

Treasury Department Announces Plan to Purchase Equity Stakes in a Wide Array of Banks and Thrifts

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Washington, D.C.

The U.S. Treasury today issued the following statement by Secretary Henry M. Paulson, Jr. on actions to protect the economy and restore confidence and stability to our financial markets:

America is a strong nation. We are a confident and optimistic people. Our confidence is born out of our long history of meeting every challenge we face. Time and time again our nation has faced adversity and time and time again we have overcome it and risen to new heights. This time will be no different.

Today, there is a lack of confidence in our financial system – a lack of confidence that must be conquered because it poses an enormous threat to our economy. Investors are unwilling to lend to banks, and healthy banks are unwilling to lend to each other and to consumers and businesses.

In recent weeks, the American people have felt the effects of a frozen financial system. They have seen reduced values in their retirement and investment accounts. They have worried about meeting payrolls and they have worried about losing their jobs. Families all across our Nation have gone through long days and long nights of concern about their financial situations today, and their financial situations tomorrow. Without confidence that their most basic financial needs will be met, Americans lose confidence in our economy, and this is unacceptable.

President Bush has directed me to consider all necessary steps to restore confidence and stability to our financial markets and get credit flowing again. Ten days ago Congress gave important new tools to the Treasury, the Federal Reserve and the FDIC to meet the challenges posed to our economy. My colleagues and I are working creatively and collaboratively to deploy these tools and direct our powers at this disruption to our economy.

Today we are taking decisive actions to protect the U.S. economy. We regret having to take these actions. Today's actions are not what we ever wanted to do – but today's actions are what we must do to restore confidence to our financial system.

Today I am announcing that the Treasury will purchase equity stakes in a wide array of banks and thrifts. Government owning a stake in any private U.S. company is objectionable to most Americans – me included. Yet the alternative of leaving businesses and consumers without access to financing is totally unacceptable. When financing isn't available, consumers and businesses shrink their spending, which leads to businesses cutting jobs and even closing up shop.

To avoid that outcome, we must restore confidence in our financial system. The first step in that effort is a plan to make capital available on attractive terms to a broad array of banks and thrifts, so they can provide credit to our economy. From the \$700 billion financial rescue package, 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. In addition, taxpayers 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 and 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. Our goal is to see a wide array of healthy institutions sell preferred shares to the Treasury, and raise additional private capital, so that they can make more loans to businesses and consumers across the nation. At a time when events naturally make even the most daring investors more risk-averse, the needs of our economy require that our financial institutions not take this new capital to hoard it, but to deploy it.

Nine large financial institutions have already agreed to participate in this program. They have agreed to sell preferred shares to the U.S. government, on the same terms that will be available to a broad array of small and medium-sized banks and thrifts across the nation. These are healthy institutions, and they have taken this step for the good of the U.S. economy. As these healthy institutions increase their capital base, they will be able to increase their funding to U.S. consumers and businesses.

I am joined here this morning by Chairman Bernanke and Chairman Bair, who have also taken extraordinary actions to support investor confidence in our financial system, so that funds will again flow through our banks to the U.S. economy. Each of them will describe their actions.

Combined, our actions are extensive, powerful and transformative. They demonstrate that the government will do what is necessary to restore the flow of funds on which our economy depends and will act to avoid, where possible, the failure of any systemically important institution.

These three steps significantly strengthen financial institutions and improve their access to funding, enabling them to increase financing of the consumption and business investment that drive U.S. economic growth. Market participants here and around the world can take confidence from the powerful actions taken today and our broad commitment to the health of the global financial system.

We are acting with unprecedented speed taking unprecedented measures that we never thought would be necessary. But they are necessary to get our economy back on an even keel, and secure the confidence and future of our markets, our economy and the economic well-being of all Americans.

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