



First Principles Capital Management, LLC

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November 3, 2008

By electronic delivery

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

Attention: Comments

Re: RIN # 3064-AD37; Temporary Liquidity Guarantee Program; 12 CFR Part 370; 73 Federal Register 64179

Dear Mr. Feldman:

First Principles Capital Management, LLC ("FPCM") appreciates the opportunity to comment on the Federal Deposit Insurance Corporation ("FDIC") Interim Rule describing the Temporary Liquidity Guarantee Program ("TLG Program"). FPCM manages fixed income strategies for sophisticated institutional investors including endowments and foundations, pension funds, U.S. and foreign financial institutions and private funds.

FPCM agrees with the assertion that there are significant systemic risks to the U.S. financial system and believes that the TLG Program is a positive and necessary step to mitigating these risks. As a case in point, over the past several months, a number of our clients have asked for our counsel to help them address the credit risk of uninsured balances held in transaction accounts at FDIC-insured institutions. These particular clients represent business executives of private companies operating in a broad range of manufacturing and service industries. The consistent theme among these business leaders was a growing loss of confidence in the safety of the U.S. banking system. Many of these clients implemented daily procedures to sweep balances in excess of the insured amounts out of their banks and into Treasury money market funds. Such actions, in addition to draining insured depository institutions of liquidity, imposed costly daily operational burdens on these businesses. Personnel resources at these clients had to be dedicated to mitigating daily credit exposures to their business banks, instead of focusing these resources on their core operating businesses. Therefore, the Interim Rule providing a temporary unlimited guarantee of funds in transaction accounts at FDIC-insured institutions – the Transaction Account Guarantee Program - will certainly restore confidence, return liquidity to the banking system and allow our clients to return to focusing on their core business activities.



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Additionally, FPCM manages a number of client investment mandates for which the credit guidelines require the funds to be invested exclusively in assets that enjoy the full faith and credit of the U.S. government. The FDIC Interim Rule establishing a temporary guarantee of newly-issued senior unsecured debt – the Debt Guarantee Program - will enable our clients to provide liquidity to eligible banks that elect to participate in the TLG Program, while maintaining their conservative credit guidelines. Consequently, FPCM supports the FDIC's proposed Debt Guarantee Program.

With regard to the Debt Guarantee Program, FPCM would like to offer a suggestion we believe would significantly improve investor participation during the first 30 days of the program. The TLG Program became effective on October 14, 2008. For the first 30 days of the program, all eligible entities are covered under the TLG Program, and the Debt Guarantee component of the program provides temporary guarantees on all newly issued senior unsecured debt up to prescribed limits issued after October 14, 2008. On or before November 12, 2008, eligible entities must notify the FDIC as to whether they intend to opt-out of the Debt Guarantee Program. If an eligible entity chooses to opt out of the Debt Guarantee Program, the FDIC's debt guarantee will terminate on the earlier of November 12, 2008 or the date the eligible entity provides notice of such decision. Unfortunately, having the guarantee terminate on the earlier of the notice date of the eligible entity or November 12, 2008 precludes investors with explicit government credit investment requirements from purchasing the debt of any eligible entity prior to November 12, 2008, despite the fact that the debt may turn out to be explicitly guaranteed.

For example, consider an eligible entity that issued senior unsecured debt, in an amount below the prescribed limits, on October 15, 2008 with a maturity of November 12, 2008. In principle, this debt would be explicitly guaranteed under the Debt Guarantee Program, were it not for the provision that terminates the guarantee in the event the eligible entity notifies the FDIC of its intention to opt out of the program prior to November 12, 2008. Since the possibility exists for the eligible entity to provide notice prior to maturity, a termination of the guarantee could result. Such an outcome bars any investor requiring an explicit government guarantee from purchasing any of these obligations. If, however the FDIC guarantee did not terminate on the notice date of the eligible entity, but rather terminated on November 12, 2008 regardless of the date of notice, this debt could be purchased by an investor with strict government investment guidelines. As a result, to improve immediate investor participation in this program, FPCM strongly recommends that the FDIC remove the "earlier of" language with respect to the termination of the guarantee and simply have the guarantee expire on November 12, 2008 regardless of the opt-out notice date of the eligible entity.

The ability of eligible entities to determine the value of participating in the Debt Guarantee Program is critical, yet the current language used with respect to opting out of the program prevents an entire group of investors from participating, thus obfuscating the potential economic value of this opportunity. Eligible entities may not receive accurate information regarding the significant demand for, and the beneficial pricing of, the guaranteed debt. In the absence of accurate information demonstrating the benefits of participation to eligible entities, such eligible entities may simply elect to



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opt-out of the program. This would be an unfortunate result since I can assure you that among our clients there is significant demand to purchase the guaranteed debt, but the current construct of the program during the first 30 days precludes participation.

First Principles Capital Management appreciates the opportunity to comment on the FDIC's Interim Rule and thanks you for your consideration of our comments.

Sincerely,

A handwritten signature in blue ink that reads "Douglas A. Dacheille".

Douglas A. Dacheille
Chief Executive Officer
First Principles Capital Management