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Press Releases

FDIC Board of Directors Approves TLGP Final Rule
Industry Funded Program Fully Backed by FDIC Guarantee; Will Promote Lending

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The Board of Directors of the Federal Deposit Insurance Corporation (FDIC) today approved a final rule to strengthen the agency's Temporary Liquidity Guarantee Program (TLGP). The Program guarantees newly issued senior unsecured debt of banks, thrifts, and certain holding companies, and provides full coverage of non-interest bearing deposit transaction accounts.

The FDIC adopted the Temporary Liquidity Guarantee Program on October 13th because of disruptions in the credit market, particularly the interbank lending market, which reduced banks' liquidity and impaired their ability to lend. The goal of the TLGP is to decrease the cost of bank funding so that bank lending to consumers and businesses will normalize. The industry funded program does not rely on the taxpayer or the deposit insurance fund to achieve its goals.

"We are confident that the changes our Board approved today will create significant investor demand, and dramatically reduce funding costs for eligible banks and bank holding companies," said FDIC Chairman Sheila C. Bair. "I expect that the industry will take full advantage of this guarantee. I'm confident that the program—working in complement with the Treasury's Troubled Assets Relief Program and the Federal Reserve's Commercial Paper Funding Facility—will achieve its intended purpose to help insured banks increase lending—in a responsible way—to consumers and businesses."

The FDIC received more than 700 comments during the 15-day comment period. Based on those comments, the FDIC has made several significant changes to the interim rule, which was approved back on October 23.

Chief among the changes is that the debt guarantee will be triggered by payment default rather than bankruptcy or receivership. This change will add value to the guarantee and help entities obtain lower cost funding.

Another change is that short-term debt issued for one month or less will not be included in the TLGP, consistent with the objective of the program to facilitate longer term lending.

Finally, the fees to participate in the debt guarantee component of the TLGP have been changed. Originally the FDIC was going to charge eligible entities 75 basis points on an annualized basis for guaranteed debt. After reviewing the comments, the FDIC decided to impose a fee structure based on a sliding scale, depending on length of maturity. Shorter-term debt will have a lower fee structure and longer-term debt will have a higher fee. The range will be 50 basis points on debt of 180 days or less, and a maximum of 100 basis points for debt with maturities of one year or longer, on an annualized basis.

Eligible entities will have until December 5, 2008, to opt out of the TLGP. Once in the Program, an entity is in for the duration. Those that choose to opt out will not be able to participate at a later date. Any debt issued on or before June 30, 2009, will be fully protected through the earlier of the maturity of the debt instrument or June 30, 2012.

Under the transaction account guarantee program, a participating institution will be able to provide customers full coverage on non-interest bearing transaction accounts for an annual fee of 10 basis points. The coverage will be in effect for participating institutions until the end of 2009. After that date, these accounts will be subject to the basic insurance amount. The FDIC Board voted to include NOW accounts with interest rates of 0.5 percent or less and IOLTAs (lawyer trust accounts) in the transaction account program.

"We will implement this Program without relying on the taxpayer or the deposit insurance fund. Fees paid by participating entities should cover any losses associated with the guarantees," said Bair.

The final rule is attached.

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Attachment:
Final Rule regarding the Temporary Liquidity Guarantee Program - PDF (PDF Help)

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 8,451 banks and savings associations and it promotes the safety and

soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars – insured financial institutions fund its operations.

FDIC press releases and other information are available on the Internet at www.fdic.gov, by subscription electronically (go to www.fdic.gov/about/subscriptions/index.html) and may also be obtained through the FDIC's Public Information Center (877-275-3342 or 703-562-2200). **PR-122-2008**