

## Supplemental Fact Sheet

### Reason for Failure

- ShoreBank experienced asset quality problems, which were centered in residential rehabilitation loans, both multi-family and single family, and condominium conversion loans. Loan and operational losses depleted earnings and eroded capital to the point where the bank was no longer viable without recapitalization and the Illinois Department of Financial and Professional Regulation closed the Bank.

### Losses to Investors

- ShoreBank was 100 percent owned by ShoreBank Corporation, a two bank holding company. Although ShoreBank, Chicago represented a significant portion of the company's asset base, the holding company continues to operate. The holding company's investment in ShoreBank is now worthless.

### Marketing Process and Bidding

- The Division of Resolutions and Receiverships followed its normal protocols for a competitive marketing of the bank and for soliciting interest.
- ShoreBank is a unique kind of institution - one that is mission-driven and focused on a double-bottom line. Community Development Financial Institutions (CDFIs) in this credit environment are particularly focused on the needs of the residents in their community and rely on their philanthropic partners to enhance their ability to serve their community. ShoreBank was the largest CDFI in the country and as such, presented unique marketing challenges.
- FDIC received only one bid, which included an asset discount of \$146 million and a 0.5 percent deposit premium. This saved the FDIC's insurance fund \$250 million to \$334 million over liquidation.

### Loss to the Deposit Insurance Fund

- The FDIC estimates that the cost to the Deposit Insurance Fund (DIF) will be \$367.7 million. If the FDIC is unable to find a buyer, in most cases it is forced to liquidate the institution. The purchase and assumption transaction saved the FDIC's insurance fund between \$250 million to \$334 million over liquidation of the institution.
- The FDIC's Deposit Insurance Fund is capitalized through assessments on the banking industry. The FDIC is statutorily mandated to pursue the least cost strategy of resolving failed institutions. As part of this transaction, the FDIC also considered the needs of the community as required by applicable law. Minimizing resolution costs inures to the benefit of all insured banks which fund the FDIC through lower premiums for deposit insurance and ultimately to the US Government which ultimately stands behind the FDIC's guarantee.

### Management

- ShoreBank will have an entirely new board of directors. The ShoreBank board of directors and executives who presided during the deterioration of the condition of the institution will not be retained. New management leading the efforts to save the institution and that did not contribute to the bank's problems will be retained. The investors selected the new management with regulatory approval.

### Acquisition

- In 2010 the FDIC has resolved more than 85 percent of failed banks through the same type of transaction used to resolve ShoreBank: an all deposit whole bank purchase and assumption transaction with loss share. In the ShoreBank transaction, all the deposits and virtually all of the assets except for the marketable securities and fixed assets are being acquired. Loans will be subject to an 80/20 loss share agreement.

#### Impact on Community

- Urban Partnership Bank has indicated that they will maintain ShoreBank's focus of providing loan and deposit products and services to individuals and small-to mid-sized business, with a special emphasis on the underserved LMI areas of Chicago, Detroit, and Cleveland. The Bank, after it opens for business, plans to apply to become a certified CDFI.

#### Supervisory History

- ShoreBank was initially notified that it was critically undercapitalized on February 23, 2010. Due to a private capital raise of more than \$146 million on May 18th, the PCA period was extended by 90 days from May 24th until August 22nd.

- The bank has been subject to an Order to Cease and Desist since July 14, 2009, requiring a number of corrective measures. The Order was amended on March 22, 2010, to require the bank to achieve higher levels of capital.

#### Recapitalization Efforts

- It is always in the interest of the FDIC to achieve a privately funded recapitalization or acquisition over a failed bank resolution. A bank that does not fail by definition does not cost the industry funded Deposit Insurance Fund any money. Through the supervisory process, the FDIC will work with problem institutions to produce a viable recapitalization plan or assist in a sale.

- In the case of ShoreBank, as long as recapitalization remained a viable possibility, it is the normal course to pursue this in order to avoid failure. As is often the case, a viable recapitalization plan did not emerge within the required PCA timeframe which resulted in the need to resolve the institution.