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HomeStreet IPO 'unique' — but will it work?

By Lindsey White

HomeStreet Inc.'s decision to undertake an IPO while noncompliant with a regulatory order is a bold and perhaps last-ditch attempt to raise capital, say industry observers.

The Seattle-based company filed for an IPO of up to \$210 million on May 6.

For about two years, HomeStreet Inc. and unit HomeStreet Bank have operated under regulatory orders issued by the OTS and by the FDIC and the Washington State Department of Financial Institutions, Division of Banks, requiring the unit to increase its Tier 1 capital to 10% and its risk-based capital to 12%.

As of March 31, HomeStreet Bank had a Tier 1 capital ratio of 4.72% and a risk-based capital ratio of 8.61%, according to SNL Financial data.

Company (ticker)	State	Ann. date	Offering status	Gross proceeds (\$M) ¹	Total assets (\$M)	Tang. comm. equity/ tang. assets (%)	NPAs/ assets (%)	Texas ratio (%)	ROAA (%)	IPO pop (%)	After 1st day of trading	On May 16
Bond Street Holdings Inc.	FL	05/16/11	Pending	150 ²	2,552.6	28.61	1.43	9.80	0.78	NA	NA	NA
Midland States Bancorp	IL	05/13/11	Pending	75 ²	1,588.6	2.55	2.52	23.94	0.86	NA	NA	NA
HomeStreet Inc. (HMST)	WA	05/06/11	Pending	210²	2,485.7	4.79	12.61	178.50	-0.56	NA	NA	NA
First Republic Bank (FRC)	CA	11/24/10	Completed on 12/09/10	323	23,575.9	8.79	0.12	1.42	1.55	9.49	198.48	200.15
BankUnited Inc. (BKU)	FL	10/29/10	Completed on 01/27/11	900	10,808.4	12.74	NA	14.26	-2.48	5.19	223.37	192.98
EverBank Financial Corp. (EVER)	FL	10/08/10	Pending	200 ²	11,583.4	7.16	2.79	18.43	1.57	NA	NA	NA
Circle Bancorp	CA	10/04/10	Pending	30 ²	301.3	4.15	NA	16.56	0.66	NA	NA	NA
Park Sterling Corp. (PSTB)	NC	07/29/10	Completed on 08/12/10	150	628.4	27.81	5.85	19.72	-1.89	NA	NA	80.09
First Interstate BancSystem Inc. (FBK)	MT	01/15/10	Completed on 03/24/10	167	7,429.1	6.90	3.74	40.35	0.51	8.28	149.05	113.51
1st United Bancorp Inc. (FUBC)	FL	08/26/09	Completed on 09/18/09	81	1,260.5	12.96	3.24	28.83	0.11	14.00	111.28	119.72
PlainsCapital Corp.	TX	08/26/09	Postponed	NA	5,404.4	5.78	2.38	27.61	0.58	NA	NA	NA
Coastal Carolina Bancshares Inc. ³	SC	07/15/08	Completed on 06/02/09	22	76.6	18.35	NA	1.76	-4.26	NA	NA	NA

¹ Includes overallotments for closed offerings.
² The proposed maximum aggregate offering price, estimated for the purpose of calculating the registration fee.
³ Company did not list its shares after the IPO.
 Note: Mutual thrift conversions are not included.
 SNL does not identify Park Sterling's offering as an IPO in its database because the offering followed an initial privately solicited de novo offering that closed in 2007 and resulted in the company's stock trading on the OTC Bulletin Board.
 Financial information is for the most recent quarter as reported.
 Current market data is as of May 16, 2011.
 Texas ratio = nonperforming assets plus loans 90 or more days past due as a percent of tangible common equity and reserves. Loans guaranteed by the government are excluded.
 Source: SNL Financial

Since 2008, six banks and thrifts have completed IPOs, if [Park Sterling Corp.](#)'s July 2010 offering, which followed an initial privately solicited de novo offering that closed in 2007 and resulted in its stock trading on the OTC Bulletin Board, is considered an IPO. HomeStreet is one of five IPOs announced since 2008 that are pending, and one, Dallas-based [PlainsCapital Corp.](#), was postponed, according to SNL Financial data. These figures exclude mutual thrift conversions.

Of all these companies, HomeStreet had by far the highest Texas ratio at the time it filed for an IPO — 178.50%. Billings, Mont.-based [First Interstate BancSystem Inc.](#), which completed its IPO in March 2010, had the next highest Texas ratio at just 33.64%.

A Texas ratio in excess of 100% is widely regarded as the threshold at which banks tend to fail.

Christopher Whalen, senior vice president and managing director at Institutional Risk Analytics, told SNL that the IRA Bank Monitor gave HomeStreet Bank a preliminary score of "F" for the first quarter of 2011.

HomeStreet Bank also received an "F" for the fourth quarter of 2010. "The trouble is that these guys are losing money — a lot — and they still have very high credit costs, whereas the industry is coming down," Whalen said.

The IRA Bank Monitor gave HomeStreet Bank a stress score of 7.1 in the loan default category for the fourth quarter of 2010, compared to an industry benchmark of 4.5. "These guys are still well-above the industry average in terms of operational stress," Whalen said. "When these guys stop losing money and they get that default rate down, that will significantly improve their score."

HomeStreet said in a registration statement filed May 6 that its ability to return to profitability "will significantly depend on the successful resolution of nonperforming assets and the subsequent stabilization of our loan portfolio, the timing and certainty of which cannot be predicted."

As of Dec. 31, 2010, HomeStreet's classified assets totaled \$363.9 million, or 14.6% of total assets, in addition to \$156.5 million of special-mention assets, which represented 6.3% of total assets. Nonaccrual loans totaled \$113.2 million, or 7.0% of gross loans, according to the registration statement.

John Scannell is COO of Hildene Capital Management LLC, which owns debt issued by CDOs that hold trust preferred securities obligations of HomeStreet. He told SNL via email that HomeStreet is in a difficult financial position and needs to take action to boost its financial strength to survive. "If it can raise capital for the bank through an IPO, it may have a good shot at making it through this crisis. After all, an IPO is merely a sale to the public instead of a sale to another bank," he noted.

Hildene does not buy stocks and therefore would not participate in the IPO, Scannell said.

Dennis Gibney, a managing director with FinPro Inc., said HomeStreet's management could have undertaken the IPO to show regulators that they are exhausting all options for raising capital. "Maybe this is a case of the board of directors taking a look at it and saying, 'This is our best way to try to prove to the regulators that we're doing everything we can to salvage what's there,'" Gibney

said.

A spokeswoman for HomeStreet declined SNL's request for comment, noting that the company is in a quiet period.

Of course, bankruptcy is another, albeit less attractive, option for distressed companies. Another Washington company, Spokane-based [AmericanWest Bancorp.](#), completed the [Section 363](#) sale of unit [AmericanWest Bank](#) to [SKBHC Holdings LLC](#) in December 2010.

In July 2010, Birmingham, Ala.-based [Nexity Financial Corp.](#) announced a debt restructuring and [recapitalization](#) effort that included a private placement of about \$175 million of the company's common stock. That same month, the company filed for [bankruptcy protection](#) after failing to obtain the unanimous consent of holders of its trust preferred securities to an out-of-court restructuring. Despite such efforts, unit [Nexity Bank](#) failed in April.

HomeStreet is in better shape than both AmericanWest Bank and Nexity Bank were at the time their parent companies filed for bankruptcy. As of Sept. 30, 2010, AmericanWest Bank had a Tier 1 capital ratio of 2.21%, while this ratio was 2.56% for Nexity Bank as of June 30, 2010.

Also pending is [Outsource Holdings Inc.](#)'s proposed [Section 363 sale](#) of unit [Jefferson Bank](#). Outsource is seeking approval for one transaction whereby Jefferson Bank would merge with [First Bank Lubbock Bancshares Inc.](#) unit [First Bank & Trust Co.](#) and a second agreement under which First Bank & Trust and Jefferson Bank would sell certain assets and liabilities to [MidSouth Bancorp Inc.](#) unit [MidSouth Bank NA](#).

"A few institutions have tried the bankruptcy route, but the results can be unpredictable for management, and it may lose control of the institution in a court-supervised proceeding," Scannell said.

Scannell called HomeStreet's IPO a "unique approach" that indicates the willingness of management and existing stockholders to relinquish some control of the institution to allow it to survive. He noted that management teams at distressed banks can often be focused on their own interests, making them reluctant to sell until forced by regulators.

"An IPO may well be a good alternative for the company to raise needed capital to survive and also has the effect of preserving jobs for existing management that a sale or bankruptcy filing could not guarantee," Scannell said.

The question is how much money HomeStreet can raise — and how quickly.

Harish Mali contributed to this report.