Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Executive Secretary

August 24, 2008

MEMORANDUM TO: The File

FROM: Valerie Best
Assistant Executive Secretary

SUBJECT: Summary of Recommendations Made at the August 5, 2009, Meeting with Private Equity Representatives

This memorandum summarizes the discussion and recommendations offered at a meeting held August 5, 2009. The meeting was requested by representatives of the largest private equity funds to discuss the "Proposed Policy Statement of Policy on Qualifications for Failed Bank Acquisitions," which is currently out for comment and published at 74 Fed. Reg. 32931 (July 9, 2009)..

The following individuals attended the meetings: Bernard Carl – TPG; Nick Stone – TPG; Martin Brand – The Blackstone Group; Steve Judge – PEC; William Kroener – Sullivan and Cromwell; Randal Quarles – Carlyle Group; Chinh Chu – The Blackstone Group; Andrew Baer - Sullivan and Cromwell; Lisa Roy – FDIC; Chris Spoth – FDIC; Joe Jiampietro – FDIC; Mark Schmidt – FDIC; Larisa Collado – FDIC.

Major areas of concern consist of the following:

- Capital Requirements
- Source of Strength
- Cross Guarantees
- Length of Holding Period

Capital Requirements

Proposed capital requirement of a 15 percent tier 1 leverage capital ratio is too high when considering that a bank is well capitalized at 5 percent. Conducting due diligence is a costly process, and the bid price is affected by capital levels. Therefore, private equity firms would not be competitive when bidding on failing institutions.

Recommendations

- Consider a 6 percent common equity to risk-weighted assets.
- Emphasis on common equity rather than tier 1 capital.

- Consider that private equity firms' business models are predicted on no losses, conservative business plans, and that new management teams are brought in. A good management team reduces the risk, and low risk should lower capital requirements.

Source of Strength

Representatives appreciated the clarification that the source of strength does not apply to the private equity firms' shareholders.

Recommendations

- None were offered.

Cross Guaranty

The proposed cross guaranty trigger of 50.1 percent overlap in investors could make it harder for the FDIC to get bidding groups and would limit the number of competitive bids.

Recommendations

- The 50.1 percent threshold needs to be revisited so that it does not impede the process.
- Consider that there is no "acting in concert" because the management teams select the investment groups, and the private equity firms are unaware of the investment groups that are being selected.
- Consider that private equity firms' ownership is passive, and banks are not commonly operated.

Length of Holding Period

Private equity firms' ability to raise capital can be impacted by lengthy holding periods.

Recommendations

- A holding period that exceeds 18 months would be problematic.
- Private equity firms need flexibility to raise capital.