

U.S. Treasury Department Office of Public Affairs

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U.S. Government Actions to Strengthen Market Stability

Washington, DC—Today we are taking decisive actions to protect the U.S. economy, to strengthen public confidence in our financial institutions, and to foster the robust functioning of our credit markets. These steps will ensure that the U.S. financial system performs its vital role of providing credit to households and businesses and protecting savings and investments in a manner that promotes strong economic growth in the U.S. and around the world. These actions are consistent with the strategy announced by the President's Working Group on October 6 and the action plan announced by the G-7 Finance Ministers on October 10.

Purchasing Capital in Financial Institutions

We must restore confidence in our financial system. The first step in that effort is a plan to make capital available on attractive terms to a broad array of banks and thrifts, so they can provide credit to our economy. –
Treasury Secretary Henry M. Paulson, Jr., October 14, 2008

Under the authority of the Emergency Economic Stabilization Act of 2008, the U.S. Treasury will make available \$250 billion of capital to U.S. financial institutions. This facility will allow banking organizations to apply for a preferred stock investment by the U.S. Treasury. Nine large financial organizations have already indicated their intention to subscribe to the facility in an aggregate amount of \$125 billion.

The Senior Preferred will pay cumulative dividends at a rate of 5 percent per year for the first five years, and thereafter at a rate of 9 percent per year. The shares are non-voting, other than with respect to market standard terms that protect the taxpayer's rights as an investor. Institutions selling preferred shares to the Treasury agree that the following executive compensation limitations will apply while the Treasury owns shares in the company: 1) the Board will certify that that contracts of the top five executives do not encourage or reward excessive risk taking; 2) compensation payments made based on earnings, gains, or other criteria that are later proven to be materially inaccurate must be repaid, and 3) no golden parachute payments will be made. In addition, the taxpayers will also receive warrants to purchase common stock with an aggregate market price equal to 15 percent of the senior preferred investment.

Guaranteeing Certain Obligations of Financial Institutions

The overwhelming majority of banks are strong, safe and sound. But a lack of confidence is driving the current turmoil. And it is a lack of confidence that these guarantees are designed to address. – FDIC Chairman Sheila C. Bair, October 14, 2008

After receiving a recommendation from the boards of the FDIC and the Federal Reserve, and after consulting with the President, Secretary Paulson triggered the systemic risk exception to the FDIC Act, enabling the FDIC to temporarily guarantee the senior debt of all FDIC-insured institutions and their holding companies, as well as deposits in non-interest bearing deposit transaction accounts. Regulators will implement an enhanced supervisory framework to assure appropriate use of this new guarantee. The ability to issue guaranteed debt under the program would expire on June 30, 2009 and the full protection for deposits in noninterest bearing transaction deposit accounts would revert back to the statutory limits on December 31, 2009.

Purchasing Commercial Paper

Over the past year, the Federal Reserve has actively used all its powers and authorities to try to help our economy through this difficult time.... The actions today are aimed at restoring confidence in our institutions and markets and repairing their capacity to meet the credit needs of American households and businesses. – Federal Reserve Chairman Ben Bernanke, October 14, 2008

To further increase access to funding for businesses in all sectors of our economy, the Federal Reserve has announced further details of its Commercial Paper Funding Facility (CPFF) program, which provides a broad backstop for the commercial paper market. Beginning October 27, the CPFF will be able to purchase commercial paper of 3 month maturity from high-quality issuers.

Coordinated, Comprehensive Plan to Address Financial Market Turmoil

President Bush has made clear that we are committed to using all necessary tools to support our financial markets and institutions, so they can finance the U.S. economy. Given the interconnected nature of the global capital markets, we continue to work closely with our colleagues in the international regulatory community.

Together these three steps significantly strengthen the capital position and funding ability of U.S. financial institutions, enabling them to perform their role of underpinning overall economic growth. These actions demonstrate to market participants here and around the world the strength of the U.S. government's commitment to take all necessary steps to unlock our credit markets and minimize the impact of the current instability on the overall U.S. economy. The actions taken today are a powerful step toward restoring the health of the global financial system.

