FAQs on Capital Purchase Program Repayment

Q1. What is the policy for returning CPP money?

Under the original terms of the CPP, banks were prohibited from repaying within the first three years unless they completed a qualified equity offering. However, the provisions introduced by the American Recovery and Reinvestment Act of 2009 indicate that once an institution notifies Treasury that it would like to repay its CPP investment, the Treasury must permit a TARP recipient to repay subject to consultation with the appropriate Federal Banking Agency.

All institutions seeking to repay CPP will be subject to the existing supervisory procedures for approving redemption requests for capital instruments. Supervisors will carefully weigh an institution's desire to redeem outstanding CPP preferred stock against the contribution of Treasury capital to the institution's overall soundness, capital adequacy, and ability to lend, including confirming that the institution has a comprehensive internal capital assessment process.

The 19 BHCs that were subject to the SCAP process must have a post-repayment capital base at least consistent with the SCAP buffer, and must be able to demonstrate its financial strength by issuing senior unsecured debt for a term greater than five years not backed by FDIC guarantees, in amounts sufficient to demonstrate a capacity to meet funding needs independent of government guarantees.

Q2: What will happen to the warrants that Treasury owns in these banks?

After repaying their CPP preferred stock, institutions also have the right to repurchase the warrants issued to Treasury for their appraised market value. If an institution chooses not to repurchase the warrants, Treasury may liquidate registered warrants. The warrants cannot be sold to an investor until the bank has had an opportunity to repurchase them.

Q3. How will you value the warrants that you own in banks that are repaying CPP investments?

The issuer can repurchase the warrants at "fair market value," as defined in Section 4.9 of the Securities Purchase Agreement. Specifically, the bank wishing to repurchase warrants will hire an independent advisor that will use standard industry practices to value the warrants and will present the offer to Treasury, which will independently calculate its own determination of fair market value using a robust process which includes third party input. If those values differ, then Treasury and the bank will followed the process defined in Section 4.9 to reach a mutually agreed upon fair market value.

Q4. How will the public know when a firm has repaid its CPP preferred or repurchased Treasury's warrants?

Information on CPP preferred repayments and warrant repurchases is made available online and updated regularly in the TARP Transactions Reports. The reports can be found at http://www.financialstability.gov/latest/reportsanddocs.html.

Q5: For CPP participants who have used the public institution transaction documents, how is the warrant exercise price calculated?

Treasury is aware that there is some confusion around this calculation. All warrant exercise prices have been calculated in a consistent manner, taking the average of the closing prices for the twenty trading days up to and including the day prior to the date on which the TARP Investment Committee recommends that the Assistant Secretary for Financial Stability approve the investment. Please note that (i) the recommendation of the Investment Committee constitutes preliminary approval, but final approval of an investment occurs only when the transaction documents are executed and delivered by Treasury; and (ii) a trading day is defined as a day on which where was trading activity in a given name.