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Financial Stability Plan of 2009

General Overview

On Tuesday, February 10, Treasury Secretary Timothy Geithner outlined a plan to restore stability to our financial system. The Financial Stability Plan was developed as a second attempt to get credit flowing again and strengthen our financial institutions so they have the ability to support the overall economic recovery. The U. S. Treasury Department outlined several programs within the plan. Here is a general overview.

Financial Stability Plan

1. Financial Stability Trust
    - A Comprehensive Stress Test for Major Banks
    - Increased Balance Sheet Transparency and Disclosure
    - Capital Assistance Program
2. Public-Private Investment Fund ($500 Billion - $1 Trillion)
3. Consumer and Business Lending Initiative (Up to $1 trillion)
4. Transparency and Accountability Agenda – Including Dividend Limitation
5. Affordable Housing Support and Foreclosure Prevention Plan
6. A Small Business and Community Lending Initiative

1. Financial Stability Trust: Any capital investments made by the U.S. Treasury under the Capital Purchase Program (CAP) will be placed in a separate entity – the Financial Stability Trust – set up to manage the government's investments in U.S. financial institutions.

- This will involve increased transparency and disclosure requirements; take coordination between, and accurate and realistic assessments by, all financial regulators; and incorporate a new "stress test," which is required for all banking institutions with assets in excess of $100 billion, to assess whether major financial institutions have the capital necessary to continue lending and to absorb the potential losses that could result from a more severe decline in the economy than projected.
- While banks will be encouraged to access private markets to raise any additional capital needed to establish adequate capital levels, a financial institution that has undergone a comprehensive "stress test" will have access to a Treasury provided "capital buffer" to help absorb losses and serve as a bridge to receiving increased private capital. This will be available through the CAP. While most banks have strong capital positions, the Financial Stability Trust will provide a capital buffer that will operate as a form of "contingent equity" to ensure firms the capital strength to preserve or increase lending in a worse-than-expected downturn.
- Firms participating in CAP will receive a preferred security investment from the U.S. Treasury in convertible securities that they can convert into common equity if needed to preserve lending in a worse-than-expected economic environment. This convertible preferred security will carry a dividend to be specified later and a conversion price set at a modest discount from the prevailing level of the institution's stock price as of February 9, 2009.
- Banking institutions with consolidated assets below $100 billion will also be eligible to obtain capital from the CAP after a supervisory review.

2. Public-Private Investment Fund: Working in partnership with the FDIC and the Federal Reserve, the Treasury Department will initiate a Public-Private Investment Fund that will focus on the following:

- *Public-Private Capital*: The public-private financing component puts public or private capital side-by-side and using public financing to leverage private capital on an initial scale of up to $500 billion, with the potential to expand up to $1 trillion.
- *Private Sector Pricing of Assets*: The goal through this is to minimize public capital and maximize private capital by allowing private sector buyers to determine the price for current troubled and previously illiquid assets.

3. Consumer & Business Lending Initiative: The U.S. Treasury is also committing up to $1 trillion dollars to support a Consumer and Business Lending Initiative which is expected to jumpstart the secondary lending markets, bring down borrowing costs, and help get credit flowing again. This lending program will be built on the Federal Reserve's Term Asset Backed Securities Loan Facility, announced last November, with capital from the U.S. Treasury and financing from the Federal Reserve, but be expanded to target the markets for small business lending, student loans, consumer and auto financing, and commercial mortgages.

- *A Bold Expansion Up to $1 Trillion:* This joint initiative with the Federal Reserve builds off, broadens and expands the resources of the previously announced but not yet implemented Term Asset-Backed Securities Loan Facility (TALF). The Consumer & Business

Lending Initiative will support the purchase of loans by providing the financing to private investors to help unfreeze and lower interest rates for auto, small business, credit card and other consumer and business credit.

- *Protecting Taxpayer Resources by Limiting Purchases to Newly Packaged AAA Loans:* Because these are the highest quality portion of any security — the first ones to be paid — this program will be able to best protect against taxpayer losses and efficiently leverage taxpayer money to support a large flow of credit to these sectors.
- *Expand Reach – Including Commercial Real Estate:* The Consumer & Business Lending Initiative will expand the initial reach of the Term Asset-Backed Securities Loan Facility to now include commercial mortgage-backed securities. In addition, the U.S. Treasury will continue to consult with the Federal Reserve regarding possible further expansion of the TALF program to include other asset classes, such as non-Agency residential mortgage-backed securities and assets collateralized by corporate debt.

4. New Era of Transparency, Accountability, Monitoring and Conditions: A major and legitimate source of public frustration and even anger with the initial deployment of the first $350 billion of Emergency Economic Stabilization Act funds was a lack of accountability or transparency as to whether assistance was being provided solely for the public interest and a stronger economy or for the private gain of shareholders, bondholders or executives. The Obama administration's new Financial Stability Plan will call for greater transparency, accountability and conditionality with tougher standards for firms receiving exceptional assistance. The new requirements cover the following:

- Requiring firms to show how assistance from financial stability plan will expand lending
  - Intended use of government funds
  - The impact on lending requirement
  - Taxpayers' right to know
- Committing recipients to mortgage foreclosure mitigation
- Restricting dividends, stock repurchases and acquisitions
  - Restricted from paying quarterly common dividend payments in excess of $0.01 until the government investment Is repaid
  - Restricted from repurchasing shares
  - Restricted from pursuing acquisitions
- Limiting executive compensation
- Prohibiting political interference in investment decisions
- Posting contracts and investment information on the web

5. Housing Support and Foreclosure Prevention: This part of the plan includes the following:

- Drive down overall mortgage rates
- Commit $50 billion to prevent avoidable foreclosures of owner-occupied middle class homes
- Help bring order and consistency
- Require all financial stability plan recipients to participate in foreclosure mitigation plans
- Build flexibility into Hope for Homeowners and the FHA

There is a separate plan to address the housing crisis (The Homeowner Affordability and Stability Plan)

6. Small Business and Community Lending Initiative: Currently, the increased capital constraints of banks, the inability to sell SBA loans on the secondary market and a weakening economy have combined to dramatically reduce SBA lending at the very time our economy cannot afford to deny credit to any entrepreneur with the potential to create jobs and expand markets. Further adding to this frustration is the sense that community banks – which still engage in relationship lending that serves their local communities -- have been overlooked not just during this crisis, but over the last several years. The Treasury Department and the SBA have a separate plan known as the Small Business and Community Bank Lending Initiative to address the decline in SBA lending. This plan addresses the following:

- Use of the Consumer & Business Lending Initiative to finance the purchase of AAA-rated SBA loans to unfreeze secondary markets for small business loans.
- Increasing the guarantee for SBA Loans to 90%.
- Reducing fees for SBA 7(a) and 504 lending and provide funds for both oversight and speedier and less burdensome processing of loan applications.

More details of the Financial Stability Plan can be found at the government's website, www.financialstability.gov.

Note: This handout was compiled on March 11, 2009 from various sources including documents on recovery.gov, financialstability.gov and treasury.gov to help Univest employees, customers, shareholders and the communities we serve have a better understanding of the legislation. This was done only for purposes of an informational piece and should not be used as a substitute for the professional advice of a financial advisor, attorney, accountant or other qualified professional.