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Treasury Releases Terms of the Capital Assistance Program

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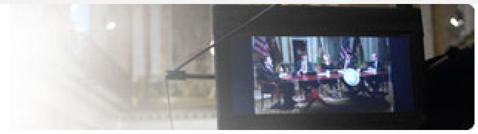
U.S. DEPARTMENT OF THE TREASURY

Press Center



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To view the White Paper, Term Sheet and FAQ, visit www.FinancialStability.gov.

Alongside the forward-looking economic assessments now being conducted by the Federal banking agencies, the U.S. Department of the Treasury today announced the terms and conditions for the Capital Assistance Program (CAP). The CAP is a core element of the Administration's Financial Stability Plan.

The purpose of the CAP is to restore confidence throughout the financial system that the nation's largest banking institutions have a sufficient capital cushion against larger than expected future losses, should they occur due to a more severe economic environment, and to support lending to creditworthy borrowers.

Under CAP, federal banking supervisors will conduct forward-looking assessments to evaluate the capital needs of the major U.S. banking institutions under a more challenging economic environment. Should that assessment indicate that an additional capital buffer is warranted, banks will have an opportunity to turn first to private sources of capital. In light of the current challenging market environment, the Treasury is making government capital available immediately through the CAP to eligible banking institutions to provide this buffer. Details of the forward looking capital assessments can be found at www.FinancialStability.gov.

Eligible U.S. banking institutions with assets in excess of $100 billion on a consolidated basis are required to participate in the coordinated supervisory assessments, and may access the CAP immediately as a means to establish any necessary additional buffer. Eligible U.S. banking institutions with consolidated assets below $100 billion may also obtain capital from the CAP.
To clarify the broader context and objectives for the Capital Assistance Program, and its role in the Financial Stability Plan, the U.S. Treasury also released a white paper on the program, as well as a set of frequently asked questions. Both can be found at www.FinancialStability.gov.

As detailed in the CAP's Terms and Conditions:

Terms

- Capital provided under the CAP will be in the form of a preferred security that is convertible into common equity at a 10 percent discount to the price prevailing prior to February 9th.
- CAP securities will carry a 9 percent dividend yield and would be convertible at the issuer's option (subject to the approval of their regulator).
- After 7 years, the security would automatically convert into common equity if not redeemed or converted before that date.
- The instrument is designed to give banks the incentive to replace USG-provided capital with private capital or to redeem the USG capital when conditions permit.
- With supervisory approval, banks will be able to request capital under the CAP in addition to their existing CPP preferred stock.
- With supervisory approval, banks will also be allowed to apply to exchange the existing CPP preferred stock for the new CAP instrument.

Conditions

- Recipients of capital under the CAP will be subject to the executive compensation requirements in line with the Emergency Economic Stabilization Act of 2008, as recently amended. The Treasury will shortly be releasing rules to implement these amendments.
- As part of the application process, banks must submit a plan for how they intend to use this capital to preserve and strengthen their lending capacity – specifically, to increase lending above levels relative to what would have been possible without government support. The Treasury Department will make these plans public when the bank receives the capital under the CAP.
- Taxpayers will be able to monitor the performance of banks receiving capital under the CAP. Banks receiving capital will be required to submit to Treasury monthly reports on their lending broken out by category. These will be posted on www.FinancialStability.gov.
- Recipients will also be subject to restrictions on paying quarterly common stock dividends, repurchasing shares, and pursuing cash acquisitions.

By reassuring investors, creditors, and counterparties of banking institutions--as well as the institutions themselves--that banks have capital in a sufficient amount and quality to withstand even a considerably weaker-than-expected economic environment, the CAP instrument should improve confidence and increase the willingness of banking institutions to lend.

The Capital Assistance Program is a core element of the Financial Stability Plan announced on February 10, 2009. Additional components of the plan include: a Consumer Business Lending Initiative to unfreeze secondary credit markets, a Public Private Investment Fund to raise private capital to purchase legacy assets, and a Homeowner Affordability and Stability Plan to restructure or refinance mortgages to help as many as 7-9 million families stay in their homes.

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REPORTS

- Capital Assistance Program (CAP) White Paper
- Capital Assistance Program (CAP) Term Sheet
- Capital Assistance Program (CAP) FAQs