From: Gren Blackall
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To: Comments
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Thank you for an opportunity to comment on the possible extension of Transaction Account Guarantee (TAG). We would choose B, extend. However, we also believe that this should be a permanent fixture and that a 25bp premium amount is high. Here are some reasons:

1) **Leads to more bank liquidity.** Liquidity continues to be a major risk to the banking industry, due in part to the difficulty of raising low cost deposits. TAG would help banks correct this as depositors are rewarded for depositing low cost funds.

2) **Encourages deposits into quality banks.** One unfortunate byproduct of a Depository Insurance program is that it heightens "rate" as the key determination of where to bank. Depositors will pick whichever bank has the highest rate, since insurance has otherwise evened the risk playing field. This encourages unrealistic, unsustainable rate setting, because it is rewarded with new deposits. We have heard anecdotal evidence that there is a correlation between bank failure and high deposit rates. So a system without TAG will encourage bad bank rate setting practices, and encourage depositors to support them. A TAG would offer an incentive for depositors to put money in banks for reasons other than rate. Depositors will be rewarded with insurance even when putting money in a bank that does not offer the highest rates – a decision that is more likely to aim toward the best run, best service institutions.

Cost Issue: 25bp in today's rate environment simply seems high relative to current rates. Our suggestion would be to have this as a cap rate, but have it adjust to a formula based on Treasury or other industry indexed rates that would put the current premium closer to the existing 10bp. Another support for a lower premium is that a TAG would be self risk managed: every dollar added to a zero rate transaction account will make a bank less risky from a liquidity standpoint, and less risk should lower the need for a premium assessment. To charge more for a TAG program than the regular deposit program therefore seems to be a mismatch between risk and premium.

Timing Issue: Extending TAG for 6 months seems like a lot of work for a short policy change, especially since we will all likely be back considering this again in 6 months. Each change requires extensive meetings, often customer notifications, education, etc. There should be a longer time period to match the time we will take to embrace it. If the FDIC is not going to entertain a permanent TAG, we would suggest an extension to match the current extension of the 250,000 deposit insurance trigger point to December 2013. Then we can put this all together into one FDIC insurance effort, and save time, money, and customer confusion.

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