



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

December 21, 2015

Andrew R. Gladin, Esq.
Sullivan & Cromwell LLP
125 Broad Street
New York, New York 10004

Dear Mr. Gladin:

This is in response to your letter dated August 31, 2015, on behalf of BankCap Equity Fund, LLC, BankCap Partners GP, L.P., and BankCap Partners Opportunity Fund, L.P., all of Dallas, Texas (and collectively with certain of their affiliates, "BankCap"), requesting relief from certain commitments (the "Commitments") made in connection with BankCap's holding of voting shares of Silvergate Capital Corporation ("Silvergate"), the parent of Silvergate Bank, both of La Jolla, California. Specifically, BankCap has requested relief from a commitment that restricts banking and nonbanking relationships with Silvergate to permit a BankCap subsidiary, Xenith Bank, Richmond, Virginia, to participate in a warehouse lending program offered by Silvergate Bank.

BankCap owns approximately 19.8 percent of the voting shares and 13.9 percent of the total equity of Silvergate. In connection with its investment, BankCap received the right to appoint one representative to each of the boards of directors of Silvergate and Silvergate Bank. BankCap represents that it does not have any existing business relationships with Silvergate or any of its subsidiaries and has no management or employee interlocks with Silvergate or any of its subsidiaries. BankCap represents that it does not have any formal or informal agreements or advisory relationships with Silvergate or its subsidiaries relating to the management or policies of Silvergate.

BankCap provided the Commitments in connection with the Board's approval of an application under section 3 of the Bank Holding Company Act for BankCap to acquire more than 5 percent of the voting shares of Silvergate. Under the Commitments, BankCap and its subsidiaries and affiliates may not, without the prior approval of the Board or its staff, directly or indirectly enter into any banking or nonbanking transactions with Silvergate or its subsidiaries, other than

establishing and maintaining deposit accounts, provided that the aggregate balance of all such accounts does not exceed \$500,000 and that the accounts are maintained on substantially the same terms as those prevailing for accounts for persons unaffiliated with Silvergate or its subsidiaries.

BankCap has requested relief from the Commitments to permit Xenith Bank to purchase a limited amount of warehouse loans from Silvergate Bank. The Commitments would continue to be effective in all other respects. BankCap has represented that Xenith Bank would purchase the loans under an agreement with Silvergate Bank that would be at arms-length and on market terms. Under Silvergate Bank's warehouse lending program, Silvergate Bank would purchase residential mortgage loans made by mortgage companies and resell the loans to Xenith Bank, which would then sell the loans to third-party investors after a short holding period. All mortgage companies originating the loans and all investors acquiring the loans would be approved by both Xenith Bank and Silvergate Bank, and Xenith Bank would perform independent credit analysis for any mortgage lender that originates loans that it purchases from Silvergate Bank. BankCap represents that the terms of the agreement would be substantially similar to those which Silvergate Bank has entered into with another third-party bank that is participating in Silvergate Bank's warehouse lending program. The agreement would be non-exclusive, so Silvergate Bank would be free to sell warehouse loans to competitors of Xenith Bank. Further, Xenith Bank and Silvergate Bank could terminate the agreement without penalty.

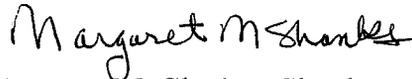
The amount of the loans that Xenith Bank would purchase from Silvergate Bank would be capped at the lesser of \$30 million in the aggregate at any one time, and 5.0 percent of the total outstanding loan portfolio of Silvergate Bank and Xenith Bank, respectively. In addition, the total revenues from the proposed relationship between Silvergate Bank and Xenith Bank would be capped at 3.0 percent of the total revenue of Silvergate Bank and Xenith Bank on an annual basis, respectively. These limitations would ensure that the size of the purchased loans, and the revenues derived from such loan balances, would be economically de minimis from the perspective of Silvergate Bank, which would limit the ability and incentive of BankCap to use the proposed business relationship to exercise a controlling influence over Silvergate.

Based on all the facts of record, the Director of the Division of Banking Supervision and Regulation, acting pursuant to authority delegated by the Board under section 265.7(a)(2) of the Board's Rules Regarding Delegation of Authority,¹ and after consulting with the General Counsel, has granted relief to BankCap from the Commitments to permit Xenith Bank to purchase a limited amount of loan participations in a warehouse lending program operated by Silvergate Bank, subject to the limitations discussed above.

¹ 12 CFR 265.7(a)(2).

This action is based on the representations set forth in your August 31, 2015, request and in other communications with the Federal Reserve. Any change in the facts presented could result in a different conclusion and should be reported immediately to Board staff. In addition, this action should not be construed as granting relief from any other conditions or commitments to which BankCap or its subsidiaries or affiliates are subject.

Very truly yours,



Margaret McCloskey Shanks
Deputy Secretary of the Board