQUITY PARTNERS, LLC

By:_____
Name: Mark K. Gormley
Title: Partner

By:_____
Name: Bharath T. Srikrishnan
Title: Principal

CC: Robert E. Feldman
Executive Secretary