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Insights from Q2 Capital Transactions and Preparation for Q3

US – July 6, 2020

Since the outbreak of the COVID-19 pandemic in the US, our US Financial Services Capital Markets team advised financial institutions (or their underwriters) in over 30 capital transactions with an aggregate deal value of over US $12 billion. These transactions included public offerings and private placements of Tier 1 qualifying preferred stock, Tier 2 qualifying subordinated debt and even senior debt. Issuers ranged from the largest super-regional bank holding companies to privately held community banks.

We thank our clients for their support and confidence during this critical time and share a few observations that we hope will help potential issuers in Q3, particularly community and smaller regional banks who do not frequently access the capital markets.

- **Be Prepared to Move Quickly**. The market was flush with supply in Q2. Issuers who were able to move fast achieved the best results.

  We encountered multiple S-3 eligible financial institutions that did not have effective shelf registration statements or did not have sufficient capacity on their shelves. These issuers were forced to conduct private placements (where public offerings should have been possible) or had artificial size restrictions on their public offerings. Similarly, we encountered issuers who did not have effective indentures or trustee relationships, resulting in potential delays to launching offerings. It is easy and inexpensive to proactively address these and similar issues now to enable speed later.

- **Maintain Credit Ratings**. Some issuers scrambled to obtain a credit rating when agencies were busy and struggling to move as quickly as the capital markets. Those with a rating (and an effective shelf registration statement) will be prepared to move when market conditions are optimal.

- **Be Flexible on Structure**. Our most effective issuer clients were prepared to issue preferred stock and/or subordinated debt with dividends/interest payments tied to fixed rates with Treasury resets, back end floating rates tied to SOFR, etc. All of these alternatives should be understood and considered well in advance of filing a Q3 earnings release.

- **Be Prepared for Due Diligence.** Issuer's counsel should help junior members of the issuer's finance team assemble customary diligence documentation well in advance of any offering (and complete fact support requests) without consuming valuable CFO time.

We look forward to helping issuers and their underwriters in the second half of this year as they raise additional capital, recover from the effects of COVID-19 and return to customary banking business. Basic and inexpensive preparation will enable speed, flexibility and superior execution.

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