Ohio Bankers League

July 29, 2009

Mr. Robert Feldman
Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington DC 20429

RE: RIN #3064-AD37
Notice of Proposed Rulemaking regarding Possible Amendment of the Temporary Liquidity Guarantee Program to Extend the Transaction Account Guarantee Program with the Modified Feed Structure

Dear Mr. Feldman;

The Ohio Bankers League[1] urges the FDIC Board to extend the Transaction Account Guarantee ("TAG") Program. Among the alternatives the staff recommended is a six month extension of the program until June 30, 2010, at an additional cost for those banks that take advantage of the program. Given current conditions in the Midwest any extension is justified, however, for the reasons outlined below, we believe the better policy option would be to extend the program until December 31, 2010.

From the perspective of Midwestern banks, expanding coverage for transaction accounts was one of the best policy decisions made by the Federal government during the market turmoil last year. This program created more confidence in our banking system at a crucial time by providing additional coverage to important consumers. Given that some of the conditions present last year still exist in Ohio and many other parts of the country, it is premature to allow the program to terminate at the end of this year.

Our member institutions have found that the unlimited guarantee for transaction accounts as defined in the original rule has been well received by Ohio consumers. As a result, the

[1] The Ohio Bankers League ["OBL"] is a non-profit trade association that represents the interests of Ohio's commercial banks, savings banks, savings associations as well as their holding companies and affiliated organizations. The Ohio Bankers League has nearly 230 members, which represents the overwhelming majority of all depository institutions doing business in this state. All of our members carry Federal Deposit Insurance for the benefit of our customers. OBL membership is very diverse and represents the full spectrum of FDIC insured depository institutions: OBL member institutions include small savings associations that are organized as mutual thrifts owned by their depositors, community banks that are the quintessential locally owned and operated businesses, to large regional and multistate holding companies that have several bank and non-bank affiliates and conduct business from coast to coast. According to FDIC data, Ohio depository institutions directly employ more than 130,000 people.

temporary guarantee has been a valuable tool in gathering deposits. This additional liquidity has permitted Ohio banks to continue to lend in these volatile times.
Having this loan capacity generated through low-cost deposits remains important to Ohio. Our economy is still very fragile, in part because we rely on manufacturing more than most parts of the country. The recovery, when it does come will take longer and will be slower than it will be for the rest of the country. For this reason, many of the economic conditions that led to the development of this additional coverage still exist in Ohio and throughout the Midwest. Given the reality of these economic conditions, it makes sense to extend the TAG program to give the economy more time to recover.

In considering whether to extend this program, we would also ask the FDIC board to consider the depositors that have relied on this expanded coverage, which fall into two broad categories. The first group consists of charitable institutions and local governments[2]. These two entities merit your special consideration because they both play an important role in delivering services to people that really need them, particularly during a recession. These depositors have a higher duty to safeguard principal, and are willing to accept the trade off of lower returns compared to what they could earn in other accounts versus the additional safety.

The second group that has taken advantage of the extra protection on transaction accounts consists of small businesses. Even at the new higher deposit coverage of $250,000, small businesses will inevitably and perhaps even inadvertently exceed this limit at crucial times each month. For example, right before payroll is due, vendors need to be paid, or even when periodic payments come in, there will be spikes in deposit levels every month. A bank failure at the wrong moment would have catastrophic results on a small business. It is generally agreed by economists that small business will have to provide the job growth that will lead the United States out of this recession, so extending this protection for another six months or even a year is very consistent with overall federal policy.

This program has been particularly helpful for local banks that are competing for deposits against large out-of-state money center banks. Highlighted by the events and news reports of the last six months, consumers view these banks as too big to fail. As a result of this implicit government subsidy, these institutions have a powerful and unfair competitive advantage in the marketplace. The Transaction Account Guarantee Program has given Ohio banks a reasonable opportunity to compete against these money center institutions. Congress is debating this issue and may level the competitive playing field longer term, however it would be premature to terminate the TAG program until we give Congress a reasonable opportunity to resolve the too big to fail issue.

[2] There is an additional factor FDIC should consider regarding our local government depositors. Most states require banks to pledge government bonds and other collateral to protect the portion of public deposits that are not protected by the FDIC. For at least some OBL members, gathering deposits from local governments once the TAG program is eliminated will require the banks to acquire additional government bonds for use as collateral. Using bank assets to purchase bonds for use as collateral would further erode funds available to be loaned, which would be an additional drag on any potential recovery.

While some of the Ohio banks have expressed concern over the big jump in cost, it will not likely deter participation by those banks that have depositors relying on this program. It is important to all OBL members, whether they participate in the program or not, that this program be self-funded. That is, the anticipated costs should be estimated and paid for by those institutions that utilize this additional coverage. At this increased cost however, it is likely that more institutions will elect to drop out of the program. The Ohio Bankers League supports the part of the proposal that gives insured banks another opportunity to opt out of the program. Given the evolving conditions however would suggest that it would be better to permit banks to opt out of the program at any time during the extension period and not merely a one-time opportunity that expires later this year.

In the proposal, you asked for comment on whether the interest rate limit should be changed, noting that interest rates have declined since the inception of the program. We believe it would be very disruptive to lower the interest rate ceiling and respectfully oppose such change at this time. First, it is likely to cause confusion among customers, undercutting the goal of the program to increase confidence in our banking system. Second, interest rates are artificially low at the present time, and will likely begin to increase to more normal levels during the extension period. If the permissible interest rate was lowered at this time, it could dramatically reduce the number of eligible accounts before the orderly phase out of the TAG program.

For the rationale listed above, extending the program until June 30, 2010 is certainly justified. These same reasons justify extending the program an additional six months however, until December 31, 2010. When the FDIC Board is considering this possibility, now or at some time in the future, it is important to remember that this program will inevitably become smaller and less important over time, almost self-terminating. Even at the current 50 bp ceiling, as the economy begins to heat up, interest rates will rise making the low interest rates on eligible transaction accounts less attractive. In that environment insured deposits under the TAG program will naturally drain off, lowering any risk to the deposit insurance fund.

For all of these reasons, the Ohio Bankers League urges the FDIC Board of Directors to extend the Transaction Guarantee Program.

Respectfully Submitted;

Jeffrey D. Quayle

Jeffrey D. Quayle
Senior Vice President & General Counsel