

## **FAQs on The Capital Assistance Program (CAP)**

### *Q1. Who can access the CAP program?*

Generally speaking, any bank holding company, financial holding company, insured depository institution and savings and loan holding company, that engages solely or predominately in activities that are permissible for financial holding companies under relevant law, and that is organized and operating in the United States, qualifies as a QFI if it is deemed viable by the appropriate Federal banking agency. Financial institutions controlled by a foreign entity will not be eligible. For purposes of the Capital Assistance Program (CAP) eligibility, the deadline for approval of any pending holding company application is January 15, 2009, i.e. the same as the deadline for CPP eligibility.

Specifically, a QFI is defined as: (i) Any U.S. bank or U.S savings institution not controlled by a Bank Holding Company (“BHC”) or Savings and Loan Company (“SLHC”); (ii) any top-tier U.S. BHC; and (iii) any top-tier U.S. SLHC which engages solely or predominately in activities that are permitted for financial holding companies under relevant law. A “QFI” shall not mean any BHC, SLHC, bank or savings association controlled by a foreign bank or company.

### *Q2: What is the deadline to apply to the CAP?*

The deadline for all institutions has been extended to November 9, 2009. Institutions that receive preliminary approval from Treasury will have until November 9, 2009 to close the transaction.

### *Q3. How does CAP work? What type of securities can be issued under CAP?*

To ensure that the banking system has the capital it needs to provide the credit necessary to support economic growth, the Treasury is making capital available under its Capital Assistance Program as a bridge to private capital in the future. A BHC may apply for Mandatory Convertible Preferred (MCP) in an amount up to 2% of risk-weighted assets (or higher upon request). MCP can serve as a source of contingent common capital for the firm, convertible into common equity when and if needed to meet supervisory expectations regarding the amount and composition of capital. Treasury will consider requests to exchange outstanding preferred shares sold under the CPP or the Targeted Investment Program (TIP) for new mandatory convertible preferred issued under the CAP. In order to protect the taxpayer interest, the Treasury expects that any exchange of Treasury-issued preferred stock for MCP will be accompanied or preceded by new capital raises or exchanges of private capital securities into common equity.

The MCP instrument is designed to give banks the incentive to redeem or replace the government-provided capital with private capital when feasible. The term sheet for MCP is available at [www.financialstability.gov](http://www.financialstability.gov).

*Q4. Will firms that access the CAP be subject to additional terms and conditions beyond those that apply to firms accessing CPP?*

Recipients of capital under the CAP will be required to submit a plan for how they intend to use the capital 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 also submit monthly and quarterly reports to Treasury on their lending by category and will include a comparison to estimates of what their lending would have been in the absence of government support. All these reports will be put on [FinancialStability.gov](http://FinancialStability.gov).

All CAP recipients will also commit to participate in the Home Affordable Modification Program. They will also be required to comply with final version of the executive compensation restrictions when announced.

To ensure that any taxpayer dollars invested by the government under the CAP improve banks' capital bases and promote lending, any firm accepting assistance under the CAP will be subject to the following restrictions until it repays all funds provided to it under the CAP:

1. 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.
2. Restricted from repurchasing common stock, preferred stock, or trust preferred. Special approval for share repurchases may be granted by the Treasury Department and the banking institution's primary regulator.
3. Restricted from pursuing acquisitions. Banking institutions that receive CAP funds are restricted from pursuing cash acquisitions of healthy firms until the government investment is refinanced. Exceptions will be made for regulator-approved restructuring plans.

*Q5. Can banks that did not participate in the SCAP access the CAP?*

Yes. Banks outside of the 19 institutions that participated in the SCAP can access the CAP.

*Q6. What criteria will Treasury use for granting preliminary approval for the CAP?*

For institutions that participated in the SCAP, Treasury will rely on the assessments completed by the banking supervisors, and seek to understand how CAP fits into an institution's broader capital plan.

For the institutions that did not participate in SCAP, Treasury will use the existing viability standard (which formed the basis of all investment decisions made in the CPP) and rely on the recommendations of the bank's supervisors. The viability standard states that an institution must be deemed viable without Treasury's investment.

*Q7. Can firms that repay their CPP access CAP at a later date?*

Applications for CAP will only be accepted until November 9, 2009.

*Q8. Will banks that did not go through the SCAP, but wish to access the CAP be forced to undergo their own stress test?*

There are no plans to put other banking institutions through the SCAP.

However, in making their recommendations to Treasury for CAP approval, supervisors will review those firms' risk profiles and capital positions. They will evaluate the firms' internal capital assessment processes, including capital planning efforts that incorporate the potential impact of stressful market conditions and adverse economic outcomes.

*Q9. Should a CAP applicant notify Treasury of its application?*

No. Banks should work through their primary federal regulator.

*Q10. If an institution voluntarily applies for and is preliminarily approved by Treasury to participate in the CAP, may that institution later decide that it does not want to close the CAP transaction? When such an institution is preliminarily approved for a CAP investment, what is the period of time within which the transaction must be consummated?*

If an institution that did not participate in the SCAP applies and is preliminarily approved for CAP, they are not obligated to close the transaction. Institutions receiving preliminary approval will have until November 9, 2009 to decide whether or not to complete the transaction. Institutions that did participate in the SCAP will not be required to complete the transaction either, but must work with their supervisors to ensure that they meet the SCAP buffer.

*Q11. The term sheet states that CAP is redeemable at par, plus accrued and unpaid dividends within the first two years of issuance. Does the two year period begin on the preliminary approval date or the closing date?*

The 2-year period begins on the date of preliminary approval.

*Q12. The CAP term sheet section on Size states the following: "each QFI may issue an amount of CAP equal to not less than 1% of RWA and not more than 2% of RWA plus any CAP to the extent the proceeds of such additional CAP are used to redeem CPP or TIP". Would you please explain this?*

CAP issuance can potentially be used in part to redeem CPP or TIP, and Treasury will consider requests to exchange outstanding preferred shares. Institutions that have already issued preferred equivalent to 3% of RWA under CPP, may apply issue MCP under CAP of up to 5% of RWA as long as MCP equivalent to 3% of RWA is used to redeem the original CPP investment.

In order to protect the taxpayer interest, the Treasury expects that any exchange of Treasury-issued preferred stock for MCP will be accompanied or preceded by new capital raises or exchanges of private capital securities into common equity.

*Q13. If a financial institution has multiple TARP preferred stock series, can they choose which series to convert to CAP?*

No. The CPP series should be converted first.

*Q14. If a financial institution converts a CPP or TIP series into CAP, can the institution choose the order in which it pays off the CPP, TIP and CAP in the future?*

Yes. Financial institutions have discretion on which securities to repay first.

*Q15. Does the "dividend stopper" only require stopping dividends on other shares if dividends on the CAP are not current?*

Yes.

*Q16. Is the 20% requirement for warrants incremental to or in aggregate with the existing warrants on the converted CPP or TIP?*

The warrant requirement is incremental.

*Q17. Can an institution purchase warrants prior to redeeming the CAP? What happens to any warrants issued under CPP?*

No, the warrants can only be purchased following redemption in whole of the MCP. A security issued under the CAP, if for the full amount of preferred issued under CPP, counts as a qualified equity offering, and cuts the number of warrants issued under CPP in half.

*Q18. Will Treasury's agreement to sell shares over five years (which begins on mandatory conversion) start immediately after voluntary conversion or at a different time?*

Yes. It will begin on the date of optional/voluntary conversion.

*Q19. What additional executive compensation restrictions, if any, will be placed on CAP recipients?*

The Treasury's regulations will provide further clarity around executive compensation. These details are expected to be released soon.