

Highlights of the US Treasury's Capital Purchase Program

1. What is the Capital Purchase Program?

On October 14, 2008, the U.S. government announced a series of initiatives to strengthen market stability, improve the strength of financial institutions, and enhance market liquidity. United States Treasury announced a voluntary Capital Purchase Program to encourage healthy U.S. financial institutions to build capital in order to increase the flow of financing to U.S. businesses and consumers and support the U.S. economy.

The objective of the program is to serve as an immediately available source of capital so that healthy banks can continue to provide loans to worthy borrowers thus helping to speed the economic recovery.

2. Why should Bank of Franklin County participate in the program?

The answer to this question is twofold:

- The first is very simple: we qualify. Both our primary regulator, the FDIC, and the Treasury Department have approved our application and are encouraging all eligible banks to participate.
- While the economic news sounds grim for some financial institutions, Bank of Franklin County is well capitalized and is a strong, secure and stable financial institution. Our bank is committed to our shareholders, customers and the communities that we serve. Thus, it is our responsibility to ensure that we remain well-positioned financially in this tough economic environment and closely examine every opportunity we have to protect that commitment.

3. What opportunities might be available for participating institutions?

Quite frankly it is uncertain. However, even in these uncertain times, healthy community banks have incredible potential to benefit from the downturn. As money continues to be pulled from the stock market, withdrawn from merged banks, and diverted from high-risk investments, it needs a new home that is secure. Community banks are well positioned to earn the trust of these cautious consumers and convert them into new sources of deposits. Provided a bank is well capitalized, these sources of deposits allow the bank to fund new loan requests, increase profitability, support the communities they serve and participate in the economic recovery.

In addition, it is possible for healthy community banks to capitalize on opportunities created by weaker financial institutions to increase their presence in existing markets or expand into surrounding markets.

4. Why aren't all banks participating?

Federal regulators are only recommending and approving healthy institutions for participation in the Capital Purchase Program. Once again the program was never intended to be a bailout. Many banks have chosen not to participate or even return the money early due to limits placed on executive compensation and concerns of increased government involvement. While both are valid concerns, compensation limits are not specifically an issue for Bank of Franklin County and given that banks are already highly regulated by the government, increased government involvement is not a significant concern.

We have looked very closely at the strings attached to this program, and found nothing that caused us concern. Our bank does not offer any "golden parachutes" or any large, excessive bonuses. In addition, both the state and federal governments already possess broad powers to regulate banks. We believe any additional regulation will most likely be rooted in the causes of the economic crisis, not as a result of which banks participated in the program.

5. What is the public's perception of the program?

There is a lot of misinformation and confusion concerning participation in the Capital Purchase Program. The government and news media have muddied the waters concerning the objectives of the program since its inception back in October. Although it has been used to prop-up or support some of the nation's largest institutions, it was never intended to be a bailout for failing or troubled institutions.

The actual goal of the program was and still is to assist healthy banks and empower them to support the economy's recovery. Community banks like Bank of Franklin County are the backbone of the American economy as they have provided and will continue to provide loans to local businesses, loans for consumer purchases such as autos, loans to support farming operations and home mortgages.

What we do not hear from the news media is that there are over 500 other healthy banks throughout the country that have participated in the program, many in small communities like ours.

6. What are the "pros" of participating?

It enhances the bank's capital position which would, in turn, support expansion allowing the bank to build deposits and increase market share through lending, gaining important relationships and adding to franchise value.

7. What are the “cons” of participating?

In addition to the limits on executive compensation and potential for increased government involvement discussed above in Question 4, the only con is the possibility that the increased capital would be under utilized as a result of the economy and the credit markets returning to normalcy more rapidly than expected. Normal market conditions would promote the bank's ability to internally generate capital formation via increased profitability and earnings without the use of the Capital Purchase Program funds.