


**Special
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More banks may become private

For example, IndyMac is in pending deal to be sold to private-equity firm

By Kathy Chu
USA TODAY

The pending sale of IndyMac Bank to investment firms is likely the start of an era in which banks, generally considered the most public of institutions, will increasingly fall into private hands.

Banking On Friday, regulators announced they had signed a letter of intent to sell the troubled mortgage lender for nearly \$14 billion to a group led by private-equity firm Dune Capital Management. The government has been searching for a buyer for IndyMac since July, when it collapsed after customers withdrew \$1.3 billion in 11 days on worries about the thrift's solvency.

Private-equity firms and hedge funds have long been able to own stakes in banks. But regulators' willingness to allow these entities to buy banks outright is "historic," says Scott Talbott, senior vice president of government affairs for the Financial Services Roundtable, which represents banks.

The deal "represents the economic pressure on banks, and the demand (on regulators) by the extraordinary times," Talbott says.

As unemployment rises and more consumers struggle to pay bills, banks are faltering under ballooning losses on

Largest bank failures

Two of the five largest bank failures occurred in 2008. (Amounts in billions:)

Institution	Failed	Assets¹
Washington Mutual Bank	2008	\$307.0
Continental Illinois N.B.& T	1984	\$67.7
First RepublicBank Corp. ²	1988	\$49.2
American Savings & Loan Assoc.	1988	\$45.7
IndyMac Bank	2008	\$32.0

1 – in 2008 dollars; 2 – 41 affiliates

Source: FDIC

consumer loans such as mortgages and credit cards. In 2008, 25 financial institutions failed, compared with three in 2007.

The industry's troubles aren't expected to end soon. That's why more marriages between private investment firms and banks are likely.

Traditional suitors for troubled banks — well-capitalized financial institutions — are hard to find in this economic environment, says John Brunjes, a partner in the private investment funds group of Bracewell & Giuliani law firm in Hartford, Conn. Regulators have an incentive to seek non-traditional sources of funding.

The regulatory challenge, says Brunjes, is to balance "the need to attract large amounts of new private capital for faltering institutions, while at the same time imposing reasonable mechanisms con-

cerning (banks') ownership."

In recent months, U.S. regulators have taken steps to encourage such investment. The Federal Reserve eased certain rules that made it difficult for private investors to take large stakes in banks. And the Federal Deposit Insurance Corp. expanded the pool of qualified bidders for troubled banks to include institutions that do not currently have a bank charter. (Investors must have conditional approval from the FDIC for a charter.)

Regulators seeking buyers for failed institutions also may be more willing to assume certain mortgage losses, making the banking sector more appealing. In the IndyMac deal, the buyers agreed to assume the first 20% of losses on certain mortgage loans. But the FDIC plans to take 80% of losses on the next 10% of bad loans, and 95% of loan losses thereafter.