# Minutes of the Financial Stability Oversight Board Meeting
# February 25, 2009

A meeting of the Financial Stability Oversight Board ("Board") was held at 4:15 p.m. (EST) on Wednesday, February 25, 2009, at the offices of the Department of the Treasury ("Treasury").

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Donovan
Ms. Schapiro
Mr. Lockhart

STAFF PRESENT:

Mr. Treacy, Executive Director
Mr. Fallon, General Counsel
Mr. Gonzalez, Secretary

AGENCY OFFICIALS PRESENT:

Mr. Kashkari, Interim Assistant Secretary of the Treasury for Financial Stability and Assistant Secretary of the Treasury for International Economics and Development

Ms. Abdelrazek, Senior Advisor to the Assistant Secretary for Financial Stability and International Economics, Department of the Treasury

Mr. Albrecht, Counselor to the General Counsel, Department of the Treasury

Mr. Lambright, Chief Investment Officer, Office of Financial Stability, Department of the Treasury

Mr. Wolfteich, Chief Compliance Officer, Office of Financial Stability, Department of the Treasury

Ms. Liang, Associate Director, Division of Research & Statistics, Board of Governors of the Federal Reserve System

Mr. Nelson, Associate Director, Division of Monetary Affairs, Board of Governors of the Federal Reserve System

Mr. Herold, Deputy General Counsel, Department of Housing and Urban Development

Mr. Daly, Assistant General Counsel, Department of Housing and Urban Development

Mr. Apgar, Senior Advisor to the Secretary, Department of Housing and Urban Development

Mr. Becker, General Counsel and Senior Policy Director, Securities and Exchange Commission

Mr. Sirri, Director, Division of Trading and Markets Regulation, Securities and Exchange Commission

Mr. Scott, Senior Advisor to the Chairman, Securities and Exchange Commission

Mr. DeMarco, Chief Operating Officer and Deputy Director for Housing Mission and Goals, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 4:18 p.m. (EST).

In light of the new Members on the Board, Chairperson Bernanke and the other Members of the Board first reviewed the functions of the Board under the Emergency Economic Stabilization Act ("EESA") and the activities undertaken by the Board in fulfillment of these duties. As part of this discussion, Members reviewed the governance and staffing of the Board and the Board's interaction with, and the roles and responsibilities of, the Special Inspector General, Government Accountability Office, and Congressional Oversight Panel in overseeing the Troubled Asset Relief Program ("TARP").

Using prepared materials, Treasury officials then provided the Members with a briefing on recent TARP-related initiatives and an update concerning other programs recently established under the TARP. The briefing and discussion initially focused on various components of the Financial Stability Plan and the timing and terms of the Capital Assistance Program ("CAP") announced by Treasury on February 25, 2009, which is designed to restore liquidity and stability to the financial system and support lending to creditworthy borrowers.

Treasury officials reviewed and discussed the details of the CAP with the Members, including, among other things, the one-time forward looking assessment or "stress-test" that will be conducted by the Treasury, in conjunction with the appropriate Federal banking agencies, on the 19 largest bank holding companies ("BHCs"), whose risk-weighted assets total at least $100 billion. The purpose of the assessment will be to assess whether these BHCs have the capital necessary to continue lending and to absorb the potential losses that could result from a more severe decline in economic conditions than currently forecasted. Under the terms of the program, participating institutions would have 6-months to raise any additional capital deemed to be needed from private sources, and would also be eligible to obtain such capital under the TARP. The capital available from the TARP would be in the form of convertible preferred shares and could be issued in an amount equal to no less than 1 percent of risk-weighted assets and no more than 2 percent of risk-weighted assets. Institutions could also issue additional convertible preferred shares to Treasury if the proceeds of such additional shares are used to redeem any preferred shares issued under the Capital Purchase Program ("CPP") and, if applicable, the Targeted Investment Program ("TIP"). Any convertible preferred shares acquired by Treasury under the CAP would be convertible to common stock at a 10 percent discount from the institution's prevailing stock price on February 9, 2009. As required by EESA, Treasury would also receive warrants to purchase up to 20 percent of the convertible preferred amount on the date of the investment. During the discussion, Members and officials discussed the potential for the U.S. government to acquire a substantial percentage of the total outstanding common shares of a participating institution.

Treasury officials then reviewed and discussed the restrictions established under the CAP to protect the interests of taxpayers, including restrictions on dividends and executive compensation, as well as the additional requirements regarding transparency, accountability and monitoring that would apply under the program. Members and officials also discussed the effort underway by Treasury to establish the terms under which privately held financial institutions could participate in the program.

The briefing and discussion then turned to various components of Treasury's proposed Homeowner Affordability and Stability Plan announced on February 19, 2009, including the expected objectives, terms and eligibility requirements of the Home Affordable Modification program being developed by Treasury. Officials noted that Treasury expected to commit $50 billion under the TARP to the loan modification program to prevent avoidable foreclosures and help responsible homeowners stay in their homes.

Members and officials noted and discussed, among other things, the importance of establishing clear and consistent guidelines under the program to ensure that servicers can appropriately determine when a default on a mortgage loan might be "reasonably foreseeable" in the absence of a modification.

Under the terms of the program, loan modifications would be available for first-lien loans on owner-occupied properties originated on or before January 1, 2009. Treasury would share, for up to five years, the cost of reducing the monthly payment on qualifying mortgages from a front-end debt-to-income ratio of 38 percent down to a ratio of 31 percent. Treasury officials also described the various incentive payments that Treasury would make under the program to servicers, borrowers and investors. Treasury officials noted that the terms of the programs were being crafted to protect taxpayers to the greatest extent possible, for example, by requiring participating servicers to provide certain documents for verification and compliance reviews.

Members and officials then discussed Treasury's progress in hiring staff, establishing a system of internal controls, and monitoring contractors and agents for the Office of Financial Stability. As part of this discussion, Treasury officials reviewed and discussed the recent initiative by Treasury to bolster transparency and limit the potential for lobbyist influence in TARP-related decisions. During the discussion, Board officials also reminded the Members and agency staff participating in Board business to be mindful of potential conflicts of interests that may arise with respect to matters coming before the Board and to discuss any questions concerning potential conflicts of interest or other ethical issues with their agency's ethics officials.

In addition, Members discussed the recent legislative changes to the executive compensation restrictions applicable to TARP recipients resulting from the American Recovery and Reinvestment Act ("ARRA") and the impact of such changes on TARP programs to restore liquidity and stability to the financial system. During this discussion, Ms. Schapiro noted that the SEC had recently issued guidance relating to the ARRA.

Treasury officials then provided the Members with an update on the capital purchase program ("CPP"). Treasury officials reviewed and discussed, among other things, the number of applications received and approved by Treasury under the CPP, as well as the amount of funds requested and disbursed. Members and officials also discussed the steps taken by Treasury, in conjunction with the Federal banking agencies, to monitor the use of TARP funds and changes in lending, including Treasury's efforts to identify such changes through monthly lending and financial intermediation snapshots, which were designed to provide the public with more frequent and more accessible information regarding the lending and other activities of banks receiving TARP funds. Members and officials also discussed the increasing number of CPP applications being withdrawn and the reasons for such withdrawals.

Federal Reserve and Treasury officials then briefed the Members concerning the Term Asset-Backed Securities Lending Facility ("TALF"), which is designed to help market participants meet the credit needs of households and small businesses by providing financing to eligible owners to support the purchase of certain AAA-rated securities backed by newly and recently originated auto loans, credit card loans, student loans, and small business loans guaranteed by the Small Business Administration ("SBA"). Members discussed the important role that securitizations play in the credit markets, the significant reduction in securitization activity in 2008, and the potential role of the TALF in restarting these markets.

Federal Reserve officials briefed the Members on various aspects of the TALF, including the timing and terms of the TALF, the steps taken by the Treasury and the Federal Reserve to protect and minimize risk of loss to the taxpayer, and the potential for future expansion of the facility. During this discussion, Federal Reserve officials noted several revisions to the terms of the TALF, including a reduction in the interest rates and collateral haircuts for loans secured by asset-backed securities guaranteed by the SBA or backed by government-guaranteed student loans due to the minimal credit risk associated with these assets. Federal Reserve officials also noted that the facility was designed to be self-liquidating so that the facility should naturally wind down as financial markets conditions return to normal.

Using written materials, Treasury officials also reviewed and discussed the Automotive Industry Financing Program ("AIFP") and the actions taken under the program to prevent significant disruption in the domestic automotive industry. For example, Members and officials discussed, among other things, the purpose and terms of the financial assistance provided by the Treasury under the AIFP to General Motors Corp. ("GM") and Chrysler Holding LLC ("Chrysler"), and the progress being made by the newly formed Presidential Task Force in evaluating the viability plans that were submitted by GM and Chrysler on February 17, 2009.

Members and officials then provided an update on the status of the financial assistance packages provided by the Treasury, Federal Reserve and the Federal Deposit Insurance Corporation to Citigroup, Inc. and Bank of America Corporation. Members also discussed the potential additional assistance to be provided to the American International Group, Inc. to help stabilize this systemically significant institution and prevent a disorderly failure, as well as the potential timing and need for a future meeting to review and discuss any such additional supports.

The meeting was adjourned at approximately 5:20 p.m. (EST).

[Electronically Signed]

Jason A. Gonzalez
Secretary