

FAQs – Supervisory Capital Assessment Program

Q1: Why are supervisors performing the capital assessments?

A: The U.S. Federal bank and thrift supervisors (supervisors) are conducting this exercise to determine if the largest U.S. banking organizations have sufficient capital buffers to withstand the impact of an economic environment that is more challenging than is currently anticipated.

Q2: Why is the exercise limited to banking organizations with assets greater than \$100 billion? Will capital be made available to smaller financial institutions?

A: The banking organizations included in this exercise comprise the core of the US banking system representing roughly two-thirds of aggregate U.S. Bank Holding Company assets. Eligible U.S. banking institutions with consolidated assets below \$100 billion may also obtain capital from the CAP. Eligibility will be consistent with the criteria and the deliberative process established for identifying Qualifying Financial Institutions (QFIs) in the existing Capital Purchase Program.

Q3: How will the capital assessment be conducted?

A: The supervisors will conduct these capital assessments on an interagency basis to ensure that they are carried out in a timely and consistent manner. Each participating financial institution has been instructed to analyze potential firm-wide losses, including in its loan and securities portfolios, as well as from any off-balance sheet commitments and contingent liabilities/exposures, under two defined economic scenarios over a two year time horizon (2009 – 2010). In addition, firms with trading assets of \$100 billion or more are being asked to estimate potential trading-related losses under these same scenarios.

Participating financial institutions will also forecast internal resources available to absorb losses, including pre-provision net revenue and the allowance for loan losses. As part of the supervisory process, the supervisors will meet with senior management at each financial institution to review and discuss the institution's loss and revenue forecasts. Based on those discussions, the supervisors will assess institution-specific potential losses and estimated resources to absorb those losses under the baseline and more adverse case, and determine whether the institution has a sufficient capital buffer necessary to ensure each institution has the amount and quality of capital necessary to perform their vital role in the economy.

Q4: What scenario(s) will be used in the capital assessment?

A: The capital assessment will cover two economic scenarios: a baseline scenario and a more adverse scenario. The details provided to participating financial institutions on these macroeconomic scenarios are attached as an Appendix to these FAQs.

Q5: Which asset categories will be covered by the capital assessment?

A: The capital assessment is intended to capture all aspects of a financial institution's business that would be impacted under the baseline and more adverse scenarios.

Q6: What will the supervisors do with the forecasts generated by the participating financial institutions? Will these forecasts be accepted at face value?

A: Supervisors will carefully evaluate the forecasts submitted by each financial institution to ensure they are appropriate, consistent with the firm's underlying portfolio performance and reflective of each entity's particular business activities and risk profile. The assessment of the firm's capital and the size of any potential needed additions to capital will be determined by the supervisors.

Q7: What is the key capital measure/objective that will be targeted in the capital assessment?

A: The assessment of capital adequacy considers many factors including: the inherent risks of the institution's exposures and business activities, the quality of its balance sheet assets and its off balance sheet commitments, the firm's earning projections, expectations regarding economic conditions and the composition and quality of its capital.

Specific factors supervisors consider include: uncertainty about the potential impact on earnings and capital from current and prospective economic conditions; asset quality and concentrations of credit exposures; the potential for unanticipated losses and declines in asset values; off-balance sheet and contingent liabilities (e.g., implicit and explicit liquidity and credit commitments); the composition, level and quality of capital; the ability of the institution to raise additional common stock and other forms of capital in the market; and other risks that are not fully captured in regulatory capital calculations.

Under current rules for bank holding companies, supervisors expect bank holding companies to hold capital above minimum regulatory capital levels, commensurate with the level and nature of the risks to which they are exposed. That amount of capital held in excess of minimum capital requirements should be commensurate with their firm-specific risk profiles, and account for all material risks. The assessment of capital under the two macroeconomic scenarios being used in the capital assessment program will permit supervisors to ascertain whether the buffer over the regulatory capital minimum is appropriate under more severe but plausible scenarios.

Q8: What will be the source of capital if supervisors determine that a banking organization requires an additional capital buffer?

A: An institution that requires additional capital will enter into a commitment to issue a CAP convertible preferred security to the U.S. Treasury in an amount sufficient to meet the capital

requirement determined through the supervisory assessment. Each institution will be permitted up to six months to raise private capital in public markets to meet this requirement and would be able to cancel the capital commitment without penalty. The CAP convertible preferred securities will be converted into common equity shares on an as-needed basis. Financial institutions that issued preferred capital under Treasury's existing Capital Purchase Program (TARP 1) will have the option of redeeming those securities and replacing them with the new CAP convertible preferred securities.

Q9: What recourse does a financial institution have if it disagrees with the outcome of the capital assessment?

A: The capital assessment is part of the supervisory process and thus subject to the same framework used for bank examinations or bank holding company inspections. There will be ample opportunity for discussions between the financial institutions and supervisory agencies regarding the loss estimates and earnings forecasts during the capital assessment process.

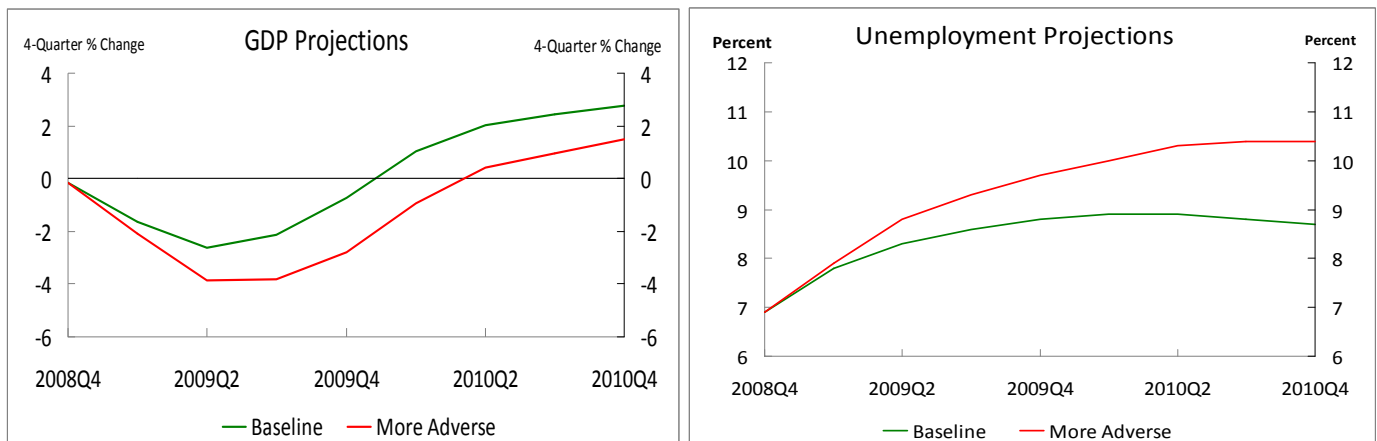
Q10: When will the process be completed?

A: The Federal supervisory agencies will conclude their work as soon as possible, but no later than the end of April.

Appendix -- Macroeconomic Assumptions

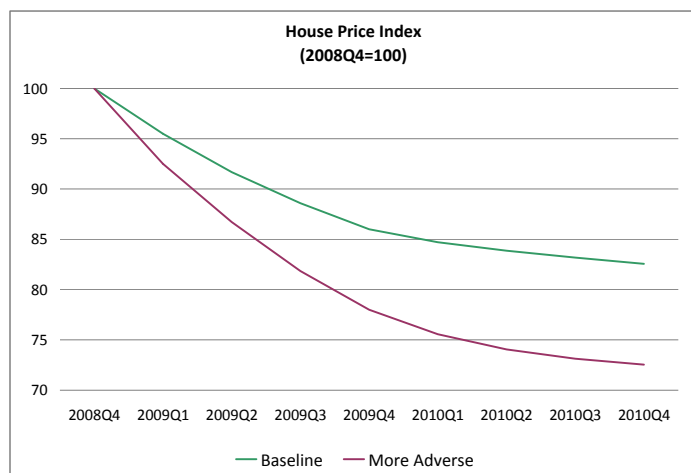
For implementation of the supervisory capital assessment program, the baseline assumptions for real GDP growth and the unemployment rate for 2009 and 2010 are assumed to be equal to the average of the projections published by Consensus Forecasts, the Blue Chip survey, and the Survey of Professional Forecasters in February. This baseline is intended to represent a consensus view about the depth and duration of the recession. Given the current uncertain environment, there is a risk that the economy could turn out to be appreciably weaker than expected than in the baseline outlook. To aid financial institutions in their ongoing risk management practices, the supervisors have also put together an alternative “more adverse” scenario. By design, the path of the US economy in this alternative more adverse scenario reflects a deeper and longer recession than in the baseline. The consensus expectation is that economic activity is likely to be better than shown in the more adverse alternative; nonetheless, an outcome such as the alternative cannot be ruled out.¹

The assumptions for the baseline economic outlook are consistent with the house price path implied by futures prices for the Case-Shiller 10-City Composite index and the average response to a special question on house prices in the latest Blue Chip survey. For the more adverse scenario, house prices are assumed to be about 10 percent lower at the end of 2010 relative to their level in the baseline scenario.²



¹ The “more adverse” scenario was constructed from the historical track record of private forecasters as well as their current assessments of uncertainty. In particular, based on the historical accuracy of Blue Chip forecasts made since the late 1970s, the likelihood that the average unemployment rate in 2010 could be at least as high as in the alternative more adverse scenario is roughly 10 percent. In addition, the subjective probability assessments provided by participants in the January Consensus Forecasts survey and the February Survey of Professional Forecasters imply a roughly 15 percent chance that real GDP growth could be as least as low, and unemployment at least as high, as assumed in the more adverse scenario.

² Based on the year-to-year variability in house prices since 1900, and controlling for macroeconomic factors, there is roughly a 10 percent probability that house prices will be 10 percent lower than in the baseline by 2010.



Economic Scenarios: Baseline and More Adverse Alternatives

	2009	2010
Real GDP¹		
Average Baseline ²	-2.0	2.1
Consensus Forecasts	-2.1	2.0
Blue Chip	-1.9	2.1
Survey of Professional Forecasters	-2.0	2.2
Alternative More Adverse	-3.3	0.5
Civilian unemployment rate³		
Average Baseline ²	8.4	8.8
Consensus Forecasts	8.4	9.0
Blue Chip	8.3	8.7
Survey of Professional Forecasters	8.4	8.8
Alternative More Adverse	8.9	10.3
House prices⁴		
Baseline	-14	-4
Alternative More Adverse	-22	-7

1. Percent change in annual average.
2. Baseline forecasts for real GDP and the unemployment rate equal the average of projections released by Consensus Forecasts, Blue Chip, and Survey of Professional Forecasters in February.
3. Annual average.
4. Case-Shiller 10-City Composite, percent change, fourth quarter of the previous year to fourth quarter of the year indicated.