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Spinoff Plan For 2 Risky Loan Lines; Republic First Bancorp Inc., First Bank of Delaware, Republic First Bank

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Republic First Bancorp Inc.'s plan to spin off its profitable but higher-risk First Bank of Delaware could make its lead bank, the \$ 650 million-asset Republic First Bank, more attractive to investors and potential acquirers, analysts say.

At first glance, the proposal, which the Philadelphia company disclosed last week, seems counterintuitive. Though First Bank of Delaware -- with just two branches and \$ 50 million of assets -- is much smaller than Republic First Bank, it accounted for roughly two-thirds of the holding company's \$ 3.2 million profit in the first half of this year.

The lion's share of the Wilmington bank's income -- all but \$ 113,000 - - came from payday and tax-refund anticipation loans, two lines of business that regulators dislike, investors fear, and acquirers avoid altogether.

Therein lies much of the benefit of splitting the two banks, according to Andy Stapp, who covers Republic First Bancorp for Cohen Bros. & Co. in Philadelphia.

"I think it's a good idea to separate the two companies along risk lines," Mr. Stapp said. Payday lending and tax-refund anticipation loans "have riskier, more volatile earnings streams," he said. "A lot of

potential acquirers wouldn't want that blemish. They'd shy away from it."

James Record, an analyst with Moors & Cabot Inc. in Boston, had a similar take. "Republic First is undervalued because ... they're in payday lending, which is highly profitable but scares a lot of folks," he said.

Republic First Bank, which has nine branches in Philadelphia and its suburbs, is a more traditional commercial bank. As of June 30 the bulk of its \$ 487 million loan portfolio was in commercial and industrial, commercial real estate, and construction loans.

Harry Madonna, Republic First Bancorp's chairman and chief executive officer, said spinning off First Bank of Delaware would lead to higher valuations for both banks.

At present the parent company's stock is trading at about 11 times its projected 2005 earnings. According to Mr. Record, the average for southeastern Pennsylvania banks is closer to 16 times projected 2005 earnings.

Mr. Madonna said in the press release announcing the spinoff plan, "It is usually difficult to realize the full value of disparate lines of business when companies are combined in the same corporate structure and represented by the same stock." Separating the two banks "would allow each to grow beyond the point they would have reached as one company."

He also noted that the two banks serve separate geographic markets. In that respect, the plan to spin First Bank of Delaware off is similar to what F.N.B. Corp. of Hermitage, Pa., did when it spun its Florida operations off in January.

There is no question that F.N.B.'s move unlocked shareholder value. In August, First National Bancshares of Florida agreed to sell itself to Fifth Third Bancorp of Cincinnati for \$ 1.58 billion, a whopping 6.3 times its tangible book value. The multiple was more than double the average for deals announced this year.

Republic First Bancorp has not formally committed itself to the spinoff plan. However, if it does proceed, shareholders would receive stakes in First Bank of Delaware equal to their ownership in Republic First -- a shareholder who owns 3% of the parent company would receive a 3%

stake in the spinoff.

Republic First Bancorp would retain its ownership in Republic First Bank. First Bank of Delaware would become an independent company, though initially its ownership would mirror that of Republic First Bank.

In the first half, \$ 1.3 million of the parent company's \$ 3.2 million of earnings came from payday loans; another \$ 700,000 came from refund anticipation loans.

Republic First Bank produced \$ 1.1 million of first-half profits, but Mr. Record expects its earnings to jump substantially next year. He said that independent of the spinoff plan, more than \$ 125 million of high-cost Federal Home Loan Bank advances will roll off its books by the end of February, significantly reducing its funding costs.

In a telephone interview Monday, Mr. Madonna said First Bank of Delaware is working hard to expand its product line. In addition to offering payday and tax-refund anticipation loans, it has moved into the stored-value card business.

It would continue to focus on **underbanked** consumers after the spinoff, he said. "There's an \$ 8 billion to \$ 10 billion market out there that's got to be served."

For the third quarter, Republic First Bancorp reported \$ 3.1 million of net income, but it did not break down that total by operating segments.

Payday lenders have come under severe attack by community activists, lawmakers, and state and federal regulators, who claim the high-interest, short-term products amount to little more than predatory loans.

Only a handful of companies have chosen to brave the displeasure and stay in the business.

Investors have found the business no more appealing than regulators. That fact appears to have motivated Republic First to consider splitting its two banks.

Speaking for himself, Mr. Stapp said he was "nervous" about Republic First's involvement in payday and tax-refund anticipation lending.

"I'm glad to see they're getting [the loans] off their books," he said.