FIFTH THIRD BANK

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November 13, 2008

Mr. Robert Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: Interim Rule Regarding Temporary Liquidity Guarantee Program
RIN # 3064-AD37

Dear Mr. Feldman:

Fifth Third Bancorp appreciates the opportunity to comment on the FDIC's Interim Rule implementing the Temporary Liquidity Guarantee Program (TLGP), and respectfully requests that the FDIC consider the comments contained in this letter in determining the final rules governing the TLGP.

The rule as proposed has four key issues with respect to its implementation:

1. Banks are unable to fully choose which debt will be covered under the TLGP.
2. The calculation of the maximum amount of debt that would be included under the Program leaves out some categories of debt, which runs counter to the objectives of the TLGP.
3. The cost of the guarantee is so high that institutions may attempt to avoid using the program and is in contrast to the Federal Reserve's easing of interest rates.
4. The program runs the risk of creating multiple tiers in the short-term credit markets, which would significantly increase the amount of confusion in the marketplace.

In addition, the FDIC guarantee, as it is currently structured, may be inadequate to attract traditional investors in government guaranteed debt, and may not fulfill the purpose of opening up the term market to bank issuance.

1. Banks are unable to fully choose which debt will be covered under the TLGP.

Under the rule as proposed, a participating institution only has the ability to issue non-guaranteed debt if that option is chosen initially, and only if the debt has a maturity date beyond 6/30/2012. By limiting the ability to issue non-guaranteed debt, a participating bank's liability management strategy will be forced to adhere to an artificially rigid maturity schedule and may be prevented from taking advantage of market demand for non-guaranteed debt in shorter maturities as debt market conditions improve. In addition, a participating bank may be penalized by having to pay the 75bp fee to guarantee a specific debt instrument when the market is not demanding that it do so.

Flexibility in issuing both guaranteed and non-guaranteed debt, regardless of maturity, would also help in managing around the 6/30/2012 cutoff date for the guarantee. As it stands, all banks are incented to use the guarantee to extend their liabilities from overnight maturities to maturities on or around 6/30/2012, but no further, as such longer maturities would not be guaranteed. This incentive is shared among all banks and would lead the industry to have a significant amount of debt maturing at or around this cutoff date. This would create a massive refinancing event, and could cause liquidity disruptions in 2012. Allowing for the flexibility in choosing what will be guaranteed, regardless of maturity date, would allow for participating banks to issue debt with more varied maturity dates and minimize the refinancing risk, allowing for a smooth transition away from the TLGP.

We request that banks be able to choose individually which debt will be guaranteed based on market conditions, and that non-guaranteed debt not be limited to debt maturing beyond 6/30/2012.

2. The calculation of the maximum amount of debt that would be included under the Program leaves out some categories of debt, which runs counter to the objectives of the TLGP.

An effect of the recent credit market turmoil was the significant reduction in the lending of term Fed Funds and term Eurodollars in the marketplace. Most lenders of term funds required that their investment be in the form of a negotiable CD to allow the lender to sell the paper in the marketplace if the lender's liquidity needs demanded it, or if the lender were no longer comfortable owning the credit of the bank to which it was lending. These CDs are issued primarily to mutual funds or to other money managers, and not always to other banks. It is unclear to us whether all negotiable CDs would be excluded in the calculation of the maximum amount covered under the TLGP, or whether only those negotiable CDs which were purchased by another bank would be eligible for inclusion under the cap, and whether CDs bought by non-bank investors, even though issued by a bank, would be excluded. It is also unclear to us whether this same distinction applies to the definition of 'newly issued senior unsecured debt' that is covered by the guarantee. In any case, the end investor should not be the determining factor for inclusion in the calculation of the guarantee limit, nor with respect to inclusion in the definition of newly issued senior unsecured debt covered by the guarantee. These same investors could be the purchasers of maturing bank notes issued previously that would mature prior to 6/30/2009, and these bank notes would be included both in the calculation of the limit and under the guarantee. These are instruments that would need to be refinanced in the marketplace and could quickly exhaust the guaranteed capacity of a bank. This same scenario applies to Eurodollars borrowed in the money markets.

We request that all instruments that banks use to fund themselves in the market be eligible for inclusion in the calculation of the maximum amount of debt eligible for guarantee and in the definition of newly-issued unsecured debt covered by the guarantee, irrespective of whether the investor is a bank or not. Specifically, the list of eligible instruments should include all negotiable CDs and term Eurodollars issued in the money markets.

3. The cost of the guarantee is so high that institutions may attempt to avoid using the program and is in contrast to the Federal Reserve's easing of interest rates.

Creating a 75 bp charge on new borrowing could result in participating institutions devising other alternatives to borrow the necessary funds and avoid this cost. For example, instead of purchasing Fed Funds at a market rate of 1% and paying an additional 75bps for the guarantee fee, banks may choose to raise funds from sources which would not be covered under the program, in particular, increasing their use of secured borrowing sources including the Federal Home Loan Bank system, the Discount Window or the Federal Reserve's TAF program. This unintended consequence would run counter to the FDIC's stated objective of improving the liquidity of the short-term interbank funding market.

Another potential result would be that due to the increased cost, the rate at which loans would be made to consumers would need to increase commensurately so as to not impact the profitability of the bank. This is in direct contrast with the Federal Reserve's cutting of interest rate to decrease the cost burden of borrowers, both bank and consumer. This would also run contrary to the Treasury Department's goal of improving the access to credit by consumers. This was a primary goal in providing capital to banking institutions under the Treasury's TARP program.

We request that consideration be given to lowering the cost of the program to a rate lower than 75bps. We also request that the fee charged on overnight transactions be significantly lowered to either a flat fee of 5 to 10 bps or have it be indexed to the level of the target Fed Funds rate.

4. The program runs the risk of creating multiple tiers in the short-term credit markets, which would significantly increase the amount of confusion in the marketplace.

Given the current construct of the TLGP, the market could create multiple tiers for the borrowing of funds in a market where uniformity is a critical feature. Different trading levels would be established based on whether a borrower or lender were a bank or not, whether the instrument were Fed Funds, or a CD, or Eurodollars, and whether the instrument were guaranteed or not. A hallmark of the short-term money-markets, and specifically that of the overnight market, is the ability of a borrower to show a bid at a certain level, and have the ability to borrow funds at that level should the lender have an established credit line. A bank borrowing funds would post different levels for a Fed Funds transaction than a Eurodollar to avoid the necessity of paying the 75bp guarantee fee. A bank may also have to post different levels for Fed Funds, depending on whether the transaction is within the guarantee limit or not.

If a bank had $5 billion permitted under the TLGP, balance sheet fluctuations could cause the bank to need to purchase $6 billion in overnight funding on a given day. Trading on the first $5 billion would be orderly, as all of it would be guaranteed under the TLGP. Once the $5 billion number has been reached, the borrowing bank would be forced to indicate that its next purchase would not be guaranteed. At this point, lenders of Fed Funds might avoid this bank and lend to another bank whose Fed Funds trades were guaranteed. The bank may also have to post higher levels than other banks once the maximum guaranteed limit is reached. This could cause the bank to either lose its access to short-term funds or to have to pay much higher rates in the market, not just for that day, but also for subsequent trading sessions, due to market confusion over whether Fed Funds trades with that bank were guaranteed or not.

The entire purpose of liquidity management strategy is to reduce the risk that an institution cannot raise funds in normal, short-term markets. Causing additional confusion in these short-term markets is contrary to the objective of the TLGP.

We request that overnight borrowings be completely covered under the TLGP and not be limited by the maximum cap.

In addition to the larger issues outlined above, there are some additional concerns with the program. These are outlined below:

- If a bank provides a service to its downstream correspondent banks and allows them to sell Fed Funds to the bank at any time of the day or utilize a Fed Fund sweep account to invest, this will create confusion on a real-time basis to determine how much room is available under the maximum calculation. Products which are not derived from market sources should be excluded from the TLGP.
- As indicated previously, the Fed Funds market is one where uniformity and ease of execution is critical. There are no confirmations of trades with a counterparty, and the requirement that the transactions be evidenced by written agreement would cause operational issues.
- A well defined definition, or template for the debt which is available to be guaranteed or determined in the cap maximum, would be useful for all parties involved.
- If the ability is given to have more freedom in the issuing of non-guaranteed debt, there could be market confusion in secondary levels with respect to which debt is guaranteed and which debt is not. A unique set of CUSIPs for guaranteed debt would help minimize the confusion.

Marketability of guaranteed debt

In addition to the specific bank issues addressed above, there are additional considerations pertaining to debt investors and their willingness to purchase newly issued guaranteed debt.

The participation of “rates” investors is critical for the success of the TLGP Debt Guarantee Program in terms of both size and price. Without significant investments from the “rates” investor base, the product will be forced to find a pricing equilibrium acceptable to "credit" investors. There is also the danger that this product, without the changes recommended above, could fail to appeal to either rates or credit investors, making it incapable of serving the purpose of opening up the term markets to bank issuance.

The solution to this problem involves a simple, easily executable change to the FDIC’s guarantee language to make it one of “full and timely payment” of principal and interest, modeling it on the United Kingdom’s guarantee program. The guarantee, according to the U.K. Treasury, is “unconditional, irrevocable and ensures timely payment.”

The second critical factor related to the TLGP’s Debt Guarantee Program and its efficacy in the capital markets is the disclosure of the guarantee. The disclosure needs to be clear and completely uniform across all issuances by all participants in the program.

We recommend that:

1. the FDIC's guarantee be modified to fully and irrevocably guarantee interest and principal in accordance with the original provisions of the guaranteed debt, and

2. the FDIC promulgate uniform disclosure language relating to the guarantee for use in prospectuses and other disclosure documents.

Fifth Third would like to execute debt issues in the bond market as a means of extending liquidity away from overnight, one week, one month, etc., maturities and we feel that the recommendations above will increase our ability to do so.

We believe that the issues related to the type of guarantee and disclosures on the guarantee are dealt with in much greater detail in comment letters from Credit Suisse and Sullivan & Cromwell.

Thank you for the opportunity to comment on the interim rule, and your consideration of the issues outlined above. Should you have any questions, please contact me directly at 513-534-8879.

Sincerely,

Mahesh Sankaran
Treasurer
Fifth Third Bancorp