



Current Issues Facing Financial Institutions

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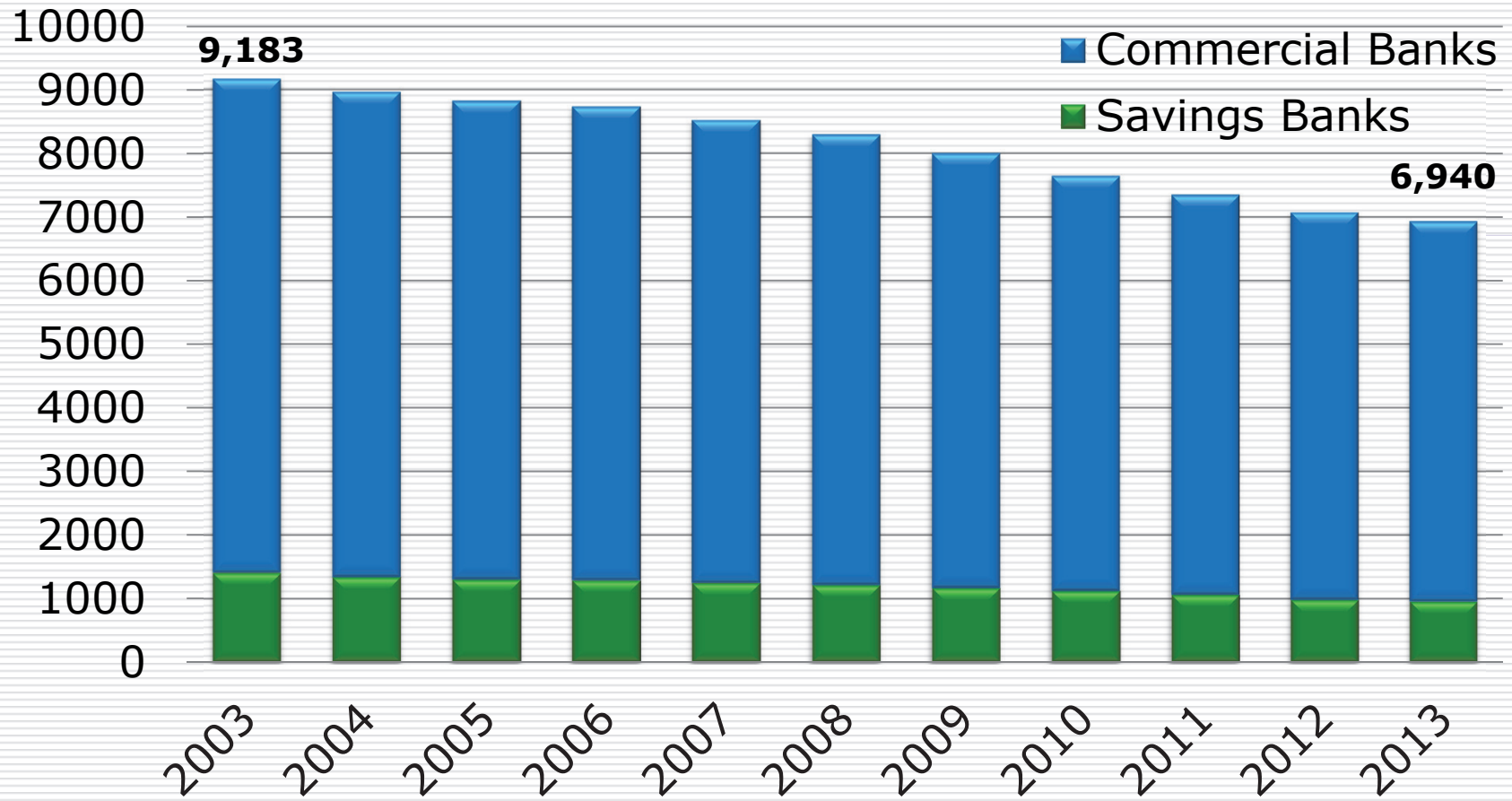
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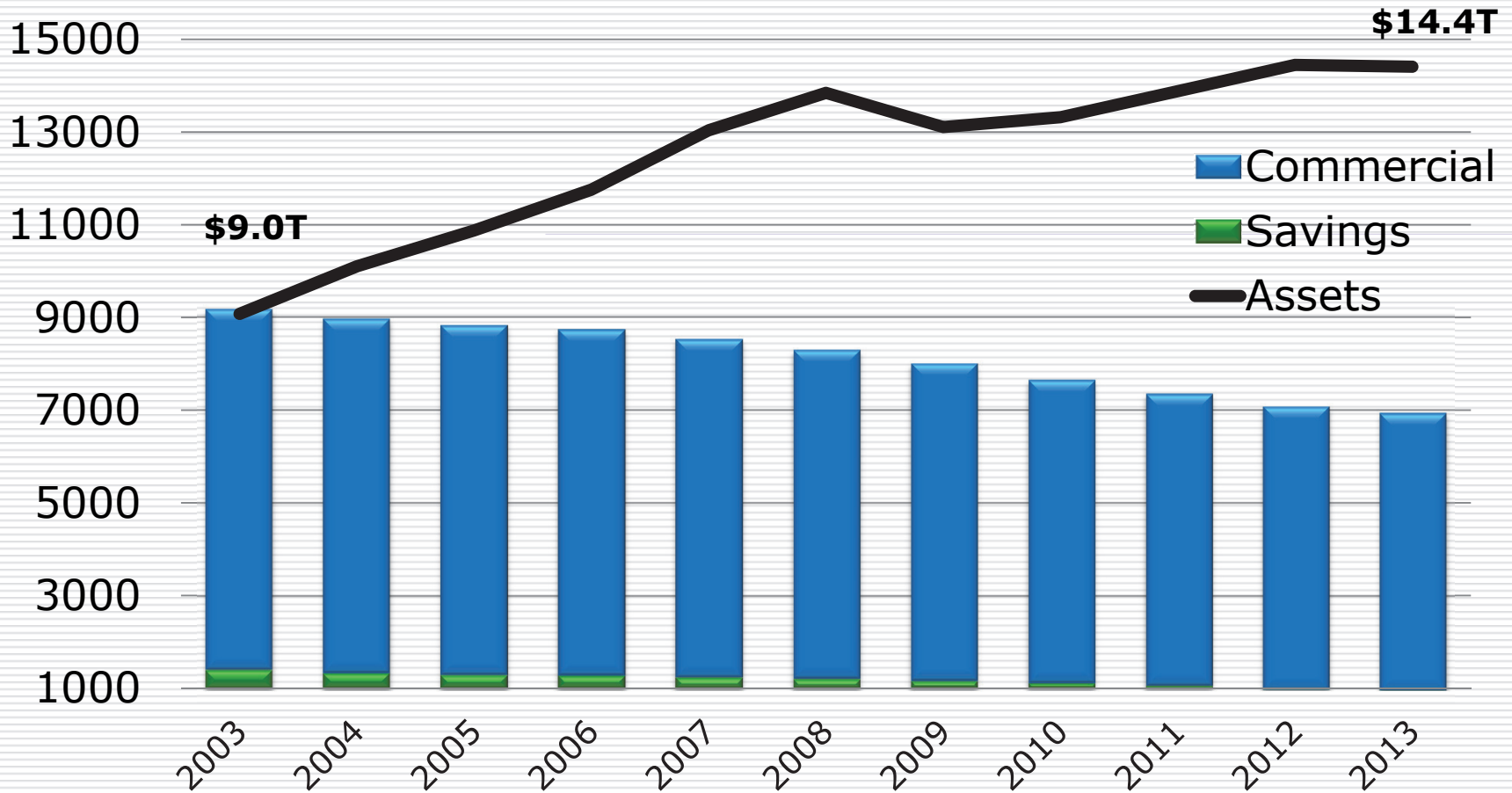
Current Issues - What We Are Seeing

1. Heightened Regulatory Environment / Involvement
2. Focus on Compliance, IT and Risk Management
3. Slight Slow Down in M&A and Much More Execution Risk
4. Slow Down in Larger Enforcement Actions But...
5. Focus on Incentive Compensation Arrangements
6. Mutuality, MHCs and Credit Union Conversions

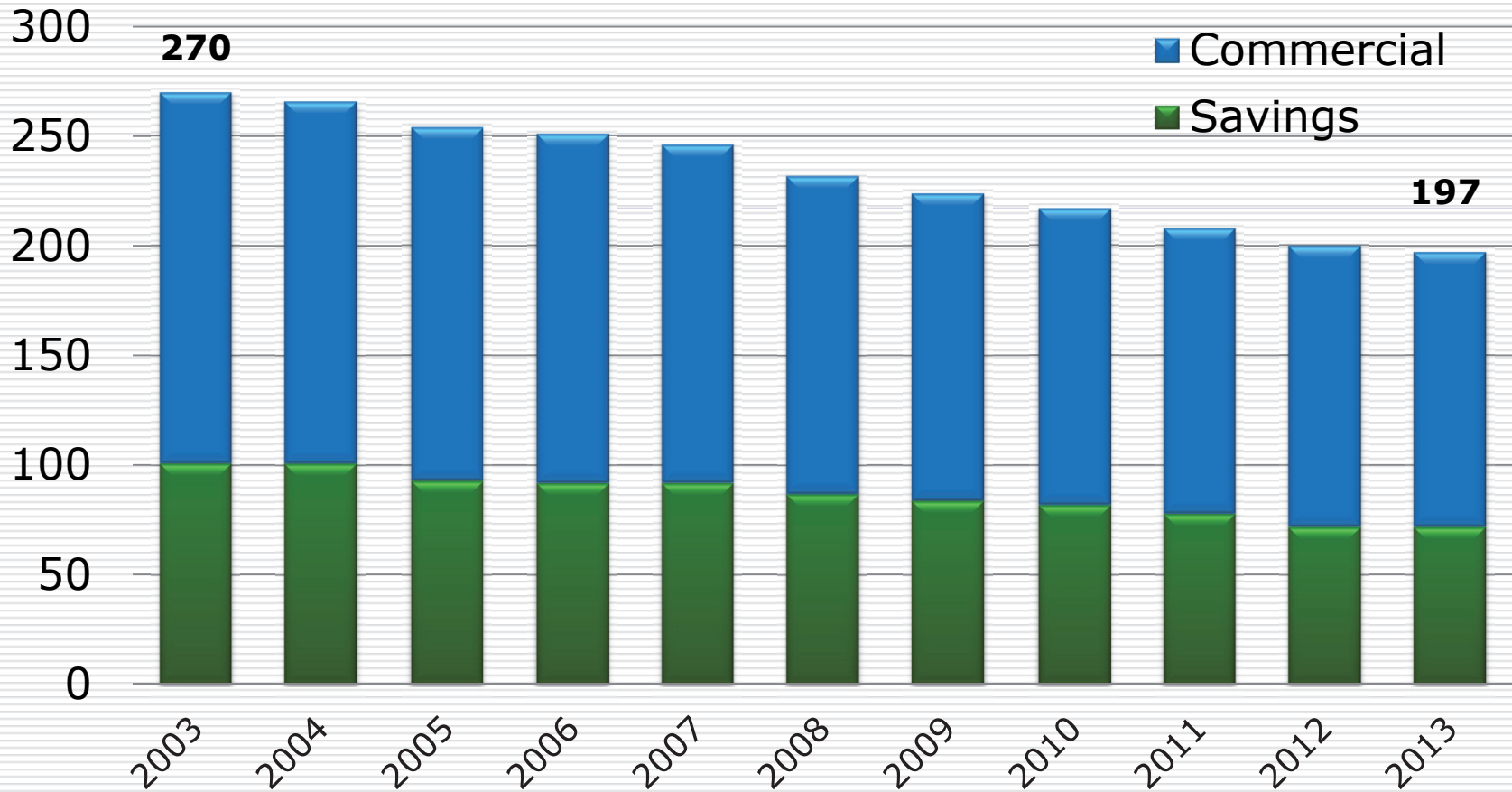
Number of U.S. Banks



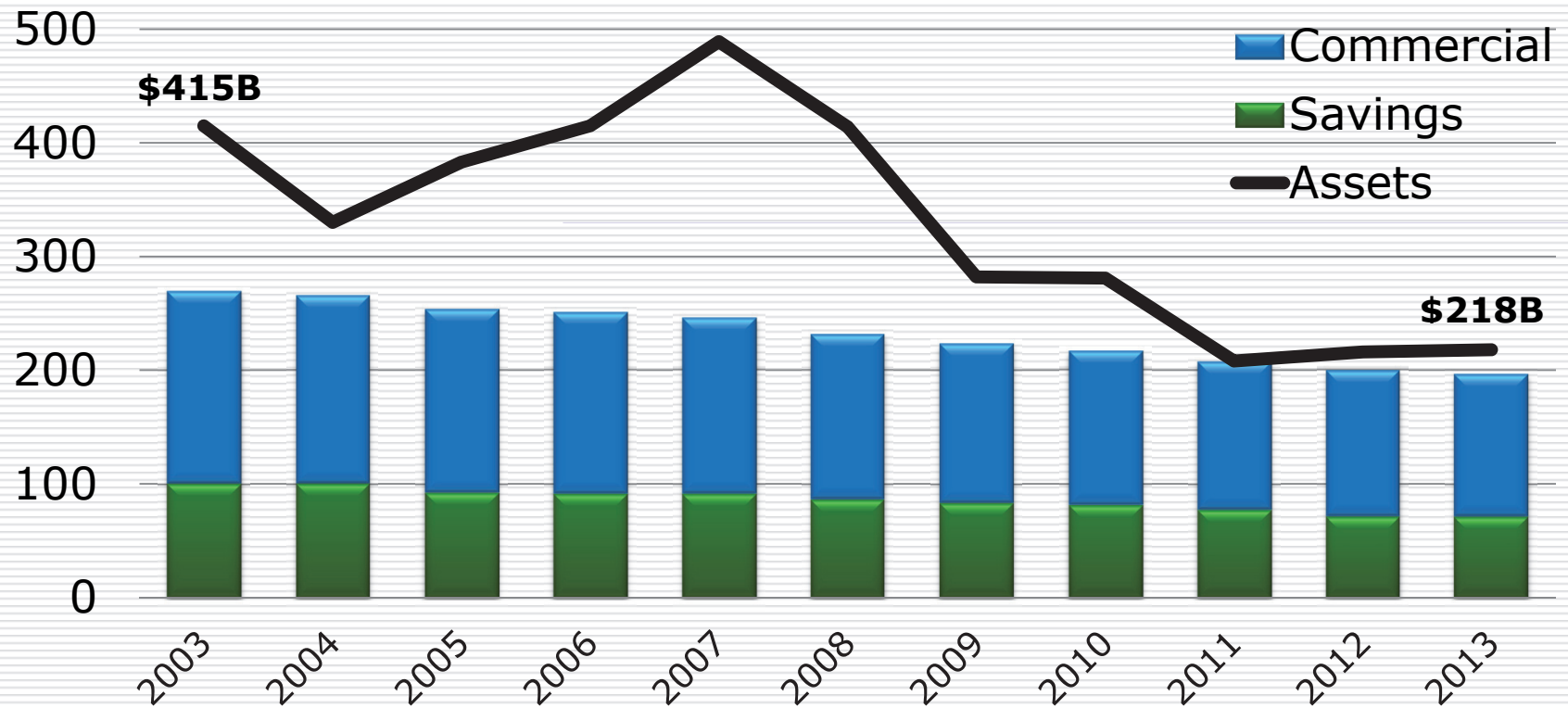
Assets Held by U.S. Banks



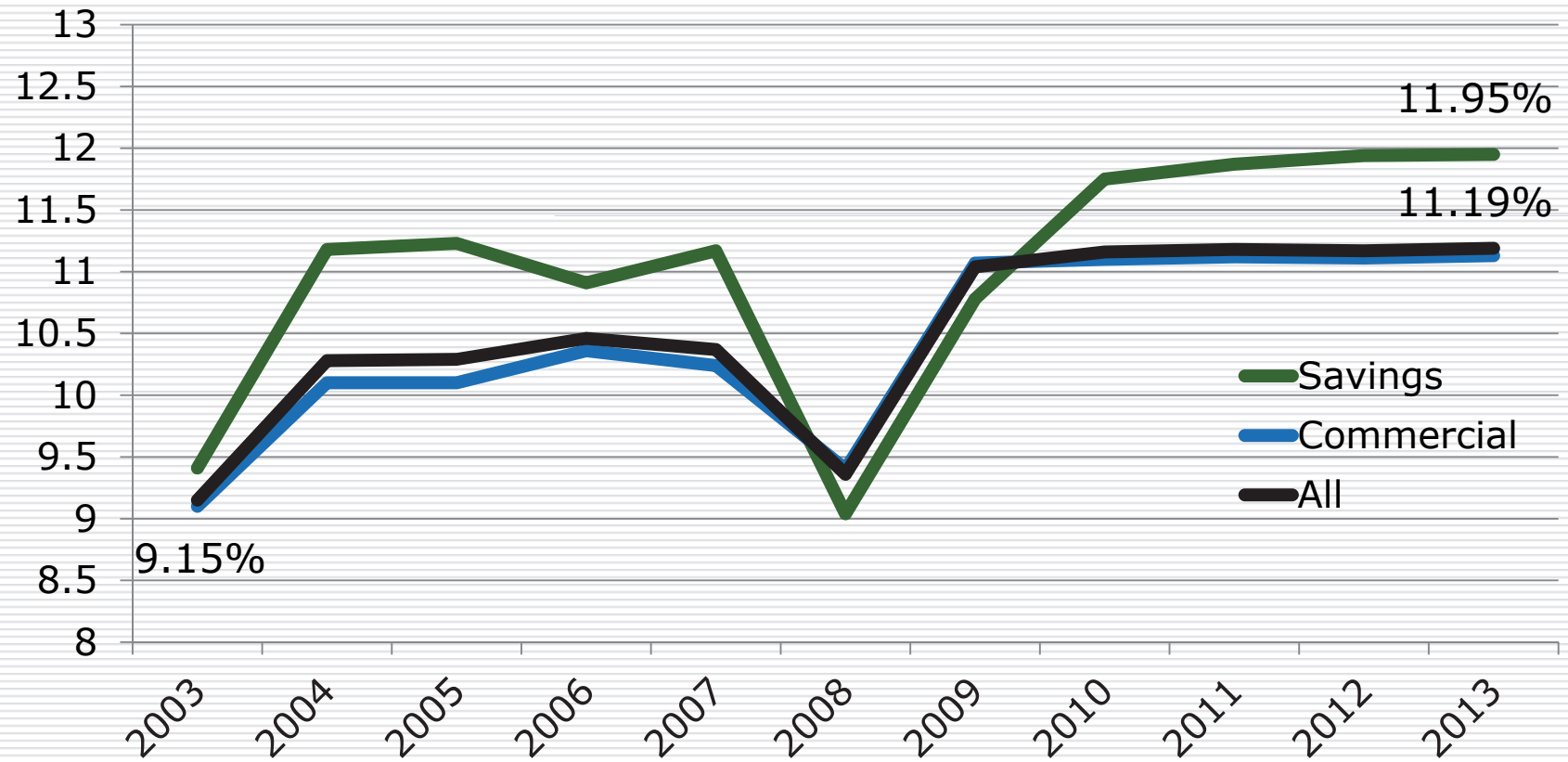
Number of Pennsylvania Banks



Assets Held By Pennsylvania Banks



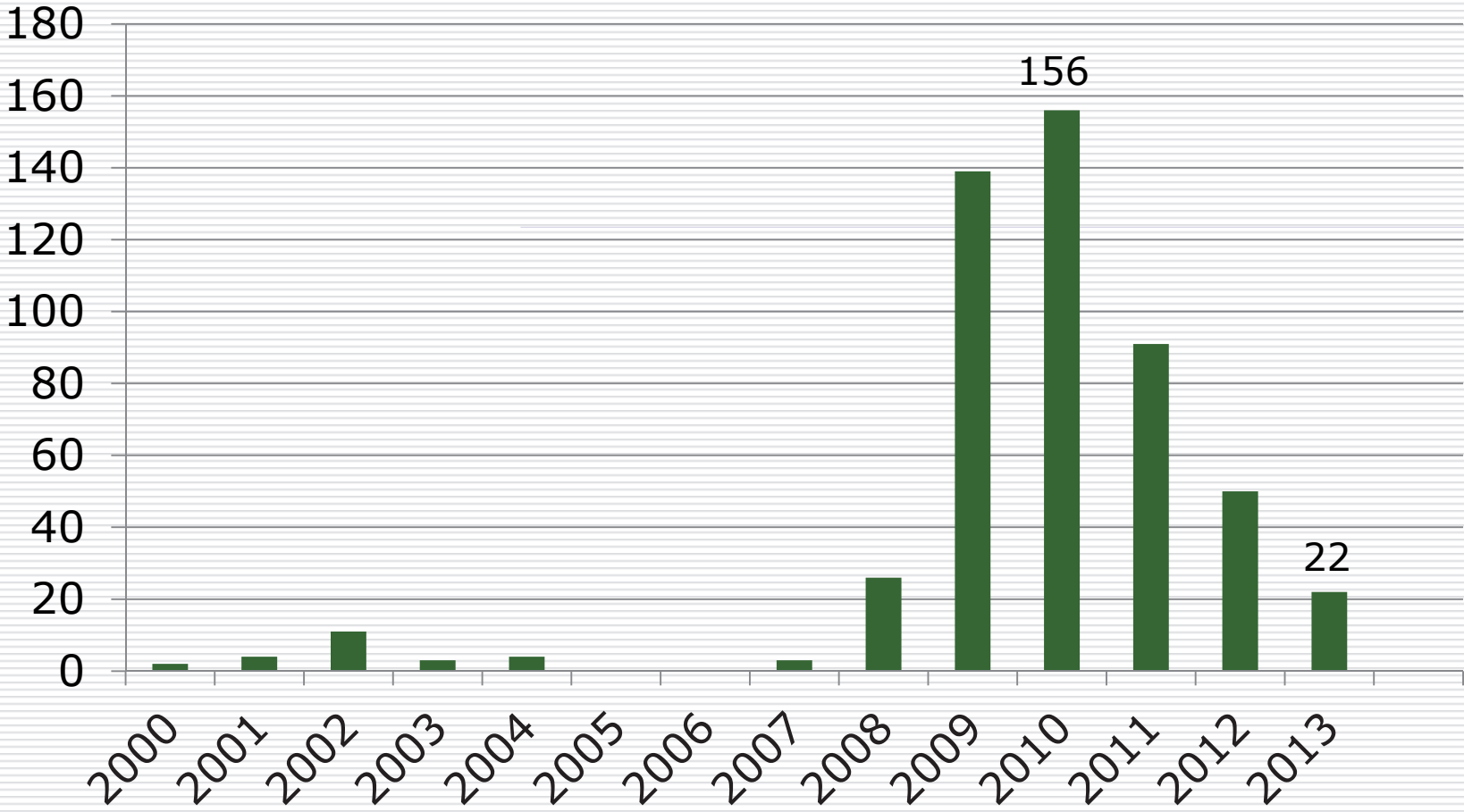
U.S. Banks - Equity to Assets



Failures / Troubled Banks

- Approx. 651 banks (\$237.3B) on FDIC “Troubled Bank” list
- Approx. 20-25% of banks under regulatory order or directive
- 517 failures since 2000, most occurred during 2009-2011
- Failures affect remaining banks through regulatory focus on risk avoidance, capital and compliance, earnings are secondary

Bank Failures Since 2000

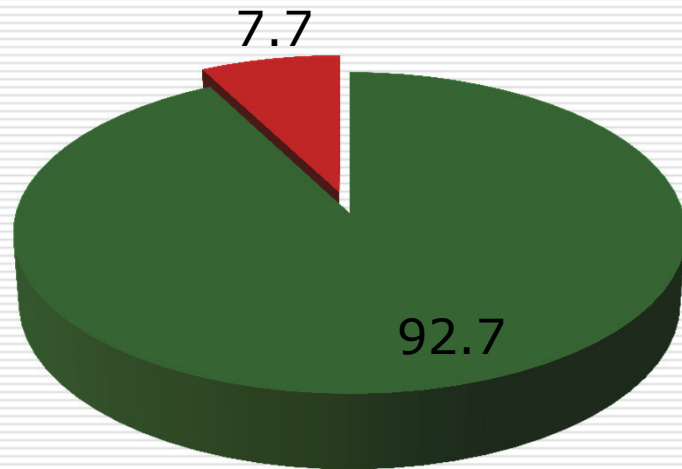


Mutuals by the Numbers

- 539 mutual banks in US (traditional and private MHCs)
- 142 private MHCs (7 in PA)
- 45 public MHCs (3 in PA, Beneficial, Prudential, William Penn)
- 8% of all FDIC-insured banks are mutual (by number)
- 8% of all mutuals located in Pennsylvania (45 total)
- 36 mutuals with assets over \$1.0B (1 in PA)
- 1.4% of all FDIC insured deposits held by mutual banks

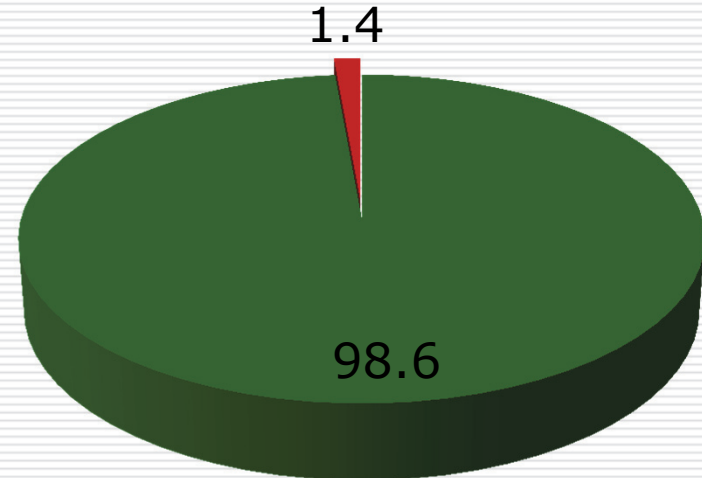
Mutuals by the Numbers

Number



■ Stock Banks ■ Mutual Banks

Deposits



■ Stock Banks ■ Mutual Banks

Heightened Regulatory Environment / Involvement

- Applications taking much, much longer
- FRB no longer deferring to primary bank regulator
- “3” rating (overall/management/compliance) may stop deal
- Business plan or business justification may be needed
- Growth is suspect – means nothing but more risk
- Acquirors may have to prove they can handle integration
- Target’s need to be careful of regulatory execution risk
- New QM/QRM rules and application
- Compliance (UDAP/fair lending) and IT exams ramped up
- Vendor contracts / outsourcing – may be area of new focus

Mergers and Acquisitions

- Lots of talk but not too much action
- Still waiting for surge of consolidation
- FRB review / enforcement of “control” regulations
- “Revised” FDIC Section 359 position/policy
- IRC 409A and 280G planning has become more complex

Mutuality, MHCs and Credit Unions

- MHC formations still occurring (mostly New England)
- MHC minority offering may be executable – larger deals
- Regulation MM – FRB working out issues – slowly
- Conversion approvals harder to obtain
- “3” rating may be big problem, need pre-filing review/prep
- Door may be open for merger conversions
- Mutual “capital” unlikely from legal and market perspective
- 2 CU conversions since new rules (but seeing more talk)
- Increased pressure on taxation issue could be catalyst

Compensation and Benefits

- No immediate new issues
- 409A / 280G planning always an issue
- If “troubled” understand Section 359
- Regulators much more aware
- New incentive comp focus – see FDIC guidance on “sound incentive comp policies”

More Questions?

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