

Board of Governors of the Federal Reserve System

Joint Press Release

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Department of the Treasury
Office of the Comptroller of the Currency
Office of Thrift Supervision

For release at 8:30 a.m. EDT

February 23, 2009

Joint Statement by the Treasury, FDIC, OCC, OTS, and the Federal Reserve

The U.S. Department of the Treasury, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Reserve Board today issued the following joint statement:

"A strong, resilient financial system is necessary to facilitate a broad and sustainable economic recovery. The U.S. government stands firmly behind the banking system during this period of financial strain to ensure it will be able to perform its key function of providing credit to households and businesses. The government will ensure that banks have the capital and liquidity they need to provide the credit necessary to restore economic growth. Moreover, we reiterate our determination to preserve the viability of systemically important financial institutions so that they are able to meet their commitments.

"We announced on February 10, 2009, a Capital Assistance Program to ensure that our banking institutions are appropriately capitalized, with high-quality capital. Under this program, which will be initiated on February 25, the capital needs of the major U.S. banking institutions will be evaluated under a more challenging economic environment. Should that assessment indicate that an additional capital buffer is warranted, institutions will have an opportunity to turn first to private sources of capital. Otherwise, the temporary capital buffer will be made available from the government. This additional capital does not imply a new capital standard and it is not expected to be maintained on an ongoing basis. Instead, it is available to provide a cushion against larger than expected future losses, should they occur due to a more severe economic environment, and to support lending to creditworthy borrowers. Any government capital will be in the form of mandatory convertible preferred shares, which would be converted into common equity shares only as needed over time to keep banks in a well-capitalized position and can be retired under improved financial conditions before the conversion becomes mandatory. Previous capital injections under the Troubled Asset Relief Program will also be eligible to be exchanged for the mandatory convertible preferred shares. The conversion feature will enable institutions to maintain or enhance the quality of their capital.

"Currently, the major U.S. banking institutions have capital in excess of the amounts required to be considered well capitalized. This program is designed to ensure that these major banking institutions have sufficient capital to perform their critical role in our financial system on an ongoing basis and can support economic recovery, even under an economic environment that is more challenging than is currently anticipated. The customers and the providers of capital and funding can be assured that as a result of this program participating banks will be able to move forward to provide the credit necessary for the stabilization and recovery of the U.S. economy. Because our economy functions better when financial institutions are well managed in the private sector, the strong presumption of the Capital Assistance Program is that banks should remain in private hands."

