GBA
GEORGIA BANKERS ASSOCIATION
the resource that empowers

Resource Sheet

Communications guide

Joe Brannen I President and CEO I 404.420.2026 I jbrannen@gabankers.com
David Oliver I SVP-Communications and Marketing I 404.420.2036 I doliver@gabankers.com
Web site I www.gabankers.com

Issue: Treasury's Capital Purchase Plan (CPP)

- The nation's commercial banking and thrift institutions did not ask the Treasury to invest directly into commercial banks and thrift institutions. The Treasury's decision to take this approach was in response to similar actions in the international community.

- The CPP investments in banks are just that: investments by the government on behalf of taxpayers. As a large majority of these institutions are already well capitalized, the investment should not be considered a "bailout." That is a misleading term.

- Treasury basically sent out a 911 alert and summoned the banks to be the volunteer first responders recognizing banks' traditional role of supporting economic activity.

- Treasury is directly buying shares in the nation's banks. Banks choosing to participate are required to pay dividends to the Treasury and provide warrants for common shares that could increase in value. We believe taxpayer funds are reasonably protected through these requirements.

- The plan is voluntary. A majority of Georgia's banks remain well capitalized and don't necessarily need to participate in the CPP.

- However, we expect that many banks may choose to do so. In the end, everyone's goals are the same: to restore health/confidence in the economy, stabilize the nation's financial system, continue the banks' ability to serve their communities with loans and continue to meet the expectations of bank regulators and shareholders. We're not advocating whether to participate, we support each bank's individual decision based on its specific business needs.

- At GBA, we are confident that those who do participate will look to responsibly deploy the capital in ways that appropriately provide new funding for loans as well as additional strength and stability for their institution.

- Currently, there are few specific restrictions about what the funds can be used for. Banks may wish to use the funds for lending, capital to support other organic growth, acquisitions and to boost capital reserves to weather ongoing tough economic conditions, among other things. It is reasonable to expect continued political and public pressure for Treasury to specify or narrow uses for the funds at a later date.

- One thing participants all need to consider is that the current terms associated with the CPP state it is possible that Treasury could "unilaterally amend" any provision of the agreement. So, keep in mind that Congressional or regulatory action to specifically dictate what funds can and can't be used for could result in Treasury updating the terms of the agreement after you agree to participate if you are approved.

- For those concerned about banks that receive funds being allowed to pay dividends, the CPP *REQUIRES* participants to pay the Treasury a 5 percent per year dividend (9 percent after 5 years) *BEFORE* paying dividends to any other shareholders. Currently, this is a better investment for the government than its own T-bills. Dividend increases to other shareholders are not allowed during the first three years without Treasury approval or the senior preferred shares have been redeemed or transferred.

-more-

- There are very valid reasons for banks to apply, and valid reasons not to apply.

  1. Here's some info about the thought process for banks that MAY wish to participate:
     a. The funds would be an inexpensive capital source for making new loans, acquisitions and other ways to grow and remain healthy
     b. Not making use of such inexpensive capital may put them at a competitive disadvantage to their peers
     c. If they don't participate, perception might actually be worse because they may be seen as deemed not "worthy" by regulators and Treasury vs. having made a voluntary business decision. This could be very bad for their business.
     d. Also, because of the transparency of the banking industry's financial data, it is quite easy for various peer comparisons to be made from that data. Some bankers are concerned that this new source of capital will either overstate or understate a particular bank's ability to raise or maintain private capital.

  2. Here's what those who ARE NOT going to apply are thinking:
     a. The bank is well capitalized and sometimes even over-capitalized, so new capital is unnecessary
     b. Participating in the CPP would bring unwanted direct government intervention into their business decision-making.
     c. A lot of banks in Georgia simply do not know all the details they need from Treasury to make an informed decision. Treasury has yet to define specific terms that would allow banks that are not publicly traded on exchanges to participate. Treasury has said all institutions are eligible, but has not issued rules that clarify how those banks could participate without actually violating compliance with substantive governing rules for their particular type of company structure. For example, a Sub S Corporation can't legally issue more than one class of stock. So for those banks, issuing a new class of preferred shares to Treasury is not currently an option.

- Both camps have to weigh the non-business effects of their decision – fair or unfair
  - If they get it, customers, policymakers and others may be critical of their use of taxpayer money provided by the government.
  - If they get it, shareholders, consumers and others may view they needed it to survive.
  - If they get it, they will be faced with both reasonable as well as unnecessary scrutiny over what they do with it.
  - If they don't apply, some may think they aren't healthy enough, so they didn't apply.
  - If they apply, but don't get it, it could be an extremely negative sign to customers and the marketplace.

- Also, there has been recent talk about banks "hoarding" CPP money or in significantly slowing lending. Currently, there is evidence to the contrary.

  1. The first banks to receive CPP money only received their funds the last week in October. It is reasonable to expect that it will take several weeks for CPP capital to be deployed once it is delivered to a participating bank. After all, participants will be on the hook to make responsible, smart, conservative decisions about just how to use it.

  2. Lending standards have unquestionably tightened because of economic conditions and the public desire for conservative lending. But borrowers with good credit, manageable debt and solid cash flow, among other things, can qualify for loans.

-more-

3. Through the end of the second quarter (most recent available data) total loans and leases at Georgia's 333 Commercial Banks increased by about $1.9 billion ($212.3 billion vs. $210.4 billion). Georgia's 21 savings institutions increased loans and leases by $1.7 billion through the end of second quarter ($5.3 billion vs. $3.6 billion). Source: FDIC quarterly banking report.

4. The Federal Reserve's weekly H8 reports continue to show week-to-week and month-to-month growth in outstanding total loan balances, commercial and industrial balances, residential and other consumer lending. http://www.federalreserve.gov/Releases/H8/current/h8.htm. An analysis of the Oct. 31 report shows that commercial & industrial loans are 15.3 percent above the same week of 2007. Surprisingly, real-estate lending is 6.3 percent higher than one year ago and up 4.3 percent since the end of June. Even consumer lending continues to grow as the combined activity for home equity and consumer loans is 14.4 percent ahead of a year ago.