Testimony of

Edward L. Yingling

On Behalf of the

AMERICAN **BANKERS** ASSOCIATION

Committee on Financial Services

United States House of Representatives

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January 13, 2009

Chairman Frank and members of the Committee, my name is Edward L. Yingling. I am President and CEO of the American Bankers Association (ABA). ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $13.6 trillion in assets and employ over 2 million men and women.

We appreciate the opportunity to testify on the current status of the Capital Purchase Program (CPP) and to provide suggestions on the future use of Troubled Asset Relief Program (TARP) funding. The CPP became a prominent part of the TARP, which was authorized under the Emergency Economic Stabilization Act (EESA). The CPP has helped calm financial markets and continues to be an extremely important tool to promote renewed economic growth.

The ABA sees this hearing and the legislation that is being proposed as an opportunity for a new beginning on the CPP and TARP. Everyone is frustrated about the current confused situation – the public, the Congress, and, I can assure you, traditional banks. Strongly capitalized banks that never made one subprime loan and that are the foundation for an economic recovery find themselves lumped together with failing institutions and institutions that helped cause this crisis. This is not fair and it is harmful to our economy. We are committed to work with this Committee and the Congress to clarify once and for all the purpose of the CPP, target the remaining TARP money where it will do the most good, and to provide the transparency needed to restore public confidence. As this statement shows, the non-bank credit markets are not working. All roads point to traditional, regulated, FDIC-insured banking as the foundation for a solid recovery – through the expansion of bank lending and, as the Chairman has stated, through applying bank-like regulation to other sectors of the financial services industry. It is time to put together a plan that will get the job done and that has the clarity to restore public confidence.

Unfortunately, there has been much confusion between the CPP program, which was designed to provide capital to healthy banks, and non-CPP TARP money used to support troubled institutions, like AIG, General Motors and Chrysler. The bottom line is that the traditional banks that have been making loans in communities for decades should not be lumped together with other institutions that are in need of financial support. Traditional banks and bankers are a major part of the solution to our economic difficulties, and policies should be designed to support their efforts.

This confusion between capital for healthy banks and bailouts for weak firms is a source of great frustration to banks, but more importantly can lead to confusion about policy. While there were some FDIC-insured banks in a weakened position when the EESA was considered, the emergency program was driven by severe problems at firms that were ***not*** banks, such as Bear Stearns, Fannie Mae and Freddie Mac, and AIG. In suddenly announcing the CPP, the Treasury was responding to foreign governments, which had acted to support institutions that were far less capitalized than U.S. banks. However, commentators often fail to realize the situation was different: the vast majority of U.S. banks were well-capitalized and had nothing to do with making toxic mortgage loans. Unfortunately, when the capital program was announced, the headlines read "Bank Bailout." To my knowledge, no one in the banking industry requested a capital program prior to the day when nine of the largest banks were "requested" by Treasury and the Federal Reserve to use the newly created CPP.

ABA greatly appreciates the consistent statements by members of this committee, and particularly its leadership, that the regulated banks were not the cause of the problem and have generally performed well. Not only did the regulated banks not cause the problem, they are the primary solution to the problem as both regulation and markets move toward the bank world.

Certainly, some FDIC-insured banks did become caught up in the mortgage bubble, but the great majority did not. Furthermore, banks are negatively affected when the economy in their local communities deteriorate. But it is important to recognize the sound underpinning that banks still provide for the economy and the fact that the bank regulatory model is now the basis for regulation for non-banks, some of which are now converting to bank holding companies.

Thousands of banks across the country did not make toxic subprime loans, are strongly capitalized, and are ready to lend; but they cannot do so if misguided policies increase their regulatory costs and provide disincentives to lend. Banks already face significantly higher costs from increases in deposit insurance premiums. And banks are already receiving contradictory government signals about lending, being told to use CPP capital to make new loans and, in some cases, being told by bank examiners not to increase lending because the risk is too great.

The ABA makes the following four recommendations for the future of TARP:

- ***Segregate the CPP program from other TARP programs***

  We would urge that the uses of TARP funds be clearly identified by the next Administration and Congress. In a recent letter to the TARP Congressional Oversight Panel, the Treasury did break out the various programs. However, in general the media, the public, the Congress, and the industry do not have a clear picture as the TARP funds have been used in so many different ways. There should be clearly defined buckets – for example, for the CPP, for foreclosure prevention, and for systematically important troubled institutions. Without clear delineation, policy becomes muddled. There are real differences between the CPP program – ***a voluntary program for healthy banks*** – and the various injections of TARP money into troubled institutions; and yet the media, in particular, often lumps them together.

  The policy prescriptions for each program clearly should be different. In addition, without clear delineation, Congressional oversight will not work effectively. Furthermore, the costs for each program should be kept separate. For example, as outlined below, ABA believes the government is almost certain to make a significant profit from the CPP program.

- ***Fully fund the Capital Purchase Program as originally announced***

  Banks continue to lend, and the CPP will help to further support expanded bank lending by healthy banks. It would be most unfair, and would result in competitive inequality, for the program not to be fully funded for community banks. Today, there are still no term sheets available for over ***3,000 healthy banks.*** These banks are mutual savings banks and S-corporation banks and account for over one-third of the banking industry.

Furthermore, there are hundreds of banks that have applied for funding, met the required safety and soundness standards, and have received regulatory approval – but have not received funding.

Of the $350 billion initial TARP allocation, $250 billion was set aside for the CPP program. We believe the commitment should be honored. Thus, we recommend that TARP money be used to complete the CPP as originally contemplated – this is critical to assure competitive equity among banks and in order that ***all communities*** have the opportunity for their banks to participate so that increased credit availability will spread across the country. For example, in many New England states, mutual institutions are an important segment of the banking system, and yet they are not currently able to participate in the CPP. That means New England will not have as much credit availability going forward as other parts of the country. In many communities around the country, no bank may currently be eligible.

- ***Use TARP Funding for Distressed Homeowners***

  The ABA supports the use of TARP funding to help distressed homeowners and lessen the number of foreclosures. The housing bubble is still at the core of the economic problem, and it needs to be addressed directly by government policy. The program put forward by the FDIC recently is a model that ABA supports, and we provide specific suggestions for improving it later in this testimony.

- ***Coordinate the CPP with other programs so as to avoid conflicting messages and disincentives to lending***

  It is critical to achieve the right balance between making sure banks are following sound policies and encouraging innovation and lending. Regulators certainly should be carefully reviewing banks and their capital, borrowing, and lending policies. However, a regulatory overreaction that signals to banks to pull back on certain types of lending will only exacerbate the credit crunch.

Finally, before explaining these suggestions in further detail, I would like to reiterate the points in my last testimony before this committee concerning mark-to-market accounting. Since CPP is now focused on creating additional capital, it must be noted that the misapplication of mark-to-market or "fair value" accounting in today's situation, particularly when there is no functioning market, has unnecessarily destroyed billions of dollars in capital. We appreciate the comments that you have made in this regard, Mr. Chairman, as well as the work of Ranking Member Bachus on seeking changes on the mark-to-market issue.

These accounting issues badly need to be addressed in the short term – for year-end 2008 reporting – as well as reconsidered in the longer term. Furthermore, ABA once again urges this committee to address the way accounting rules are made in its regulatory restructuring review this year in order to ensure that the standard-setting process is subject to adequate public accountability and that consideration of the practical impact of proposed standards is an important element in the consideration and development of new accounting standards.

I. Segregate the Capital Purchase Program for Banks from Other TARP Programs

There is great confusion about TARP, particularly with the media and the public. It is no wonder, with all the various twists and turns that the program has taken. Originally, the TARP, as the name implies, was for the purchase of troubled assets. Then in a matter of days after enactment, everything changed. After some European countries announced that governments were going to put capital in banks and, apparently, foreign government pressure for the U.S. to do the same, overnight the policy shifted to putting capital in U.S. banks. As is widely known, the leaders of nine large banks were called to Washington with no notice and "requested" to take the capital. Several of them had just raised private capital.

To my knowledge, no one in the banking industry requested a capital program; the ABA certainly did not. The announcement of the program really harmed the perception of our banking industry. Commentators jumped to the conclusion that many banks must be capital deficient and in trouble. They did not understand that U.S. banks were much more heavily capitalized than the European banks receiving capital, nor that about 98 percent of the U.S. banks were well capitalized. Also, the purpose of the program, as announced at that time, was to unfreeze the international credit markets, particularly the interbank lending market. The idea of increasing domestic lending was not at the forefront at that time.

As the program was extended beyond the initial nine banks to other banks, it evolved that the program was to focus on ***healthy*** banks and its purpose was to ***promote the availability of credit***. This focus is the exact opposite of the capital injection programs for weak banks in Europe and elsewhere; it is also the opposite of other uses of TARP and other government funds to help systemically important institutions in danger of failing. ABA was extremely frustrated by the failure of the Treasury to make this difference clear and said so in a letter to Secretary Paulson. Treasury did try to clarify the purpose, stating that the CPP was implemented "to attract broad participation by healthy institutions" in order to "build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy." Neel Kashkari, Interim Assistant Secretary for Financial Stability, reiterated the goals of the CPP program just last Thursday in remarks at the Brookings Institution: "The CPP was designed to first stabilize the financial system by increasing the capital in our banks, and then to restore confidence so credit could flow to our consumers and businesses."

Unfortunately, the press, the public, and Members of Congress, understandably, did not differentiate between this voluntary program for solid institutions and "bailouts." Confusion still exists. Hearings like this one today, Mr. Chairman, are extremely important to provide clarity about these programs and banks' efforts to deploy this CPP capital. In this regard, there are several misperceptions that need to be addressed:

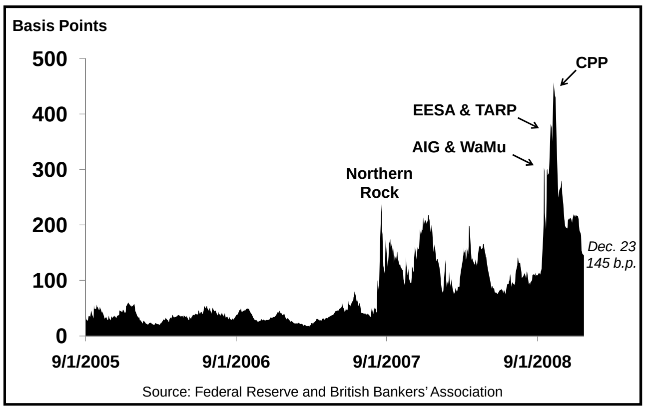
The Need for the Capital Injection

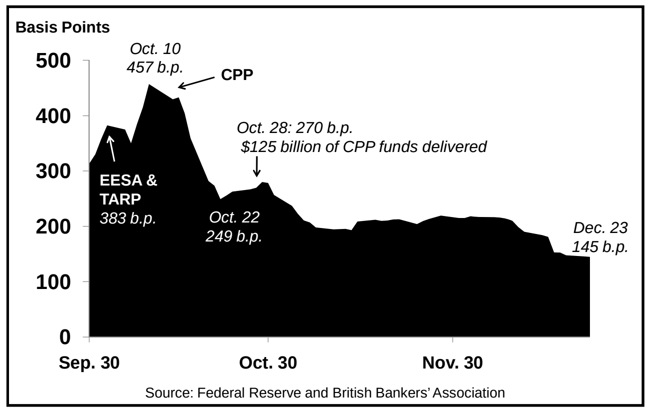
The public did not understand the importance of this change in focus from buying toxic assets to capital injections. Ever since the failure of the United Kingdom's mortgage giant, Northern Rock, risk premiums for any type of lending – particularly bank-to-bank lending – have been elevated. This meant that banks were unwilling to lend to one another or would do so only at very high interest rates. With each new crisis, credit-risk spreads widened. The problems of AIG on September 16 drove the Treasury-Eurodollar (TED) spread up 123 basis points from September

15 to September 17.[1] This event, and the subsequent failure of Washington Mutual, caused a dramatic increase in risk spreads. The TED spread continued to rise to historic heights through the enactment of the Emergency Economic Stabilization Act. However, with the announcement of the CPP on October 14, risk spreads declined from their pinnacle of 457 basis points on October 10 to 249 basis point on October 22, ***a drop of 45 percent***. Clearly, the program to inject capital in healthy banks had a dramatic and immediate impact. (See the charts below.)

Risk Spreads Increased

Spread between the 3-month LIBOR and the 3-month Treasury





The capital injection was also valuable because access to capital in the open market had largely disappeared for many banks. As the economy weakened, loan losses increased. As capital absorbed these losses, capital ratios began to fall somewhat. Nonetheless, the vast majority of banks (more than 98 percent as of the third quarter) ***were then and are still well-capitalized***, which is the highest rating the regulators can give. In addition, banks entered this current recessionary period with much higher capital relative to assets compared to other recessions (see the table on page 10).

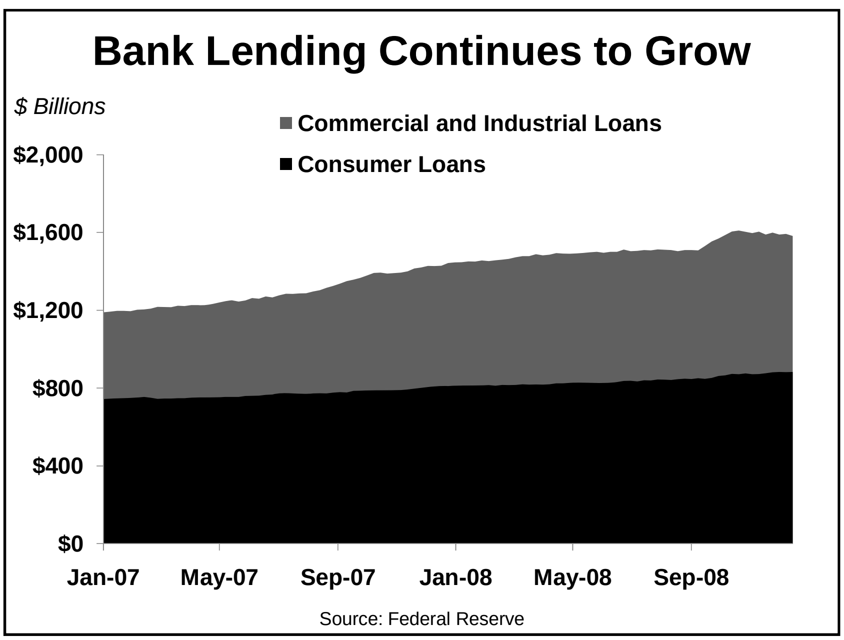
Under normal circumstances, banks would go to the private capital markets for additional capital. While some banks were able to raise new capital, the series of problems this past fall have made those markets extremely tight. In fact, compared to the last five recessions, banks in the last

[1] The TED spread measures the credit risk premium of short-term lending (particularly bank-to-bank lending) and is calculated as the difference between the London Interbank Lending Rate (LIBOR) and the risk-free U.S. Treasury bills rate (often using 3-month maturities).

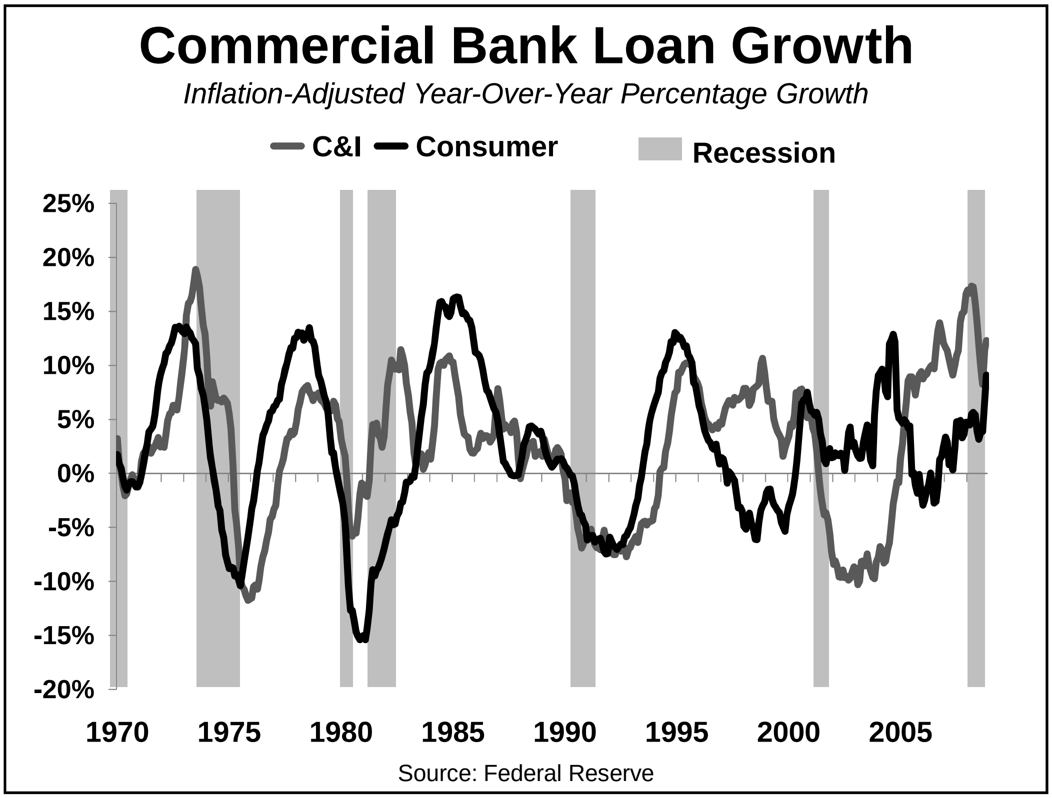
12 months have ***raised only one-third of capital typically raised during a recession,*** according to Federal Reserve statistics.[2] Thus, without additional capital to back more loans, banks might not be able to grow lending; others might even be forced to shrink lending in order to boost the capital-to-assets ratio. The CPP capital investments will also make it easier for banks to raise capital directly as investors will have more confidence in the overall financial underpinning of the bank.

Banks Continue to Lend in This Weak Economy

Even with the economy faltering and individuals and businesses struggling to make ends meet, banks continue to lend. (See the Federal Reserve chart on bank business lending below.) This is, in fact, in sharp contrast to the lending trends during other recessions. Typically, as the chart and table show on the following page, loan growth shrinks during and after a recession. During the current recession, business loans have ***expanded*** by 12 percent and consumer loans by 9 percent; in contrast, typical (median) business loans ***declined*** by -0.7 percent and consumer loans by -5.1 percent for the previous six recessions.



2 According to the Federal Reserve's H.8 survey (Assets and Liabilities of Commercial Banks in the United States), commercial banks have raised $5.45 billion from November 2007 through November 2008. The median increase in capital for the previous five recessions (for the 12-month period beginning one month prior to the start of the recession) was $16.35 billion.

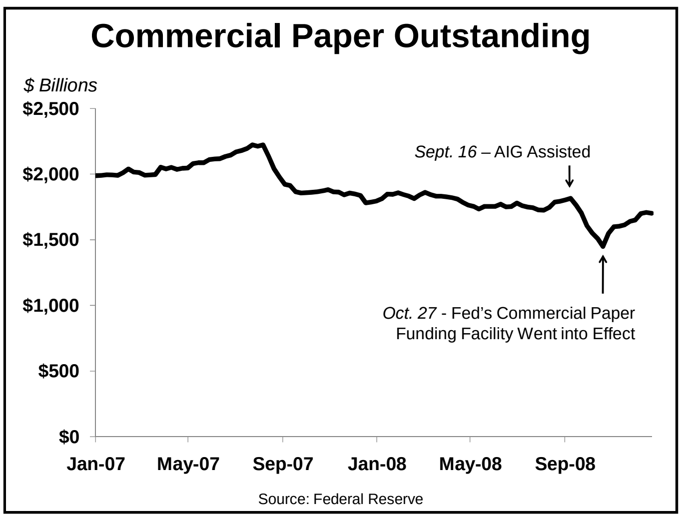


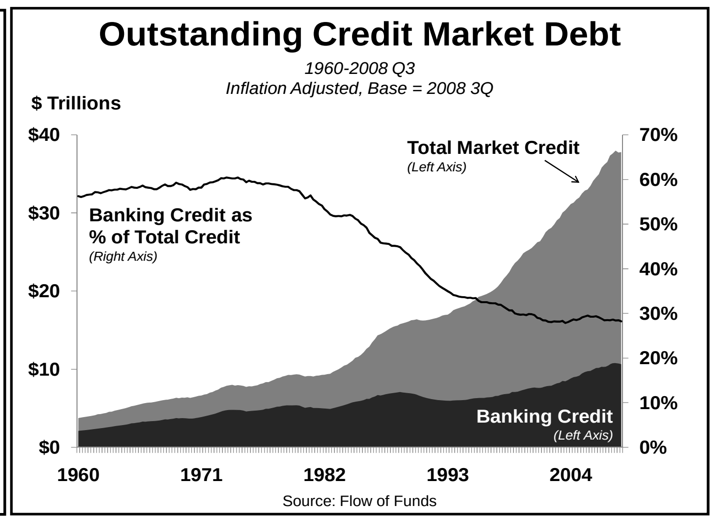
Change in Bank Lending and Capital During Recessions[1]

Recession	C&I (%)	Consumer (%)	Average Capital-To-Asset Ratio (%)	Change in Capital-to-Asset Ratio (Basis Points)[2]
Dec 1969 - Nov 1973	-0.9	-1.2	N/A	N/A
Nov 1973 - Mar 1975	5.7	-6.3	4.7	20
Jan 1980 - Jul 1980	-0.5	-12.8	5.0	-134
Jul 1981 - Nov 1982	9.0	-4.4	5.4	205
Jul 1990 - Mar 1991	-6.6	-5.9	8.2	52
Mar 2001 - Nov 2001	-8.0	1.9	9.6	88
Median of Past Recessions	**-0.7 %**	**-5.1 %**	**5.4 %**	**70 bp**
Dec 2007 - ?	**12.2 %**	**9.0 %**	**10.5 %**	**-104 bp**

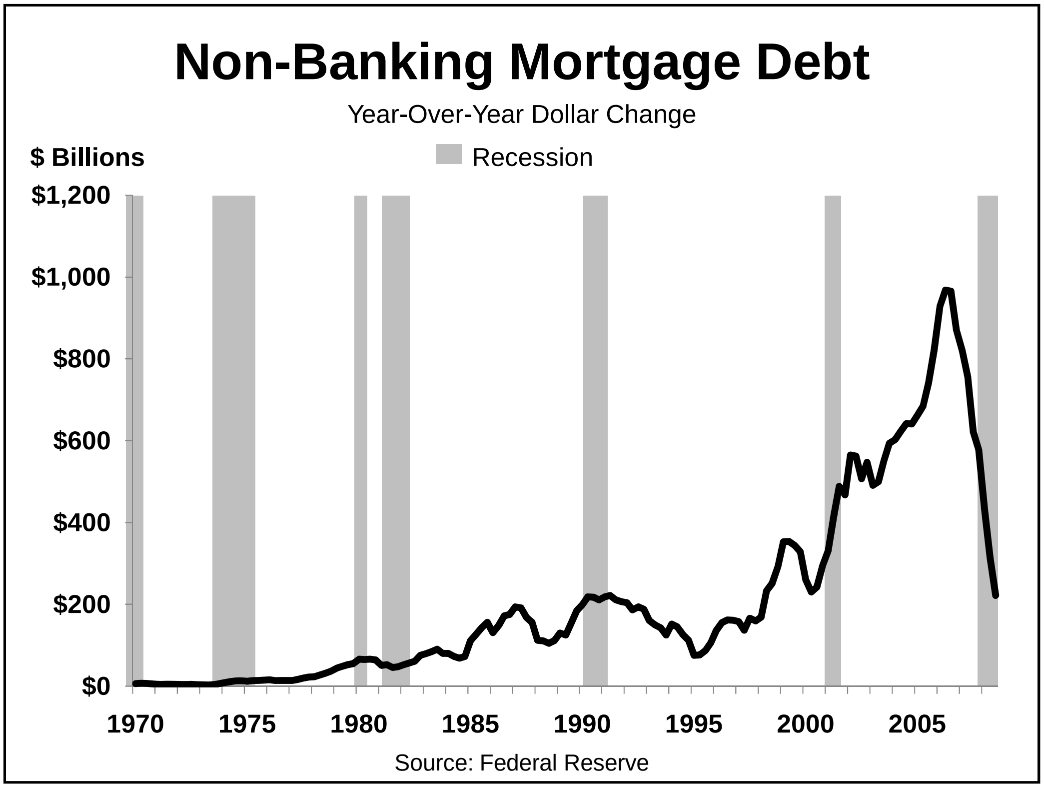
1. Twelve-month change from the month prior to the official start of the recession.
2. One basis point equals 1/100th of a percentage point.
Source: Federal Reserve, H.8, Assets and Liabilities of U.S. Commercial Banks; capital values based on estimates derived from Federal Reserve's asset and liability survey data.

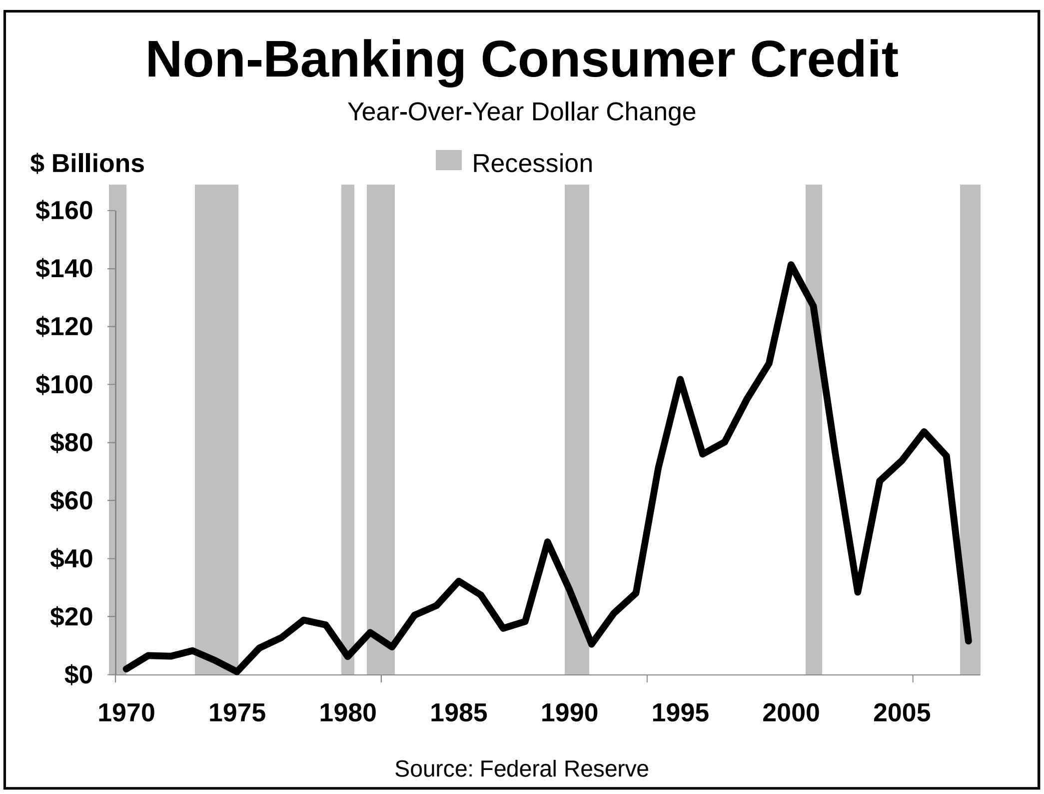
In fact, many banks have said that they are seeing borrowers that used to rely on non-bank financing or Wall Street coming to their doors. Before the launch of the Federal Reserve's Commercial Paper Funding Facility in October, the commercial paper market had shrunk by $366 billion over the prior six weeks. The size of the commercial paper market is now $1.7 trillion, down from its peak of $2.2 trillion in July of last year – a decline of almost 23 percent. (See the chart below on commercial paper outstanding.) The same pattern was repeated for both residential and commercial mortgage backed securities. As is widely recognized, the securitization market has also largely closed down, undermining the availability of credit for autos, housing, and credit cards. Thus, many of the stories about the lack of credit are due to the weakness of ***non-bank*** lenders and the weakness of the securitization markets. In fact, while credit overall has expanded dramatically in the United States for many decades, the share of bank credit is about half of what it was just 25 years ago. (See the chart below on the right.)





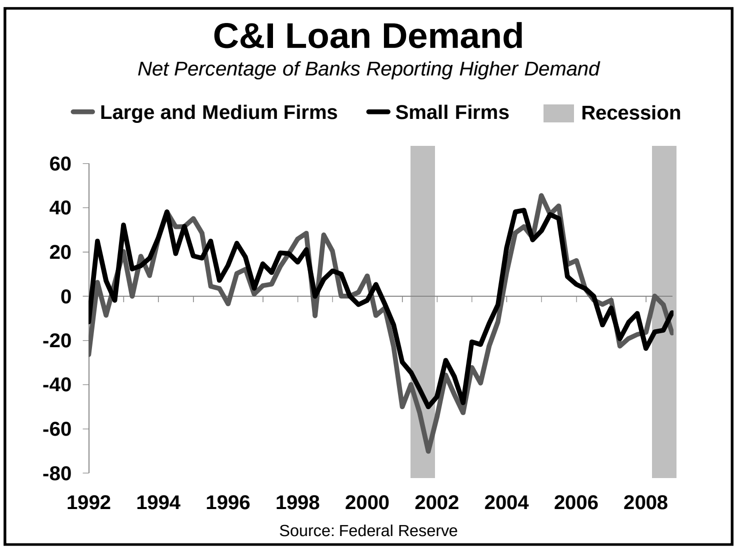
The complete collapse this past year of the secondary markets for mortgages and for other consumer credit products, such as credit cards and auto lending, has taken out an important pipeline of credit and has left banks as the lone lenders. The critical point is that while banks have been expanding lending, it cannot offset the complete fall off of credit ***outside*** the banking industry. (See the charts on the following page.)


Non-Banking Mortgage Debt
Year-Over-Year Dollar Change
$ Billions
Recession
$1,200
$1,000
$800
$600
$400
$200
$0
1970
1975
1980
1985
1990
1995
2000
2005
Source: Federal Reserve


Non-Banking Consumer Credit
Year-Over-Year Dollar Change
$ Billions
Recession
$160
$140
$120
$100
$80
$60
$40
$20
$0
1970
1975
1980
1985
1990
1995
2000
2005
Source: Federal Reserve

Naturally banks are following prudent underwriting standards to avoid losses in the future. But in spite of the difficult economic environment, only 7 percent of small businesses (according to a December survey by the National Federation of Independent Businesses, NFIB) reported problems in obtaining the financing they desired. The report concluded that: "No credit crunch has appeared to date beyond the normal cyclical tightening of credit."[3]

Borrowers are also being more careful, and, as would be expected in this economy, the overall demand for loans is declining, although this varies by market. (See the chart on Commercial and Industrial Loan Demand.) The NFIB reports that "only 31 percent [of businesses] reported regular borrowing, down two points and equal to the 35-year, record low reading." This combination of ***increased*** bank lending at the same time that loan demand is ***shrinking*** underscores the increased prominence of banks in meeting the credit needs of borrowers. It is very likely that loan demand in this economy will continue to decline. With the decline in demand, it is reasonable to expect that the current growth of business and consumer lending cannot be maintained. As the chart on page 10 shows, it often takes several years to reverse the impact of a recession. However, as the economy starts to grow again and loan demand increases, the ability of banks to meet these needs will be stunted if adequate capital is not available to back increased lending.



We recognize that there are some consumers and businesses in the current situation that believe they deserve credit that is not being made available. This is not because banks do not want to lend – lending is what banks do. The current credit markets have tightened largely because of problems outside the traditional banking sector. ***In fact, because of these problems, the traditional banking sector will have to play an even larger role in providing credit to get***

[3] The report also noted that: "The credit worthiness of potential borrowers has also deteriorated over the last year, leading to difficult terms and higher loan rejection rates, even with no change in lending standards." December 2008 issue of *Small Business Economic Trends,* National Federation of Independent Businesses.

the economy growing again. Banks are anxious to meet the credit needs of businesses and consumers, and we know that such lending is vital to an economic recovery in communities large and small across the country. ***The availability of capital through the Capital Purchase Program provides added flexibility to help assure these borrowing needs are met.***

The Use of CPP Capital to Promote Lending

The misconception continues that the capital invested by Treasury is sitting idle, or worse, hidden away somewhere. This is simply untrue. The government money is a ***capital*** injection, which is an ***ownership*** stake in ***healthy banks***. The CPP money is not hidden – it is clearly identifiable in the capital accounts of banks. This is not money that is used ***directly*** for lending, but rather is used to support lending many times the level of new capital. Thus, this capital allows banks to raise more funds – largely deposits – and increase lending. In fact, for every dollar of capital invested, banks can increase assets (e.g., loans and securities) by about $10. For lending in particular, $1 of capital can ultimately support up to $7 dollars of lending – provided the bank raises $6 in new deposits and there are qualified businesses or individuals that want to borrow. Banks do not track which particular loan each depositor's dollar helps support since one deposit dollar is indistinguishable from another. The same is true of capital invested. For example, if a small business receives a new loan, that loan is not CPP money lent out, and the bank does not distinguish whether that loan is attributable to existing capital or to CPP capital. What is clear is that the CPP capital enables the bank to raise more deposits and to be in a position to make more loans.

As noted above, there are thousands of banks that have not yet had the opportunity to participate in the CPP. As of December 31, 2008, only 208 of the nation's 8400 banks had received CPP capital. Total commitments for these institutions are $172.5 billion. Most of those that have received funding have only recently received it. And as just noted, the capital is not lent; first the banks have to raise more deposits to lend. Moreover, as banks' markets and businesses are dramatically different, how each bank will employ this capital will differ greatly as well. In my testimony before this committee in November, I provided four simple examples of how capital might be employed by a bank under different circumstances: (1) a well-capitalized bank with growing loan demand; (2) a well-capitalized bank with shrinking loan demand; (3) a solid bank with losses affecting capital; and (4) a strong bank using capital to acquire a weak bank. These examples are critical to understand the many ways that banks accepting capital will utilize it. Because of their importance in understanding how capital works to support lending greater than the capital injection itself, I have included these examples once again as an appendix to this testimony. We have made these examples widely available to the press and public policy makers to help with understanding the goals of the CPP and how it will be used.

While it is still early, new loans are being made. In fact, lending by the 18 largest banks to receive a TARP capital injection increased by 8 percent – $295 billion – in the third quarter of 2008 based on quarterly Call Report filings by these banks.

Certainly, it is reasonable for Congress to ask how banks might demonstrate ways in which CPP capital is being deployed. Recently, the House adopted an amendment by Representative LaTourette relating to this issue. Mr. Chairman, the ABA would like to work with the Committee as it addresses this concern, and we believe Representative LaTourette's amendment provides a strong basis for a solution. Our only two caveats are, first, that heavy and unnecessary new regulatory costs not be imposed on banks, and second, that it be recognized that each bank's situation will be different.

As noted above, banks do not track how each dollar on deposit flows through to individual loans; capital as well supports ***all*** of banks' assets (loans and securities). ***In fact, all investors, not just the government, are interested in how effectively capital is being used.*** This information is currently provided to all shareholders through extensive reporting with the bank regulatory agencies on public Call Reports, as well as through SEC filings.

Fortunately, current reporting requirements can be used as a basis to address this concern of CPP capital use. For example, the Call Report could be used to show changes in lending for CPP participating banks (as the number for the 18 largest banks demonstrates). These Call Reports provide considerable detail on lending to businesses and individuals, including commercial and residential real estate loans.

Moreover, the Federal Reserve also conducts several surveys that might be adapted to provide more detail on the aggregate level of lending from CPP participating banks. The first is the Senior Loan Officer Survey, conducted four times a year, which asks questions about changes in banks underwriting standards and loan demand. Typically, special questions are added in each survey to collect information on topical trends. Questions designed to elicit information about changes in CPP-recipient bank lending could be added and tailored to reflect the current economic environment. A second survey is one done weekly of the largest banks (and a sampling of smaller banks) to provide an aggregate level of lending activity. This survey, without modification, can provide a sense of bank lending trends for businesses and consumers. This survey could be broken out for the largest CPP participating banks.

While, as demonstrated, data can be provided, the meaning of that data will vary widely by bank. For example, a bank that can quickly raise deposits and has a local economy that is producing safe loan demand may show a significant increase in lending. Another bank in the same market may have taken a capital hit because it owned GSE preferred shares. That bank would have had to ***shrink*** its lending to maintain a well-capitalized ratio, but with the CPP capital can maintain ***current*** lending levels. A third bank may be in a market where the economy is shrinking and the demand for safe loans is just not there yet. Increasing lending would be unsafe now, but that bank is in a position to help accelerate growth as the economy turns around.

It is important to note that banks have every incentive to put the CPP capital to use by increasing lending. That is how banks make money. CPP capital has a significant cost in dividends paid to Treasury and in the warrants given the government. To cover that cost, banks must put the capital to good use.

Taxpayers Will Earn a Profit on the CPP

There is also the misperception that somehow taxpayers are going to lose money on the CPP. ABA strongly believes that Treasury will make money on the CPP – billions of dollars. Treasury is only investing in ***healthy*** banks. The net cash return to the Treasury from the investment is over $30 billion as banks pay for the use of this money.[4] Moreover, publicly traded banks issued warrants conservatively valued at between $10 billion and $15 billion.[5] Thus, the total return to the government is likely to be between $40 billion and $45 billion. This, of course, does

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[4] The Treasury has allocated $250 billion to invest in bank preferred stock. The preferred stock will pay a dividend rate of 5 percent for the first 5 years and then go to 9 percent. It is highly likely that almost every bank will try to exit the program, substituting private capital, within five years. To finance the purchase of the stock, the Treasury will have to issue debt. Assuming the debt matures in five years and a yield of 2.51 percent (the rate on the 5-year Treasury bond on November 10, 2008), the net cash inflow to the Treasury from Treasury's investment would equal almost $31.4 billion.

[5] Publicly traded institutions that participate in the CPP will have to issue warrants to purchase common stock within the next 10 years, and we expect non-publicly traded institutions to have to issue instruments that yield comparable economic benefits for Treasury.

not include the benefit to small and large businesses (and indirectly, the taxpayers) that will have credit available and will continue to make money, pay taxes and keep people employed.

In this regard particularly, we would request that TARP funds used for the CPP be segregated from other uses for record-keeping purposes. It is important that the government and public know the costs – and ***potential benefits*** – of various parts of the program.

Dividend and Executive Compensation are Seldom Paid Out of Capital

Dividends and compensation are generally paid out of the ***income earned*** from the bank, ***not from capital***. That will be the case for the great majority of participating banks. It is possible that, in a few cases, there could be a temporary period where income does not cover all costs and, therefore, there would be a temporary dip into capital accounts. However, banks are heavily regulated and such a situation would be allowed by the regulators only temporarily. If it goes on for several quarters, or if regulators believe it will, then the bank will be required to undertake a program, among other things, to raise capital and/or cut dividends. Excess compensation would also not be allowed if it would cause capital to be impaired. The regulators have reiterated in clear form this traditional banking policy, and ABA supports this regulatory approach.

It is important that banks volunteering for the CPP not be cut off from reasonable dividend and compensation policies. These policies are necessary to encourage private investment in banks. Many banks joining the program have been paying regular dividends for years – even decades – without interruption. Dividends are particularly important for bank stocks, which are known for paying solid dividends. That is why many people in retirement and pension plans invest in bank stocks. These investors should not be punished by having the dividends needlessly cut out. Furthermore, the dividend supports the stock price and the ability to raise capital, and eliminating it would be exactly contrary to the purpose of the CPP program. Finally, the taxpayers would be hurt because the value of the warrants would be undermined.

The fact is that the great majority of banks would not participate in the CPP if prohibited from paying dividends or reasonable compensation, including bonuses. Again, it is essential that policy makers distinguish between capital infused in healthy banks and money provided to institutions seeking support to avoid failure, where such restrictions make sense.

Banks of all sizes, shapes and locations will be participating in the program. The only things they will have in common are that they are strongly regulated and are solid, not weak, banks. The recent regulatory guidance, building on traditional regulatory principles, provides the right roadmap and flexibility to address concerns about dividends, compensation, and other issues. We strongly urge Congress not to put additional restrictions, beyond those contained in the existing Treasury Term Sheets, on banks participating in the CPP after those banks, which did not ask for the program, have already signed up. To do so would be unfair and counterproductive.

The Need for Clarity

Much of the confusion about the CPP program is a result of the ever-changing nature of TARP and the various uses of TARP funds. ABA strongly recommends that the Congress and the next Administration establish clear-cut programs within TARP. For example, the CPP should be clearly separated from a program to address potential failures of systemically important institutions and, of course, from a program to address the foreclosures crisis. The current confusion is harmful. Only by clearly identifying the programs can there be proper Congressional oversight and effective policymaking. The public's confusion undermines confidence in the efforts to turn around the economy. Finally, the costs of each program should be separately determined.

The CPP program is different. On the next page, there is a side-by-side table that shows the differences. It is a program that encourages FDIC-insured banking institutions that are healthy to sell a specifically designed capital instrument to the government. Its purpose, as we understand it, is to increase the capital position of the banking sector (even though the great majority of banks are well capitalized) in order to stabilize the financial markets and provide the strong foundation on which an economic recovery can be built through the increased provision of sound credit. This is a role America's banks are committed to carry out.

II. Fully Fund the Capital Purchase Program as Originally Announced

The TARP program set aside $250 billion under the CPP to fully fund any bank that wished to participate in the CPP. We are very concerned that, first, the funding allocated for other purposes has already tapped a significant portion of this money, leaving the current allocation inadequate to meet the commitment. Second, we are very concerned that many banks do not yet have the

Comparison of Systemic Risk Rescues and the Capital Purchase Program	
Rescue of Companies That Pose Systemic Risk	**Capital Purchase Program**
For ***troubled or failing*** companies that pose systemic risk.	For ***healthy*** institutions; explicitly <u>not</u> for troubled or failing companies.
Troubled or failing companies ***ask*** for rescue	The government created the program; one banking industry did not ask for it. ***Voluntary***, but government requests banks participate.
Purpose is to ***prevent bankruptcy*** of companies that could have a systemic impact.	Purpose is to ***stabilize financial markets*** by providing capital to healthy institutions and increasing the flow of credit to businesses and consumers.
Rescues have been ***individually negotiated with participants***.	***Government determined same terms for all participants.*** No input on terms from participants.
Final ***cost*** of rescues ***uncertain***.	Government ***almost certain*** to receive tens of ***billions*** in net profits.
Exit strategy uncertain. How government involvement ends is unknown.	***Designed with exit strategy*** . Government investments paid off within ***five*** years.

opportunity to participate. We believe strongly that the current commitment should be fulfilled in order to prevent competitive disparities from occurring and to assure that ***every community*** has the same opportunity for its banks to participate, ***so that increased credit availability will spread across the country***. Thus, we urge that the commitment to fund up to $250 billion for banks be honored. We are not asking that more money be provided, just that the initial commitment be honored to assure fair treatment for all healthy banks and all communities.

We recognize that much has been done in the past few months under difficult circumstances. However, more must be done. There are more than 3,000 banks – over one-third of our nation's banks – that are still waiting for Treasury to issue term sheets that would allow their participation in this program should they choose to accept the capital investment. These banks are organized as subchapter S-corporation banks or mutual institutions. They play a critical role in meeting the credit needs of cities and towns across America. These community banks are particularly important in funding small businesses, which are the first to generate new jobs as the economy recovers. While they did not cause the current problems in our economy, they stand ready to be a significant part of the solution.

Moreover, the failure to include these institutions in the CPP undermines the effectiveness of the program and places these banks at an unfair competitive disadvantage that is compounded each day that they remain excluded. They can only watch while many of their competitors, strengthened by capital injections from the government, seize opportunities to meet the credit needs of their communities. Simply put, the CPP should allow all healthy banks, regardless of their corporate structure or charter type, to participate.

As these corporate structures may not be fully understood by some policymakers, let me describe briefly the structure of those banks:

- ***Subchapter S-corporation banks:*** Many community banks are organized under this structure. These banks are subject to many restrictions, including on the number of shareholders, which is limited to 100, and on the type of stock they may issue. S-corporations may only issue a single class of stock. The senior preferred stock that Treasury has requested could constitute a second class of stock and, therefore, S-corporations would not be able to participate. ABA supports a proposal developed by the federal banking regulators that would allow S-corporation banks to issue to Treasury a type of debt obligation with performance obligations, such as non-deductible interest, so that the CPP investment would be on the same level as other participants. This would allow approximately 2,500 institutions the option to participate in the program.

- ***Mutual banks:*** There are about 735 banks organized under mutual ownership, of which about 175 are in the form of mutual holding companies. Those without mutual holding companies cannot issue shares. Some mutual holding company structures have issued minority shares, but must retain a majority interest in the hands of the mutual ownership interest if they are to remain mutually owned. Even if they have the capacity to issue additional preferred shares, they may not be able to comply with requirements established by Treasury for exchanged-traded, SEC filing companies. Finally, a majority of mutual holding companies have not been authorized to issue minority shares, and cannot comply with the terms currently available under the CPP. We propose two alternatives. Instead of preferred stock, subordinated debt could be used as a replacement investment with some type of redemption fee. Alternatively, mutual capital certificates could be used. Mutual capital certificates are subordinate to all deposit accounts and debt obligations, and are entitled to be paid dividends.

I cannot say strongly enough that it would be patently unfair to exclude over 3,000 healthy institutions from having the choice of whether or not to use the CPP capital. In letters to the Treasury, ABA has pledged our assistance to help develop the appropriate term sheets so that these institutions can fully participate in the CPP. Regardless of the corporate structure, all banks provide vital services to their communities and all should be allowed to compete on equal terms.

I would also emphasize that the current situation is unfair to regions of the country where mutual institutions are a critical source of financing and unfair to many individual communities where S-corporation or mutual institutions may be the most prevalent local source of credit.

III. Use TARP Funding for Distressed Homeowners

The housing crisis is still at the heart of the current economic turmoil and should be a major focus of the economic stimulus package and of TARP. In my November testimony, I stated that

ABA advocated a four point approach to the housing issue: First, efforts should be made to reduce mortgage interest rates and the unprecedented gap between mortgage rates and Treasuries; significant progress has been made in this area. Second, ABA recommends that the stimulus package include a temporary tax credit for the purchase of homes; consideration should also be given to stimulating the purchase of homes to be used as rental properties, for example by increasing depreciation deductions. Third, the ABA wishes to work with this committee in its upcoming efforts to address the problems of negotiating foreclosures of mortgages that were securitized. Fourth, more direct efforts to mitigate foreclosures are needed; despite the best efforts of Congress and the private sector, the foreclosure problem, made worse as the economy deteriorates, continues to haunt individuals and communities.

The unprecedented turmoil in the nation's credit and mortgage markets, combined with significant challenges in reaching affected homeowners, have called for innovative, far reaching efforts to address the particular needs of homeowners in distress. There are several efforts underway that complement each other. First, financial service industry leaders, working through the HOPE NOW alliance, have made significant progress in assisting borrowers. The alliance estimates that 2.2 million foreclosures have been avoided through its efforts, which include almost one million mortgage modifications, workshops held across the United States, and a hotline that has received an average of 7,000 calls per day. Second, the Hope for Homeowners program is another unique program that may be more successful now that the Department of Housing and Urban Development (HUD) has made some changes to the program. Mr. Chairman, ABA is committed to working with this committee to further improve Hope for Homeowners.

Now, the FDIC has proposed a program that has the potential to reach many more borrowers nationwide. We believe the program has promise. Since I testified to this effect in November, ABA has convened a group of bankers to work with the FDIC and Congress to make this FDIC proposal as effective as possible. The proposal would require funding approved by Congress for the program's partial guarantee against secondary default. We believe that the Troubled Asset Relief Program is the logical source of funding for this program.

Recommended Changes to Improve the FDIC's Loan Modification Proposal

Below are recommendations to improve the FDIC's concept based on discussions with bankers that are very knowledgeable about mortgage modifications.

- ***The debt to income (DTI) requirement should be 38 percent.*** Currently, the proposed program will accept anyone that is 60 days or more delinquent, provided that term modifications to as low as 31 percent DTI result in at least a 10 percent payment reduction, and the borrower can make the first payment. To better control moral hazard and gaming risks, borrowers should ***not*** be eligible to enter the program unless their current mortgage debt to gross income (DTI) ratio is 38 percent or above. Lower ratios, down to 31 percent, could still be addressed through other modification programs or through more traditional problem loan workouts. The moral hazard problem created by potentially inducing delinquencies and the prospective costs of resultant federal guarantees would be controlled by not including moderately high mortgage debt burdens under the automatic program. We see the requirement of at least a 10 percent reduction in payment as a safeguard against gaming, but feel that borrowers with moderately high debt burdens already have reasonably affordable mortgages and should not be eligible to participate in this particular guarantee program. More importantly, changing the DTI requirement would focus the program more on those households where significant reductions in mortgage payments are likely to prevent foreclosure.

- ***Re-defaults should be optionally covered after 3 months of on-time payments.*** Currently, the proposed program would cover 50 percent of losses from re-defaults on modified mortgages ***following 6 months of on-time payments***. Unfortunately, the data show that there is still a high rate of re-default during the first six months of a modification. This may discourage adoption of the program by banks that believe there is a high risk of early re-default. As a result, ABA recommends that a second option be provided to guarantee against re-default after three months of on-time payments, with an appropriate and corresponding reduction in the level of guarantee.

- ***Participation should be voluntary and smaller institutions should be allowed to participate under more flexible terms appropriate to their business models.*** Many community banks have small numbers of troubled loans, both in absolute size and relative to the total portfolio, which might benefit from the modification and guarantee program. These banks should be allowed to participate in the program with adjustments to permit greater individualization and attention to specific borrower circumstances than would be possible at larger seller-servicers. The loan modification and guarantee should be available to community banks that typically engage customers more directly on a loan-by-loan basis.

- ***Private mortgage insurance proceeds should remain with lenders and investors.*** The FDIC should clarify that it would not have a claim on proceeds from private mortgage insurance obligations intended to support lenders and investors, at least in part, during modifications.

There are some issues that should be reviewed in conjunction with the implementation of the FDIC model. First, explicit exemptions from new TILA requirements for modifications are needed, either from the Federal Reserve or through legislation, to ensure that lenders will participate in the modification program. Section 226.20(a)(4) of the Truth in Lending Act indicates that a modification is not a refinancing (which requires new disclosures). The commentary to this section further clarifies with regard to workouts that "[a] workout agreement is not a refinancing unless the APR is increased or additional credit is advanced beyond amounts already accrued plus insurance premiums." While this is helpful, we are concerned that a workout under the FDIC program in which missed payments are capitalized may be considered to be a further extension of credit. Lenders may fear TILA class actions unless it is made explicit that modifications under the FDIC program, including those in which missed payments are capitalized, do not require additional TILA disclosures.

Second, accounting issues relating to Other Than Temporary Impairment (OTTI) status must be resolved. Banks that participate in the program are likely to face scrutiny of their entire portfolios for OTTI classification, and may end up with many loans which share similar characteristics as the loans modified (but which remain current in payments and are not eligible for modification under the program) being classified at OTTI. Such an outcome would discourage banks from participating in the program. We strongly encourage Treasury, the FDIC, the Securities and Exchange Commission and the Federal Accounting Standards Board to work together to address this issue. OTTI status should not necessarily be imparted to loans which share similar characteristics to the troubled loans being modified under the FDIC program if those loans do not meet the qualifications for modification.

Recommended Changes to Improve the Hope for Homeowners Program

Finally, we would like to address our continued support for the Hope for Homeowners program. We believe the changes to the program recently implemented by the Department of Housing and Urban Development have the potential to attract many more borrowers and lenders. We suggest the following principles, which may help to improve the program even more:

- **Streamlining the process.** The current underwriting process for Hope for Homeowners is complex and confusing, both for borrowers and lenders. Existing technology platforms cannot be used to originate a Hope for Homeowners loan, and the investment of both time and money to modify or create new platforms is too substantial to be economically feasible, especially when loan origination departments are running above capacity. As a result, Hope for Homeowners loans all have to be done ***manually***. This is time-consuming and frustrating for the borrower and lender alike. We encourage FHA to explore the use of the streamlined underwriting process it currently employs for FHA refinances as a model for Hope for Homeowners originations. Additionally, we urge FHA to relax Direct Endorsement requirements to give servicers (and their contract underwriters) greater flexibility to structure broader home retention solutions for more borrowers.

- ***Second lien holders must be given greater incentives to extinguish or subordinate their interests.*** Second lien holders present a substantial impediment to refinancing under the Hope for Homeowners program. Recent changes adopted in law allow for payments to second lien holders as incentives to extinguish or subordinate their interests. FHA should immediately implement a process for providing sufficient cash payments as incentives for second lien holders.

- ***Lenders and servicers must be provided protection against litigation when acting reasonably and in good faith.*** All loan mitigation programs, including Hope for Homeowners, face the hurdle of litigation risk from investors when loans have been securitized. After the announcement of the Hope for Homeowners program, at least two MBS investors sent letters to their servicers threatening litigation if the servicers were to implement the Hope for Homeowners program. Investors have been particularly opposed to the principal reductions required by Hope for Homeowners. Legislation is needed to provide a 'safe harbor' for lenders and servicers which implement loss mitigation solutions under which it can reasonably be concluded that such solution is in the interest of investors through a net present value calculation. Such a safe harbor should explicitly include principal reductions that demonstrably result in a better return for investors than foreclosure.

- ***Incentives to participate should be provided for borrowers with no equity.*** A sad reality is that some borrowers who find themselves with no equity in their homes will choose to simply walk away from the property (and the loan obligations) rather than participate in Hope for Homeowners. This is largely because the Hope for Homeowners does not provide them incentives to keep the property and/or does not provide the borrower with a monthly payment that is affordable. We believe that the equity and appreciation sharing components of Hope for Homeowners discourage potential borrowers from participating in Hope for Homeowners. Most homeowners view their home not just as a place to live, but also as an investment. Denying equity or appreciation to borrowers puts them in the position of renters rather than owners, and many borrowers will find it cheaper to simply become a renter after walking away from the property. The equity and appreciation sharing components of the program should be eliminated or significantly reduced.

- ***The insurance requirement should be reconsidered.*** The current structure of the Hope for Homeowners program requires up front and annual insurance premiums and requires that loans must be structured as 30-year fixed rate loans (40-year loans will be allowed when recent statutory changes are implemented). These requirements limit the affordability of Hope for Homeowners loans for many borrowers. We recommend the elimination or substantial reduction of the upfront and annual premiums in the early years of the loan and the use of more flexible rate requirements for loss mitigation. For example, we urge the consideration of interest only features or lower interest rates in the early years of the loan with gradual payment increases to facilitate keeping borrowers in the home now.

IV. Coordinate the CPP with Other Programs to Avoid Conflicting Messages and Disincentives to Lending

Not only have banks been receiving ***confusing*** messages from the government, they have been receiving ***conflicting*** messages. As has often been the case, there may well be a disconnect between the regulatory headquarters in Washington and the examiners in the field. It is a matter of achieving the right balance between making sure banks are following sound lending policies and not discouraging innovation and good lending. Regulators certainly should be carefully reviewing banks and their capital, borrowing, and lending policies. As I detailed in my November testimony before this committee, several problem areas remain. Here is a quick summary of these concerns:

- ***Capital:*** There continues to be concern that bank examiners are taking the opportunity afforded by the CPP injections to raise the expected capital threshold. This means that new capital supports ***existing*** loans, and ***cannot*** be used for ***new*** ones, thus making the CPP capital injection moot as a basis for increased lending. While the heads of the banking agencies have told us that this is not the policy of their agencies, field staff may be much more demanding, particularly in areas most affected by the housing crisis.

- ***FDIC's Guarantee Program of Senior Unsecured Debt and Transaction Accounts:*** The recent actions taken by FDIC to guarantee debt and fully insure transaction accounts represent a significant departure from the traditional role of the FDIC. What is generally ***not*** understood is that this guarantee is first and foremost backed by the capital of the banking industry. These actions by FDIC under the systemic risk exception should not become permanent facilities. Moreover, as the banking industry must bear the costs of these initiatives, it is important that the risk of these new guarantees be closely monitored and changes made if negative unintended consequences arise.

- ***The Danger of a Regulatory Overreaction:*** A regulatory overreaction that signals to banks to stop certain types of lending will only exacerbate the credit crunch. Just as too much risk is undesirable, a regulatory policy that discourages banks from making good loans to creditworthy borrowers also has serious economic consequences.

- ***Doubling of FDIC Premiums:*** Our members understand the importance of having a financially sound FDIC insurance fund. Since banks are responsible for the fund's financial health, the ultimate cost to the industry will be virtually the same no matter what recapitalization plan is implemented. At issue is the ***timing*** of payments to rebuild the fund. It is critical to achieve the right balance so that the fund can remain strong without pulling funds unnecessarily from banks that need them to support loans in their communities.

- ***Discouraging the Use of Federal Home Loan Bank Advances:*** The FDIC has proposed significant additional costs (i.e., added insurance premiums) for use of Federal Home Loan Bank (FHLB) advances. The threshold proposed by the FDIC unfairly penalized banks that have relied on these very stable sources of liquidity. Moreover, FHLB advances are a cost effective way to raise funds, help banks manage interest rate risk by match-funding to the term of the loan, and often facilitate community development loans.

- ***Discouraging Retention of Local Deposits:*** The FDIC also proposes to charge higher premiums to banks that use elevated levels of brokered deposits, but the FDIC proposal fails to distinguish among ***different*** types of brokered deposits. This is critical as some so-called "brokered deposits" – such as reciprocal deposits and sweeps from broker-dealers to affiliated banks – are designed to maintain relationships with customers and provide safe, stable and low-cost funding for banks.

  The law governing brokered deposits needs to be explicitly modified to distinguish these types of customer deposits from the more volatile brokered deposits the law was intended to cover. In the meantime, the FDIC and other bank regulators should distinguish between different types of "brokered" deposits in the supervision of banks and in the assessment of deposit insurance premiums.

- ***Address the $250,000 FDIC Insurance Limit Expiration Soon:*** As noted, the CPP capital serves as a basis for additional lending, but that lending can only take place after a bank obtains lendable funds, generally in the form of additional deposits. In the Emergency Economic Stabilization Act, the Congress increased the deposit insurance limit from $100,000 to $250,000. This increase helped increase consumer, and particularly small business, confidence and also provided some additional funding for banks.

  However, this increase expires at the end of 2009. It is important that this issue be addressed by Congress as quickly as possible. As a practical matter, with each passing month, it becomes more difficult to banks to effectively offer certificate of deposits (CDs) over $100,000 with longer maturities because the insurance increase expiration is moving closer. For example, by June, banks will only be able to offer six-month CDs in the $100,000 to $250,000 range that are fully insured. This limitation will hurt the ability of banks to fund loans.

Conclusion

Mr. Chairman, we appreciate the opportunity to present the views of the American Bankers Association today on TARP. We hope this testimony helps clarify the CPP and that our four suggestions for the future of TARP are of value to the Committee.

Appendix

Examples of How the CPP Capital Can Be Employed by Banks

The availability of capital through the Capital Purchase Program provides added flexibility to help assure that borrowing needs are met. There is so much confusion about the program that it may be helpful to provide some simplified examples as to how it can work to increase lending, which both Treasury and Congressional leaders have said is the purpose of the program. In these examples, hypothetical community banks with $100 million in assets and $10 million in capital are used. The hypothetical banks will then sell $2 million in equity capital to the government.

In these examples, it is important to note several factors where there is a great deal of misperception. First, as a general rule, only strongly capitalized, healthy banks are eligible. This is the exact opposite of the capital injection programs in Europe and elsewhere; it is also the opposite of other uses of TARP and other government funds.

Second, the government money is a capital injection; it is not money that is used directly for lending. What capital does do is to allow banks to employ the deposits of their customers more fully. In fact, banks are able to support about $10 of assets (e.g., loans and securities) with $1 of capital. As a rule of thumb, $1 of capital could support $7 of lending. Even though loan losses have increased, which has caused capital ratios to fall somewhat, the vast majority of banks are still well-capitalized, which is the highest rating the regulators can give. Under normal circumstances, banks would go to the private capital markets for additional capital, but those markets are now extremely tight. Thus, without additional capital to back more loans, banks might not be able to grow lending; others might even shrink lending in order to boost the capital-to-assets ratio.

Example 1: Well-Capitalized Bank With Growing Loan Demand

Consider a well capitalized bank in a market where loan demand is currently growing. That growth is a combination of some economic growth and the fact that, in current markets, other non-bank sources of credit have dried up. Additional deposits to fund lending can also be acquired as money is seeking the safer haven of insured deposits. There are a large number of banks in this category, although the level of local economic growth can obviously vary.

This bank starts with $100 million in assets and 10 percent capital. After obtaining $2 million in additional CPP capital, the bank can make new loans and grow to $120 million in assets and still have a 10 percent capital ratio. This shows how $2 million in capital can support up to $20 million in additional assets, most of which could be loans. If there are lending opportunities available, as there are in this example, the extra credit can be made available fairly quickly. However, there are two caveats here. One, this example assumes that regulatory capital ratios are not increased by bank regulators. While raising capital requirements may be appropriate in individual circumstances, a general move in that direction will neutralize the CPP program. Note that if the regulatory capital level in this example is raised to 12 percent, the new capital will not support any increase in lending. Two, the bank must apply sound credit standards to its lending programs; there should be no pressure to push out loans as that will just lead to more defaults.

Example 2: Well-Capitalized Bank with Shrinking Loan Demand

Like the bank in Example 1, this bank is well-capitalized but is in an area where the economy is not growing or is shrinking. There are, of course, many areas of the country that look like this. Here, a well-capitalized bank could also increase assets by 20 percent, but it would be unsafe to do so quickly. Careful underwriting is needed to assure that the loans are going to creditworthy borrowers. This bank may not be able to grow its deposits to fund the loans rapidly either, as job loss may be high and income growth low. However, importantly, with additional capital this bank is now in a position to fund loans as the local economy begins to grow and thereby ***accelerate*** the economic recovery.

Example 3: A Solid Bank With Losses Affecting Capital

The great majority of banks are covered in the first two examples. However, there are some banks that are still in good financial shape, but that have taken a capital hit. For example, some banks that were well capitalized and profitable took a hit when the value of their preferred shares in Fannie Mae and Freddie Mac were virtually wiped out overnight. In this example, the bank had to write off a $2 million loss, and therefore its capital level was reduced to 8 percent. Since it cannot raise capital in current markets, this bank must ***shrink*** to get back to 10 percent. In fact, it will have to trim $20 million in loans and other assets in order to shrink to $80 million in assets. Thus, the bank will generally stop making loans – including not rolling over loans to existing customers and reducing lines of credit. The bank may even try to sell loans, which, in this market would be difficult to do. If this bank had $2 million in new CPP capital, it would not have to stop making loans and would be able to continue meeting the needs of its local businesses.

Example 4: A Strong Bank Would Use Capital to Acquire a Weak Bank

This example is one that has raised some controversy. It is clearly not the intent of Congress that the TARP funds be used to support acquisitions generally. However, when there are banks that are weak enough that they cannot increase or even maintain lending levels, facilitating their acquisition may well increase overall lending. In this example, a well capitalized $100 million bank with 10 percent capital is interested in acquiring a weak bank of the same size in a neighboring town. However, in acquisitions, the value of the assets of the acquired bank must generally be immediately written down under fair-value accounting rules. In this example, we assume a very modest $2 million write-down. (This is another area where current applications of accounting rules are causing problems.) Instead of 10 percent capital, this acquired bank will only have 8 percent. Thus, the combined entity will have only 9 percent capital on its $200 combined assets. The acquisition will probably not take place, as the reduced capital ratio would drop the bank out of the "well capitalized" regulatory classification. If $2 million in CPP capital are infused into the acquiring bank to help facilitate the merger, the new combined entity will have 10 percent capital, the acquisition can take place, and lending can be maintained in the neighboring town.

The point of these four examples is to show that there are many ways that the capital infusion can be effectively deployed by the accepting banks. While different, all have the effect of stabilizing credit availability, expanding lending in the near-term to meet demand, and making credit available as the economy turns the corner and new business opportunities arise for bank customers. Treasury needs the flexibility to invest in banks like those in the examples, and banks need the ability to deploy this capital in the most appropriate way to facilitate economic growth in their communities. Most banks in this country have been in existence for decades, and often for more than a century. They expect to be in those communities for the next 100 years and understand the needs for credit to promote economic growth. The CPP program can help each participating bank in its own way.