FACTSHEET
CAPITAL PURCHASE PROGRAM
NOMINATION OF BOARD *OBSERVERS* & *DIRECTORS*

Treasury created the Capital Purchase Program (CPP) in October of 2008 to stabilize the financial system by providing capital to viable financial institutions of all sizes throughout the nation. Each financial institution that participated in the CPP entered into a securities purchase agreement (Agreement) with Treasury. The securities issued to Treasury under these Agreements provide for the payment of dividends (or interest) at a certain rate but Treasury does not have a contractual right to demand these quarterly payments. Rather, under corporate law and the governing contracts, the institution's board of directors, using the directors' best business judgment, decides when and how to deploy the institution's capital including whether to make dividend (or interest) payments.

However, Treasury does have a contractual right to nominate up to two members to the board of directors of an institution after an institution has six unpaid quarterly dividend (or interest) payments.

Treasury evaluates its CPP investments on an ongoing basis with the help of outside advisors, including external asset managers. The external asset managers provide a valuation for each CPP investment. This valuation includes a thorough credit evaluation. Those institutions with the weakest credit scores, including any institution that has missed more than three dividend (or interest) payments, are selected for enhanced monitoring. If an institution misses five dividend (or interest) payments, Treasury may now request permission to send qualified members of the Office of Financial Stability (OFS) staff to act as observers, prioritizing those requests, in part, based upon the size of Treasury's investment. Treasury observers will seek to listen during meetings of the board of directors with participation limited to clarifying questions on the materials distributed, presentations made and actions proposed or taken as well as address questions concerning the observer's role. The purpose of the observers is to gain a better understanding of the institution's condition and challenges and to observe how the board is addressing the situation. The information provided by the observers will supplement Treasury's ongoing monitoring of its investment in the institution.

Once the right to nominate members to the board of directors of an institution becomes exercisable, Treasury will determine whether to nominate up to two members. This determination will be based on Treasury's evaluation of the condition and health of the institution and the functioning of its board of directors, including the information provided by the observers. If Treasury decides to nominate directors, Treasury will then nominate such members from a list of suitable candidates screened by executive search firms engaged by Treasury for this purpose. Unlike observers, government employees may not act as directors to institutions participating in the CPP.

Recruiting qualified directors requires a significant investment of taxpayer resources. However, by placing an observer, Treasury can immediately send a representative to gather information on an institution. The information provided by the observer will help Treasury prioritize the nomination of directors at CPP institutions that have six unpaid dividend payments and select the best candidates for such positions. In this manner, Treasury can protect the interests of the taxpayer by reducing costs without forgoing its contractual rights under the Agreement. Treasury will prioritize institutions in part based on whether its investment exceeds $25 million. Because of the time required to find appropriate candidates and the need to determine whether the nomination of directors will be in the best interest of taxpayers, Treasury may not immediately nominate directors upon a sixth missed dividend but may nevertheless do so in the future.

Members of the board of directors nominated by Treasury will not represent Treasury. In particular, members of the board of directors nominated by Treasury have the same fiduciary duties and obligations to the shareholders of the financial institution as any other member of the board of directors. Additionally, the compensation and other expenses with respect to any member of the board of directors nominated by Treasury will be paid by the financial institution to the same extent as with any other member of the board of directors.

For additional information regarding the nomination of observers and board directors, please read the frequently asked questions (FAQs) that have been posted to our website www.financialstability.gov.