

Spectrum Asset Management

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First Republic Bank update

\$30 billion support package sends strong message of confidence

First Republic Bank (FRC) is a Bay Area-based bank that focuses on HNW households and their businesses. As such, a significant majority of its customer base is in SF/LA/Boston/NYC and funding is mostly comprised of so-called 'jumbo' deposits (over the FDIC insurance limit). Its YE22 CET1 was a bit over 9% -- OK. Loan quality is pristine, with most of its book being conservatively underwritten single-family mortgages, and FRC has been consistently profitable. However, this deposit base profile, depressed market values for its high-quality securities and loan portfolios, and recent Fed actions, have worried the market, especially after the sudden failure of Silicon Valley Bank – and FRC has become collateral damage. Over the course of this week, FRC's stock price came under significant pressure and the rating agencies downgraded the name.

What was likely happening today was that FRC was in a room with its regulators, and some other banks, having a *very serious conversation*. The result of this conversation was a \$30 billion deposit support package from a consortium of 11 US money center, regional, trust and investment banks. This positive result was not surprising. Today's substantial support package for FRC not only demonstrates the strength of the banks providing support, but also their confidence in FRC and in the US banking system, and in FRC's continued independence and fundamental creditworthiness.

We believe that this bank support package WITHOUT an FDIC receivership was the preferred outcome for the FDIC, Fed and other regulators – and the most probable outcome. Another failure would have indicated that the FDIC's enhanced insurance coverage and the Fed's Bank Term Funding Program (BTFP) were not as effective as intended -- a *very bad message* to send.

We expect this substantial bank support package for First Republic to be well received by the market.

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