



**Arkansas IOLTA Foundation, Inc.**

Justice Building, Suite 0100  
625 Marshall Street  
Little Rock, Arkansas 72201  
(501) 682-9421 or (501) 975-3772  
Fax: (501) 682-9415  
E-Mail: adjohnson@arkansasjustice.org

October 12, 2010

Mr. Robert E. Feldman, Executive Secretary  
Attn: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> St., NW  
Washington, DC 20429

---

**Board of Directors**

Re: RIN 3064-AD37

**President:**  
Nate Coulter

Dear Mr. Feldman:

**Vice President:**  
Richard C. Downing

**Secretary:**  
Anna Via

**Treasurer:**  
James D. Gingerich

**Members:**  
Tamra L. Cochran  
Conner Eldridge  
Dr. Alice Hines  
Jim Jansen  
James A. Ross, Jr.  
Frank B. Sewall  
James D. Spratt  
Margaret M. Staub

**Executive Director:**  
Amy Johnson

---

On behalf of the Arkansas IOLTA Foundation, I am writing to express serious concerns about the impact that the proposed rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) will have on Arkansas's Interest on Lawyers Trust Accounts (IOLTA) program. More specifically, our concern relates to the provisions that will require banks to notify IOLTA account holders that the current unlimited FDIC insurance available under the Transaction Account Guarantee (TAG) Program will expire at the end of the year.

IOLTA accounts, although included within the current definition of non-interest bearing accounts receiving unlimited coverage under the existing TAG Program, are excluded in the proposed regulation and will thus cease to be fully covered as of January 1, 2011. Just before the Senate recessed for the November elections, Senators Merkley, Johnson, Corker, and Enzi introduced bipartisan legislation that would correct the unintended exclusion of IOLTA accounts from the Dodd-Frank Act.

In Arkansas, there are currently 2694 IOLTA accounts with 3552 Arkansas attorneys associated with those accounts. The interest earned on these accounts constitutes 96% of our program's income, which in years past has comprised a significant source of grant funding for Arkansas's two legal aid providers. Historically low interest rates have forced our foundation to slash our grant awards, to the detriment of low-income Arkansans without access to civil legal assistance. The proposed notification requirements, which were drafted prior to the filing of the Senate Bill will, if implemented, likely cause serious and irreparable damage to our already struggling program, as follows:

- 1 **By undermining existing banking relationships** Arkansas attorneys and law firms, unaware of the potential fix to this issue, will be forced to act upon receiving such notification. Attorneys and law firms holding significant funds for clients in IOLTA accounts will be forced to decide whether to keep those funds in their existing IOLTA accounts or to move their accounts to the four or five largest financial institutions in Arkansas presumed “too big to fail,” undermining the stability of those large IOLTA funds at other participating TAG institutions.
2. **By causing unnecessary confusion to over 3500 Arkansas attorneys associated with IOLTA accounts before any action can be taken on the bill.** Banks following the notification directive prior to congressional action will have to rescind that notification should the legislation be passed, causing significant confusion among depositors about their insured funds and the potential for significant disruption of existing banking relationships.
- 3 **By causing significant damage to the Arkansas’s IOLTA program’s primary source of funding.** Attorneys may feel compelled to protect their clients’ interests by removing funds from IOLTA accounts entirely and placing them in fully insured accounts, damaging a significant source of funding for civil legal services to the poor in Arkansas.

There is a national effort seeking Congressional action on this issue before the end of the year. If Congress acts, this movement of funds would have been completely unnecessary, but the damage to the smaller banks and Arkansas’s IOLTA program would have already occurred.

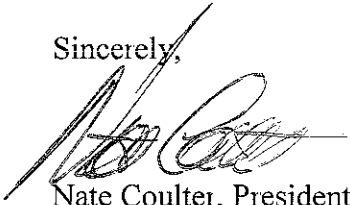
The Arkansas IOLTA Foundation greatly appreciates the FDIC’s current inclusion of IOLTA accounts in the unlimited deposit insurance coverage under the existing TAG Program. Inclusion continues to be critical for a variety of reasons, including the following:

- 1 **The negative impact to the financial system** of widespread movement of IOLTA accounts out of existing banking relationships based on conflicting deposit insurance rules will undermine current stability and may create many of the same risks to the banking system the original TAG system successfully avoided, including the large scale migration of deposits to banks presumed too big to fail.
- 2 **IOLTAs are, in effect, non-interest bearing accounts for the account owner and the owner of the funds deposited therein.** Interest is not included in the gross income of either the client or the law firm since the IOLTA program holds the entire beneficial interest in the account. There would be no interest on these accounts and they would qualify for the unlimited coverage absent the requirements imposed by IOLTA programs.
- 3 **IOLTAs are functionally similar to the types of non-interest bearing transaction accounts** targeted for protection in the original TAG Program and that were thereby included as an exception to the non-interest bearing requirement by the FDIC.
- 4 **IOLTA provides a significant public benefit.** In Arkansas, the interest generated from IOLTA accounts are used by the Foundation to fund Arkansas’s two legal aid programs

that provide civil legal services to the poor to protect women and children from domestic violence, help veterans and the elderly obtain benefits to which they are entitled and keep people in their homes. These funds will be lost at a time when, because of the economic crisis, these vital services are needed the most.

We respectfully request that the FDIC delay the implementation of the proposed regulation and notification requirement relative to the IOLTA accounts until Congress passes the pending Senate bill or other corrective legislation. Further, we believe it is important that the FDIC continue to support unlimited deposit insurance or other full guarantee coverage for IOLTAs to avoid the potential wide-scale disruption of the banking system and irreparable harm to IOLTA programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Nate Coulter", written over a horizontal line.

Nate Coulter, President  
Arkansas IOLTA Foundation, Inc.