



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-132-2008
November 21, 2008

TEMPORARY LIQUIDITY GUARANTEE PROGRAM

FDIC Board of Directors Adopts Final Rule

Summary: On November 21, 2008, the FDIC adopted the attached Final Rule implementing the Temporary Liquidity Guarantee Program (TLG Program) inaugurated October 14, 2008. The TLG Program consists of two basic components: a guarantee of newly issued senior unsecured debt of banks, thrifts, and certain holding companies (the debt guarantee program) and full guarantee of non-interest bearing deposit transaction accounts, such as business payroll accounts, regardless of dollar amount (the transaction account guarantee program). The purpose of the guarantee of transaction accounts and the debt guarantee is to reduce funding costs and allow banks and thrifts to increase lending to consumers and businesses. As the result of more than 700 comments received, the Final Rule makes several important improvements.

Distribution:

All FDIC-Insured Institutions

Suggested Routing:

Chief Executive Office
Chief Financial Officer
Compliance Officer

Attachment:

Final Rule 12 CFR Part 370

Contact:

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Note:

FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2008/index.html.

To receive FILs electronically, please visit <http://www.fdic.gov/about/subscriptions/fil.html>.

Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

Highlights:

- The FDIC's obligation to pay on FDIC-guaranteed debt will be triggered by payment default, rather than bankruptcy or receivership, as provided in the Interim Rule. This change should improve the value of the guarantee and help institutions obtain funding.
- Short-term debt (30 days or less) has been eliminated from the debt guarantee program, but the limit on the amount of debt that the FDIC will guarantee, generally 125 percent of senior unsecured debt outstanding on September 30, 2008, will include short-term debt outstanding on that date.
- The fee under the debt guarantee program will depend upon maturity of the debt. The fee will be lower for shorter-term debt and higher for longer-term debt.
- **By December 5, 2008, all eligible entities—all insured depository institutions and almost all holding companies—must take action with respect to both the transaction account guarantee program and the debt guarantee program.**

**TEMPORARY LIQUIDITY GUARANTEE PROGRAM
FDIC Board of Directors Adopts Final Rule**

On November 21, 2008, the FDIC adopted the attached Final Rule relating to the Temporary Liquidity Guarantee Program (TLG Program). The TLG Program consists of two basic components:

- A guarantee of newly issued senior unsecured debt of banks, thrifts, and certain holding companies (the debt guarantee program); and
- Full coverage of non-interest bearing deposit transaction accounts, such as business payroll accounts, regardless of dollar amount (the transaction account guarantee program).

The TLG Program (and related government programs like the Troubled Assets Relief Program and the Commercial Paper Funding Facility) are designed to improve the functioning of credit markets and to strengthen capital in the financial system so that banks can continue to make prudent loans during these times of economic distress. The FDIC expects banks to use funds generated through these programs to begin lending again to consumers and businesses. It is critical that lending increase where credit has contracted, such as mortgage lending, consumer credit, and small business lending.

Eligible entities

Eligible entities under the TLG Program include: (1) all FDIC-insured depository institutions; (2) all United States bank holding companies, including financial holding companies, and all United States savings and loan holding companies that engage only in activities that are permissible for financial holding companies under section 4(k) of the BHCA, 12 U.S.C. §1843(k), or have at least one insured depository institution subsidiary that is the subject of an application under section 4(c)(8) of the BHCA, 12 U.S.C. 1843(c)(8), that was pending on October 13, 2008; and (3) any other affiliates of an insured depository institution that the FDIC designates, after written request and positive recommendation by the appropriate Federal banking agency, as an eligible entity. To be eligible under item two above, a bank holding company or savings and loan holding company must have at least one chartered and operating insured depository institution subsidiary.

Election form that all eligible entities must complete by December 5, 2008

Beginning on Monday, November 24, 2008, the TLG Program Election Form will be available via *FDICconnect*. All eligible entities must complete the Election Form on or before December 5, 2008, to either opt-out of one or both components of the Program or, for those entities remaining in the Program, to provide data to determine each entity's debt

guarantee limit, and agree to certain terms. Please refer to FIL-125-2008 for more detailed instructions. Entities that remain in the debt guarantee program must also execute and transmit to the FDIC a Master Agreement. Entities are encouraged to coordinate their election decisions with other members of their consolidated groups as all members of a holding company must make the same election with respect to each component of the TLG Program. A decision by one member of a group to opt-out will be irrevocable and binding on all other group members.

Major changes

The major changes from the Interim Rule to the Final Rule include:

- Guaranteeing the timely payment of principal and interest under the debt guarantee program.

Under the Interim Rule, the FDIC's guarantee under the debt guarantee program was triggered by receivership or bankruptcy. Under the Final Rule, the FDIC instead guarantees timely payment of principal and interest. This improvement in the guarantee, which was made in response to comments, should create significant investor demand, and dramatically reduce funding costs for eligible banks and holding companies.

In connection with this improvement in the guarantee, participating entities in the debt guarantee program must execute and file with the FDIC as part of its notification of participation in the Debt Guarantee Program a "Master Agreement," governing the guarantee.

- Revising the definition of senior unsecured debt.

The definition of senior unsecured debt now excludes any obligation with a stated maturity of 30 days or less. The guarantee on any previously issued guaranteed senior unsecured debt instrument issued with a stated maturity of 30 days or less will expire on the earlier of: (1) the date the issuer opts out (if it does), or (2) the maturity date of the instrument.

- Providing an alternative means for establishing a guarantee cap for eligible entities with no senior unsecured debt as of September 30, 2008.

If a participating entity that is an insured depository institution had no senior unsecured debt as of September 30, 2008, or had only federal funds, its debt guarantee limit is two percent of its total liabilities as of September 30, 2008.

- Combining debt guarantee limits of a participating insured depository institution and its parent holding company.

With proper written notice both to the FDIC and to its parent holding company, a participating insured depository institution may issue guaranteed debt in an amount equal to the institution's limit plus its holding company's limit, so long as the total guaranteed

debt issued by the insured depository institution and its holding company does not exceed their combined debt guarantee limit.

- Revising the fee structure for the debt guarantee program as follows:

For debt with a maturity of:	The annualized assessment rate (in basis points) is:
180 days or less	50
181-364 days	75
365 days or greater	100

However, the rates set forth above will be increased by 10 basis points for senior unsecured debt issued by a holding company or by a participating affiliate that is not an insured depository institution if, as of September 30, 2008, the assets of the holding company's combined depository institution subsidiaries constitute less than 50 percent of consolidated holding company assets.

- Approving trade confirmations as a sufficient form of written agreement for senior unsecured debt.
- Recognizing NOW accounts with low interest rates (0.5 percent or less) and IOLTAs as types of noninterest-bearing transaction accounts for purposes of the Transaction Account Guarantee Program.
- Prescribing more specific disclosures for both components of the TLG Program.

The Final Rule mandates that certain disclosures be made. The Final Rule includes specific mandatory language for debt issued under the debt guarantee program and sample language for both participants and non-participants under the transaction account guarantee program.

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