



Given the amount of coverage of and commentary on what has been done with the capital invested by Treasury in the nation's banks, here's some basic information about the program and its consequences:

- The programs that use funds to help a failing institution are not the same as Treasury's capital purchase program, which is for healthy banks only. Many of these healthy banks were asked or directed to take the money. The government money is a capital injection; that is, an ownership stake in healthy banks. This is not money that is used directly for lending, but is combined with new deposits to support lending many times the level of new capital.
- Capital goes into an existing capital account that supports all loans and is not allocated loan by loan. Call reports will show if a bank has increased its lending, but each bank is different with specific markets and business considerations. The capital will support additional lending to businesses and consumers, help homeowners avoid foreclosure and perhaps assist the government by acquiring weak financial institutions.
- Treasury has the potential to make billions of dollars under this proposal. The net cash inflow to the Treasury from the investment is over \$30 billion, as banks pay for the use of this money. Moreover, publicly traded banks issued warrants, conservatively valued at between \$10 billion and \$15 billion. The total return to the government will likely be between \$40 billion and \$45 billion.
- For every dollar of capital invested, banks can lend up to \$7 dollars – provided they raise \$6 in new deposits and there are qualified businesses or individuals that want to borrow. Banks have incentives to make loans; that's how they will make the money to pay Treasury for the use of the money and warrants on the capital, which will increase in value as banks make money and their stock rises. But the regulators are asking for tighter lending standards and no one will benefit from the making of bad loans.
- New loans are being made to individuals and businesses. Lending by the 18 largest TARP capital banks increased by 8 percent – \$295 billion – in the third quarter of 2008. As of January 13, 2009, 257 of the nation's 8400 banks have taken the TARP capital.