BB&T

Branch Banking & Trust Co.

Funds Management Group

Mail Code: 001-16-17-10
200 West Second Street
Winston-Salem, NC 27101

November 6, 2008

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

Dear Mr. Feldman:

The following comment letter is submitted on behalf of BB&T Corporation concerning the Temporary Liquidity Guarantee Program. We respectively ask that the FDIC consider the following issues before final implementation of the Interim Rule.

Increase in Systemic Risk to the System: Once a bank issues the maximum amount of guaranteed debt, the systemic risk, which was intended to be eliminated by this program returns to the system, and the risk to the FDIC increases by the amount of guaranteed debt. If markets have not stabilized by the time a bank reaches its maximum amount, the financial institution is in the same place it finds itself in today. Because this program only covers debt that is scheduled to mature within a nine month window, it would seem that issuance up to the maximum amount would occur fairly quickly. It also produces an additional burden on healthy banks as they will now effectively be guaranteeing not only the insured deposits at a weak bank, but also the wholesale debt of a weak bank. BB&T believes that this adds to the systemic risk in the system versus reducing it.

Penalty for Disciplined Banks: For strong banks, such as BB&T, that have maintained a disciplined approach to the business during the loose credit years, the introduction of this program is a distinct disadvantage. By guaranteeing the debt of all banks, there will be no differentiation in the market based upon the risk of the issuer. More troubling, however, is that if a strong bank like BB&T decides to opt out of the program, we run the risk of being differentiated by the market in a negative way because an investor can decide to take no risk with a risky bank versus some level of risk with a high quality bank. At the very least this will raise the cost of funding for the strong banks. The only question is whether this cost would be less than the 75 basis points the FDIC is charging to become a part of this program.

The additional burden of this debt guarantee will put significant downward pressure on bank earnings at a time when banks are already under earnings pressure. Coupled with the earnings burden of a bank taking on capital from the Capital Purchase Program, an unintended negative consequence may be a downgrade of an otherwise healthy high performing bank. Please note the quotation below from Moody's Investors Service regarding the ratings outlook for BB&T:

"What Could Change the Rating - Down
A decline in profitability ratios could place downward pressure on its ratings, however."

As you can see from this quote, the negative impact on a bank's earnings can have a significant unintended negative consequence.

Contra to Federal Reserve Easing: When the financial services industry is under stress, the usual response is for the Federal Reserve to ease, creating a steep yield curve which is positive for bank earnings. The addition of this 75 basis point charge will add a significant burden to bank earnings for participating banks. It also seems to be in direct conflict with the Federal Reserve's goal of easing rates to increase funds available for lending. If one compares this cost to the Federal Reserve's easing of rates, this program acts like a tightening of the Federal Funds rate.

Impact on the Federal Home Loan Banks: The Federal Home Loan Bank ("FHLB") system has traditionally been a secured lender to commercial banks, providing one of a bank's most affordable sources of term funding. The implementation of this program will decrease the need for banks to borrow secured term debt from the FHLB system. The existence of a government guarantee on unsecured debt should make it attractive from a cost perspective to issue unsecured debt versus expanding FHLB borrowings. This change in demand for FHLB funding would come at a time when the Federal Home Loan Banks are being asked to bolster capital, which is best accomplished through earnings. Additionally, since the FHLB is a corporative, its member banks own equity in the FHLB in proportion to the borrowings and, therefore, have a significant investment in the FHLB. FHLB member banks include numerous community, regional and money center banks. The reduced earnings will likely reduce the dividends paid on the FHLB investments thus increasing the cost of this program to FHLB borrowers who as a result own FHLB stock. The reduced demand for services from the FHLBs may also cause them to reduce staffing making it harder for them to respond to any renewed demand once the Temporary Liquidity Guarantee program terminates.

Market Confusion: Having a maximum limit on the guaranteed debt is sure to create market confusion as the "maximum guaranteed amount" is reached. There needs to be a simple market mechanism to associate a piece of debt with a guarantee in much the same way a municipal bond is wrapped by a mono-line insurance provider to enhance its rating. How will an investor know when a bank has reached its limit and is now issuing debt that does not have the guarantee? This seems especially problematic for overnight funds or very short-dated trades that usually have less documentation (no cusip etc.). We recommend that the guarantee only be associated with debt that can be issued with a cusip.

Calculation and Allocation of Maximum Amount: According to the FAQ's posted on the agency's website, all eligible entities under a holding company must make the same election regarding the program. We would like clarification on whether funds that are issued with the guarantee would have to be issued by the same entity that created the capacity. For example, if a bank holding company had $2 billion in insurable maximum amount and its subsidiary bank had $5 billion, could the entire $7 billion be issued from the holding company? We request that the agency allow the maximum amount to be allocated by a financial institution among its various entities. One of the primary reasons for this consideration is that the capital that is being made available under the Capital Purchase Program will generally reside at the lead bank(s) of a holding company structure, which leaves the holding company itself with the greatest need for term funding. Another relevant consideration regarding holding company funding is that most bank holding companies have a lower credit rating than a subsidiary bank, thus allowing it to gain greater benefit from the guarantee.

We also ask the agency to consider how the maximum amount will be treated given a bank's fluctuating overnight position. For example, if a bank has a calculated maximum amount of $7 billion and an overnight position of $5 billion on the measurement date, but due to the growth of its balance sheet or the maturity of a piece of term debt sees its overnight position grow temporarily to $7 billion, does that eliminate the institution's ability to issue any term debt under this program? If the agency does not eliminate overnight funds from the program, then we request the agency consider allowing a bank to use a "drain and fill" approach whereby a bank could issue guaranteed term debt and allow the insured overnight bucket to shrink.

The calculation of the base of debt available to be guaranteed is not clear. We encourage a precise template be created that can be populated to determine the funds that would be captured by the program.

Market Conditions Have Changed: Since this program was originally contemplated by the FDIC, credit market conditions have begun to improve. While many challenges remain, signs of improvement such as the Fed Funds / LIBOR spread declining are beginning to be seen. When this plan was announced, the capital injections being made through the TARP program were not contemplated. The injection of capital into the banking system and the general improvement in market conditions make this program as originally contemplated unnecessary. We think the FDIC should consider an amended approach as described below that would maintain an appropriate level of market discipline and distinction in cost ramifications for participating institutions as well as serving the public policy purpose of the program.

Recommendation: We recommend that the program allow banks who opt in to choose which debt they want to guarantee. If a bank needs the guarantee, it can take advantage of the guarantee but not be saddled with the incremental cost added to funding for which no guarantee is needed. If the purpose of this program is to help eliminate a systemic risk to the system, and if it is not intended to be a general bailout of the system, it would seem logical that a bank would be allowed to choose which debt it needs to guarantee (if any) versus having to increase its cost of funding for all unsecured wholesale sources of funds. In this way market discipline is maintained, and the weak players pay a higher proportionate cost to fund their bank while a healthy bank like BB&T would be allowed to continue to fund normally. Allowing the flexibility to choose which debt to guarantee also achieves the public policy objective of eliminating systemic risk because a healthy bank like BB&T that would not expect to need the program would have the backstop available if conditions in the market place changed and the use of the program were necessary.

The current proposal contemplates a bank being allowed to issue non-guaranteed debt if that option is chosen up front. However, it limits this option to debt that has a maturity past June 30, 2012, thus forcing the institution to utilize the program for all short-term debt. We think this provision should be changed to allow a bank to pick and choose which debt to guarantee as described in the paragraph above.

If the agency does settle on requiring all funds to be guaranteed, we strongly urge the agency to eliminate overnight funding from the guarantee program. We believe this aspect of the program has the greatest potential for market confusion and is the most punitive in terms of cost. This aspect of the program also seems to run contrary to the Federal Reserve's easing of market rates.

Lastly, we urge the agency to only pass the cost of this program to banks that do participate. The provision that allows the agency to assess all banks for any shortfall in the cost of providing this guarantee unfairly taxes the healthy institutions. Only banks that opt into the program should be assessed for any shortfall in the funding of the program. We understand that the finding of systemic risk requires the agency by regulation to collect fees from the entire industry, but we believe that this works against market discipline and that the agency should seek relief from enforcing this provision.

Thank you for your consideration of the issues noted above. If you would like to discuss these items in more detail, you may call my direct number at (336) 733-2871.

Very Truly Yours,

Hal S. Johnson
Treasurer