Principal Financial Group

Principal Financial
Group, Inc.

November 13, 2008

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

Re: Interim Rule Regarding Temporary Liquidity Guarantee Program (the "TLGP")
RIN #3064-AD37

Ladies and Gentlemen:

The Principal Financial Group applauds the efforts of the Federal Deposit Insurance Corporation (the "FDIC") to help mitigate the serious adverse effects of recent economic turbulence on the stability of the financial system through its establishment of the Debt Guarantee Program of the TLGP (the "Program"). We appreciate the opportunity to provide our comments concerning the Interim Rule implementing the Program (73 Fed. Reg. 64179-02) (the "Interim Rule") and the Amendment to the Interim Rule (73 Fed. Reg. 66160-01) (the "Amendment") issued by the FDIC.

The Program is designed to help reopen credit markets and increase access to liquidity. In this regard, as described below, we believe the following changes would strengthen the Program and, ultimately, the financial system.

1) Clarify that the guarantee is backed by the full faith and credit of the United States and extend it to cover the timely payment of principal and interest.
2) Make it easier to issue unguaranteed debt alongside guaranteed debt.
3) Establish an effective system for disclosing the existence and nature of the guarantee to potential investors.

Nature of Guarantee

Chairperson Bair said in her October 23, 2008 statement that the guarantee under the Program is "broad and backed by the full faith and credit of the U.S. government." However, this is not reflected in the Interim Rule. We believe that potential investors will want to be assured that the guarantee constitutes an obligation for which the full faith and credit of the United States is pledged and propose that the Interim Rule be revised to clarify this point.

Potential investors will also be looking at the scope of the FDIC guarantee issued under the Program. According to the Interim Rule, the FDIC guarantee will cover the unpaid balance of the related guaranteed debt upon the failure of the issuing institution or the filing of a bankruptcy petition with respect to the issuing holding company. Potential investors in senior unsecured debt of banks and holding companies expect a broader guarantee, one that will have the effect of earning the 'AAA' rating of the U.S. government.

We believe that for the guarantee to be valuable to investors, and thus to make the Program as successful as possible in increasing liquidity for participating entities, the guarantee needs to be an unconditional guarantee of the timely payment of principal and interest. This would make the FDIC guarantee consistent with the guarantee provided under the United Kingdom's 2008 Credit Guarantee Scheme. We strongly recommend that the Program be revised so that the FDIC guarantee of debt unconditionally covers the payment of principal and interest when due.

Non-guaranteed Debt

The Program permits participating entities to issue non-guaranteed debt with a stated maturity date after June 30, 2012 by paying an upfront fee. While we agree that participating entities should have the ability to opt in or out of the FDIC guarantee on a per issuance basis, we do not believe this option should be limited to debt with stated maturity dates after June 30, 2012. A change in the Program to permit the issuance of non-guaranteed debt with maturity dates prior to June 30, 2012 would provide both participating entities and investors needed flexibility and would be more in line with the guarantee provided under the United Kingdom's 2008 Credit Guarantee Scheme.

For these reasons, we propose that the Program be revised to permit participating entities to opt in or out of the FDIC guarantee on a per issuance basis with respect to all eligible debt, regardless of its stated maturity date.

Disclosure System

It is imperative that potential investors be able to easily ascertain whether a particular issuance is guaranteed under the Program. This is particularly critical for participating entities that issue non-guaranteed debt or debt in excess of their limits under the Program.

The manner in which the guarantee is disclosed is important. The language used in issuance announcements and disclosure documents needs to be clear and uniform. If the description of the guarantee varies, it could lead potential investors to believe that the terms of the guarantee vary. The United Kingdom has dealt with this issue by dictating the language to be used when describing the guarantee provided under its 2008 Credit Guarantee Scheme. We recommend that the FDIC do the same.

In addition, we have seen the following suggestions made by other organizations and ask that the FDIC consider them as it creates the disclosure mechanics for the Program: (i) asking the Depository Trust Company to identify all guaranteed securities with a common CUSIP identifier; and (ii) encouraging financial news organizations like Bloomberg and Reuters to offer pages specifically dedicated to each issuer's guaranteed securities.

Alternative Measurements for Participation

In the Amendment, the FDIC asks, "Should the FDIC establish an alternative guarantee cap, e.g., a percentage of total liabilities, or an average of outstanding senior unsecured debt over some period of time, for those eligible entities that had no or de minimum amounts of senior unsecured debt outstanding on Sept. 30, 2008? If so, what should the alternative be, and why?"

Under the Program, an eligible entity may issue guaranteed debt in an amount up to 125 percent of the amount of senior unsecured debt such entity had outstanding on September 30, 2008 that will mature before June 30, 2009. The goal of this calculation should be to allow all eligible entities fair and equal access to the Program; it should not be used to prevent otherwise eligible entities from participating in the Program. There will be some entities that just happened to have a large amount of qualifying debt outstanding on September 30 and others that just happened to not have any outstanding debt on that particular date. Allowing entities that just happened to have qualifying debt on that particular date to participate gives them an unfair advantage over entities that, for whatever reasons, did not. For the Program to be most effective in opening the credit markets and increasing access to liquidity, the goal should be to offer its benefits to as many banks and holding companies as possible. This appears to have been the thinking behind the Federal Reserve's Commercial Paper Funding Facility, which is open to all U.S. commercial paper issuers.

We appreciate that it makes sense to impose some criteria on how much guaranteed debt a participating entity may issue under the Program. We recommend that the FDIC revise the Program's eligibility calculation to permit eligible entities to issue up to 125 percent of (i) the greatest amount of senior unsecured debt outstanding between January 1, 2008 and September 30, 2008 that (ii) matures before December 31, 2009. We believe these changes would increase access to liquidity most effectively for more eligible entities. The range of dates for the amount outstanding would be more consistent with how the Federal Reserve considers the amount of commercial paper an issuer may issue under the Federal Reserve Commercial Paper Funding Facility.

As it is clear that it is not possible to establish one metric that will adequately cover every eligible entity wishing to participate in the Program, we recommend that the FDIC still be willing to make case-by-case exceptions.

Combined Caps

The FDIC also asks in the Amendment, "Should banks be allowed to issue guaranteed debt in an amount equal to the bank's cap plus its holding company's(ies') cap, so long as the total guaranteed debt issued by the bank and its holding company(ies) does not exceed their combined cap? If so, why? And how could this process be managed to assure, among other things, that the entities together would not exceed their combined cap?"

We strongly encourage the FDIC to allow eligible entities within a holding company structure to aggregate their debt for purposes of determining one combined cap. Furthermore, we believe that that any eligible entity or entities within the holding company structure should be allowed to issue guaranteed debt up to the combined cap. This would allow companies to employ safe and sound cash and debt management practices. For some holding companies, it may make sense for all debt to be issued from one or two particular eligible entities. Capital raised could then be diffused appropriately throughout the organization. This would provide necessary flexibility and still allow companies to deploy capital where it is needed the most. For these reasons, we recommend that the FDIC revise the Program to allow eligible entities within a holding company structure to aggregate their debt for purposes of determining their combined cap and permit one or more eligible entities within the holding company to issue debt up to the aggregated cap.

The FDIC could manage this process by creating a system that contemplates reporting at an aggregate level. Using a common CUSIP identifier for the guaranteed debt, as previously suggested, could help simplify the system. Such a system would allow the FDIC to ensure that the entities do not exceed their combined cap.

Special Treatment of Federal Funds and Short-Term Borrowings

The third question posed by the FDIC in the Amendment is, "Should the FDIC charge different premium rates for federal funds and/or other short-term borrowings versus longer term borrowings? If so, why? What should the criteria for determining which borrowings qualify for which rates, and what should be the rate differential?"

We believe that the best thing the FDIC could do on this point is to allow participating entities to opt in or out of the FDIC guarantee on a per issuance basis. Entities may find the guarantee less valuable for certain types of issuances, like federal funds or commercial paper. Giving them this choice would enhance their ability to address the fast-moving changes in the markets and better manage the costs of raising capital.

Our recommendation is to keep the premium rates the same for all types of borrowings but permit participating entities to opt in or out of the FDIC guarantee on a per issuance basis.

Conclusion

The Program is an important component of the recovery of our financial system. We hope our comments and recommendations assist the FDIC in improving the Program so that it creates the greatest benefits for the credit markets and overall financial system.

Thank you for your consideration. We would be pleased to discuss the matters contained in this letter with you. If you have any questions concerning our comments, please contact the undersigned at 515-247-4885.

Very truly yours,

Terrance J. Lillis
Senior Vice President and
Chief Financial Officer