APPENDIX F

Overheads Used by the Panelists

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MANAGING THE CRISIS

The FDIC and RTC Experience

Symposium Presentation Materials Used by:

H. Jay Sarles

Hubert Bell, Jr.

Ted Samuel

Lawrence White

Arne Berggren

Bill Roelle

MANAGING THE CRISIS

Resolutions

Presentation Materials
For

H. Jay Sarles

Vice Chairman
Fleet Financial Group

Resolutions

FDIC's Method of Resolution

- Bank of New England (BNE) failure - January 1991
- Bridge Bank established - January 1991
- Bid and due diligence process - February - April 1991
- Deal Structure: Good Bank / Bad Bank
  - Good Bank sold in competitive bid
  - Bad Bank asset ownership retained by FDIC - private sector firm hired to resolve assets
- Sale to Fleet - July 1991

MANAGING THE CRISIS

Resolutions

Fleet's View of the Opportunity

- Attractive financial dynamics
  - "Guaranteed" earnings from "Good Bank"
  - Fee income from managing "Bad Bank" assets
- Opportunity to build strong New England franchise - MA, CT
- Quantifiable risk due to "put" capability - 3 year term
- Vehicle to attract outside capital - $283 million from KKR

Resolutions

MANAGING THE CRISIS

Deal Structure

- Purchaser: Fleet Financial Group
- KKR Position
  - $283 million investment
  - Dual convertible preferred with warrants
  - Convertible up to 22.5 million Fleet shares or down into 50% ownership of BNE franchise (MA & CT)
- The Prize: A clean $15 billion dollar bank with a strong franchise
- Consideration
  - $500 million in capital
  - $125 million premium (preferred stock)

MANAGING THE CRISIS

Resolutions

How Did It Work?

- $200 + million in annual earning from BNE franchise after 18 months (40% ROE)
- $140 million in net fee income from RECOLL
- KKR Profit
  - Investment $283 Million
  - Value 4/24/98 $2.26 Billion
  - Profit $1.98 Billion
  - Investment return 35% average annual return
- Fleet positioned for success

MANAGING THE CRISIS

Resolutions

What Made the Deal Work for Fleet

- Experience in mergers and acquisitions
- Ability to reduce costs ($350 million in savings)
- Improved overall financial condition and earnings with addition of “clean” portfolio of “Good Bank”
- Attractive fee income from “Bad Bank” resolution (RECOLL subsidiary)
- Rapid turnaround of regional economy - driven by lower interest rates

MANAGING THE CRISIS

Resolutions

FDIC's View of the Results (Fleet's Opinion)

- Quick resolution of large bank failure
  - Six months period from failure to Fleet's legal ownership (January - July 1991)
  - Freed up FDIC resources and insurance fund to deal with high volume of other failures
  - Returned management and assets to private sector
- Attracted new capital to the banking industry through innovative structure
- Helped to stabilized the New England banking environment

MANAGING THE CRISIS

Resolutions

Bad Bank Resolution: Approach

- Five year contract with Fleet to manage and collect non-performing loans and ORE (Bad Bank)
- RECOLL formed by Fleet to operate independently to liquidate the Bad Bank
- $6.0 Billion initial portfolio (16,000 + loans)
- $750 Million in "additional" loans put to RECOLL
- Local decisions on loan resolutions

Resolutions

MANAGING THE CRISIS

RECOLL Structure

- Wholly owned subsidiary of Fleet
- Sole purpose to manage and liquidate Bad Bank
- 1,200 employees at peak
- Incentive fee structure
  - Percentage of net cash collected
  - Net cash = cash less interest carry less two times expenses
  - 1 1/2% increasing to 18 1/2% based on success

Resolutions

RECOLL Issues

- Collection/liquidation approach: its impact on the New England economy
- Balancing RECOLL's cash payment incentive contract with goals and objectives of FDIC
- Political environment
- Performing non-performing loans (small business loans) "Soft 7's"

MANAGING THE CRISIS

Resolutions

Lessons

- Private/Public partnership achieved effective results
  - Successful resolution
  - Strengthened banking sector and local economy
- Accelerated resolution process protected clean asset values
- Political sensitivity contributed to success
- Economic recovery played important role
- Resolution process (structure) should be flexible to fit economic and political environment

MANAGING THE CRISIS

Asset Disposition

Presentation Materials
For

Hubert Bell, Jr.

Attorney
The Law Office of Hubert Bell, Jr.

MANAGING THE CRISIS

Asset Disposition

Texas Banks

	1979	1986	1990	1994	1997
State	627	1076	606	478	417
National	808	896	577	502	423

MANAGING THE CRISIS

Asset Disposition

Legal Highlights

	Legal Matters	Average Assets in Liq. (Billions)
1997	15,168	10.2
1994	24,528	13.5
1991	46,570	43.3
1988	65,000	15.6

Source: FDIC

MANAGING THE CRISIS

Asset Disposition

Commercial Bank Failures: 1983-1992

Year	Texas Failures	U.S. Failures	Texas % of U.S.
1984	6	79	7.6
1986	26	138	18.8
1987	50	184	27.2
1988	113	200	56.5
1990	103	168	61.3

Source: The Banking Department of Texas

Asset Disposition

MANAGING THE CRISIS

Savings & Loan Failures: 1983-1992

Year	Texas Failures	U.S. Failures	Texas % of U.S.
1984	2	22	9.1
1986	2	46	4.3
1988	90	205	43.9
1990	72	315	22.9
1991	55	232	23.7

Source: The Great Texas Banking Crash, by Joseph M. Grant, 1996

MANAGING THE CRISIS

Asset Disposition

Professional Liability Recoveries & Outside Counsel Expenses ($ in millions)

	FDIC		RTC	
	Recoveries	Outside Counsel Cost	Recoveries	Outside Counsel Cost
1986	83.3	10.9		
1988	90.0	20.8		
1990	363.1	79.6	11.2	3.4
1992	609.8	85.2	288.4	69.8
1996	81.1	15.1	114.8	33.0
Total	**5042.1**	**444.6**	**1,548.9**	**466.3**

Source: FDIC, Legal Division

MANAGING THE CRISIS

Asset Disposition

Presentation Materials
For

Ted Samuel

Former Chairman & Chief Executive Officer
Niagara Asset Corporation
Niagara Portfolio Management Corporation

Asset Disposition

MANAGING THE CRISIS

Objectives

- Liquidate large numbers of poorly understood assets
- Quickly
- For cash

Asset Disposition

Constraints

- Obtain fair market value
- Deal fairly with borrowers
- Not destabilize markets with fire sales

Asset Disposition

Concepts

- Seek low cost funding
  - Replacement funding for banks liabilities
  - Lower costs create higher values

Asset Disposition

Concepts

- Temperament adjustment
  - –Bulk sales changed the temperament of collections and settlements
  - –From losing to winning

Asset Disposition

MANAGING THE CRISIS

Presentation Materials
For

Lawrence White

Professor of Economics
Stern Business School
New York University

Asset Disposition

MANAGING THE CRISIS

The FSLIC / FHLBB was ill-prepared for the wave of S&L failures that began in 1985.

Asset Disposition

Asset disposition was a neglected area at the FSLIC / FHLBB.

- The major “action” was in making “deals” (whole-bank resolutions);
- The disposal of assets was laborious, time consuming, and outside the leadership’s expertise.

Asset Disposition

Whole-bank resolution was strongly favored:

- To preserve going-concern value (brand-name reputation, firm-specific capital, etc.);
- To keep the assets in the hands of those who were most likely to manage and dispose of them well.

Asset Disposition

Assets were acquired by the FSLIC when an institution was liquidated (a transfer of deposit accounts only, or a payout) or when an institution's acquiror refused to accept some of its assets

Asset Disposition

MANAGING THE CRISIS

As of year-end 1987, the FSLIC / FHLBB owned (in receiverships) about $7 billion in various types of assets, ranging from single-family homes to commercial properties to mortgages to loans-in-foreclosure to securities.

MANAGING THE CRISIS

Asset Disposition

Asset disposition was a major problem for the agency.

- The agency was generally a poor manager of assets, which was a special problem for asset categories (e.g., residential real estate) that required active management.

MANAGING THE CRISIS

Asset Disposition

Asset disposition was a major problem for the agency.

- The agency was a poor seller of assets.
- It was difficult to acquire high-quality expertise at government salaries, the absence of commissions, bonuses, etc.

Asset Disposition

Asset disposition was a major problem for the agency.

- Incentive structures were a problem.
- Financing was a problem.

Asset Disposition

Asset disposition was a major problem for the agency.

- The one effort to deal with these problems, the Federal Asset Disposition Association (FADA), foundered on political and bureaucratic insensitivities.

Asset Disposition

Selling real estate would always be a problem in this environment. It was too easy to be criticized, regardless of the strategy pursued.

Asset Disposition

- Holding assets too long could be criticized;
- Selling too soon could be criticized.

Asset Disposition

Active management / sales of real estate in a political fishbowl ain’t easy.

Crises in Other Countries

Presentation Materials
For

Arne Berggren

International Banking Consultant

MANAGING THE CRISIS

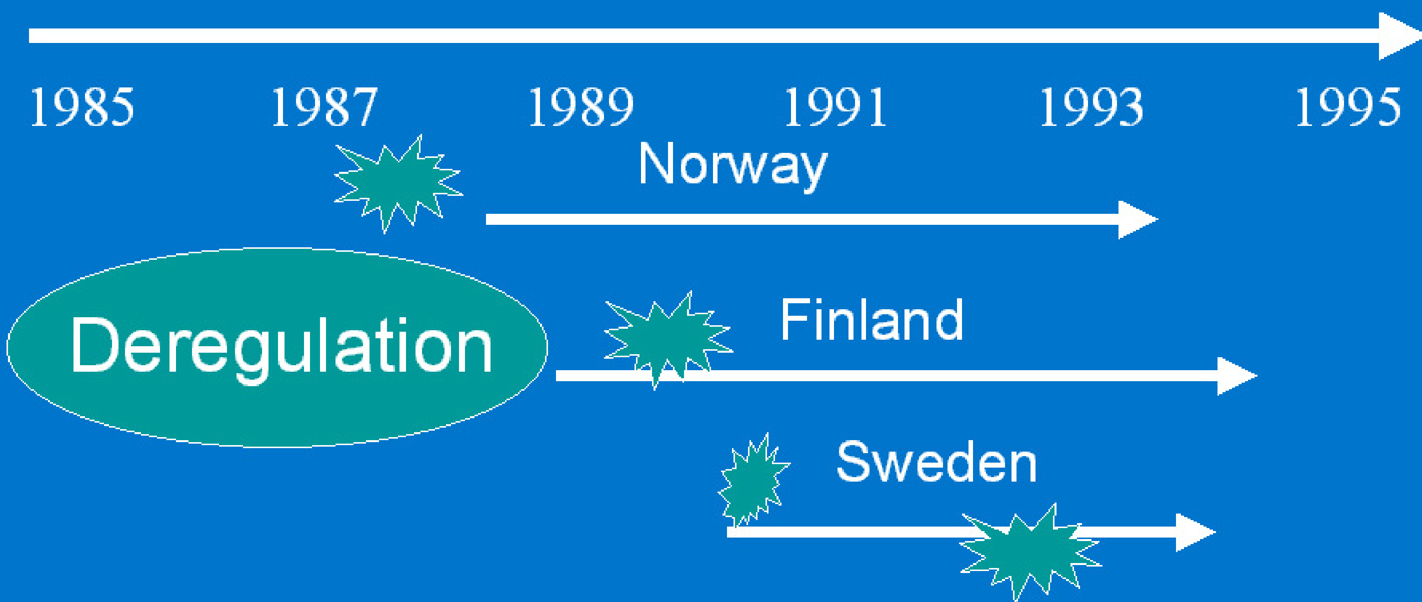
Crises in Other Countries

The Swedish Banking Crisis

- Origin and causes
- Measures
- The Restructuring of Nordbanken
- The General Guarantee
- The bank support process

Crises in Other Countries

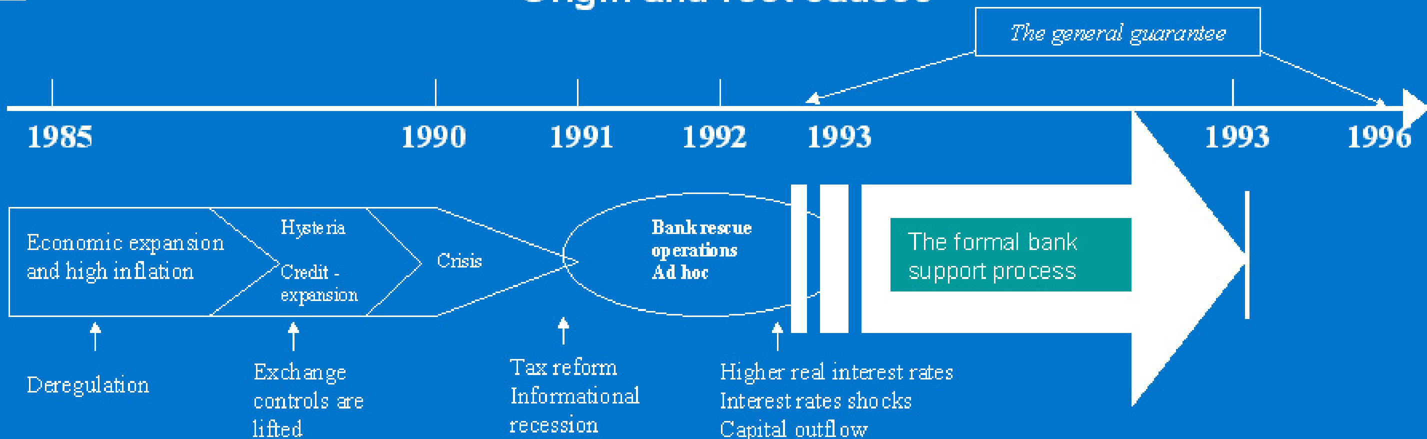
Scandinavian Banking Crisis



Crises in Other Countries

Swedish Banking Crisis
Origin and root causes

Macro



1987-90: Credits/GDP from 90-140%
During 1980s: Real estate + 2.5% p.a.
Leverage buyouts
Low unemployment/inflation

Asset-value peak
Fall in industry production
Higher real interest rates
Overheated labor market
Fall in world market share

Large number of bankruptcies
Currency unrest in western Europe
Unemployment/fall in disp. Income
Portfolio adjustments/fall in asset prices

Structure

	1989		1992
Finance companies	292	Liquidations	133
Savings banks			90
Commercial banks	Mergers		17
Mortgage institutions		Mergers	21

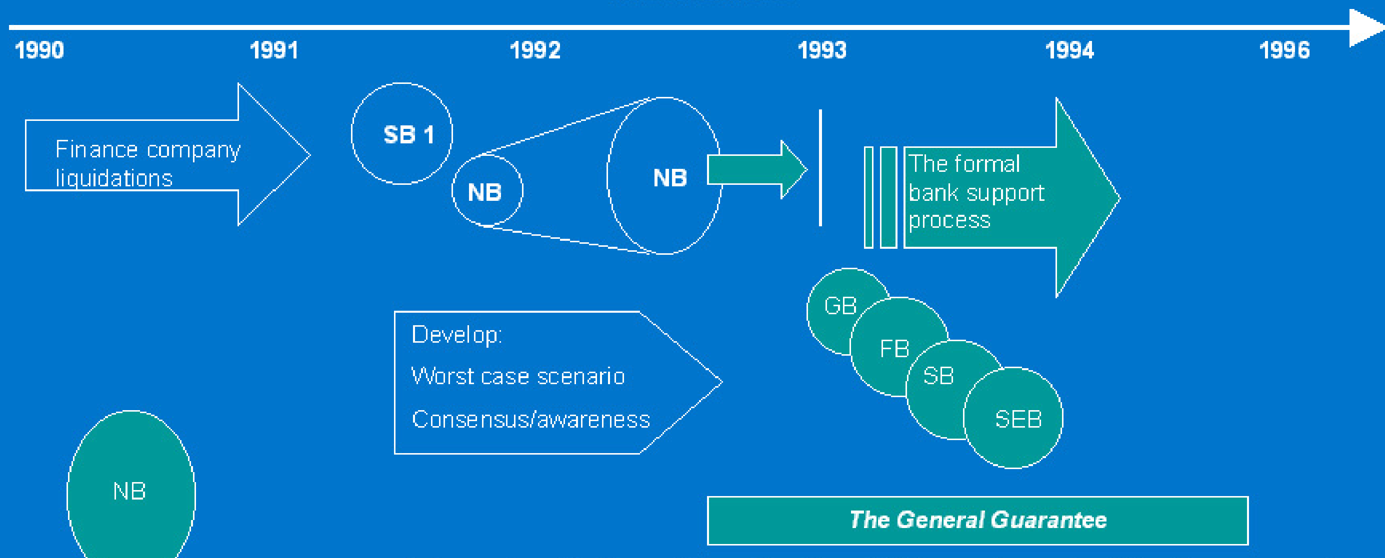
6 largest bank groups: 75% of the system

40% of bank lending in foreign currency

MANAGING THE CRISIS

Crises in Other Countries

Swedish Banking Crisis
Measures



- Total assets / GDP : 23%
- Cash cost / GDP : 2.8%
- Final cost :Profit

The restructuring of Nordbanken (NB) was important for the general strategy

- Demonstrated Government's determination and gained respect
- Practical example of what could be done operationally & financially
- Demonstrated important policies & principles
- Demonstrated necessary data requirements

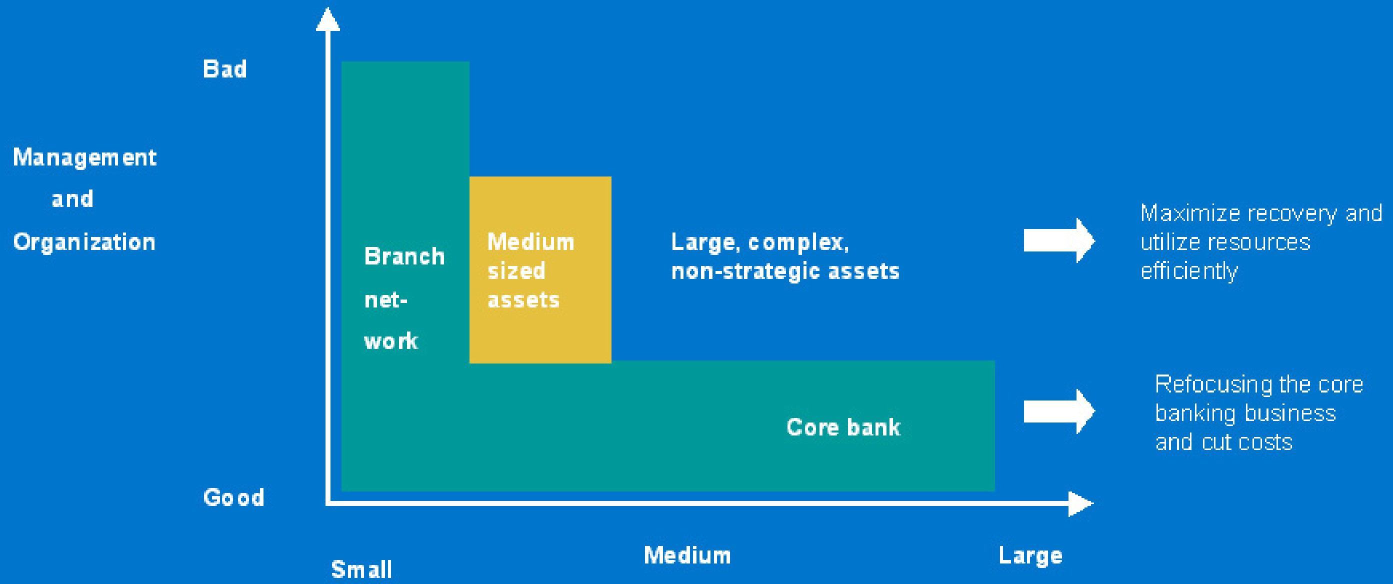
Crises in Other Countries

Swedish Banking Crisis

General focus in bank restructuring

Nordbanken Case (1)

First

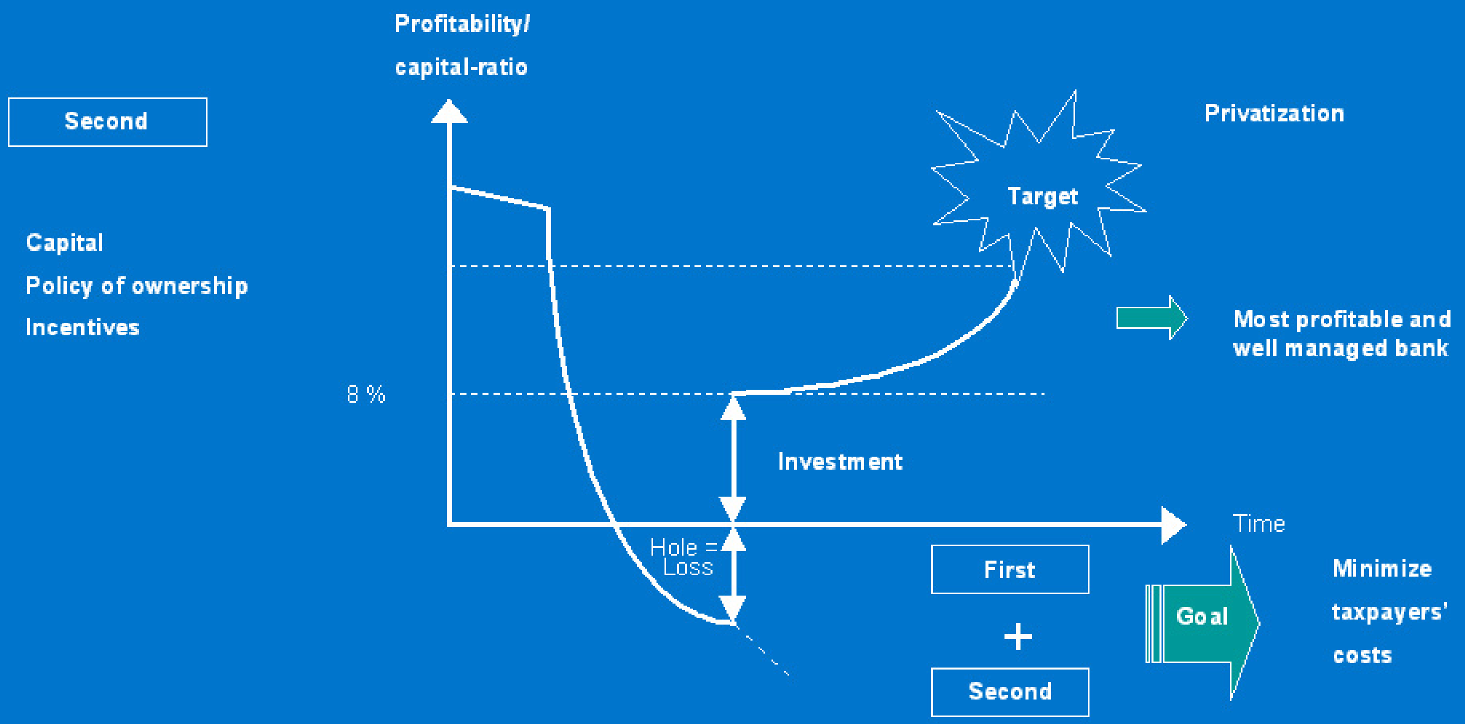


Crises in Other Countries

Swedish Banking Crisis

General focus in bank restructuring

Nordbanken case (2)

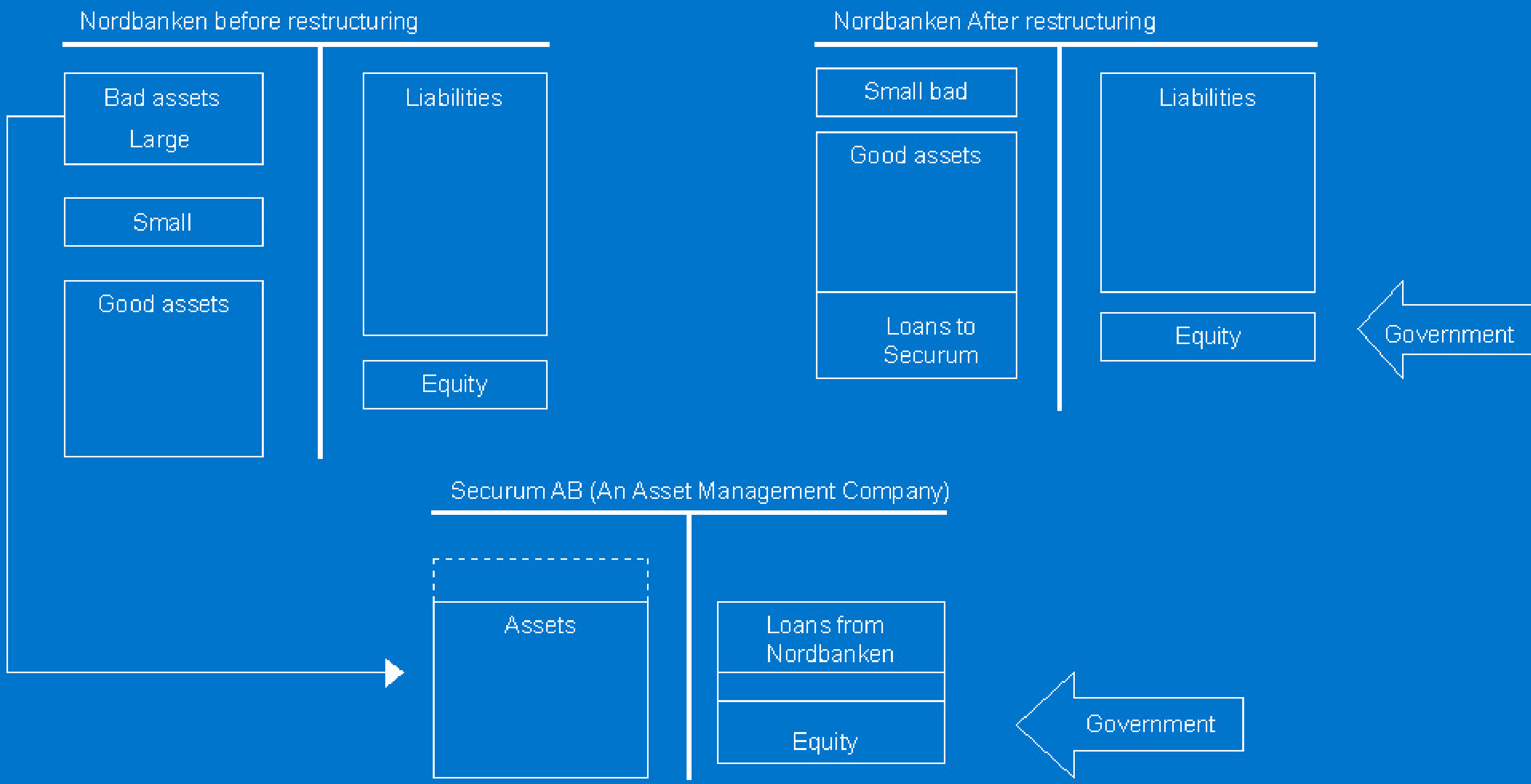


MANAGING THE CRISIS

Crises in Other Countries

Swedish Banking Crisis

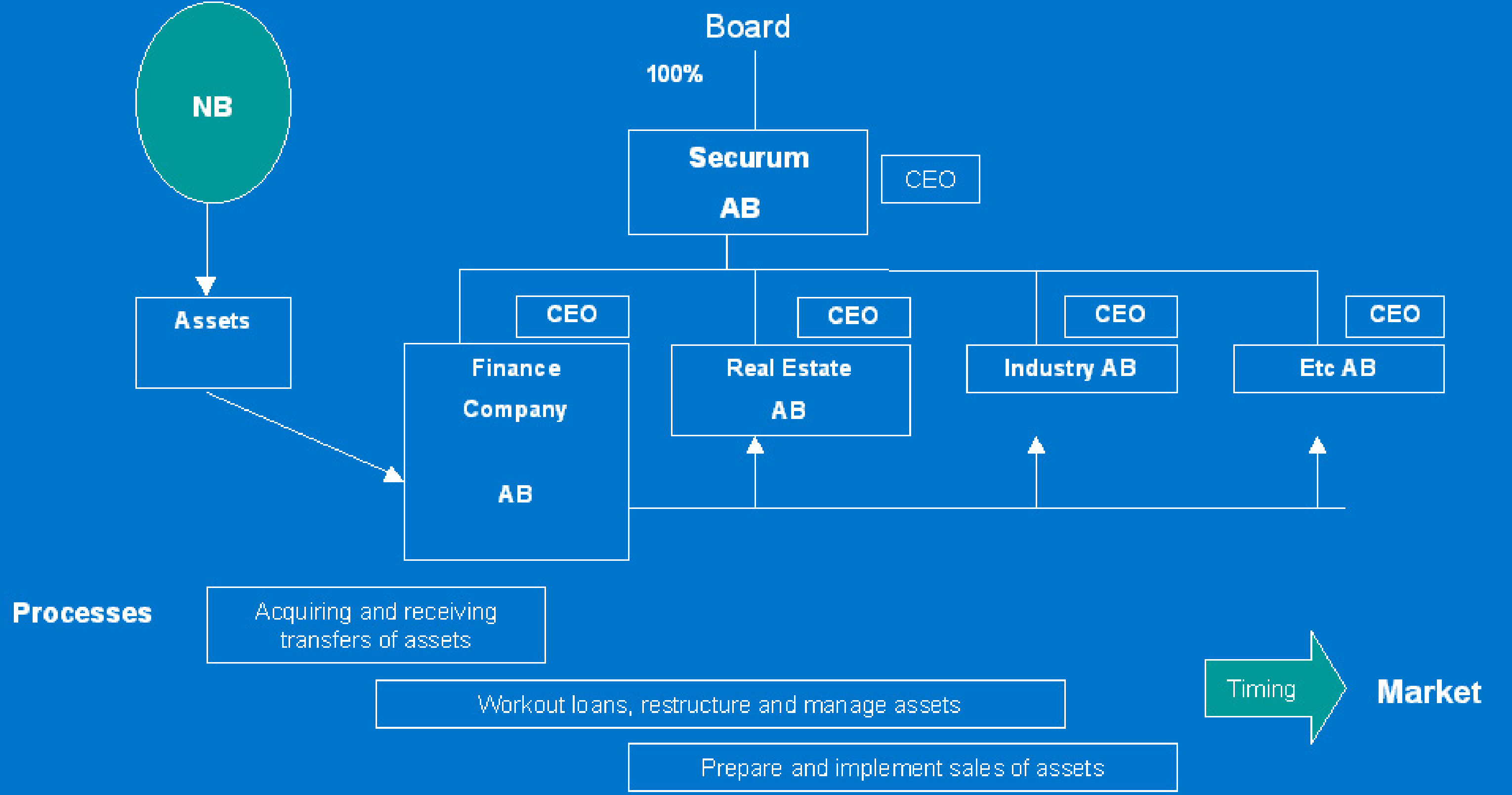
The restructuring of Nordbanken



MANAGING THE CRISIS

Crises in Other Countries

Swedish Banking Crisis
Securum AB
Organization and Management



Crises in Other Countries

Swedish Banking Crisis

The General Guarantee

- The State guarantees that banks… can meet all their commitments on a timely basis.
- The Government is authorized to decide measures to implement this undertaking.
- The authorization is not limited to any specific amount.
- The State shall meet its undertaking by providing support for a continuation of operations in viable institutions or for the restructuring or orderly wind- up of those that cannot be expected to become profitable in the long run.
- The support system is to be available for as long as it is needed and shall not be discontinued until this can be done without jeopardizing the rights of creditors.

MANAGING THE CRISIS

Crises in Other Countries

Swedish Banking Crisis

The General Guarantee
Principles and Conditions for Support

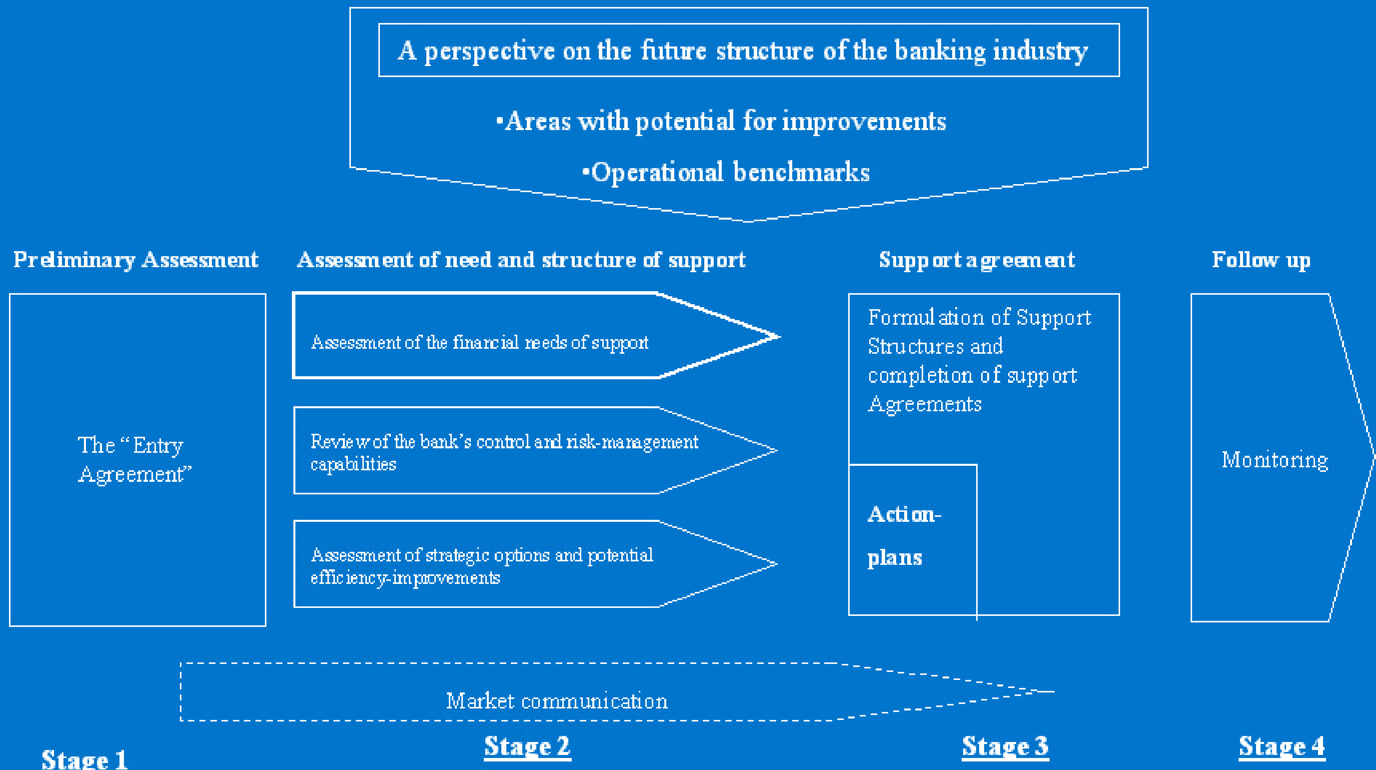
- Voluntary and adopted to the conditions in the institution in question
- Non-viable institutions should be restructured or closed in an orderly manner
- The measures taken should be competitive neutral and account for factors like efficiency and variety
- It should be based on <u>commercial principles</u> to minimize the long term costs for the state
- If possible government ownership should be avoided unless this is considered appropriate with reference to capital requirements and the commercial interest of the state. In such instances the aim shall be to dispose of the shares when this is commercially suitable
- The support should be structured in such a way that the banks had no grounds for requesting more than was necessary
- The Government's expenditures should be minimized and to the largest extent possible recovered
- Institutions applying for support should be required to produce plans for their handling of problem assets and for improving their core operations.

MANAGING THE CRISIS

Crises in Other Countries

Bank Support Process

Main Components

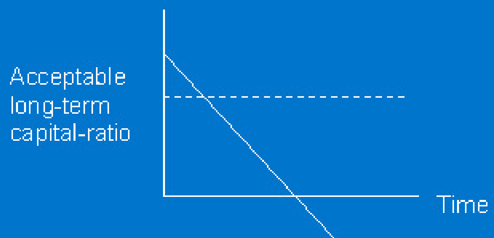


MANAGING THE CRISIS

Crises in Other Countries

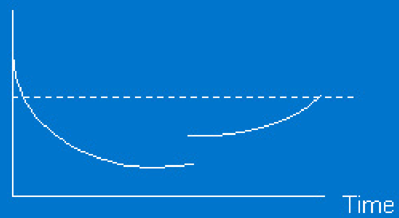
Type Banks
Projected performance and measures

Non-viable



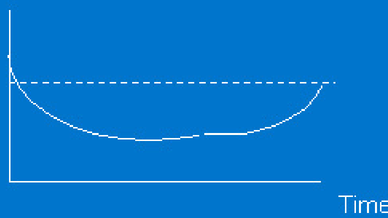
Measures:
- Liquidation
- Merger with viable bank

Viable with major restruction



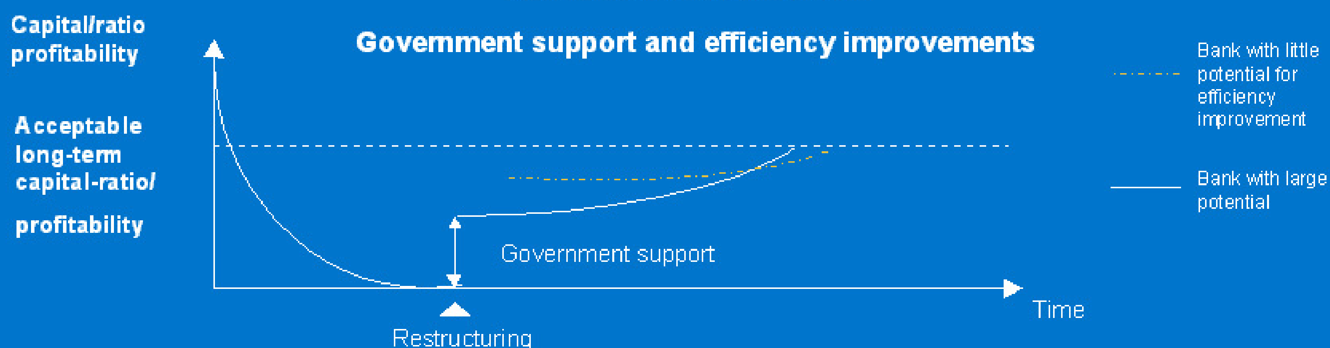
- Capital injection
- Cost-Cuts & reorientation of operations
- Measures to improve operations
- Create specialized workout entities

Viable bank



- Asset guarantees
- Measures to improve profitability

Government support and efficiency improvements



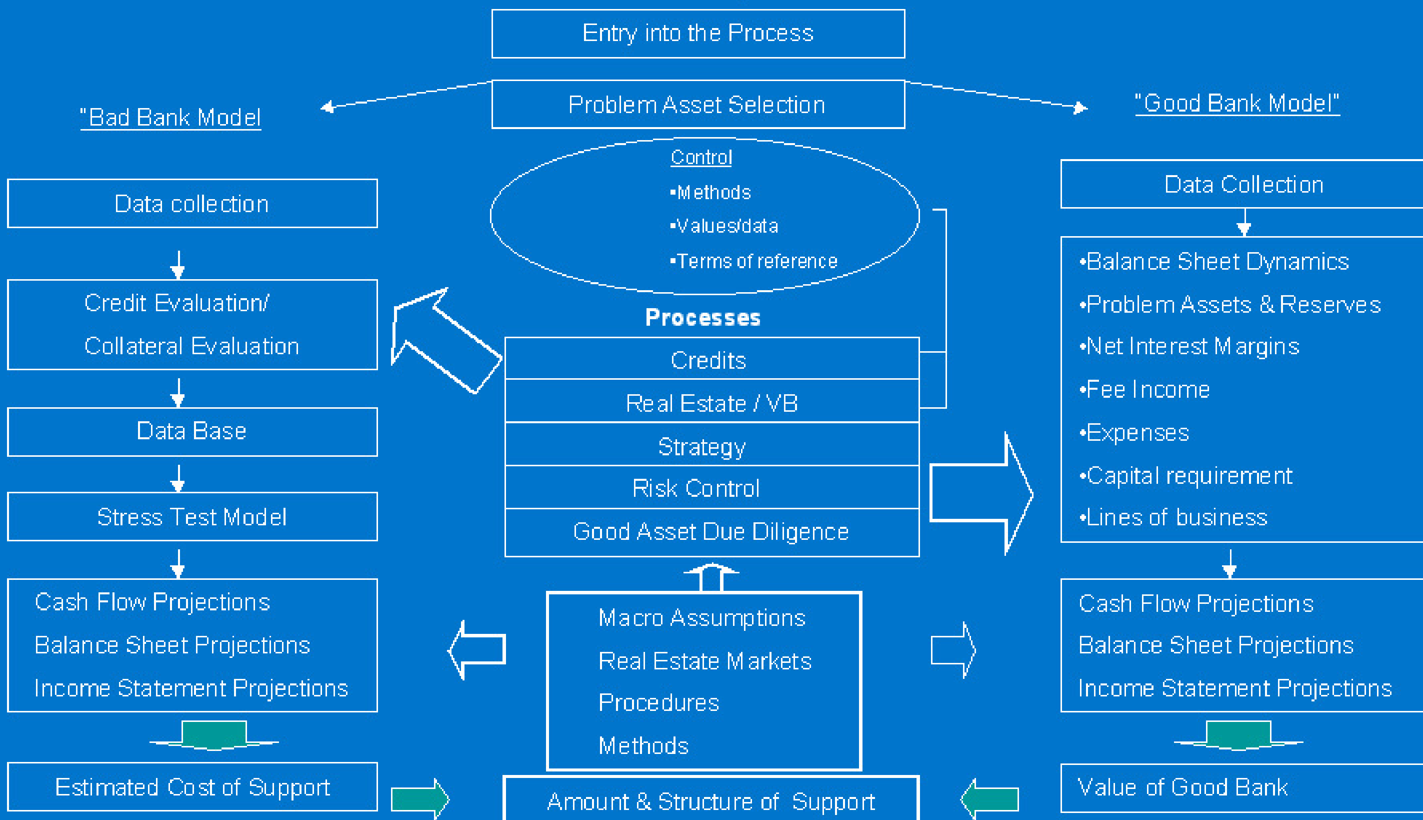
Crises in Other Countries

MANAGING THE CRISIS

Swedish Banking Crisis

Assessment of need and structure of support

The valuation process



MANAGING THE CRISIS

Crises in Other Countries

Swedish Banking Crisis

Main Points

- Develop a worst case scenario and a general strategy for handling it
- Develop consensus / awareness among key Government players
- Develop a strict and realistic work process
- Market communication, public relations & organization (who is in charge)
- Management & incentives are important
- Develop a “Show case” demonstrating the strategy and the rules of the game
- Restructurings based on facts (not wishes)
- Develop data that is useful for management decisions
- Explain the difference between expenditures and final costs

Crises in Other Countries

MANAGING THE CRISIS

Presentation Materials
For

Bill Roelle

Head of Operations
Financial Services Group
GE Capital

Crises in Other Countries

MANAGING THE CRISIS

The Polish Experience

Since 1989 the Polish banking system has been transforming from a collection of highly specialized State owned banks into financial services institutions or "Universal" banks

MANAGING THE CRISIS

Crises in Other Countries

The Polish Experience

The National Bank of Poland Act created a relatively strong central bank

- Monetary Policy
- Bank regulation & supervision
- Split up National Bank of Poland

Crises in Other Countries

The Polish Experience

The Banking Act established a framework for demonopolization State owned System

Crises in Other Countries

The Polish Experience

The Deposit Insurance Act created a scheme similar to U.S. deposit insurance, **but** the differences are significant and debilitating

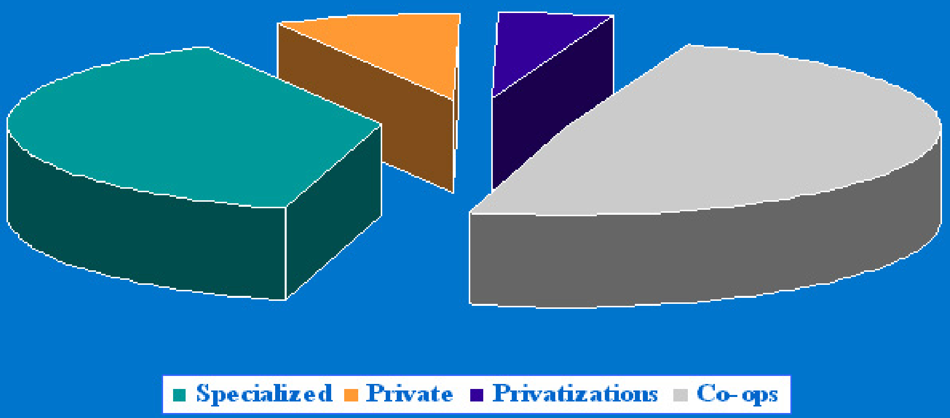
Crises in Other Countries

MANAGING THE CRISIS

Managing the Crisis: Eastern Europe

The Bank Sector

Gross Asset Distribution



A Ways to Go Yet!

Crises in Other Countries

Managing the Crisis: Eastern Europe

The Opportunity

- A stable democratic government with a market-driven-economy orientation
- Help from international community through Polish Bank Privitization Fund
- Strong Real Growth (Ave. 6% over last three years)
- EBRD investment in banking sector
- Substantial foreign interest in banking sector investment
- A well organized and growing stock market

The Potential is There But Roadblocks Exist

Crises in Other Countries

MANAGING THE CRISIS

Managing the Crisis: Eastern Europe

The Challenges

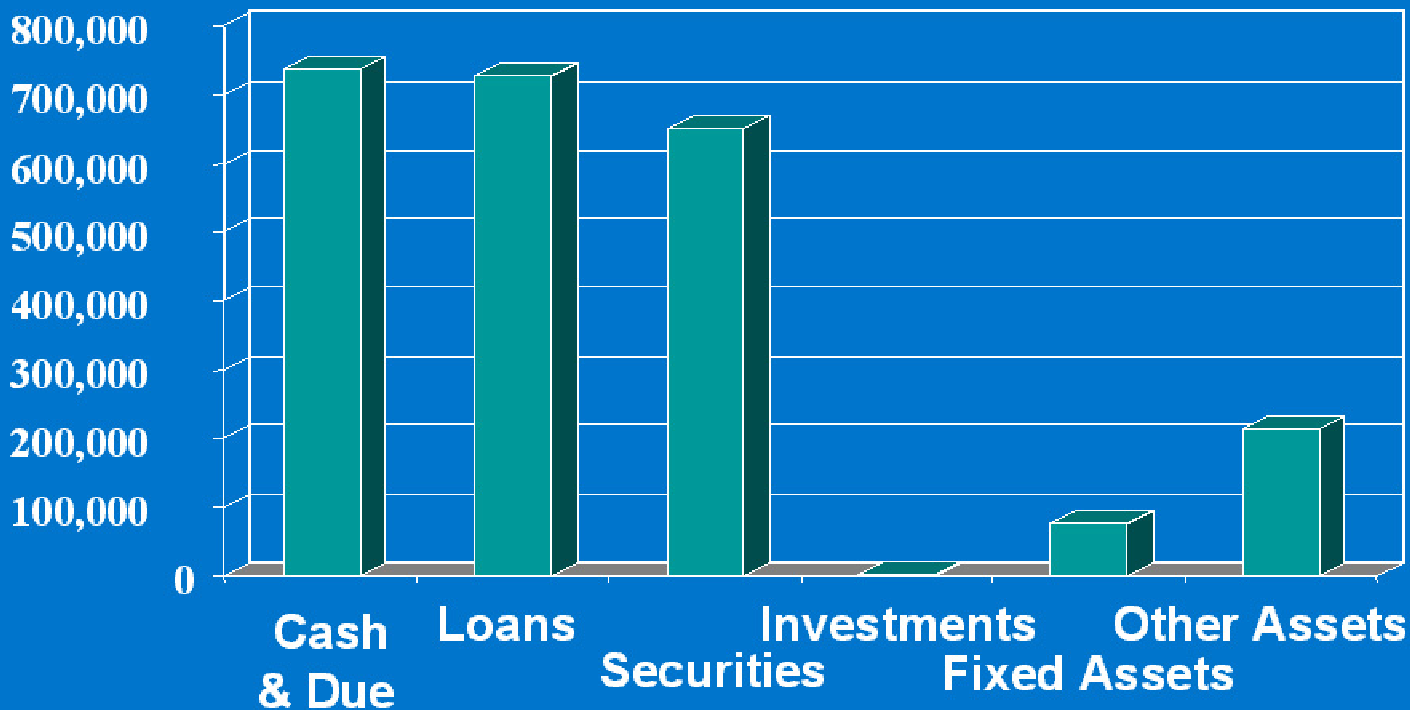
- Deposit insurance responsibility split among three agencies
- Coalition government(s) slow to act
- Central bank too political, slow to implement bank regulation and supervision
- Government has been inconsistent and confusing in its privatization initiatives
- By and large boards and senior management in banks are inept, <u>not all</u>, but far too many for comfort
- Legal infrastructure not yet conducive to safe and sound banking practices

Lots To Do!

Crises in Other Countries

The Polish Experience

PBK Assets

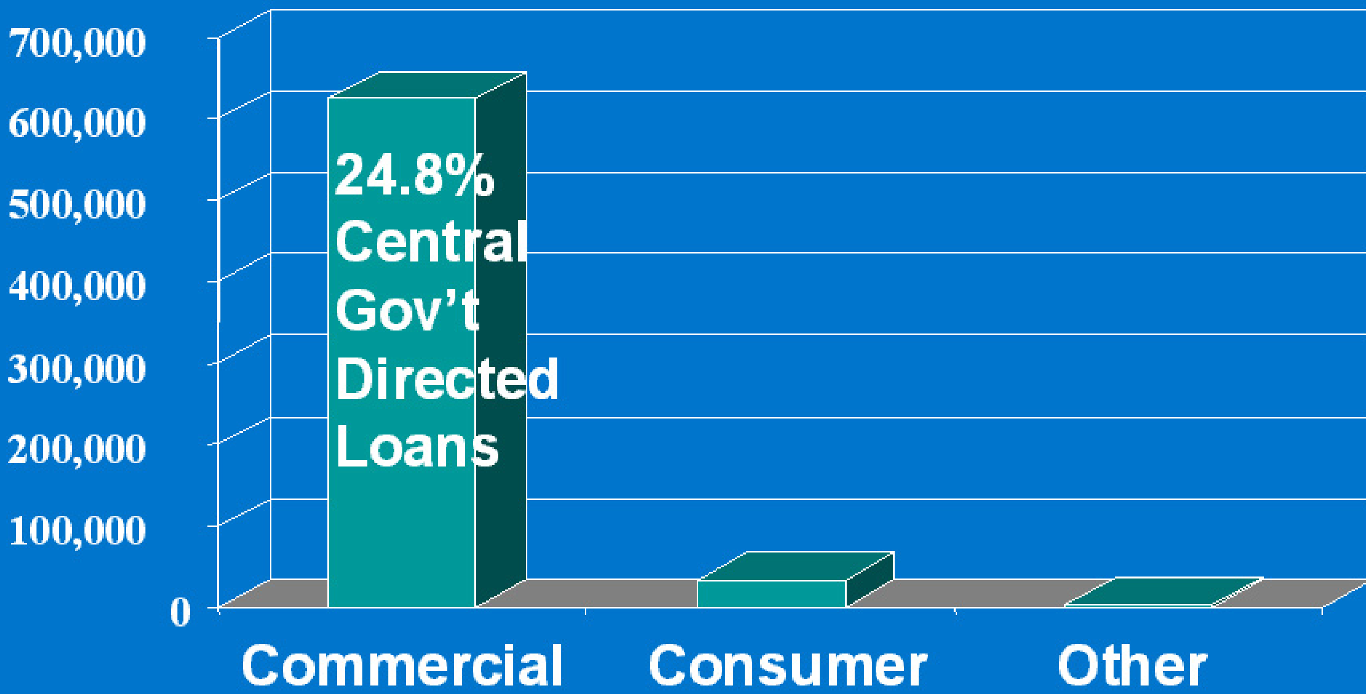


MANAGING THE CRISIS

Crises in Other Countries

The Polish Experience

PBK Net Loans

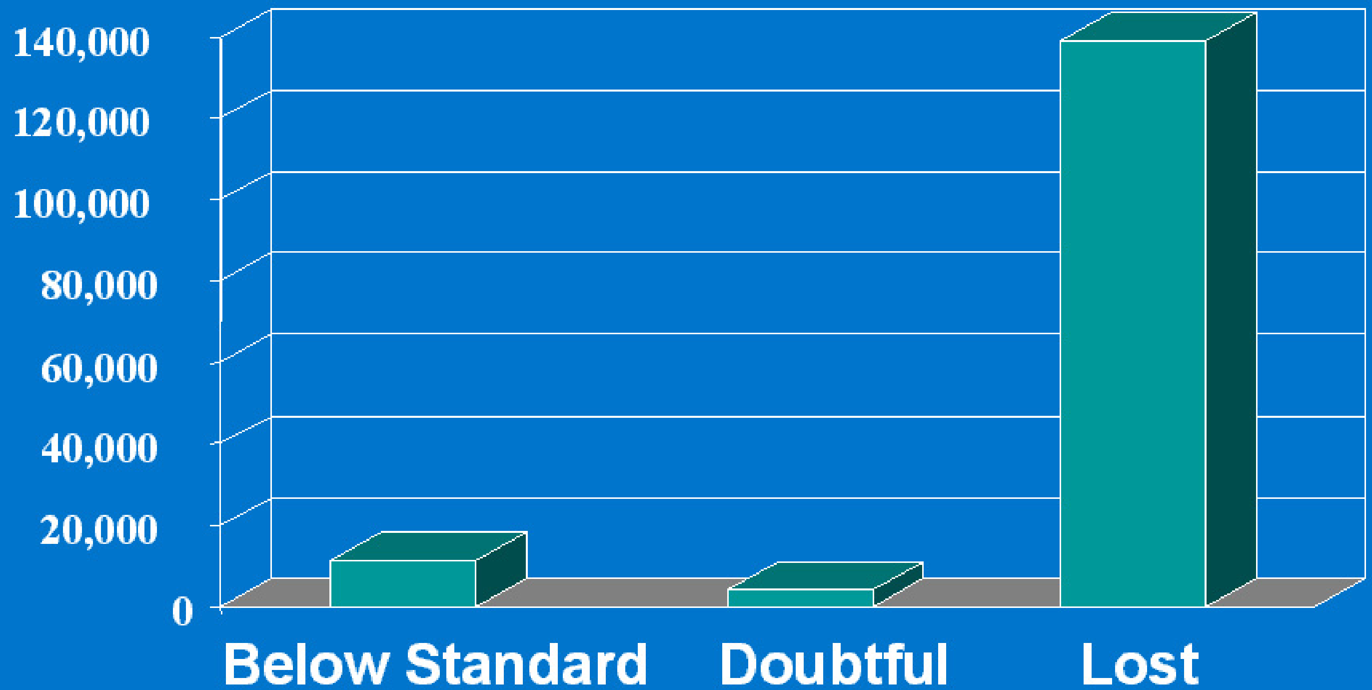


MANAGING THE CRISIS

Crises in Other Countries

The Polish Experience

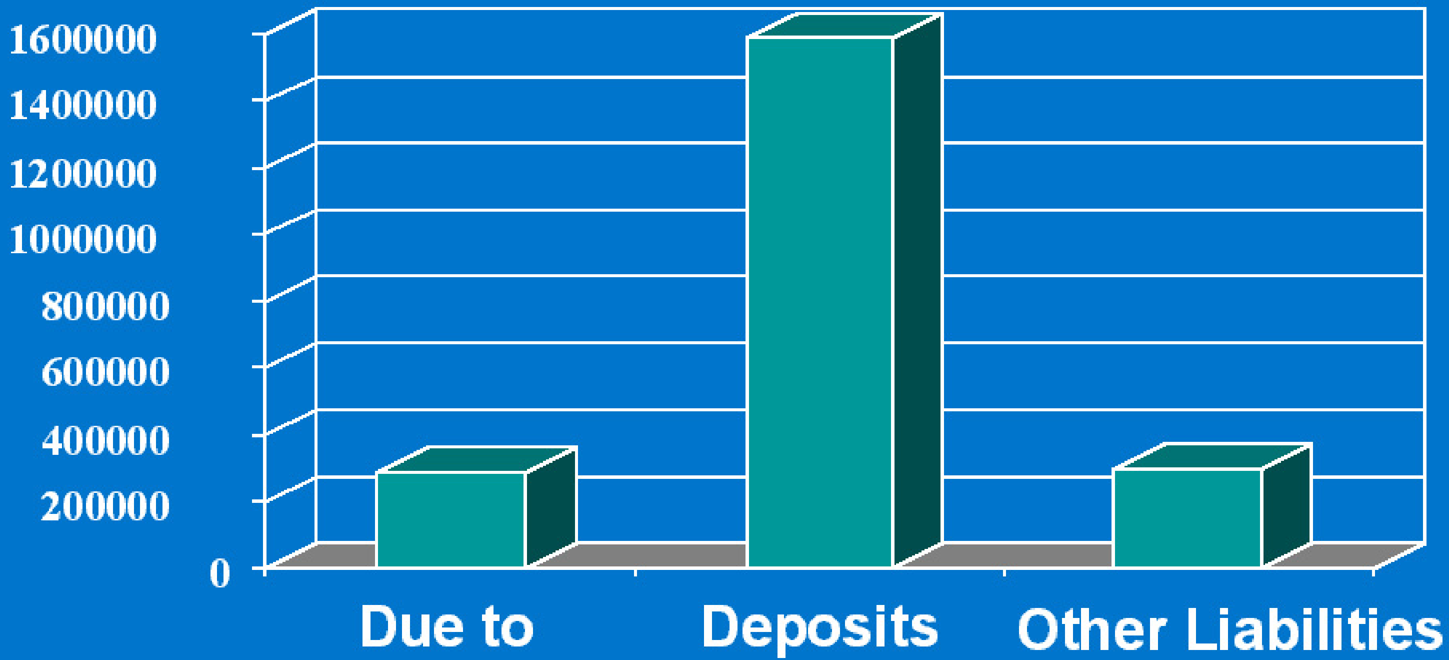
PBK Loan Loss Reserves



Crises in Other Countries

The Polish Experience

PBK Liabilities



Crises in Other Countries

The Polish Experience

PBK Total Deposits