



Capital Assistance Program (CAP) The “Stress Test”

Providing capital to financial institutions to ensure their continued ability to lend in weaker than expected economic scenarios

United States Treasury

Capital Assistance Program (CAP) – Basics

- Similar to but separate from the Treasury's Capital Purchase Program (CPP).
- Applications are due May 25, 2009 and applicants will have six months from receiving preliminary approval to close the transaction.
- Confidentiality may be requested by applicant.

Elements of CAP

- Two main elements of CAP:
 - Forward-Looking Capital Assessment.
 - Access to contingent common equity in the form of Convertible Preferred shares.

Forward-Looking Capital Assessment (1 of 2)

- Conducted on the 19 major U.S. banking organizations with assets in excess of \$100 billion:
 - American Express Co., Bank of America Corp., Bank of New York Mellon Corp., BB&T Corp., Capital One Financial Corp., Citigroup Inc., Fifth Third Bancorp, GMAC LLC, Goldman Sachs Group Inc., JPMorgan Chase & Co., MetLife Inc., Morgan Stanley, Keycorp, PNC Financial Services Group Inc., Regions Financial Corp., State Street Corp., SunTrust Banks Inc., U.S. Bancorp and Wells Fargo & Co. (Reported by Bloomberg as the 19 bank holding companies with more than \$100 billion in assets)

Forward-Looking Capital Assessment (2 of 2)

- The Treasury will provide banks with two economic scenarios (Baseline and Adverse) to test the banks' ability to absorb losses from loan and securities portfolios and off-balance sheet commitments and contingencies.
- If additional capital is necessary after the assessment, the bank will have six months to raise capital privately or through CAP (may also apply immediately for CAP but delay funding to raise capital privately for six months).

Baseline Scenario Test

- The baseline scenario represents the consensus outlook based on the most recent forecasts available from professional forecasters for real GDP growth and unemployment in 2009 and 2010.

Adverse Scenario “Stress Test”

- The adverse “stress test” forecasts a deeper and longer recession.
- The WSJ reports the stress test would include the following assumptions*:
 - Unemployment rates of 8.9% in '09 and 10.3% in '10.
 - Home price declines of 22% in '09 and 7% in '10.
 - GDP contraction of 3.3% in '09.

* *“Bank Capital Gets Stress Test”, Wall Street Journal, February 26, 2009*

Qualifying Financial Institutions (QFI)

- To participate in CAP, a financial institution must be a QFI (same definition as under the Capital Purchase Program [CPP]):
 - Any U.S. bank or U.S. savings association not controlled by a Bank Holding Company (BHC) or Savings and Loan Company (SLHC).
 - Any top-tier U.S. BHC.
 - Any top-tier U.S. SLHC engaging solely or predominately in activities that are permitted for financial holding companies.
 - Not controlled by a foreign bank or company.
- Additionally, QFI must be publicly traded.
 - Separate term sheets are expected to be made available for QFIs not publicly traded and S corporations

Convertible Preferred Terms (1 of 7)

- **Price:** \$1,000 per share.
- **Rank:** Senior to common stock and pari passu with existing preferred shares other than preferred shares that rank junior to any existing preferred shares by their terms.
- **Regulatory Capital Status:** Tier 1 for holding companies.
- **Dividend:** 9% per annum, compounded quarterly and increasing to 20% on the six month anniversary of the issue date, if applicable.

Convertible Preferred Terms (2 of 7)

- **Size of Issuance:** Not less than 1% nor more than 2% of the QFI's risk weighted assets plus any amount of Convertible Preferred used to redeem Preferred Shares sold under the CPP and, if applicable, the Targeted Investment Program.
 - Issuance of Convertible Preferred will be a "Qualified Equity Offering" under the CPP.
 - Additional issuances in excess of this limit must be approved by the appropriate Federal banking agency (FBA) and will be deemed needing "exceptional assistance."

Convertible Preferred Terms (3 of 7)

- **Redemption:** Subject to approval of the QFI's primary FBA and solely with proceeds of one or more issuances of common stock resulting in aggregate gross proceeds of not less than 25% of the issue price of Convertible Preferred, or additions to retained earnings.
 - If redeemed within first two years, redeemable at par plus any accrued and unpaid dividends.
 - After two years, redeemable at greater of par plus accrued and unpaid dividends and the as-converted value.
 - If redeemed in whole, QFI shall have right to repurchase the Warrant and any common stock held under the CAP at fair market value.

Convertible Preferred Terms (4 of 7)

- **Mandatory Conversion:** Converts to common stock after 7 years at the Conversion Price (90% of the average closing price for the QFI's common stock for the 20 trading day period ending Feb. 9, 2009, subject to customary anti-dilution adjustments and, if applicable, reduced by 15% every six months after issue date, not to be reduced by more than 45%. Includes any accrued and unpaid dividends in either cash or shares of common stock.)
- **Optional Conversion:** By the QFI in whole or in part subject to approval of the FBA and by the holder upon specified corporate events, including sales, mergers or changes of control.

Convertible Preferred Terms (5 of 7)

- **Dividend Stopper:** No dividends may be declared as long as Convertible Preferred is outstanding unless all accrued and unpaid dividends on the Convertible Preferred are paid in full. Dividends on pari passu preferred shares may be paid on a pro rata basis with the Convertible Preferred.
- **Common Dividends:** May not exceed \$0.01 per share without Treasury's consent.
- **Repurchases:** Treasury's consent required on repurchases of equity securities or trust preferred securities.

Convertible Preferred Terms (6 of 7)

- **Voting Rights:** Class voting rights on (i) any authorization or issuance of shares senior to the Convertible Preferred, (ii) any amendments to rights of Convertible Preferred or (iii) any merger, exchange or similar transaction adversely affecting rights of Convertible Preferred.
 - If dividends are not paid for any six periods, the Convertible Preferred will have the right to elect two directors.
- **Transferability:** Not subject to contractual restrictions. QFI will file shelf registration statement covering the Convertible Preferred and underlying shares of common stock. QFI grants piggyback registration rights for Convertible Preferred to Treasury.

Convertible Preferred Terms (7 of 7)

- **Mandatory Sale:** After the mandatory conversion date, Treasury will make reasonable efforts to sell an amount of common stock equal to 20% of the total common stock owned by the Treasury annually until the Treasury owns 0% of the common stock.
 - QFI has the right to purchase common stock at a price equal to the greater of the Conversion Price and the market price of the common stock on the date of repurchase. Repurchases must be made with the proceeds of an issuance of common stock for cash or additions to retained earnings.
 - QFI shall have right to repurchase the Warrant if it repurchases the common stock in whole.

Warrant Terms (1 of 2)

- The Treasury will receive warrants to purchase shares of common stock of the QFI having an aggregate market value based on the Conversion Price equal to 20% of the Convertible Preferred amount on the date of the investment.
- The initial exercise price shall be the Conversion Price, subject to customary anti-dilution adjustments. The exercise shall be reduced by 15% up to a maximum of 45% if applicable.

Warrant Terms (2 of 2)

- **Term:** 10 years
- **Transferability:** Not subject to contractual restrictions. QFI will file shelf registration statement covering the Warrant and underlying shares of common stock. QFI grants piggyback registration rights for Warrant to Treasury.
- **Voting:** None.
- **Substitution:** If QFI is no longer listed or traded on a national securities exchange or securities association or stockholders consent not received within 18 months after issuance, warrants are exchangeable for senior term debt or another economic instrument or security.

Stockholder Consent (1 of 2)

- If QFI doesn't have sufficient available authorized shares of common stock to reserve for issuance upon conversion of the Convertible Preferred and exercise of the Warrants or stockholder approval is required for such issuance, the QFI shall call a meeting of its stockholders as soon as practicable after the investment date to increase the number of authorized shares of common stock and/or comply with the exchange rules and take any other action necessary to allow the conversion of the Convertible Preferred and exercise of Warrants.

Stockholder Consent (2 of 2)

- If stockholder consent is not obtained after six months of issuance:
 - The dividend on Convertible Preferred increases to 20% until the consent is received.
 - The Conversion Price may be reduced by 15% of the original Conversion Price every six months up to a maximum reduction of 45%.
 - The exercise price on the Warrant may be reduced by 15% of the original exercise price every six months up to a maximum reduction of 45%.
- If stockholder consent is not obtained after eighteen months of issuance:
 - The Treasury may exchange its warrants for senior term debt or another economic instrument or security.

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