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Regulators required 'a lot of convincing' before letting State Bank of Texas bid on Chicago failure

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The largest bank failure in 2014 to date will more than double the size of a smaller buyer hundreds of miles away.

Dallas-based State Bank of Texas had $376.3 million in assets at Sept. 30; on Oct. 24 the bank purchased the deposits and about $626.1 million of the assets of failed National Republic Bank of Chicago.

Almost overnight, State Bank became one of the largest Indian-American owned banks in the United States. Hundreds of miles stand between the buyer and target footprints, but State Bank Chairman, President and CEO Chan Patel said he is confident his bank can avoid the same mistakes that led to National Republic's failure.

Many State Bank employees are of Indian descent, which helps attract customers with a similar background. This shared common bond led to easy communication and minimal losses, Patel told SNL. National Republic is State Bank's second FDIC-assisted transaction, and the first since 2009. Despite the size and geographic disparity, he said State Bank was interested in National Republic because both are owned by Indians and served hoteliers in the Midwest and East Coast. Some of the customers even overlapped between the two banks.

"We did a lot of convincing to the regulators before they would permit us to bid, but we were successful."

State Bank of Texas Chairman, President and CEO Chan Patel

Chicago-based National Republic, a unit of NRBC Holding Corp. prior to its failure, had approximately $954.4 million in total assets and $915.3 million in total deposits at June 30, making it the largest failure year-to-date. The bank's asset quality began to deteriorate in 2006, as delinquent loans began to creep up from 1.81% to 2.54% of total loans in 2010. They jumped from 4.40% in 2011 to 43.83% in 2013.

The bank's Tier 1 leverage ratio was 2.85% by the end of 2013. The OCC dismissed National Republic's president and its chairman and CEO as part of a prompt corrective action directive issued in July 2014. By Sept. 30, delinquent loans made up 65.01% of total loans, the Tier 1 leverage ratio was 0.38% and the Texas ratio was 587.41%. When regulators closed National Republic, it was the 16th FDIC-insured institution to fail in the U.S. in 2014 and the fifth in Illinois.

When a bank is slated for failure due to financial deterioration, its primary regulator informs the FDIC that its charter is about to be revoked. The FDIC then begins the process of finding another institution to take over the assets and liabilities by providing limited information to institutions that have expressed an interest in acquisitions, said FDIC representative LaJuan Williams-Young. After the

National Republic Bank of Chicago operating ratios since 2006

	2006	2007	2008	2009	2010	2011	2012	2013	Q3'14
Return on average assets (%)	3.60	3.04	1.98	3.11	2.46	2.44	-3.10	-4.01	-1.70
Tier 1 leverage ratio (%)	10.91	9.32	8.06	8.55	9.58	10.57	6.68	2.85	0.38
Texas ratio[1] (%)	14.98	16.34	40.42	32.95	57.69	46.44	155.34	427.00	587.41
Efficiency ratio (%)	27.26	27.71	29.07	24.06	26.11	31.06	34.97	71.36	349.29
Tangible equity/tangible assets (%)	10.92	8.98	8.63	8.05	9.42	10.64	7.34	2.92	0.61
Deposit growth rate (%)	25.23	41.72	14.41	27.36	3.19	0.76	-10.30	-4.14	-46.18
Loan growth rate (%)	16.98	41.20	13.18	21.91	5.18	1.86	-9.16	-23.55	-17.53
Loans/deposits (%)	99.18	98.82	97.75	93.57	95.37	96.40	97.63	77.87	79.34

Data as of Oct. 24, 2014.
Data is based on regulatory filings.
All data is for the 12-month period except 2014, which is for the 3-month period ended Sept. 30, 2014.
[1] Texas ratio is nonperforming assets + loans more than 90 days past due/tangible equity + loan loss reserve.
Source: SNL Financial

State Bank of Texas operating ratios since 2009

	2009	2010	2011	2012	2013	Q3'14
Return on average assets (%)	4.22	2.85	0.53	2.68	3.46	6.45
Tier 1 leverage ratio (%)	13.01	13.76	14.95	18.53	21.62	25.26
Texas ratio[1] (%)	58.11	47.31	29.63	26.02	20.30	3.75
Efficiency ratio (%)	10.78	24.18	41.95	32.91	34.34	15.51
Tangible equity/tangible assets (%)	13.53	13.43	15.94	19.94	21.50	26.49

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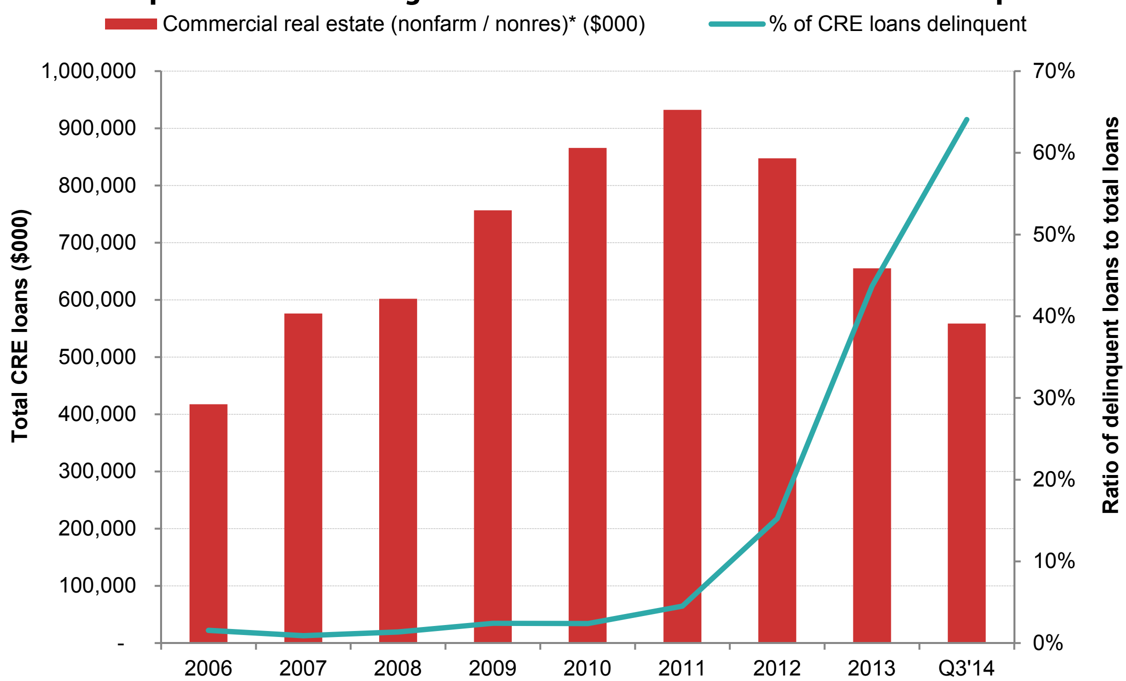
initial solicitation, the FDIC shares enough information to conduct due diligence while excluding identifying material.

Both regulators approve the potential acquirers as a bidder for the failed bank assets and liabilities, Williams-Young said. The approved banks then put forth a bid for the FDIC to evaluate.

State Bank's management team had to decide how they will run the Chicago locations and address the size disparity between the two institutions. The fact that the purchase and assumption agreement includes the performing loans made the deal more palatable for Patel, who added that the size difference was a "major concern" for its regulator. The SBT Bancshares Inc. unit even offered to raise additional capital, despite a Tier 1 risk-based ratio of 30.07% as of Sept. 30. State Bank's metrics stand in stark contrast to those of troubled National Republic: The buyer had a 6.45% return on aver-

National Republic Bank of Chicago's US commercial real estate loans and delinquencies



Data as of Oct. 24, 2014.
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Delinquent loans include loans 30-89 days past due, 90+ days past due and nonaccruing loans.
* Commerical real estate nonfarm/nonres loans are nonfarm and nonresidential real estate loans.
Source: SNL Financial

National Republic Bank of Chicago US real estate and consumer loan data since 2006

	2006	2007	2008	2009	2010	2011	2012	2013	Q3'14
Construction and land development loans ($000)	63,697	107,846	180,537	183,548	123,636	76,981	65,397	37,347	28,189
Delinquent loans (%)	0.00	0.00	0.00	0.35	0.61	0.72	16.62	42.59	84.72
1- to 4-family loans ($000)	22,722	27,927	29,856	46,447	48,205	50,919	43,568	39,124	32,825
Delinquent loans (%)	9.28	7.20	3.94	2.64	12.10	10.55	23.17	36.82	66.83
Multifamily loans ($000)	331	380	1,798	3,639	5,018	6,236	6,915	5,869	7,332
Delinquent loans (%)	0.00	0.00	0.00	0.00	0.00	0.00	1.81	94.14	95.46
Commercial real estate (nonfarm/nonres)* ($000)	417,538	576,363	602,163	756,724	865,852	932,455	847,608	655,173	558,693
Delinquent loans (%)	1.55	0.89	1.35	2.42	2.39	4.53	15.26	43.68	64.07
Other loans ($000)	25,187	36,377	32,306	39,370	39,153	33,065	33,993	24,102	15,327
Delinquent loans (%)	3.64	19.03	0.21	0.12	0.10	0.27	15.88	51.94	58.80
Total loans[1] ($000)	524,782	740,985	838,623	1,022,370	1,075,287	1,095,241	994,873	760,625	642,357
Total delinquent loans ($000)	9,485	14,057	9,367	20,260	27,296	48,235	154,881	333,403	417,619
Delinquent loans to total loans (%)	1.81	1.90	1.12	1.98	2.54	4.40	15.57	43.83	65.01

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* Nonfarm/nonres are nonfarm and nonresidential loans.
[1] Total loans net of unearned income.
Source: SNL Financial

age assets in the third quarter, a Tier 1 leverage ratio of 25.26% and an efficiency ratio of 15.51%.

"We did a lot of convincing to the regulators before they would permit us to bid, but we were successful," Patel said. "Given that we acquired the performing assets, they are very happy."

Patel chalked up National Republic's problems to its management team, which he said made mistakes in underwriting. During due diligence, Patel's team discovered credits that they "wouldn't touch." Williams-Young said the primary regulator of the acquiring institution must also approve bids presented by the FDIC, indicating the bidders are fit and the regulators have done due diligence on the companies. The FDIC considers the bids against the cost of liquidating the bank and selects the one it deems least costly.

The P&A agreement that State Bank entered into covered all of the deposits of National Republic and about $626.1 million of its assets. The buyer will retain National Republic's existing employees and send executives to work out the kinks that come with new ownership. The acquisition pushes State Bank to just over $1 billion in assets, making it the largest Indian-American bank in the U.S., according to a company release. The FDIC will retain the remaining assets for later disposition and estimated that the cost to the insurance fund would be $111.6 million. *i*

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