BLB&G Bernstein Litowitz Berger & Grossmann LLP

City of Hollywood Police Officers' Retirement System v. First Republic Bank

COURT: United States District Court for the Northern District of California
CASE NUMBER: 23-cv-02940
CLASS PERIOD: 10/13/2021 - 04/28/2023
CASE LEADERS: James A. Harrod
CASE TEAM: Shane Avidan, Sarah Schmidt

This is a securities fraud class action brought on behalf of a class of all persons and entities who purchased or otherwise acquired the securities of First Republic Bank ("First Republic" or the "Company") between October 13, 2021, and April 28, 2023 (the "Class Period"). The action, filed in the Northern District of California, alleges violations of federal securities laws against the Company's former senior executives and the Company's auditing firm KPMG, LLC (collectively, "Defendants"). The Honorable Araceli Martínez-Olguín is presiding over this case.

First Republic's Alleged Fraud

First Republic is a California state-chartered bank and trust company that provides private banking, private business banking, and private wealth management. Much of First Republic's customer base consists of wealthy households living in U.S. coastal cities, and a key component of First Republic's lending strategy has been to provide these wealthy households with residential mortgages at low interest rates.

The complaint alleges that, throughout the Class Period, Defendants misrepresented the strength of First Republic's balance sheet, liquidity, and position in the market. Among other things, Defendants understated and concealed the magnitude of the risks facing the Company's business model, including from its undisclosed rate incentive and exception programs, that would result from any decision by the Federal Reserve System raising the federal funds rate, thereby undermining the value of the Company's loan and securities portfolios and liquidity. As a result of Defendants' misrepresentations and omissions, First Republic securities traded at artificially inflated prices during the Class Period.

The truth began to emerge on October 14, 2022, when First Republic announced disappointing third quarter 2022 financial results, reporting that the Company's net interest income growth had slowed to 20.6% year-over-year (down from 24.1% year-over-year growth the prior quarter) and its net interest margin ("NIM") had plummeted to 2.71% (down from 2.80% the prior quarter). First Republic attributed the decrease in the Company's NIM to "average funding costs increasing more rapidly than the offsetting increase in the average yields on interest-earning assets." As a result of these disclosures, the price of First Republic common stock declined by $22.14 per share, or more than 16%.

Then, on March 8, 2023, SVB Financial Group ("SVB"), the parent company of Silicon Valley Bank (considered by many analysts to be a peer bank of First Republic) announced that it was seeking to raise approximately $2.25 billion in capital due to continued higher interest rates, pressured public and private markets, and elevated levels of deposit attrition. SVB also disclosed that it had sold "substantially all of its available for sale securities portfolio," incurring a loss of approximately $1.8 billion on the sale. As a result, on March 10, 2023, SVB collapsed, and regulators seized control of the bank, placing SVB in FDIC receivership. Notwithstanding assurances from First

Republic and its executives about the Company's operating strength and ability to withstand a rising interest rate environment, investors immediately began to question First Republic's ability to withstand the interest rate environment and remain solvent. On this news, the price of First Republic common stock declined by an astonishing $83.79 per share, or more than 72%, over three trading sessions.

Despite statements from First Republic and its executives confirming the stability of the Company's business model, investors learned more about First Republic's vulnerability on March 15, 2023, when S&P Global Rating downgraded its long-term issuer credit rating and preferred stock issue rating for First Republic due to the risks of deposit outflows leading to increased funding costs. That same day, Fitch Ratings announced that it had also downgraded First Republic's credit rating, observing that the Company's "funding and liquidity profile has changed and represents a 'weakest link.'" On the news of the downgrades, the price of First Republic common stock declined by $8.47 per share, or more than 21%.

On November 24, 2023, the Court appointed Alecta Tjänstepension Ömsesidigt ("Alecta") to serve as Lead Plaintiff and approved Alecta's selection of Bernstein Litowitz Berger & Grossmann LLP and Kessler Topaz Meltzer & Check, LLP as Lead Counsel for the Class.

Alecta, along with additional named plaintiff Neil Fairman, filed an Amended Complaint on February 13, 2024. On May 6, 2024, the Federal Deposit Insurance Corporation ("FDIC"), acting as receiver for First Republic, was allowed to intervene in the action for the limited purpose of filing a motion to dismiss the Amended Complaint. On May 23, 2024, Defendants and the FDIC filed their motions to dismiss. By September 6, 2024, both motions were fully briefed. Both motions to dismiss are sub judice.

Case Documents

- February 13, 2024 - Amended Complaint
- April 24, 2023 - Initial Complaint
- April 24, 2023 - PSLRA Notice