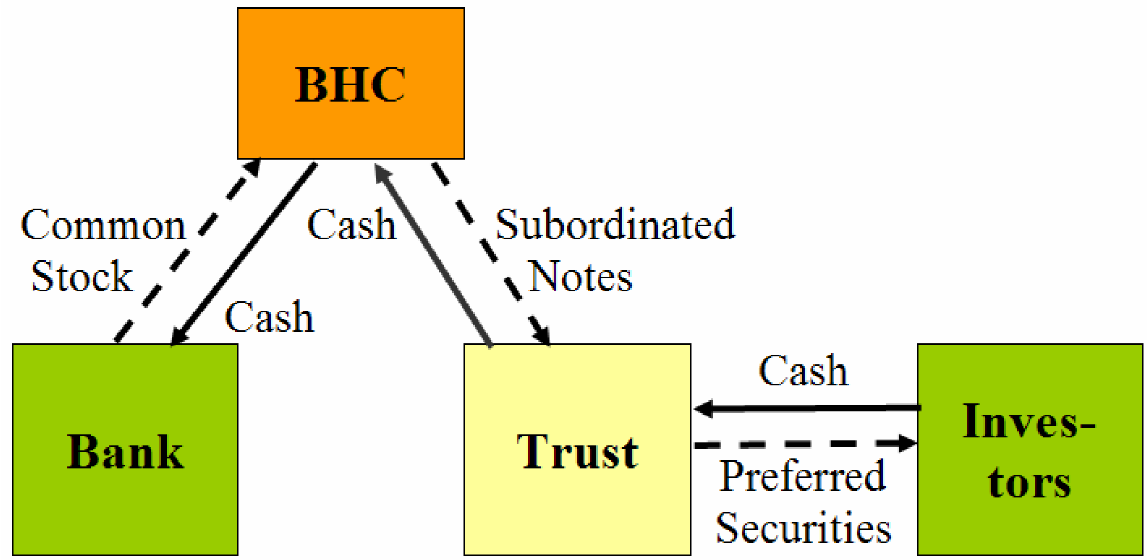
Trust Preferred Securities Transaction

The following graph shows how a TPS transaction functions:



- The BHC forms a special purpose trust, which issues cumulative nonvoting preferred securities to investors. The proceeds flow from the trust to the BHC in exchange for a subordinated note issued by the BHC at terms mirroring the preferred stock instrument. The BHC then injects the funds into the bank as common equity, or uses the proceeds for other purposes, such as funding an acquisition.
- Interest payments by the BHC to the trust fund the payment of dividends by the trust to the investors.
- Upon consolidation, the preferred securities issued by the trust count as tier 1 capital for the BHC. The cost to the BHC, in the form of interest payments on the subordinated notes, is tax deductible under Internal Revenue Service rules.
- Of course, limits apply. Under new Federal Reserve rules effective in March 2009, TPS are limited to 25% of core equity after goodwill is netted out. Excess TPS counts as tier 2 capital, up to 50% of tier 1 capital.