Press Releases

FDIC Announces Plan to Free Up Bank Liquidity

Creates New Program to Guarantee Bank Debt and Fully Insure Non-Interest Bearing Deposit Transaction Accounts

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The Federal Deposit Insurance Corporation (FDIC) announces a new program—the Temporary Liquidity Guarantee Program—to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts, and certain holding companies, and by providing full coverage of non-interest bearing deposit transaction accounts, regardless of dollar amount.

"The FDIC is taking this unprecedented action because we have faith in our economy, our country, and our banking system," said FDIC Chairman Sheila C. Bair. "The overwhelming majority of banks are strong, safe, and sound. A lack of confidence is driving the current turmoil, and it is this lack of confidence that these guarantees are designed to address."

Under the plan, certain newly issued senior unsecured debt issued on or before June 30, 2009, would be fully protected in the event the issuing institution subsequently fails, or its holding company files for bankruptcy. This includes promissory notes, commercial paper, inter-bank funding, and any unsecured portion of secured debt. Coverage would be limited to June 30, 2012, even if the maturity exceeds that date.

In addition, any participating depository institution will be able to provide full deposit insurance coverage for non-interest bearing deposit transaction accounts, regardless of dollar amount. These are mainly payment-processing accounts, such as payroll accounts used by businesses. Frequently, these exceed the current maximum limit of $250,000. This new, temporary guarantee—which expires at the end of 2009—will help stabilize these accounts.

"The program will be funded through special fees and does not rely on taxpayer funding," Bair said.

Participants will be charged a 75-basis point fee to protect their new debt issues, and a 10-basis point surcharge will be added to a participating institution's current insurance assessment in order to fully cover the non-interest bearing deposit transaction accounts.

To implement the program, the FDIC Board approved the use of its statutory authority to prevent systemic risk. The Secretary of the Treasury, after consultation with the President and the Federal Reserve Board, made a comparable systemic risk determination.

All FDIC-insured institutions will be covered under the program for the first 30 days without incurring any costs. After that initial period, however, institutions wishing to no longer participate must opt out or be assessed for future participation. If an institution opts out, the guarantees are good only for the first 30 days.

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Attachments:

- Statement by Federal Deposit Insurance Corporation Chairman Sheila Bair; U.S. Treasury, Federal Reserve, FDIC Joint Press Conference

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.

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