CHAPTER 10

Seven Banks in New Hampshire

Names of Institutions:	Dartmouth Bank, Manchester, New Hampshire New Hampshire Savings Bank, Concord, New Hampshire Numerica Savings Bank, F.S.B., Manchester, New Hampshire Amoskeag Bank, Manchester, New Hampshire Nashua Trust Company, Nashua, New Hampshire Bank Meridian, N.A., Hampton, New Hampshire BankEast, Manchester, New Hampshire
Date of Resolution:	October 10, 1991
Resolution Method:	Two Purchase and Assumption Transactions

Introduction[1]

On October 10, 1991, seven banks failed in New Hampshire. Although at $4.4 billion, the combined size of the banks was small in comparison to other notable failed banks, the seven banks represented approximately 25 percent of all banking assets in the state. Also, the closing of seven banks in one day was a significant economic event for the citizens of New Hampshire. The resolutions of the New Hampshire banks were notable for several reasons. First, the Federal Deposit Insurance Corporation (FDIC) packaged the seven unaffiliated failed banks into two franchises for sale to potential purchasers rather than marketing the banks individually, as was usually done. Second, a separate asset pool, owned by the FDIC, was established for the classified assets, repossessed real estate, all real estate subsidiaries, and unwanted bank premises of the seven banks. Bids for the management of the asset pool were solicited from acquiring institutions and banking and nonbanking outside management firms. Third, for the first time, the FDIC awarded the asset management contract to a firm other than one of the acquiring banks. Fourth, to reduce the number of bank assets that the FDIC would own, it provided loss sharing agreements on both resolution contracts for all the consumer loans

1. Unless otherwise noted, much of the material in this chapter concerning the background and the BONHAM contract was taken from Robert W. Schwarzlose, "FDIC Solutions to the Banking Crisis in New Hampshire," (November 8, 1996).

and the smaller balance residential mortgage loans.[2] Finally, the FDIC agreed to purchase preferred stock of the acquiring institutions through a "shared equity" feature designed to help the acquirers obtain the capital needed for the transactions on terms favorable enough to the FDIC that the acquiring banks would be encouraged to redeem the stock relatively quickly.[3]

General Description of the Institutions

In early 1991, seven banks in New Hampshire with aggregate assets of approximately $5.3 billion were failing. These banks included five of the largest banks in the state and represented approximately 25 percent of all banking assets in New Hampshire. On October 10, 1991, the FDIC grouped these banks into two franchises for resolution. See table II.10-1 for Franchises One and Two in what was called the New Hampshire Plan—the name given to the resolutions.

Each institution experienced rapid asset growth during the boom of the early to mid-1980s through increased real estate lending, especially lending for commercial real estate. This asset growth peaked in 1988 but began to reverse during 1989 as the banks started to write off loans and shrink their portfolios to try to meet capital requirements. For example, Amoskeag Bank Shares, the largest of the holding companies, grew from $1.2 billion in total assets in 1984 to $2.3 billion in 1988, which was almost a 100 percent increase over four years, before falling to $1.5 billion by March 31, 1991.

All three institutions in Franchise One were savings banks that had operated under separate, unrelated holding companies:

- Dartmouth Bank, Manchester, New Hampshire, had total assets of $847 million and operated 20 branches. Dartmouth Bank was owned by the Dartmouth Bank Corporation, a one-bank holding company.

- New Hampshire Savings Bank, headquartered in Concord, New Hampshire, had total assets of $935 million and operated 23 branches. New Hampshire Savings Bank was the result of a merger of the three banks owned by New Hampshire Savings Bank Corporation that were merged into one bank before their resolution.

- Numerica Savings Bank, F.S.B. (Numerica), headquartered in Manchester, New Hampshire, had total assets of $486 million and operated 11 branches. Numerica and Home Bank, F.S.B., were owned by Numerica Financial Corporation. Home Bank, F.S.B., was a Savings Association Insurance Fund (SAIF) insured

2. For a full explanation of this subject, see Part I, Resolution and Asset Disposition Practices, Chapter 7, Loss Sharing.

3. FDIC, *1991 Annual Report*, 22.

Table II.10-1

Banks in the New Hampshire Plan Information as of October 10, 1991
($ in Thousands)

Failed Institution	Total Assets	Total Deposits
Franchise One		
Dartmouth Bank	$847,325	$776,816
New Hampshire Savings Bank	934,810	878,890
Numerica Savings Bank, F.S.B.	486,402	430,568
Subtotal for Franchise One	**$2,268,537**	**$2,086,274**
Franchise Two		
Amoskeag Bank	$855,747	707,513
Nashua Trust Company	405,372	354,194
Bank Meridian, N.A.	110,054	102,370
BankEast	737,642	583,701
Subtotal for Franchise Two	**$2,108,815**	**$1,747,778**
Grand Total	$4,377,352	$3,834,052

Source: FDIC Division of Research and Statistics.

institution and was placed into conservatorship by the Resolution Trust Corporation (RTC) simultaneously with the resolution of Numerica.

Franchise Two consisted of four commercial banks, three of which were owned by one holding company:

- Amoskeag Bank Shares owned Amoskeag Bank, Manchester, New Hampshire; Nashua Trust Company, Nashua, New Hampshire; and Bank Meridian, N.A., Hampton, New Hampshire. The three banks combined had total assets of approximately $1.37 billion and operated 28 branches.
- BankEast, owned by BankEast Corporation, was headquartered in Manchester, New Hampshire. BankEast had total assets of $738 million and operated 28 branches. BankEast Corporation was in bankruptcy.

Background

In the early and mid-1980s, New Hampshire was a leader in New England's economy. The state's close proximity to Boston and low tax rates helped make New Hampshire the fourth fastest growing state in the nation. The impetus for this growth was the creation of well-paying jobs in the high technology and defense industries. Companies such as Digital Equipment, Raytheon, and Lockheed Sanders had base operations in Massachusetts; all had decided to expand into southern New Hampshire because of its proximity to Massachusetts, attractive land prices for development, and lower cost of living for their employees. As a result, the population in the state grew by more than 20 percent from 920,475 in 1980 to 1,109,117 in 1990. The housing market benefited greatly from this increased demand, and the price of real estate skyrocketed. For the 10-year period from 1980 to 1990, the average price of a residential home soared by 179 percent.

In 1981, revisions in New Hampshire's state banking laws allowed banks to convert from mutual ownership to publicly traded stock ownership. In September 1982, the first savings bank in New Hampshire converted under this new regulation; 19 banks converted over the next five years. As a result of the conversions, the banks were flush with capital and had established aggressive lending practices. At the end of 1984, New Hampshire had a total of 69 banks; by 1989, that number had grown to 93.

Most of the lending officers who worked for these savings banks had expertise in residential and small commercial loans. However, many of them began making large commercial loans, an area in which they had little experience. This market hit its peak by 1987. Widespread optimism about New Hampshire's long-term growth prospects led to significant real estate development projects, including condominiums, retail malls, and commercial properties.

By 1989, after years of economic expansion, New Hampshire's economy experienced a contraction that also was occurring throughout New England. Contributing to the recession was a decline in the region's three primary industries: real estate development, high technology, and defense contracting.

A downturn in employment decreased local buying power and ended the rapid immigration of people. Many real estate properties were under construction already or had been completed recently in anticipation of a continuation of the rapid population growth. This created an oversupply of all types of real estate, with many single-family homes, condominium units, and commercial real estate properties remaining unsold or unleased.

New Hampshire's housing starts in 1989 were off by more than 63 percent from the high point experienced in 1986. This resulted in a substantial decline in real estate values, as well as a sharp increase in the level of nonperforming bank loans. Foreclosures on real estate properties, which had been almost nonexistent in the 1980s, increased dramatically, forcing the legal sections of the newspapers to expand to accommodate the foreclosure notices. Over the next two years, many of the largest loans were restructured in the hope that the economy would not continue its downward slide toward a recession.

On September 30, 1990, nonperforming assets for all banks in New Hampshire totaled more than $1.2 billion, or about 7 percent of all assets, up significantly from $83 million, or 0.5 percent of all assets, at the end of 1987. By the end of 1990, nonperforming bank assets in New Hampshire amounted to about 90 percent of primary capital. The deterioration in loan quality resulted in losses to banks throughout New Hampshire of $62 million in 1989 and more than $250 million in 1990. Those losses reduced tangible bank equity in the state from approximately 7 percent of assets in 1988 to 5.5 percent by the end of the third quarter of 1990. By early 1991, it was clear that, with the poor capital positions and the continued earnings deterioration of the New Hampshire banks, the FDIC would have a major role to play in the state's banking industry.

The decline in the state's cumulative bank capital ratio, however, understates the severity of the problems experienced by New Hampshire's larger banks, which historically had supplied the majority of the in-state commercial real estate loans. The state's large banks had collective tangible equity of 3.9 percent of total assets by the end of the third quarter of 1990, and 9.5 percent of their assets were nonperforming.

The bleak condition of New Hampshire's banking industry can be brought into perspective by comparing it to the condition of banking in other states. For example, the level of nonperforming assets in New Hampshire banks in 1991 was higher than it was for Texas banks in 1987, the peak year of nonperforming assets in Texas.

The real estate market's decline and the harshness of the recession in New Hampshire were the primary factors leading to the banking crisis in New Hampshire. All seven banks of the New Hampshire Plan experienced adverse effects as a result of their excessive growth of the early to mid-1980s and inadequate or lax underwriting and administration of loans. This led to an increase in the level of nonperforming assets at those institutions. On average, nonperforming assets as a percentage of total assets rose from 1.1 percent in 1986 to more than 11 percent by the end of 1990, which led to significant losses at each bank. In 1989, the seven banks lost nearly $200 million, and in 1990 they lost approximately $306 million. In the first quarter of 1991, the banks had losses totaling $75.6 million.

The first bank failure in New Hampshire occurred on July 27, 1990; three more banks were closed over the next 13 months. All the banks were small, each with assets of less than $125 million and together having only $219 million in total assets.[4] The FDIC acquired relatively few assets, so the impact of the bank closings was not significant. The FDIC assets to be liquidated from these failed banks were transferred to the existing FDIC offices in Franklin, Massachusetts, and Hartford, Connecticut.

4. The four banks, with their total assets, were U.S. Savings Bank of America, Seabrook, New Hampshire, $12.3 million; City Bank and Trust, Claremont, New Hampshire, $119.6 million; Hillsborough Bank and Trust Company, Milford, New Hampshire, $46.2 million; and The Family Bank and Trust, Allentown, New Hampshire, $40.5 million.

Because of the seriousness and size of the banking problems in New Hampshire, newspapers began to report the possible failures in November 1990. Regulators worried about a possible liquidity crisis in the state because of the publicity and the relatively large number of uninsured depositors in all the banks. As of January 1991, New Hampshire had 10 major banks with assets of more than $200 million each; 7 of those banks were experiencing serious financial difficulties. In February 1991, the Federal Reserve Bank of Boston (Federal Reserve) began to monitor the liquidity of the banks on a daily basis. In addition, the FDIC began working with New Hampshire state banking officials and other regulatory agencies to try to revive the banking industry in New Hampshire and to assist in stabilizing the economy.

Between February and April 1991, then-FDIC Chairman L. William Seidman received letters from New Hampshire's senators, congressmen, governor, and state banking commissioner regarding the banking and credit crisis in the state. They emphasized the importance of restructuring existing loans to keep them on a performing basis, instead of foreclosing and adding to an already deteriorating real estate market. In early 1991, New Hampshire Governor Judd Gregg hosted meetings with representatives of the failing banks, the four federal regulatory agencies, and the state banking department. In the meetings, the FDIC stressed the importance of bringing in new private capital, which would be facilitated by consolidating the failing banks. The group worked to determine the most economically advantageous way to package the failing banks for sale. Communications between New Hampshire's elected officials and the FDIC continued throughout 1991.

Resolution Structure

In May 1991, the decision was made to market the failing New Hampshire banks in two franchises. The three savings banks were combined into one package and the four commercial banks into another. The three savings banks in Franchise One were unrelated entities; however, there had been discussions between Numerica and both Dartmouth Bank and New Hampshire Savings Bank about the possibility of a merger. The FDIC considered these discussions between the banks in deciding to package them together and believed that combining the banks made sense because of their similarities. Franchise Two included the three banks from the same holding company. (BankEast was originally not a resolution candidate, but was later added to Franchise Two.) The grouping of the banks was intended to provide economies of scale, making the two packages more attractive to potential buyers. The banks were marketed nationwide and to Canadian financial institutions to ensure the exposure of the banks to the greatest possible number of bidders. Ultimately, most of the interested parties were local, and no Canadian bank submitted a bid.

The Federal Deposit Insurance Act (FDI Act) of 1950 required the FDIC not to approve a transaction that would significantly diminish competition in banking, unless public needs and convenience would override the effect of such an impact. The U.S. Justice Department expressed some concerns over the grouping of the banks into two franchises and stated that if in-state banks were interested in the franchises, antitrust issues could surface. The FDIC concluded, however, that the franchise groupings were close enough to other markets that anticompetitive issues were not a serious problem.

The FDIC structured the purchase and assumption (P&A) transactions to attract bidders, especially bidders with new but limited levels of capital, to a depressed economy. At the same time, the transactions were designed not to be too generous. The FDIC lowered the risk to purchasers by removing the nonperforming assets and offering loss sharing or put options on the remaining loan portfolios. The FDIC also offered to provide up to two-thirds of the necessary equity through the purchase of preferred stock from the acquirers.

In structuring the transactions, the FDIC agreed to put all real estate owned, subsidiaries holding real estate owned, classified assets, and unwanted bank premises into a separate asset pool. This pool was to be owned by the FDIC and managed by a third party under the FDIC's supervision. The acquirers were to have the option to place commercial loans into the FDIC asset pool for three years after acquisition if the assets were later classified as substandard by bank examiners. The initial size of the asset pool for all the banks was estimated at $800 million, and another $400 million was estimated for the additional assets.[5]

To attract potential purchasers with new capital, the transactions included a shared equity feature through which the FDIC temporarily infused cash into the acquiring institutions in return for a preferred stock position. The FDIC determined that providing short-term equity for three years was preferable to establishing a three-year bridge bank. Further, terms favorable to the FDIC, such as rising call prices, were built into the equity to motivate the acquirers to redeem the stock quickly.

Data processing services for the banks in Franchise Two were provided by subsidiaries of their holding companies. That could have been a major problem, however, because those data processing subsidiaries could have refused to continue providing services after the failures of the banks, and bidders had stipulated that bids would be contingent upon assurances from the FDIC that data processing services would continue without disruption. To resolve this issue, the FDIC worked with the failing banks' management to purchase the data processing subsidiaries from the holding companies before the resolution of the banks.

5. Actually, $515 million in assets were added to the pool over the three-year put period.

The Resolution

When the seven banks failed in October 1991, the two P&A transactions protected all depositors, not just those with insured accounts. The FDIC was authorized to protect all depositors of the failed banks through P&A agreements, because it determined that it would be less costly to the insurance fund than a payoff of only insured deposits.[6] In 1991, FDIC Chairman 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, 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.[7]

Franchise One

Franchise One was acquired by the New Dartmouth Bank Group (New Dartmouth), an investor group that established a de novo banking charter for the transaction and paid a premium of approximately $55 million. Fortunately, that bid, the only offer made for Franchise One, met the FDIC's cost test. The FDIC estimated the cost of the transaction to be approximately $624 million, a total savings of approximately $140 million to $175 million more than the estimated cost of conducting a payoff.

To capitalize the new institution, New Dartmouth raised $38.8 million from 30 investors. The FDIC contributed $61 million to ensure the bank had sufficient capital. In addition to the $61 million contribution, the FDIC also purchased $31.1 million in preferred stock. The FDIC's investment was in the form of 347,073 shares of nonvoting, noncumulative, perpetual preferred stock that had the same par value as the common stock. The FDIC's stock represented 45 percent of the new bank's initial capital. The stock carried no cash dividend, but the redemption price was to increase each year until the stock was redeemed. The preferred stock was redeemable at any time and was convertible into common stock on a one-to-one basis after three years. Those features were designed to give the acquirer incentives to redeem the FDIC's stock as soon as possible and to give the FDIC an equity return if the transaction worked out well for the acquirer.

6. FDIC News Release, "FDIC Approves Assumption of Deposits of Seven New Hampshire Banks by First NH Bank, Concord, and New Dartmouth Bank, Manchester," PR-150-91 (October 10, 1991).

7. FDIC News Release, PR-150-91.

Franchise Two

Franchise Two was acquired by First NH Bank (First NH), a four-rated bank at the time of acquisition and the U.S. subsidiary of the Bank of Ireland.[8] Two other bids were received for Franchise Two—from Fleet-Norstar Financial Group, Providence, Rhode Island, and KeyCorp, Albany, New York. Also, two nonconforming bids were submitted for Bank Meridian, N.A., only. First NH's bid was estimated to cost $342 million, which was estimated to be $72 million less costly than the next best bid and represented a lower cost than the estimated cost of conducting a payoff of the banks.

As part of the acquisition, First NH agreed to pay the FDIC a premium of $23.3 million, and the FDIC purchased $50 million in preferred stock. In addition, Bank of Ireland, First NH's parent company, made a $27 million capital contribution to First NH and agreed to maintain ongoing support for the bank.

The FDIC's stock carried a 10.25 percent dividend rate and was redeemable by the issuer after seven years. After three years, the FDIC had the ability to require First NH to purchase the stock anytime at a price that increased each year.

The Liquidation

Separate Asset Pool

A separate asset pool was established for the classified assets, repossessed real estate, subsidiaries, and unwanted bank premises. The pool was owned by the FDIC and managed by a third party under the FDIC's supervision. Both assuming banks had the right to require the FDIC to purchase assets to put into the pool for three years after acquisition, if the assets were identified as classifiable, that is, designated by bank examiners as having some degree of potential loss to the acquiring banks. The repurchase price of each loan was defined as the book value of the loan as of bank closing less the payments received by the assuming bank, plus any advances made by the bank.[9]

The initial size of the separate asset pool was $800 million. Because of the amount of additional assets projected to be added to the pool, the FDIC sent out a solicitation for bids from servicers capable of managing $2 billion in assets.[10] The contract for managing the separate asset pool was also offered to the acquirers of both franchises. Only the acquirer of Franchise One submitted a bid, but it was not accepted. Because of time

8. Bank examiners rate banks using a scale of 1 to 5, with 1 being the best and 5 being the worst.

9. Purchase and Assumption Agreement, October 10, 1991.

10. "Selection of Servicer to Manage, Liquidate, and Collect the Asset Pool from the Failed Banks Involved in the New Hampshire Plan," Andrew F. Basel, Assistant Director, Assistance Transactions Branch, FDIC Division of Liquidation, to the FDIC Board of Directors, memorandum, February 10, 1992.

requirements in the bidding process, the assuming banks were responsible for servicing the FDIC assets for the first five months after the resolutions had occurred.

The FDIC received seven bids for management of the separate asset pool, and Banc One New Hampshire Asset Management (BONHAM), a subsidiary of Banc One Corporation (Banc One), was the winning bidder in the process. On March 10, 1992, the two assuming banks transferred all the FDIC assets to BONHAM. The Asset Liquidation Agreement (ALA), signed by the FDIC and BONHAM, called for a five-year term to handle assets from failed New Hampshire banks (assets from other New Hampshire banks that failed could be added to the contract) up to a total book value of $2 billion. As described in the ALA, BONHAM's goal was to maximize the net present value of cash flows from pool assets. The ALA called for the FDIC to reimburse all of BONHAM's expenses. BONHAM's profit or "incentive fee" was based on "net collections." Initially, the incentive fee was 0.2 percent of net collections. The incentive fee gradually increased throughout the term of the contract to 2.5 percent of net collections.[11] An Oversight Committee of three voting members, consisting of two FDIC employees and one BONHAM employee, was established. That committee had the authority to make all decisions locally and quickly.

The economic situation in New Hampshire was similar to what the FDIC had encountered during the mid-1980s in the farm belt states, when banks were failing in small, rural communities. The FDIC mounted a strong public relations effort, including appearances at town meetings, in an attempt to inform the local citizenry about the FDIC's disposition process. The FDIC's oversight office in New Hampshire established contact with key state officials, such as the governor, senators, congressmen, mayors of the largest cities, and newspaper reporters. Management from the FDIC and BONHAM were present at meetings in various cities to explain the disposition process and to answer questions from the general public. Speeches were also given to several business groups in the state, including the New Hampshire Bar Association, the Realtors Association, and the Chamber of Commerce. These outreach efforts were designed to both communicate the FDIC's mission and reduce the level of anxiety and frustration created from the failure of so many of the state's banks.

Over the course of the four-and-a-half-year contract, BONHAM managed a total of 9,943 FDIC assets with a book value of $1.7 billion, which equates to an average asset size of $175 thousand. At its peak BONHAM had 280 employees. On average, 40 percent of the loans were commercial real estate and comprised 50 percent of the book value of the portfolio. BONHAM sold more than 1,700 real estate properties for an average of 86 percent of the appraised value. The separate asset pool included 21 subsidiary companies, all of which were sold or dissolved during the term of BONHAM's contract. Total collections

11. For a full explanation of ALA agreements, see Part I, Resolution and Asset Disposition Practices, Chapter 14, Asset Management Contracting.

Table II.10-2

BONHAM Key Performance Ratios

Ratio	Percentage
Collections/Book Value	64.00
Liquidation Expense*/Collections	10.07
Total Expenses†/Collections	14.90
Incentive Fee/Collections	0.53

* Liquidation expenses are directly related to the management and disposition of assets, for example, appraisal fees, real estate taxes, and property management costs.

† Total expenses include, among other things, liquidation expenses, salaries, overhead, and incentive fees.

Source: Robert W. Schwarzlose, "FDIC Solutions to the Banking Crisis in New Hampshire" (November 8,1996).

were $1.1 billion. Total expenses paid by the FDIC on the BONHAM contract were $165 million, which included the servicer's incentives of $5.9 million.

The pool experienced higher real estate tax expense than normal because of New Hampshire's high property tax rates. The majority of the state's taxes came from real estate because it had neither a sales tax nor a state income tax. Most of the 650 properties on which BONHAM foreclosed had at least three years of back taxes owing, and these taxes had to be paid by the winning bidder. Table II.10-2 shows some of the key ratios pertaining to the performance of BONHAM.

Loss Sharing Agreements

The FDIC's three-year loss sharing agreements with First NH and New Dartmouth were the same. In general, the FDIC agreed to reimburse the banks for 90 percent of the failed banks' net loan losses on residential mortgages and other consumer loans that exceeded specified threshold levels for three years.[12] See table II.10-3 for data on the loss sharing.

Amounts paid by the FDIC represent the amount of losses the FDIC paid to the assuming banks on loss share assets, less the amount paid by the banks to the FDIC for recoveries. The recovery sharing ended on December 31, 1995. With losses on those portfolios in the 3 percent range, it appears the loss share program was successful in reducing the FDIC's ultimate cost of liquidation.

12. FDIC News Release, PR-150-91.

The structure of the loss sharing agreement in the New Hampshire Plan was a departure from the FDIC's standard practice of including only commercial and commercial real estate loans. Consumer loans, home equity loans, and residential mortgage loans were usually not covered in loss sharing agreements because such loans were typically of better quality.

The Stock Transactions

On October 11, 1991, the FDIC purchased two million shares of nonvoting preferred stock in First NH at a price of $25 per share, for a total of $50 million. The stock paid the FDIC a 10.25 percent noncumulative dividend. The FDIC had the ability to put the stock to the bank after three years. The put price was defined to be equal to the initial amount of capital investment, plus an increase of 10.25 percent per year for the first three years and 12.25 percent thereafter, less any dividends paid.

Table II.10-3

Loss Sharing Data
($ in Millions)

	New Dartmouth	First NH	Total
Beginning balance of loss share assets	$876	$622	$1,498
Plus permitted advances and additions	5	183	188
Total loss share assets	**$881**	**$805**	**$1,686**
Less principal collected, charged off, or otherwise reduced	(542)	(538)	(1,080)
Less protection forfeited, assets removed from pool, and adjustments to beginning balance	(339)	(267)	(606)
Ending balance loss share assets	**$0**	**$0**	**$0**
FDIC's loss share payment estimate	$65	$59	$124
FDIC actual loss sharing payments	27	18	45
Total payments as a percentage of estimated payments	41.54	30.51	36.29
FDIC loss sharing payments as a percentage of total loss share assets	3.06	2.24	2.67

Source: FDIC, "Summary of Loss Sharing Assistance Agreements Through March 31, 1997" (June 26, 1997).

First NH redeemed all two million shares on September 30, 1993, two years after the original transaction, for the price of $50 million. The FDIC received total dividends during that period of $10.1 million.[13]

In the other transaction, on October 11, 1991, the FDIC purchased 347,073 shares of nonvoting preferred stock in New Dartmouth at a price of $89.46 per share, for a total of $31.1 million. The stock carried no cash dividend, but the redemption price increased by 7.2 percent each year until redeemed. The preferred stock was convertible into common stock on a one-to-one ratio after October 10, 1994. The conversion feature was designed to encourage New Dartmouth to redeem the preferred stock within three years.[14] The stock was redeemable at any time, which allowed the bank to minimize its financing burden in early years while giving the investor group strong incentives to redeem the FDIC's shares as soon as possible.

On March 23, 1993, New Dartmouth Bank and Shawmut National Corporation (Shawmut), Boston, Massachusetts, entered into a merger agreement. The agreement required New Dartmouth to redeem all remaining shares of the FDIC's preferred stock before the merger. The merger was projected to yield New Dartmouth common stock shareholders a gain of $213.04 per share, or 220 percent, over the two years since the failed banks had been acquired. The merger resulted in the FDIC's stock position being redeemed one year earlier than had been originally projected.

The stock was redeemed over a 16-month period. New Dartmouth redeemed 112,000 shares on January 25, 1993, for $96.95 per share; 25,000 shares on April 8, 1993, for $99.28 per share; 40,000 shares on August 27, 1993, for $102.42 per share; and 170,073 shares on May 27, 1994, for $107.77 per share. The FDIC's gain on the investment amounted to $4.7 million.[15] Table II.10-4 summarizes the stock transactions.

FDIC Resolution Costs

The New Hampshire Plan is the sixth most costly resolution in FDIC's history. The total cost of the transaction was approximately $891 million. This was a relatively high 20.4 percent of the failed banks' assets. The high cost reflects the poor condition of the banks' assets, the severity of the recession, and the decline in the real estate market in New Hampshire.

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13. "Equity Investment Portfolio (BIF)," Steven A. Seelig, Director, FDIC Division of Finance, to Andrew C. Hove, Jr., Acting Chairman of the FDIC Board of Directors, memorandum, March 21, 1994.

14. "New Dartmouth Bank, Acquisition of New Dartmouth by Shawmut National Corporation," Harrison Young, Director, Robert H. Hartheimer, Deputy Director, and Gerald C. Widdicombe, Associate Director, FDIC Division of Resolutions, to the FDIC Board of Directors, memorandum, July 1, 1993.

15. "Equity Investment Portfolio (BIF)," Steven A. Seelig, Director, FDIC Division of Finance, to Andrew C. Hove, Jr., Acting Chairman of the FDIC Board of Directors, memorandum, March 21, 1994, updated December 31, 1994.

Of the $4.4 billion in total assets at failure, approximately $1.7 billion of the most troubled assets (approximately 40 percent of the total assets) were placed in a separate asset pool, which was assigned to BONHAM. The loss on these assets totaled approximately $750 million (44 percent of serviced assets), which consisted of losses on the assets (collections less than the values stated on the banks' books) as well as the expenses paid by the FDIC on the BONHAM asset management contract.

Table II.10-4

A Summary of the FDIC's Stock Transactions in the New Hampshire Plan

Date	Transaction	Beginning Number of Shares	Shares Sold, Written Down, Converted	FDIC Stock/Equity Investment	FDIC Proceeds from Sales	FDIC Book Value of Transaction	Gain or Loss on Transaction	FDIC Dividend Income
				New Dartmouth **Class A Noncumulative Convertible Perpetual Preferred Stock**				
10/11/91	Original purchase	347,043		$31,050,000				
01/25/93	Redemption		(112,000)		$10,858,400	$10,019,794	$838,606	
04/08/93	Redemption		(25,000)		2,482,000	2,236,561	245,439	
08/27/93	Redemption		(40,000)		4,096,800	3,578,498	518,302	
05/27/94	Redemption		(170,073)		18,328,767	15,215,147	3,113,620	
	Totals	**347,043**	**(347,073)**	**$31,050,000**	**$35,765,967**	**$31,050,000**	**$4,715,967**	**$ 0**
				First NH **Class A Noncumulative Perpetual Preferred Stock**				
10/11/91	Original purchase	2,000,000		$50,000,000				
03/31/92	Dividends							$2,448,611
07/22/92	Dividends							1,281,250
10/30/92	Dividends							1,281,250
12/31/92	Dividends							1,281,250
03/31/93	Dividends							1,281,250
07/06/93	Dividends							1,281,250
09/30/93	Dividends							1,267,014
09/30/93	Redemption		(2,000,000)		$50,000,000	$50,000,000	$0	
	Totals	**2,000,000**	**(2,000,000)**	**$50,000,000**	**$50,000,000**	**$50,000,000**	**$0**	**$10,121,875**
Grand Total, All Stock		2,347,043	(2,347,073)	$81,050,000	$85,765,967	$81,050,000	$4,715,967	$10,121,875

Source: FDIC, *Equity Investment Portfolio, Bank Insurance Fund.*

Another $1.7 billion of better quality assets were sold to the acquirer under a loss sharing agreement. Over the term of this agreement the FDIC paid approximately $45 million in loss sharing payments (2.7 percent of covered assets) to the acquirers. The remaining $1 billion in assets (the highest quality assets) were purchased by the acquirers with no ongoing financial commitment by the FDIC.

Some of the costs were offset by the net premium of $38 million received from the acquirers and the $15 million in dividends and gains on the sale of the preferred stock. Table II.10-5 shows a breakdown of the New Hampshire Plan resolution costs. In a present value context, the loss is higher because of the period of time over which the collections on the assets and the recovery of preferred stock proceeds were received.

Lessons Learned

Several issues arose in the months preceding the resolution of the banks in the New Hampshire Plan. One discussion centered on the grouping of the failed banks into two franchises. Some officials wondered whether grouping the banks constituted "social engineering" by the FDIC and whether it might be better to let market forces decide how or if the banks should be grouped. To offset these concerns, the FDIC held discussions with all parties involved, and offered a structure that incorporated the views of potential acquirers.

There was some concern among FDIC officials that shared equity might be viewed as nationalization of the banks. However, the FDIC had been taking stock in failed bank holding companies since the resolution of Continental Illinois National Bank and Trust

Table II.10-5

New Hampshire Plan Resolution Costs

($ in Millions)

FDIC's Expenses	
Book Value Capital (deficit)	$72
Losses on Separate Asset Pool	750
Loss Sharing Payments	45
Additional Capital Contributed on Franchise One	61
Net Premium Received on Franchise Two	(23)
Gain and Dividends on Preferred Stock	(15)
Total Resolution Cost	**$891**

Source: FDIC Division of Finance.

Company, Chicago, Illinois, in 1984. The FDIC also determined that providing "bridge equity" was preferable to establishing a three-year bridge bank and that it was essential to bring in some private capital or the banks might have had to be paid off and liquidated. To ensure the FDIC's early disposition of its stock holdings, incentives such as rising call prices were built into the structure.[16]

Another question was how the FDIC would respond if other states requested the same type of resolution and whether the New Hampshire Plan would be viewed as "setting a precedent." Such requests would have been reviewed and considered on a case-by-case basis, but that never became a real issue.[17]

Effect on Future Resolutions

The liquidation of the $1.7 billion in assets in less than four years was accomplished with little negative publicity. This was attributed to the communication network that was set up in New Hampshire and the priority given to listening to and working with the borrowers. Liquidation efforts were enhanced because a local office in the state handled the FDIC's assets, and borrowers believed that the servicer's employees had an understanding of the local economic hardship. The FDIC's experience in New Hampshire contributed to a move toward greater communication and customer service in its asset disposition activities.

In the New Hampshire Plan, the FDIC, for the first time, solicited bids from servicers who were not acquiring institutions. That procedure, used several times since, has been a cost saving method for servicing failed bank assets. The loss sharing with the acquiring institutions also appears to be a cost saving mechanism for the FDIC.

The New Hampshire Plan was an innovative structure. Although the FDIC has not offered failing banks in that same structure since then, the New Hampshire Plan stands as a reminder of the FDIC's readiness to consider unique resolution structures.

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16. Selig, memo updated December 31, 1994.

17. Selig, memo updated December 31, 1994.

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