

An Update on All Things TARP

***Alabama Bankers Association
Community Bank Directors College***

***Prattville Alabama
January 30, 2009***

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A Broader Perspective™

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A Comparison

- > Hoover Dam
- > Panama Canal
- > First Gulf War
- > Marshall Plan
- > Louisiana Purchase
- > All of the Moon Missions

Evolution of TARP

- > Assets
- > Capital
- > Assets?

Relevant Programs

- > Troubled Asset Relief Program (TARP) - \$700 billion
 - > Capital Purchase Program (CPP) - \$250 billion
 - > Systemically Significant Failing Institutions Program (SSFI)
 - > Targeted Investment Program (TIP)
- > Temporary Liquidity Guarantee Program
 - > Transaction Account Guarantee Program
 - > Debt Guarantee Program

Capital Purchase Program

- › Two Fundamentals:
 - › The Government intends to make a Profit; and
 - › The Program is only available for Institutions that are “viable” without the Program.

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Capital Purchase Program

- › Deadline for Public Companies to Apply
November 14, 2008
- › Deadline for Private Companies to Apply
December 8, 2008
- › Deadline for Sub S Companies to Apply
February 13, 2009

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Public Company Terms

- > Investment of 1% to 3% of Risk Weighted Assets
- > Preferred Stock Paying 5% for 5 Years, then 9%
- > Cannot Redeem for 3 Years, unless a Qualified Equity Offering
- > Warrants to Purchase Common Stock equal in current market value of 15% of Treasury's Investment
- > Qualified Equity Offering by December 31, 2009 reduces Warrants in half.
- > Restriction on Dividends and Repurchases (including TPS) until earlier of three years or divestiture of Preferred Stock
- > Executive Compensation Limits while Government owns an Equity Interest

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Private Company Terms

- > Investment of 1% to 3% of Risk Weighted Assets
- > Preferred Stock Paying 5% for 5 Years, then 9%
- > Cannot Redeem for 3 Years, unless a Qualified Equity Offering
- > Additional Preferred Stock equal to 5% of Government Investment; Paying 9% from Year One
- > Qualified Equity Offering does not reduce Additional Preferred Stock
- > Restriction on Dividends and Repurchases (including TPS) until earlier of ten years or divestiture of Preferred Stock
- > Executive Compensation Limits while Government owns an Equity Interest

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Subchapter S Terms

- > Investment of 1% to 3% of Risk Weighted Assets
- > Subordinated Debt Paying 7.7% for 5 Years, then 13.3%
- > Cannot Redeem for 3 Years, unless a Qualified Equity Offering
- > Additional Subordinated Debt equal to 5% of Government Investment; Paying 13.3% from Year One
- > Qualified Equity Offering does not reduce Additional Subordinated Debt
- > Restriction on Dividends and Repurchases (including TPS) until earlier of ten years or divestiture of Subordinated Debt
- > Executive Compensation Limits while Government owns Subordinated Debt
- > Tier 2 Capital Treatment for Standalone Banks

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Ability to Modify TARP Provisions

- > Contractual Provision
- > Using Funds to Make Loans
- > Modifying Executive Compensation Limits
- > Regulated Industry

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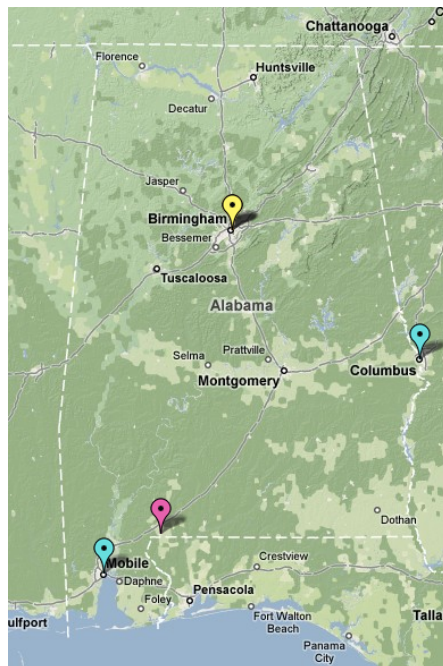
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TARP Capital Completed Infusions

- > October 28, 2008 – 8 Institutions – \$115 Billion
- > November 14, 2008 – 21 Institutions – \$33.5 Billion
- > November 21, 2008 – 23 Institutions – \$2.9 Billion
- > December 5, 2008 – 35 Institutions – \$3.8 Billion
- > December 12, 2008 – 28 Institutions – \$2.5 Billion
- > December 19, 2008 – 49 Institutions – \$2.8 Billion
- > December 23, 2008 – 43 Institutions – \$1.9 Billion
- > December 31, 2008 – 7 Institutions – \$15.1 Billion
- > January 9, 2009 – 42 Institutions – \$4.7 Billion
- > January 16, 2009 – 39 Institutions – \$1.5 Billion
- > January 23, 2009 – 23 Institutions – \$0.4 Billion

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TARP Capital Application Process

- > Primary Federal Regulator (backlogged)
- > Regulatory Council (political)
- > Treasury Investment Council (less of a rubber stamp)
- > Approval to Investment
- > Approve or Withdraw

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TARP Approval Standards (Maybe)

- > Classified Assets < 100% of Post-TARP Capital
- > NPAs < 100% of Post-TARP Capital
- > Compliance with CRE Guidelines
 - > CRE < 300% of Post-TARP Capital
 - > ADC < 100% of Post-TARP Capital
- > Alternatively:
 - > New Business Plan
 - > Management Changes
 - > Solid Liquidity

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Executive Compensation Limits

- › Certify that incentive compensation for senior executive officers (“SEO”) does not encourage unnecessary and excessive risks that would threaten the value of the institution;
- › Require that SEO bonus and incentive compensation be subject to “clawback” if the payment was based on materially inaccurate financial statements or performance metrics;
- › Prohibit any golden parachute payment to an SEO; and
- › Agree to deduct no more than \$500,000 for an SEO’s compensation.

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SSFI / TIP Standards

- › Risk of Failure/Risk of Loss of Confidence
- › Failure/Destabilization would Threaten Viability of Creditors and Counterparties
- › Number and Size of Similarly Situated Institutions
- › Potential to Cause Major Disruptions to Credit Markets, Destabilize Asset Prices, Significantly Increase Uncertainty, Affect Overall Economic Performance
- › Access to Alternative Sources of Capital

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TLGP Transaction Account Guarantee

- > FDIC will Guarantee All Deposits in:
 - > Noninterest Bearing Transaction Accounts
 - > IOLTA Accounts
 - > NOW Accounts “Committed” to Paying 50 bps or less
- > Expires December 31, 2009
- > Consider Affect on Public Funds Collateral
- > Consider Deposit Campaign

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TLGP Debt Guarantee

- > Guarantee of Newly Issued Senior Unsecured Debt with a Maturity greater than 30 days until June 30, 2012
- > Holding Company and Subsidiary Banks Measured Separately
- > 2% of Total Liabilities Test is Only for Depository Institutions
- > Can “apply” for increased limit, but approvals will be “rare.”
- > Lines of Credit are not eligible.
- > Can Not Use to Prepay Non-Guaranteed Debt
- > Can Not Issue Guaranteed Debt to Affiliates or Insiders

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A New Expert on TARP



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Our TARP Website

- > www.BankBryanCave.com
- > Updated Frequently as Programs Evolve
- > Interactive Map of TARP Capital Recipients
- > Sign up for Daily Email Updates

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Questions?

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