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Financial Services Report

Special Report

Summary of TARP Capital Purchase Program

- The U.S. Treasury Department ("Treasury") will purchase up to $250 billion senior preferred stock (the "Stock") and warrants for common stock from Qualifying Financial Institutions ("QFIs").

- **Definition of QFI**. "QFI" means generally any U.S. bank or bank holding company (including savings and loan holding companies (foreign controlled banks are excluded)). To the extent a bank has a holding company, only the holding company will be a QFI.

- **Eligibility.** The Treasury will determine eligibility and allocation for QFIs after consultation with federal banking regulators.

- **Deadline**. Institutions must elect to participate before 5:00pm EDT on November 14, 2008. Treasury will purchase the Stock by year-end 2008.

- **Enrollment**. Interested institutions should contact their primary federal regulator for specific enrollment details.

- **Limitations**. The minimum subscription amount is 1% of risk-weighted assets and the maximum is the lesser of $25 billion or 3% of risk-weighted assets.

- **Capital Treatment**. The Stock will qualify as Tier 1 capital and will rank senior to common stock and pari passu with existing preferred shares, other than preferred shares which by their terms rank junior to exiting preferred shares. The Stock will rank senior to trust preferred securities.

- **Dividend Rate**. The Stock will pay cumulative dividends at a rate of 5% for the first 5 years and 9% after year 5. For QFI's that are not holding companies, the dividends will be non-cumulative. If dividends are not paid in full for six dividend periods, the Treasury will have the right to elect two directors. Such right to elect directors shall end when full dividends have been paid for four consecutive dividend periods.

- **Terms**. The Stock (i) will be non-voting (other than class voting rights); (ii) will be callable at par after 3 years; (iii) prior to the expiration of the first 3 years, may be redeemed with the proceeds from a qualifying equity offering of any Tier 1 perpetual preferred or common stock; (iv) may be transferred by the Treasury to any third party at anytime; and (v) will typically have a liquidation preference of $1,000 per share.

- **Executive Compensation Limitations**. QFIs must adopt the Treasury's standards for executive compensation and corporate governance for the period of time the Treasury holds equity in the QFI. With respect to senior executives, those standards include:
  - Ensuring that incentive compensation does not encourage unnecessary risk taking;
  - Requiring the clawback of any bonus or incentive based on financial statements that are later proven to be materially inaccurate;

- Prohibiting golden parachute payments (certain severance and change in control payments); and
- Agreeing not to deduct from taxes all compensation over $500,000 for each senior executive.

- **Dividend Restrictions**. Common dividends cannot be increased without Treasury approval until 3 years after issuance, unless the Stock has been redeemed or transferred. Dividends on common, junior preferred or pari passu preferred are prohibited if in arrears on Stock dividends.

- **Repurchase Restrictions**. During the first three years, Treasury consent is required for most stock redemptions, unless the Stock is redeemed or transferred.

- **Warrants**. In conjunction with the purchase of Stock, the Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the Stock investment. The Treasury will agree not to exercise any voting rights associated with the common stock. The terms of the warrants are to include the following:
  - The exercise price on the warrants will be the market price of the QFI's common stock at the time of issuance, calculated on a 20-trading day trailing average;
  - Warrants will be issued for 10-year terms and will be immediately exercisable. Common stock issued pursuant to the warrants will be non-voting; and
  - If a QFI raises common or perpetual preferred equal to at least 100% of the issue price of the Stock by December 31, 2009, the number of warrants shall be reduced by 50%.

Issues Awaiting Resolution

- What will be the eligibility criteria? Will it be necessary that the QFI be at least adequately capitalized when Treasury purchases the Stock?
- How will the market price of a non-publicly traded QFIs be determined for purposes of pricing the warrants?
- What will the offering document contain?
- Will a QFI have a right to redeem warrants prior to issuance?
- Will the Stock come with limitations as to how the proceeds must be used?
- How will participation in this program affect the ability of the QFI to effect other securities offerings? Must this offering be integrated with securities offerings? ■

VEDDERPRICE®

222 NORTH LASALLE STREET
CHICAGO, ILLINOIS 60601
312-609-7500 FAX: 312-609-5005

1633 BROADWAY, 47th FLOOR
NEW YORK, NEW YORK 10019
212-407-7700 FAX: 212-407-7799

875 15th STREET NW, SUITE 725
WASHINGTON, D.C. 20005
202-312-3320 FAX: 202-312-3322

www.vedderprice.com

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Editor in-Chief

James M. Kane	312-609-7533

Executive Editors

Robert J. Stucker	312-609-7606
Daniel C. McKay II	312-609-7762
James M. Kane	312-609-7533
Douglas M. Hambleton	312-609-7684
Jeffrey C. Davis	312-609-7524
Daniel O'Rourke	312-609-7669

We welcome your suggestions and comments. Please contact James M. Kane in Chicago at 312-609-7533; Neal I. Korval in New York at 212-407-7799; or Theresa M. Peyton in Washington, D.C. at 202-312-3360.

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