

# UPDATE

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## News of Developments in the Financial Sector and Related Areas

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#### *FDIC Report on Banking*

The 2006 Summer Report by the Federal Deposit Insurance Corporation ("FDIC"), entitled *FDIC State Profiles* reflects that insured institutions continue to record strong earnings supported by low credit losses and growth in both real estate and commercial lending. However, the report reflects that many states show signs of emerging slowdown in housing market activity, with inventories of unsold homes increasing. Insured institutions headquartered in Arkansas continue to substitute non-core funding sources for core deposits. Arkansas institutions reported a ratio of non-core funding to total assets of 27.5 percent as of March 31, 2006, which was the seventh highest ration in the nation (Arkansas institutions ranked fifth in the nation in the prior quarter). The FDIC reported that the near-term outlook for the manufacturing sector in Arkansas remained bleak, noting that Whirlpool Corporation plans to lay off approximately 1,800 workers at plants in Fort Smith and Searcy

by the end of 2006. In its report, the ranking of Arkansas institutions were as follows:

- The highest ratio in the nation of non-current loans to total loans with a ratio of .79 percent.
- Eighth in the nation with past-due commercial real estate loans with a ratio of .99 percent.
- Second in the nation in past-due residential real estate loans with a ratio of 2.38 percent.
- Twenty-third in the nation in unemployment with a ratio of 4.60 percent.
- Thirty-sixth in the nation in job growth with a ratio of 1.37 percent.

The 2006 Summer Report is available on its website of the FDIC at [www.fdic.gov](http://www.fdic.gov).

#### *Mergers and Acquisitions*

IberiaBank Corporation, the second largest Louisiana bank holding company, headquartered in New Iberia, Louisiana, has announced that it has entered into a definitive agreements for the acquisition of Pocahontas Bancorp, Inc., headquartered in Jonesboro, Arkansas and Pulaski Investment Corporation, headquartered in Little Rock, Arkansas. The acquisition price for Pocahontas Bancorp at the time the transaction was announced reflects a price/book multiple of 1.48 of book value as

of June 30, 2006, and a price/earnings ratio of 25.6 based on trailing 12 months earnings. The acquisition price for Pulaski Investment Corporation at the time the transaction was announced reflects a price/book multiple of 3.20 of book value as of June 30, 2006, and a price/earnings ratio of 19.5 based on trailing 12 months earnings.

### ***Moratorium on Non-Financial Institutions' Entry into Banking***

While Congress considers legislation regarding the entry into banking by non-financial corporations, the Federal Deposit Insurance Corporation ("FDIC") has placed a moratorium on applications on deposit insurance by industrial loan companies ("ILCs"), as well as on notices of change in bank control for existing ILCs. The moratorium will expire on January 31, 2007. The moratorium will place a hold upon the existing applications of Wal-Mart Stores, Inc. to establish an industrial loan company by the name of Wal-Mart Bank and Home Depot, Inc. for the acquisition of EnerBank USA. The moratorium allows time for the FDIC to evaluate whether statutory, regulatory or policy changes need to be made in the oversight of these charters. There are current 61 ILCs operating in seven states. At the time of the moratorium, there were nine ILC applications for deposit insurance and five notices of change in control for existing ILCs pending before the FDIC. All of these applications and notices are subject to the moratorium. Because of the overhead costs to the applicants, a number of these applications will be withdrawn during the moratorium. While ILCs are banks and subject to regulation by the FDIC, they are not banks under the Bank Holding Company Act. As a result of this difference, a company such as Wal-Mart or Home Depot that owns an ILC could engage in commercial activities and not be subject to federal consolidated supervision. By

contrast, domestic bank holding companies and financial holding companies that are subject to federal consolidated supervision are prohibited from engaging in commercial activities such as those being conducted by Wal-Mart and Home Depot. Because ILCs remain one of the few types of FDIC insured depository institutions that are not subject to the Bank Holding Company Act and regulations by the Federal Reserve Board, they are an attractive vehicle for non-financial institutions seeking to own or control a bank.

### ***Cases, Releases and Rulings***

The Federal Deposit Insurance Corporation ("FDIC") has issued its report entitled *FDIC Outlook - Summer 2006* which reflects that rising loan volumes, loosened underwriting standards and untested products raise concerns about future credit losses by insured institutions. The report concludes that while loan performance remains historically strong in the largest three categories, i.e., mortgage lending, commercial and industrial lending and commercial real estate lending, credit quality may have peaked. In the report, the FDIC studies the nature of credit cycles and what the future could hold for an industry in which the three largest loan categories have grown rapidly in recent years, but loan losses remain at or near historic lows. The report is available on the website of the FDIC at [www.fdic.gov](http://www.fdic.gov).

The Federal Reserve Board has released its periodic report on economic conditions, known as *The Beige Book*, which reflects, based on reports from all 12 Federal Reserve districts, continued economic growth, with numerous individual reports pointing to evidence that the pace of growth has slowed. Except for St. Louis and Dallas, the Federal Reserve districts reported slower activity in residential real estate markets, with slower sales activity translating into more limited price gains.

The report is available on the website of the Federal Reserve at [www.federalreserve.gov](http://www.federalreserve.gov).