Joint Release

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Joint Statement by Secretary of the Treasury Timothy F. Geithner, Chairman of the Board of Governors of the Federal Reserve System Ben S. Bernanke, Chairman of the Federal Deposit Insurance Corporation Sheila Bair, Comptroller of the Currency John C. Dugan, and Director of the Office of Thrift Supervision John M. Reich

Financial Stability Plan – February 10, 2009

Today, the Department of the Treasury, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision are announcing a comprehensive set of measures to restore confidence in the strength of U.S. financial institutions and restart the critical flow of credit to households and businesses. This program will help lay the groundwork for restoring the flows of credit necessary to support recovery.

The core program elements include:

- A new Capital Assistance Program to help ensure that our banking institutions have sufficient capital to withstand the challenges ahead, paired with a supervisory process to produce a more consistent and forward-looking assessment of the risks on banks' balance sheets and their potential capital needs.

- A new Public-Private Investment Fund on an initial scale of up to $500 billion, with the potential to expand up to $1 trillion, to catalyze the removal of legacy assets from the balance sheets of financial institutions. This fund will combine public and private capital with government financing to help free up capital to support new lending.

- A new Treasury and Federal Reserve initiative to dramatically expand – up to $1 trillion – the existing Term Asset-Backed Securities Lending Facility (TALF) in order to reduce credit spreads and restart the securitized credit markets that in recent years supported a substantial portion of lending to households, students, small businesses, and others.

- An extension of the FDIC's Temporary Liquidity Guarantee Program to October 31, 2009.

A new framework of governance and oversight to help ensure that banks receiving funds are held responsible for appropriate use of those funds through stronger conditions on lending, dividends and executive compensation along with enhanced reporting to the public.

Alongside this program, the Administration will launch a comprehensive program to help address the housing crisis.

We will begin immediately a process of consultation designed to solicit further input from key public and private stakeholders. Details on all programs will be posted on ***FinancialStability.gov*** over the course of the next several weeks.

Congress has already allocated substantial resources and authority for this program through the Emergency Economic Stabilization Act (EESA). We will move ahead quickly and carefully to use the authorities provided. As we do so, we will continue to consult closely with Congress to ensure we have the resources to make this program work effectively over time. We anticipate adapting the program as we move forward.

New Financial Stability Trust

The program will consist of three elements: (1) a forward-looking assessment of the risks on bank balance sheets and their capital needs, (2) a capital program to help banks establish an additional buffer that strengthens both the amount and quality of the capital and (3) efforts to improve the disclosure of exposures on bank balance sheets. In conducting these exercises, supervisors recognize the need not to adopt an overly conservative posture or take steps that could inappropriately constrain lending.

Capital Assistance Program (CAP)

While the vast majority of U.S. banking institutions continue to exceed regulatory requirements for being well-capitalized, the highly uncertain economic environment has eroded confidence in the amount and quality of capital held by some banks.

As an essential part of restoring confidence in U.S. banking institutions, the supervisory agencies will undertake a coordinated and consistent capital planning exercise with each of the major U.S. banking institutions. As part of this process, supervisors will conduct a special forward-looking "stress" assessment of the losses that could occur across a range of economic scenarios, including conditions more severe than currently anticipated or than are typically used in the capital planning process.

This stress testing exercise will allow supervisors to determine whether an additional buffer, particularly one that strengthens the composition of capital, is needed for the bank to comfortably absorb losses and continue lending, even in a more adverse environment. Banks will be encouraged to access private markets to raise any additional capital needed to establish this buffer. However, in light of the current challenging market environment, the Treasury will make a new capital facility generally available to eligible banking institutions as a bridge to private capital until market conditions normalize.

This additional capital buffer is designed to help absorb larger than expected future losses and to support lending to creditworthy borrowers during an economic downturn.

Our expectation is that the capital provided under the CAP will be in the form of a preferred security that is convertible into common equity, with a dividend rate to be specified and a conversion price set at a modest discount from the prevailing level of the institution's stock price up to February 9th, 2009. This security would serve as a source of "contingent" common equity, convertible solely at the issuer's option for an extended period of time.

The instrument will be designed to give banks the incentive to replace USG-provided capital with private capital or to redeem the USG capital when conditions permit. In addition, with supervisory approval, banks will be allowed to apply to exchange the existing CPP preferred stock for the new CAP instrument.

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

Any capital investments made by Treasury under the CAP will be placed in a separate entity set up to manage the government's investments in US financial institutions.

Eligible U.S. banking institutions with assets in excess of $100 billion on a consolidated basis will be required to participate in the coordinated supervisory review process, and may access the CAP as a means to establish any necessary additional buffer. Eligible US banking institutions with consolidated assets below $100 billion may also obtain capital from the CAP. Eligibility will be consistent with the criteria and deliberative process established for identifying Qualifying Financial Institutions (QFIs) in the existing Capital Purchase Program (CPP).

The U.S. government has a range of other tools available for use in extraordinary circumstances to help mitigate the strains facing banks and restore confidence during this period of significant uncertainty. These tools include the provision of credit loss protection for specified asset pools held on the balance sheets of institutions as well as the guaranteeing of liabilities.

In pursuit of its commitment to restore and maintain the strength and stability of the U.S. financial system, the U.S. government remains committed to preventing the failure of any financial institution where that failure would pose a systemic risk to the economy.

Enhancing public disclosure

Increased transparency will facilitate more effective market discipline in financial markets. We will work with bank regulatory agencies and the Securities and Exchange Commission and accounting standard setters in their efforts to improve public disclosure by banks. This process will aim to increase the publicly available information about the range of exposures on bank balance sheets.

New Public-Private Investment Fund (PPIF)

As a complement to the CAP, the Treasury, working with the Federal Reserve, FDIC, and private investors, will create a new Public-Private Investment Fund to acquire real-estate related "legacy" assets. By selling to PPIF, financial institutions will be able to reduce balance sheet risk, support new lending and help improve overall market functioning. The PPIF facility will be sized up to $500 billion and we envision expanding the program to up to $1 trillion over time.

This PPIF will combine a mix of government and private capital with financing supported by the Federal Reserve and the FDIC. Designing this structure in an efficient manner will require a careful balance between the interests of taxpayers, investors, and the financial institutions, and we will continue to consult with market participants to design the best structure. The participation of private investors will help promote competitive prices that will sufficiently compensate and protect taxpayers, while providing additional risk capital to support the purchase program.

Temporary Financing and Direct Purchase Facilities

Full restoration of credit flows to households and businesses will require restarting critical segments of our financial markets, particularly securitization markets. The facilities described below are designed to improve the functioning of markets where dislocation is most acute and most detrimental to economic activity.

Expansion of the Term Asset-Backed Securities Lending Facility (TALF)

The Term Asset-Backed Securities Lending Facility (TALF) combines capital provided by the TARP with funding from the Federal Reserve in order to promote lending by increasing investor demand for securitized loans. The TALF will significantly expand the availability and reduce the cost of term financing for investors in asset-backed securities (ABS), which will stimulate demand for ABS and thereby allow originators of securitized loans to lower the cost and increase the availability of credit to consumers and businesses.

The Treasury and Federal Reserve have agreed to dramatically increase the size of the TALF from $200 billion to as much as $1 trillion and to expand the eligible asset classes from the current newly issued 'AAA' rated ABS collateralized by credit card, auto, student, and Small Business Administration loans to include newly issued 'AAA' commercial mortgage-backed securities (CMBS). In addition, the Treasury will continue to consult with the Federal Reserve regarding possible further expansion of the TALF program to include other asset classes, such as non-Agency residential mortgage-backed securities (RMBS) and assets collateralized by corporate debt.

This facility is designed in a way that gradually reduces its attractiveness and scale as the economy and financial conditions recover.

Ongoing mortgage-backed securities (MBS) and Agency Debt Purchases

The Federal Reserve will continue its current purchase program of Agency debt and mortgage-backed securities (MBS) on a total scale of at least $600 billion. The Federal Reserve and the Treasury stand ready to expand their MBS purchase programs as conditions warrant. These purchase programs should help to stimulate economic activity by reducing mortgage rates, thereby improving housing affordability and the demand for houses, as well as reducing interest payments and freeing up funds for households that refinance.

Additional tools for the Federal Reserve

In order for the Federal Reserve to manage monetary policy over time in a way consistent with maximum sustainable employment and price stability, it must be able to manage its balance sheet, and in particular, to control the amount of reserves that the Fed provides to the banking system. The amount of reserves is the key determinant of the interest rate that the Federal Reserve uses to pursue its monetary policy objectives. Treasury and the Federal Reserve will seek legislation to give the Federal Reserve the additional tools to enable it to manage more effectively the level of reserves.

Extension of Temporary Liquidity Guarantee Program (TLGP)

The FDIC's Temporary Liquidity Guarantee Program has contributed importantly to the gradual easing of liquidity strains on our financial institutions. Though funding conditions have eased somewhat, this temporary program will be extended for an additional four months to provide liquidity to our banks as part of this overall strategy to move our economy forward.

With that in mind, for an additional premium, the FDIC will extend the TLGP program through October 2009.

Stronger Conditions on Lending, Executive Compensation, and Reporting

Going forward, the Financial Stability Plan will call for a new level of transparency, accountability and conditionality with tougher standards for firms receiving exceptional assistance. These stronger conditions were informed by recommendations made by formal oversight groups – the Congressional Oversight Panel, the Special Inspector General, and the Government Accountability Office -- as well as Congressional banking oversight leaders.

Use of government-provided capital and impact on lending

Recipients of capital provided under the CAP will be required to submit a plan for how they intend to use this capital to preserve and strengthen their lending capacity – specifically, they will commit to increase lending activities above levels relative to what would have been possible without government support. This plan will be submitted during the application process, and the Treasury Department will make these plans public upon distribution of the capital investment to the firm.

These firms must submit to Treasury monthly or quarterly reports on their lending by category. This report will also include a comparison to estimates of what their lending would have been in the absence of government support. For public companies, similar reports will be filed on an 8K simultaneous with the filing of their 10Q and 10K reports. All these reports will be put on the Treasury website ***FinancialStability.gov***.

Taxpayers' Right to Know

Information disclosed or reported to Treasury by recipients pursuant to the conditions and requirements announced today will be posted on ***FinancialStability.gov***.

Committing recipients to mortgage foreclosure mitigation

All recipients of Capital Assistance Program (CAP) funds shall commit to participate in mortgage foreclosure mitigation programs consistent with guidelines we will release on industry standard best practices.

Restricting dividends, stock repurchases and acquisitions

Limiting dividends, stock repurchases and acquisitions provides assurance to taxpayers that all of the capital invested by the government under the CAP goes to improving banks' capital bases and promoting lending. Until an institution repays all funds provided to it under the CAP, it shall be:

- Restricted from paying quarterly common stock dividend payments in excess of $0.01 per share unless approved by Treasury and the primary regulator as consistent with the firm reaching its capital planning objectives.
- Restricted from repurchasing shares. Special approval for share repurchases may be granted by the Treasury Department and the banking institution's primary regulator.
- Restricted from pursuing acquisitions. Banking institutions that receive CAP funds are restricted from pursuing cash acquisitions of healthy firms until the government investment is repaid. Exceptions will be made for regulator-approved restructuring plans.

Limiting executive compensation

Firms receiving CAP funds will be required to comply with final version of the executive compensation restrictions announced February 4th.