



# Capital Markets



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# Capital Markets Government to the Rescue!



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# International Regulator

- **Bank of International Settlements**
  - Basel Switzerland
- **Capital Accord of 1988**
  - aka Basel Accord. Basel I, and Basel II
- **Risk-Based Capital Guidelines**
- **Assets Valued Net of Probable Losses**
- **Various Levels of Estimating Losses**
  - e.g. AIRBA

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# Capital

- **Tier 1 Capital\***
    - Equity Capital (EC)/ Risk-weighted Assets
    - EC = Common Stock + disclosed reserves
    - 4% min; 6% = “well capitalized”
  - **Tier 2 Capital\***
    - aka Basel Accord. Basel I, and Basel II
    - Tier 1 plus revalued reserves, hybrids, subordinated debt, etc. 8% min; 10%=well
- \*note: defined in Basel 1 capital accord

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# Regulators – Protect Deposits

- **Federal Reserve Board**
  - **Federal Deposit Insurance Corp**
  - **Office of Comptroller of the Currency**
  - **Office of Thrift Supervision**
  - **National Credit Union Administration**
- **Changes will come – Various Proposals**
- **Too early to tell the outcome**

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# Bank Stats

- **Total Assets:**           **\$13.301 T**
- **Total Loans:**           **\$ 7.625 T**

2009Q2 / 2009Q1

- **Noncurrent Loan Rate:** **4.35% 2.08%**
- **Noncurrent R.E. Loans:** **5.64% 2.73%**

**Source: FDIC June 30, 2009**

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# How did the Feds get Involved?

- **Emergency Economic Stabilization Act**
- **January 3, 2008 (169 pages)**
  - Troubled Asset Relief Program (TARP)
  - Troubled Asset Insurance Financing Fund (TAIFF)
  - Capital Purchase Program (CPP)
  - Public Private Investment Program (PPIP) LBO
  - Temporary Liquidity Guarantee Program (TLGP)
  - Homeowner Provisions / Executive Compensation
  - Investment Cap's (with Caveats)

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# Capital Purchase Program

- Dept of Treasury –Money for Banks
- Eligible QFIs (Qualified Financial Institution)
- Sell equity (Pref. Stock/Warrants) interests to Treasury
- 1 to 3 percent of the QFI's risk-weighted assets
- Interests constitute Tier 1 capital for QFI
- Parri Passu with existing Preferred shares
- Dividends 5% Yr 1-5, 9% Yr 6+; other Div. restrictions
- Redemption Lock Out – 3 yrs with exceptions
- Convertible to Common Stock
- Executive Compensation EESA Section 11



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# PPIP – Legacy Securities

## “Government Assisted” LBO

AllianceBernstein, LP

BlackRock, Inc.

Wellington Management Company, LLP

Equity Private	\$3.07
Equity (Fed’s)	3.07
<u>Debt (Fed’s)</u>	<u>6.13</u>
Total	\$12.27*

\*Note: figures may not foot due to rounding

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# Bank's New Underwriting

**Loss Rates are Climbing FAST**

**Rate more than doubled Q2 v Q1**

**Deleverage – Expect More**

**Lower LTV (80-85% versus 50-60%)**

**Higher DSC (130-150 versus 1.05-120)**

**100% Guarantee**

**Restrictive Covenants**

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# Questions / Answers

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