



FEDERAL RESERVE BANK *of* KANSAS CITY

March 12, 2009

**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](#) largely reiterates longstanding Federal Reserve supervisory policies and guidance in light of recent market events. 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 (i) declaring and paying a dividend that could raise safety and soundness concerns (e.g., declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid); (ii) redeeming or repurchasing regulatory capital instruments when the BHC is experiencing financial weaknesses; or, (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.

Attachments: The letter has two attachments: [Attachment A](#) discusses capital adequacy management. [Attachment B](#) is the Federal Reserve Board Policy Statement (November 14, 1985), entitled Unsound Banking Practices—Cash Dividends Not Fully Covered by Earnings.