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NEWS RELEASE

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Idaho Banks Participate in TARP

What Does it Mean?

Boise, Idaho …. The U.S. Treasury has begun announcing the names of banks that have received federal government investments under the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP). Three Idaho state-chartered banks which have received nearly $42 million, and several other banks that do business in Idaho, are on the list. Gavin Gee, director of the Idaho Department of Finance, said more Idaho banks likely will choose to participate in the CPP program.

"It is important that the banks' customers, shareholders, and all Idahoans be clear on what it means if a bank participates, or decides not to participate, in the CPP," Gee said. "The term 'bailout' does not apply to this program, and its use does a disservice to the banks that participate, and is misleading to the public. The department is receiving an increasing number of questions and complaints regarding the CPP, most of them are based on misperceptions."

The goals of the U.S. Treasury's CPP were to restore confidence in the financial system, encourage banks to build capital to increase the flow of financing to businesses and consumers, and to support the country's economy. The program is voluntary and, from its inception in October 2008, only healthy institutions were encouraged to apply.

"Whether or not a bank participates in the CPP should not be interpreted by the public as any indication of the bank's condition. Some healthy banks applied, some healthy banks chose not to apply. One holding company with two banks in Idaho applied, was approved, and then declined participation," Gee said. "Each bank necessarily reached a decision based on the best business interests of the bank, its shareholders, and its community."

Some of the factors the banks had to consider were:

- The program results in the federal government investing in the bank, meaning that the government would be a shareholder. Because the program was devised quickly, some banks had concerns about the role the federal government would play as a shareholder, and whether the rules would change.
- The program comes with strings attached, including limits on executive compensation, and restrictions on share repurchases and dividend payment increases.
- Participating banks must pay the federal government dividends. The initial dividend rate is 5% per annum until the fifth anniversary and increases to a rate of 9% per annum. A financial institution may not redeem the U.S. Treasury's investment for a period of three years, except under certain conditions. All redemptions will be at 100% of the issue price plus accrued and unpaid dividends. The U.S. Treasury also will receive warrants to purchase either common or preferred stock depending on whether the financial institution is a public or privately held organization. Each bank had to determine if the money could be used profitably, given the cost of the funds.

As opposed to a bailout, which implies that the money was given to rescue troubled banks, the CPP creates an opportunity for federal government investments in healthy banks. In return for its investment, the government will receive preferred shares of the bank and warrants to purchase bank common or preferred stock. The investments will be repaid. Until repaid, the banks will pay dividends to the government. Finally, the FDIC has announced its expectation that the banks for which it is the primary federal regulator will track and report the use of the federal funds they receive, and that the funds will be used to prudently support credit needs in the community and strengthen bank capital.

"Idaho's banks have a long history of meeting the credit needs of their communities and providing a basis for our traditionally resilient local and state economies," Gee said. "I expect this will be true for their use of any federal investment money."

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