



RBC Mortgage Company to acquire Sterling Capital Mortgage Company

**Announcement date: July 17, 2003
- Fact Sheet -**

Description of Sterling Capital Mortgage Company (SCMC)

- acquiring fast-growing retail mortgage origination operations headquartered in Houston for approximately US\$100 million
 - 80% owned by Sterling Bancshares
 - 20% owned by SCMC's management team
- 110 branches in 16 states
- 16 Affiliated Business Relationship (ABA) joint ventures which SCMC co-owns in partnership with commercial and residential builders, providing new home mortgages directly to home buyers
- 1,400 employees, including 600+ loan officers
- originations of US\$4.5 billion in fiscal 2002 and US\$3.4 billion in the first six months of 2003
 - greater proportion of volume derived from purchase mortgages than refinancings compared to the industry norm
 - over half of volume is in high-growth California and Texas markets, remainder in other western, mid-western and northeastern states
- information technology that enables a swift customer experience from initial contact to closing
- mortgages are normally held for a short period of time and subsequently sold to secondary market investors (such as Fannie Mae and Ginnie Mae)
- acquisition excludes mortgage servicing rights portfolio and certain other assets

Strategic Rationale

- consistent with stated strategy of growing national niche lines of business such as builder finance and residential mortgages in the U.S.
- also consistent with the RBC Mortgage vision to be a premier national mortgage broker and mortgage banker, and employer of choice for mortgage professionals
 - acquisition of SCMC places RBC Mortgage among the top 10 retail mortgage originators in the U.S. (currently RBC Mortgage ranks 11th)

- provides geographic diversification
 - complementary footprint with very little overlap in office locations
- provides revenue diversification with most of the business coming from retail sources (new purchase and home builder originations)
 - opportunities for synergies with RBC Builder Finance, which can provide financing to SCMC's ABA builders and introduce new builders to the ABA model
- ability to leverage experience of SCMC management team across the U.S. mortgage operations

Valuation and financial impact

- acquisition of 100% of outstanding shares of SCMC for approx. US\$100 million in cash
- accretive to EPS in Year 1 (fiscal 2004)
- valuation in line with other recent mortgage origination company or mortgage branch sales:

	Acquisition of SCMC	Mortgage origination transactions (5 transactions in 2002 & 2003) ¹			
		High	Low	Mean	Median
Price/LTM originations	1.57%	7.48%	0.05%	3.02%	3.11%
Price/LTM earnings ²	6.3x	175.4x	10.1x	65.7x	11.7x

¹ 5 transactions with disclosed financial information and terms of transaction

² The 6.3x for the acquisition of SCMC reflects earnings of only those operations being acquired in this deal. 3 of the 5 comparable transactions had price/LTM (last 12 months) earnings data. The high of 175.4x reflects an impairment charge that depressed earnings of the acquired company.

Approvals/closing date

- due diligence (legal, operational, risk, etc.) completed
- acquisition is subject to customary closing conditions, including approvals by Canadian and U.S. regulators (Office of the Superintendent of Financial Institutions, Hart-Scott-Rodino filing)
- transaction expected to be completed in Fall 2003

Future plans

- SCMC branches to operate under the RBC Mortgage brand name upon completion of the transaction
- leverage the RBC Builder Finance business, also headquartered in Houston, to continue to grow the new home builder ABA relationships and provide financing to existing ABA builders
- cross-selling opportunities with RBC Centura, which will look to sell HELOCs (home equity lines of credit) to SCMC customers as RBC Centura grows this business