

Financial Services Updates (2/26/09 – 3/10/09)

Department/Agency	Action/Development	More Information/References
<p>Obama Administration</p>	<p>Obama unveils core principles for financial regulatory reform (Feb. 25)</p> <ul style="list-style-type: none"> ✓ Strict oversight of financial institutions posing systemic risks ✓ Strengthening markets to withstand system-wide stress and large institution failures ✓ Open, transparent system with plain language disclosures and regulations ✓ Supervising financial products based on how real people make financial decisions ✓ Holding market players accountable ✓ Overhauling regulations to be gap-free and comprehensive ✓ Recognizing that challenges are global <p>Obama Administration unveils FY 2010 budget proposal (Feb. 26):</p> <ul style="list-style-type: none"> ✓ \$3.55 Trillion ✓ Eliminate mortgage interest deduction for taxpayers earning more than \$250K ✓ Ends Federal Family Education Loan Program, moving all student lending to the Direct Loan Program ✓ Employers who do not offer retirement plan required to enroll employees in direct deposit IRA program 	

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	<p>Includes \$250 Billion contingent reserve for further efforts to stabilize the financial system</p>	
<p>Treasury</p>	<p>Treasury releases details of Capital Assistance Program (CAP) (Feb. 25)</p> <ul style="list-style-type: none"> ✓ Regulators to “stress test” 19 largest banks against “base line” and more adverse scenarios ✓ Banks to have 6 months to raise private capital or accept Treasury investment in convertible preferred stock ✓ CAP recipients subject to enhanced Executive Comp restrictions ✓ CAP preferred convertible into common at 10% discount from Feb. 9 price ✓ 9% dividend ✓ convertible at issuer’s discretion, automatically after 7 years ✓ can be used to replace or supplement CPP capital <p>Treasury issues FAQs on repurchasing TARP preferred stock (March 6)</p> <ul style="list-style-type: none"> ✓ Banks must seek approval of primary Federal regulator and Treasury ✓ Banks must repay a minimum of 25% of issuance <p>Treasury issues detailed eligibility requirements and terms of “Making Home Affordable” mortgage loan modification program:</p>	<p>http://www.treas.gov/press/releases/reports/tg40_capwhitepaper.pdf</p> <p>http://www.treas.gov/press/releases/reports/tg40_captermsheet.pdf</p> <p>http://www.treas.gov/press/releases/reports/tg40_cap_faq.pdf</p> <p>http://www.treas.gov/press/releases/tg40.htm</p> <p>http://www.treas.gov/press/releases/reports/guidelines_summary.pdf</p> <p>http://www.treas.gov/press/releases/tg41.htm</p> <p>http://www.treas.gov/press/releases/tg41.htm</p>

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- ✓ Loan originated before Jan. 1, 2009
- ✓ First lien on owner-occupied property
- ✓ Cap of \$729,750 on single family residence; higher limits for multi-families
- ✓ Treasury to share the cost of reducing monthly payments from 38% to 31% of borrower income
- ✓ Servicers paid \$1,000 for each modification and \$1,000 for each year the loan remains current
- ✓ Borrowers get further \$1,000 principal reduction for each year the loan remains current up to 5 years
- ✓ Additional one-time bonuses of \$1,500 and \$500 for owners and servicers of modified loans that remain current

Citigroup swaps common for preferred stock

- ✓ May increase Treasury's stake to 36%
- ✓ Reduces existing stockholders to 26%
- ✓ Treasury to swap up to \$25 Billion in CPP preferred, matching private swaps at conversion price of \$3.25 per share

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Agencies		
Interagency	<p>Agencies announce commencement of “stress testing” of 19 eligible bank holding companies with more than \$100 Billion in assets under Treasury’s Capital Assistance Program (Feb. 25)</p> <p>Agencies issue Joint Statement in Support of the “Making Home Affordable” Loan Modification Program (March 4)</p>	<p>http://www.federalreserve.gov/newsevents/press/bcreg/20090225a.htm</p> <p>http://www.federalreserve.gov/newsevents/press/bcreg/20090304a.htm</p>
Fed	<p>SR Letter 09-4 provides guidance on when bank holding companies should curtail payment of dividends on common, preferred and trust preferred stock and redemption or repurchase of outstanding capital stock (Feb. 24)</p> <ul style="list-style-type: none"> ✓ Discourages use of TARP proceeds to fund dividends ✓ Dividends should not exceed trailing 4-quarter earnings <p>Fed and Treasury announce the launch of the Term Asset-Backed Liquidity Facility (March 3)</p> <ul style="list-style-type: none"> ✓ New York Fed to lend up to \$200 billion against AAA-rated securities backed by newly originated auto, credit card, student and small business loans ✓ Program commences March 25, to continue through December ✓ Stimulus bill compensation restrictions do not apply 	<p>http://www.federalreserve.gov/boarddocs/srletters/2009/SR0904.htm</p> <p>http://www.treas.gov/press/releases/tg45.htm</p> <p>http://www.treas.gov/press/releases/tg44.htm</p>

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	<ul style="list-style-type: none"> ✓ Includes reduced interest rates and “haircuts” for securities backed by federally guaranteed small business and student loans <p>Fed and Treasury announce up to a \$30 Billion increase and restructuring of assistance to AIG</p> <ul style="list-style-type: none"> ✓ Increases Treasury equity interest to 77.9% <p>Fed publishes letters granting relief from Risk-Based Capital Requirements for Tax Deferred Assets</p> <ul style="list-style-type: none"> ✓ 1-year transition period after major banking acquisition to comply with 15% limitation on inclusion of restricted core capital elements in Tier 1 capital (Letter of Dec. 22, 2008) ✓ Inclusion of deferred tax assets in Tier 1 capital based on a 3-year look forward period (Letter of Feb. 20, 2009) 	
<p>FDIC</p>	<p>FDIC Releases 4th Quarter and Annual 2008 Banking Results – Banks Lose \$26.2 Billion in quarter, first quarterly loss since 1990 (Feb. 26)</p> <p>FDIC Releases January Enforcement Actions: 13 C&D orders, 10 CMPs, 1 voluntary termination of insurance, 1 consent to participation under FDIA §19; no administrative hearings scheduled (Feb. 27)</p> <p>FDIC issues Final Rule on Insurance Assessments, Interim Rule Providing for Emergency Special Assessment, and</p>	<p>http://www.fdic.gov/bank/analytical/quarterly/</p> <p>http://www.fdic.gov/bank/individual/enforcement/neworders.html</p>

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	<p>Extends Reserves Restoration Plan to 7 Years (March 2) (FIL 12-2009)</p> <ul style="list-style-type: none"> ✓ Later in the week, Chairman Bair signals willingness to reduce special assessment from 20 to 10 basis points in consideration of Frank/Dodd bills to permanently increase FDIC borrowing authority to \$100 Billion (March 5) <p>Chairman Bair Addresses Institute of International Bankers, says “I don’t see the U.S. government operating a large institution for an extended period.” (March 2)</p> <p>FDIC modifies Temporary Liquidity Guarantee Program to permit coverage of newly issued mandatory convertible debt (March 2) (FIL 11-2009)</p> <p>FDIC Issues Guidance on Reliance on Brokered Deposits and other Volatile Funding Sources by Banks in Weakened Condition (March 3) (FIL 13-2009)</p>	<p>http://www.fdic.gov/news/news/financial/2009/fi09012.html</p> <p>http://www.fdic.gov/news/news/speeches/chairman/spmar0209.html</p> <p>http://www.fdic.gov/news/news/financial/2009/fi09013.html</p> <p>http://www.fdic.gov/news/news/financial/2009/fi09011.html</p>
OTS	<p>CEO Letter clarifies timing of recognition of capital contributions (CEO Letter 293)</p> <ul style="list-style-type: none"> ✓ Cash can be recognized when received ✓ Capital notes recognized when collected ✓ Capital contributions received after the end of a reporting period to offset required adjustments should be recognized in the subsequent reporting period 	<p>http://files.ots.treas.gov/25293.pdf</p>

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	OTS issues a Cease & Desist Order against Brookline Bank based primarily on Bank Secrecy Act violations (Feb. 20)	
OCC		
SEC	<p>SEC issues Q&A's confirming Senator Dodd's opinion that TARP recipients must hold first "Say on Pay" advisory shareholder votes this year</p> <p>SEC grants exemption for primary broker-dealers' facilitation of extensions and maintenance of nonrecourse credit on behalf of the Federal Reserve Bank of New York to purchasers of asset-backed securities pursuant to TALF</p>	<p>http://www.sec.gov/divisions/corpfin/guidance/arrainterp.htm</p>
CFTC		
MA DOB	DOB approves acquisition of Boston Globe Employees Credit Union by Metro Credit Union (BBJ Feb. 27)	
Other	<p>Federal Home Loan Bank of Boston announces net loss for year ended 12/31/08, suspends dividend, extends moratorium on excess stock repurchases (8-K, Feb. 26)</p> <p>Freddie Mac CEO David Moffett resigns effective March 13</p>	
FINCEN	<p>Authorized payment agent for Social Security and Veterans Administration benefits held not a "money services business" (FIN-2008-R010)</p> <p>Microfinance lender held not a "money services business" (FIN-2008-R011)</p>	

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<p>Congress</p>	<p>House passes Omnibus Spending Bill (H.R. 1105) (Feb. 25):</p> <ul style="list-style-type: none"> ✓ Makes permanent ban on bank real estate brokerage and property management services <p>House passes Foreclosure Mitigation Bill (H.R. 1106) (March _):</p> <ul style="list-style-type: none"> ✓ Includes bankruptcy “cram-down” provision 	<p>http://thomas.loc.gov/cgi-bin/query/D?c111:2:/temp/~c111P7hpJS::</p> <p>http://thomas.loc.gov/cgi-bin/query/D?c111:2:/temp/~c111B9ck2m::</p>
<p>Marketplace Developments</p>	<p>Bank holding companies announce cessation or curtailment of dividends</p> <ul style="list-style-type: none"> ✓ Citigroup suspends payment of dividends on preferred stock ✓ PNC Financial Services Group reduces quarterly dividend from \$0.66 to \$0.10 per share ✓ State Street Corp. reduces quarterly dividend from \$0.24 to \$0.01 per share ✓ JP Morgan Chase & Co. reduces quarterly dividend from \$0.38 to \$0.05 per share 	
<p>Courts</p>	<p>Federal Arbitration Act ("FAA") does not create federal court subject matter jurisdiction for a bank to force a consumer claim into arbitration. Effect is to leave arbitrability determinations to state court judges who are less sympathetic to preemptive sweep of FAA (<i>Vaden v Discover Bank</i>, 2009 WL 578636; USSC; March 9, 2009)</p> <p>Sixth Circuit rejects home sellers’ RESPA claims as time-barred (<i>Egerer v. Woodland Realty Inc.</i>)</p>	

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	<p>Seventh Circuit rules debt collector’s characterization of capitalized interest as “principal” does not violate the Fair Debt Collection Practices Act (<i>Wahl v. Midland Credit Management, Inc.</i>)</p>	
Miscellaneous	<p>Paul Perreault, formerly CEO of Chittenden Bank, elected CEO of Brookline Bancorp, Inc. effective April 16 and Chairman and CEO of Brookline Bank effective March 16</p> <p>Legacy Bancorp, Inc. announces program to repurchase approximately 5% of its outstanding stock and quarterly cash dividend of \$0.05 per share</p> <p>Royal Bank of Scotland appoints Ellen Alemany, currently CEO of Citizens Financial Group and RBS Americas, Chairman of Citizens Financial Group, Inc.</p> <p>Webster Five Cents Savings Bank completes its conversion to a three-tiered, no-stock, mutual holding company structure (March 1)</p> <p>Bar Harbor Bankshares, Inc. announces an Other Than Temporary Impairment charge relating to mortgage backed securities, with a pre-tax impact of \$1.4 million in the 4th Quarter of 2008</p> <p>United Financial Bancorp, Inc. (MA) announces program to repurchase approximately 5% of its outstanding shares</p> <p>RBS Citizens NA reports a \$1.1 Billion net loss for the year ended 12/31/08, including a \$1.6 Billion goodwill impairment charge</p>	
3/10/09		