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# First Republic Bank receivership

## JPM to assume deposits and assets: Good news for banking industry

First Republic Bank (FRC) was placed into receivership this morning by the Federal Deposit Insurance Corporation (FDIC). The FDIC stated that “as of April 13, 2023, the bank had \$229.1 billion in total assets and \$103.9 billion in deposits.” Under a highly competitive bidding process, the FDIC has agreed that JPMorgan Chase (JPM) will purchase and assume all deposits and nearly all assets of FRC. FRC’s 84 branches in eight states will reopen as those of JPM, whereby FRC depositors will now be JPM depositors. Also, the FDIC and JPM have entered “into a loss-share transaction on single family, residential, and commercial loans it purchased of the former First Republic Bank.” There will be no recovery for debt, preferred, and common equity holders, with these obligations retained by the FDIC.

While not a surprise, FRC’s receivership as well as the failures of Silicon Valley Bank and Signature Bank, have raised concerns about the health of regional banks. Spectrum views these failed banks’ difficulties as specific to them, rather than indicative of systemic challenges. Rising interest rates and recession worries will affect all U.S. banks’ profitability and asset quality, but we believe the U.S. banking system can manage these challenges. These stresses are earnings, not solvency, issues.

The adverse market reaction post-Silicon Valley and Signature bank failures has affected regional banks’ earnings and funding. Even after FRC’s failure, we believe the immediate adverse effects will wind down, and that the longer-term issues of net interest margin compression and weaker loan quality, coming after a prolonged period of exceptionally low problem assets, will be readily managed. The regional bank space can be best viewed as witnesses at the scene of an accident, rather than the accident.

**The JPM/FRC deal is good news for the U.S. banking industry.** Importantly, JPM will pay the remainder of the \$25 billion of deposits earlier injected into FRC by a consortium of banks. Moreover, the takeover of FRC should be accretive and strategically positive for JPM — establishing it as the largest bank in the U.S. — with enhanced access to high-net-worth individuals. Overall, the acquisition of FRC’s business is positive for JPM.

**In Spectrum’s opinion, the majority of U.S. regional banks remain sound investments.**

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