Chairman's Statement on the Temporary Liquidity Guarantee Program

October 23, 2008

This Board met 10 days ago to invoke the systemic risk exception to the least cost test. We did so to authorize creation of the Temporary Liquidity Guarantee Program, which we announced the day after the Board meeting. Our program, and complementary steps by the Congress, Treasury and Federal Reserve, are aimed at unlocking credit markets, particularly inter-bank credit markets, which have ceased to function properly. Disruptions in credit markets have significantly impaired the ability of creditworthy companies to issue commercial paper and longer term debt. There are signs, however, that steps we have taken so far are already starting to have an effect.

The Temporary Liquidity Guarantee Program is designed to relieve the crisis in the credit markets and give healthy banks access to liquidity in two ways. First, the FDIC has guaranteed new, senior unsecured debt issued by a bank, thrift or holding company, which will help banks fund their operations. Debt that is issued by the end of June 2009 will be fully guaranteed by the FDIC to June 2012, which should provide investors with the comfort necessary to invest in longer-term obligations of financial institutions.

The second part of the new program gives unlimited insurance coverage for non-interest bearing deposit transaction accounts. This program addresses the pressing concern that many small business accounts, such as payroll accounts, frequently exceed the current maximum insurance limit of $250,000. Many smaller, healthy banks have been losing these accounts to their much larger competitors because of uncertainties in the financial system. This new, temporary guarantee – which runs until the end of next year – should help stabilize these accounts, and help us avoid having to close otherwise viable banks because of deposit withdrawals.

The interim rule we are considering today fills out the framework of the program we announced a few days ago and should allow institutions to make an informed decision about participation. We have made the program as inclusive as necessary to ensure that credit—particularly between banks—begins to flow again. Banks and thrifts are eligible given their role in the credit markets, and for the same reason most holding companies are eligible as well. These institutions are the major parties that drive the financial system and the interbank markets that are critical to our economy.

We also recognize that there may be circumstances where the program should be extended, for the same reasons, to certain otherwise ineligible holding companies or affiliates that issue debt for the benefit of an insured institution or eligible holding company. To accommodate these situations, the interim rule includes a provision for ineligible holding companies and affiliates to apply for inclusion.

We will make these decisions in consultation with the appropriate federal regulator. Factors that should be relevant to this determination are (1) the extent of the financial activity of the entities within the holding company structure); (2) the strength, from a ratings perspective, of the issuer of the obligations that you will be guaranteeing and, (3) the size and extent of the activities of the organization.

Comments on this issue are welcome.

Let me stress that the program does not rely on taxpayer funding or on the Deposit Insurance Fund. While the guarantees we have made are broad and backed by the full faith and credit of the U.S. government, the interim rule imposes fees for participation that should cover costs.

I want to thank the staff for their hard work over the past several days in implementing this program that will be vital to restoring the credit markets.