



Summary of Government Action on Bank Intervention October 14, 2008

Treasury Capital Purchase Program

- Treasury will inject up to \$250 billion in equity capital to banks (“voluntary program”) in the form of senior preferred stock using part of the \$700 billion funding (36%) it was given with the passage of the Emergency Economic Stabilization Act (EESA) on October 3, 2008. This follows similar action by many European governments.
- The program will be available to qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies engaged only in financial activities that elect to participate before 5:00 pm (EDT) on November 14, 2008. Treasury will determine eligibility and allocations for interested parties after consultation with the appropriate federal banking agency.
- The goal is to unfreeze the credit markets and allow banks to lend and also attract additional private capital.
- Nine companies have already agreed to take \$125 billion: Citigroup, Goldman Sachs, Wells Fargo, JPMorgan Chase, Bank of America, Merrill Lynch, Morgan Stanley, State Street Corp. and Bank of New York Mellon Corp.
- The minimum subscription amount available to a participating institution is 1 percent of risk-weighted assets. The maximum subscription amount is the lesser of \$25 billion or 3 percent of risk-weighted assets. Treasury will fund the senior preferred shares purchased under the program by year-end 2008. Institutions interested in participating in the program **should contact their primary federal regulator for specific enrollment details.**
- Bank capital will be boosted through new preferred stock purchases. It appears this will be done in a way to protect existing preferred shareholders and common shareholders so as not to dilute or crush existing dividend payments.
- Treasury has indicated to ICBA that Subchapter S and privately owned, non-publicly traded banks would have access to this capital program.
- Participating banks must place limits on executive pay and so-called golden parachute payments.

- **Features of the preferred shares:**
 - The senior preferred shares will pay a cumulative dividend rate of 5 percent per annum for the first five years and will reset to a rate of 9 percent per annum thereafter.
 - The senior preferred shares will be non-voting, other than class voting rights on matters that could adversely affect the shares.
 - Other share dividends can still be paid as long as the new senior preferred shares 5% dividend is paid.
 - The senior preferred shares will be callable at par after three years. Prior to the end of three years, the senior preferred may be redeemed with the proceeds from a qualifying equity offering of any Tier 1 perpetual preferred or common stock.
- **Common Stock Warrants:** Treasury may also transfer the senior preferred shares to a third party at any time. In conjunction with the purchase of senior preferred shares, Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15 percent of the senior preferred investment. For instance, if the government makes a \$10 billion investment, then the government will receive \$1.5 billion in warrants. The exercise price on the warrants will be the market price of the participating institution's common stock at the time of issuance, calculated on a 20-trading day trailing average.
- **Executive Compensation:**
 - Companies participating in the program must adopt the Treasury Department's standards for executive compensation and corporate governance, for the period during which Treasury holds equity issued under this program. These standards generally apply to the chief executive officer, chief financial officer, plus the next three most highly compensated executive officers.
 - The financial institution must meet certain standards, including: (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibition on the financial institution from making any golden parachute payment to a senior executive based on the Internal Revenue Code provision; and (4) agreement not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive. Treasury has issued interim final rules for these executive compensation standards.

FDIC Insurance and Temporary Liquidity Guarantee Program

- FDIC will use “systemic risk” exception to temporarily guarantee the senior debt of all FDIC-insured institutions and their holding companies, as well as all deposits in non-interest bearing deposit transaction accounts.

- **Senior Debt Guarantee:**
 - Newly issued senior unsecured debt issued on or before June 30, 2009 by banks, thrifts or holding companies, would be fully guaranteed. This includes promissory notes, commercial paper, inter-bank funding (including Fed Funds), and any unsecured portion of secured debt. (NOT trust preferred equities.)
 - The amount of debt covered may not exceed 125% of debt outstanding at Sept. 30, 2008 that was scheduled to mature before June 30, 2009. For those institutions that currently have no unsecured debt, special eligibility arrangements will be considered on a case-by-case basis
 - Coverage would be provided only to June 30, 2012, even if the maturity exceeds that date.
 - Fee: 75 basis point annualized fee multiplied by the amount of debt issued under the program.
 - This is intended to help banks lend to each other even for periods of a few days. U.S. officials hope this guarantee removes that fear, which could bring down short-term lending rates, such as the London interbank offered rate, or Libor, a benchmark for consumer and business loans.

- **Unlimited Deposit Insurance on Non-Interest Bearing Transaction Accounts:**
 - Participating depository institutions will have full deposit insurance coverage for non-interest bearing deposit transaction accounts, regardless of dollar amount until Dec. 31, 2009. These are mainly payment-processing accounts, such as payroll accounts used by businesses.
 - Fee: 10-basis point deposit insurance assessment surcharge on newly covered amounts (i.e., the amount over \$250,000 in non-interest bearing transaction accounts).

- All FDIC-insured institutions will be covered under the senior debt and transaction account coverage programs for the first 30 days at no cost. Institutions wishing to no longer participate after 30 days must opt out prior to that time or be assessed for future participation. If an institution opts out, the guarantees are good only for the first 30 days regardless of the term of the instrument.

- Banks availing themselves of the guarantee program will be subject to enhanced supervisory oversight to prevent rapid growth or excessive risk-taking. The FDIC will maintain control over eligibility in consultation with the primary Federal regulator.
- A special assessment (on all liabilities) will be collected to cover any losses not covered by the fees to ensure no impact on the Deposit Insurance Fund or the U.S. taxpayer.
- Risk weighting in regulatory capital requirements. For purposes of regulatory capital, the FDIC is recommending a zero risk weight for FDIC-guaranteed debt and will coordinate with the appropriate regulatory agencies. The leverage capital requirements remain unchanged.
- The FDIC is recommending the instruments guaranteed under this program are eligible to be delivered as collateral for borrowing and will coordinate with the appropriate regulatory agencies.