APPLYING SUPERVISORY GUIDANCE AND REGULATIONS ON THE PAYMENT OF
DIVIDENDS, STOCK REDEMPTIONS, AND STOCK REPURCHASES AT BANK HOLDING
COMPANIES

Attention: Chief Executive Officer of Each Tenth District Bank Holding Company (BHC)

Subject: Payment of Dividends, Stock Redemptions, and Stock Repurchases at BHCs

In Brief: SR Letter 09-4, issued by the Federal Reserve Board of Governors on February 24,
2009 and later revised on March 27, 2009, largely reiterates longstanding Federal
Reserve supervisory policies and guidance in light of recent market events. This
recirculation of SR Letter 09-4 among Tenth District BHCs is to emphasize certain
points within the SR Letter. In particular, the principles discussed in this letter are
applicable to all BHCs, and are especially relevant for BHCs that are experiencing
financial difficulties and/or receiving public funds under the Department of Treasury
(Treasury) Capital Purchase Program (CPP) and any other Treasury programs.

Highlights: A fundamental principle underlying the Federal Reserve’s supervision and regulation
of BHCs is that a BHC should serve as a source of managerial and financial strength
to its subsidiary banks. Consistent with this premise, the Federal Reserve expects an
organization to hold capital commensurate with its overall risk profile.

The SR letter heightens expectations that a BHC will inform and consult with Federal
Reserve supervisory staff sufficiently in advance of the scenarios described below
(these communications between BHCs and the Federal Reserve described in the SR
Letter are in addition to existing statutory and regulatory capital management
practices requiring Federal Reserve application or notification):

(i) Declaring and paying a dividend that could raise safety and soundness
concerns.

(a) A BHC should inform the Federal Reserve reasonably in advance of declaring
or paying a dividend that exceeds earnings for the period (e.g., quarter) for
which the dividend is being paid, or that could result in a material adverse
change to the organization’s capital structure. Likewise, a BHC should
apprise the Federal Reserve reasonably in advance of declaring any material
increase in its common stock dividend to ensure that it does not raise safety
and soundness concerns.
(b) As a general matter, the board of directors of a BHC should inform the Federal Reserve and should eliminate, defer, or significantly reduce the BHC’s dividends if the BHC’s net income during the previous four quarters is not sufficient to fully fund dividends paid during the same period, the BHC’s prospective rate of earnings retention is not consistent with the BHC’s capital needs and overall current and prospective financial condition, or the BHC will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

(c) The term “dividend” as used in the letter refers to dividends on common stock and preferred stock, as well as dividends or interest on the subordinated notes underlying trust preferred securities or other Tier 1 capital instruments.

(ii) Redeeming or repurchasing regulatory capital instruments when the BHC is experiencing financial weaknesses.

(iii) Redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred.

BHCs participating in the CPP and other government capital programs must comply on an ongoing basis with the pertinent capital and other requirements established by the Treasury (including those explicitly set forth in the Emergency Economic Stabilization Act of 2008). A recipient of taxpayer funds through such capital programs should consider and communicate reasonably in advance to Federal Reserve supervisory staff how the BHC’s proposed dividends, capital redemptions, and capital repurchases are consistent with the requirements applicable to its receipt of capital under the program and its ability to redeem, within a reasonable period of time and with Federal Reserve consent, its outstanding capital issuance under the program.

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