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U.S. DEPARTMENT OF THE TREASURY

Press Center

Statement by Secretary Henry M. Paulson, Jr. on Capital Purchase Program

10/20/2008

hp-1223

Washington, DC--Good morning. As you know, over the last few weeks we have worked aggressively to implement the authorities provided by Congress in the financial rescue package enacted earlier this month. This morning, I will provide a short update on the capital purchase program that is a key component of that package.

As we have designed the program, Treasury will make \$250 billion in capital available to U.S. financial institutions in the form of preferred stock. Institutions that sell shares to the government will accept restrictions on executive compensation, including a clawback provision and a ban on golden parachutes during the period that Treasury holds equity issued through this program. This is an investment, not an expenditure, and there is no reason to expect this program will cost taxpayers anything. They will not only own shares that should be paid back with a reasonable return, but also will receive warrants for common shares in participating institutions. We expect all participating banks to continue to strengthen their efforts to help struggling homeowners who can afford their homes avoid foreclosure. Foreclosures not only hurt the families who lose their homes, they hurt neighborhoods, communities and our economy as a whole.

While many banks have suffered significant losses during this period of market turmoil, many others have plenty of capital to get through this period, but are not positioned to lend as widely as is necessary to support our economy. This program is designed to attract broad participation by healthy institutions and to do so in a way that attracts private capital to them as well. Our purpose is to increase confidence in our banks and increase the confidence of our banks, so that they will deploy, not hoard, their capital. And we expect them to do so, as increased confidence will lead to increased lending. This increased lending will benefit the U.S. economy and the American people.

In addition to the nine banks who announced their participation last week, we have received indications of interest from a broad group of banks of all sizes. Today we are laying out a streamlined, systematic process for all banks wishing to access this program.

First, we have worked with financial regulators to finalize the application process. There is now a single application form that qualified and interested publicly-held financial institutions will use to submit to their primary regulator – the Federal Reserve, the FDIC, the OCC or the OTS. These regulators will post this application form on their websites before the end of the day.

The terms for this program are the same for all institutions that apply before the capital purchase program deadline of November 14, 2008. Sufficient capital has been allocated so that all qualifying banks can participate. Let me be clear that this program is not being implemented on a first-come-first-served basis.

Second, to apply for the capital program, banks should review the program information on the Treasury website and then consult with their primary federal regulator. After this consultation, institutions should submit an application to that same primary federal regulator. Treasury has worked with the regulators to establish streamlined evaluations; this means that all regulators will use a standardized process to review all applications to ensure consistency.

Third, once a regulator has reviewed an application, it will send the application along with its recommendation to the Office of Financial Stability at the Treasury Department.

Once Treasury receives the application with the regulator's recommendation, we will review it and decide whether or not to make the capital purchase. Treasury welcomes the expertise of the financial regulators, and will give considerable weight to their recommendations.

Finally, all transactions will be publicly announced within 48 hours of execution. We will not, however, announce any applications that are withdrawn or denied.

This efficient process – with standardized forms and standardized review – will encourage banks and thrifts of all sizes to participate in the program. By so doing, they will increase their capital base so that they can provide the lending necessary to support the U.S. economy as we work through this difficult period. Thank you.

