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October 12, 2010

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20420

Re: FDIC Guarantee of Noninterest Bearing Transaction Accounts
(RIN 3064–AD37)

Dear Mr. Feldman:

This letter is submitted on behalf of my client, Federated Investors, Inc., a sponsor of money market funds subject to regulation under the Investment Company Act of 1940.

According to the FDIC's release, the proposal implements section 343 of the Dodd-Frank Act which provides the FDIC with explicit authority to insure noninterest bearing transaction accounts until December 31, 2012. The FDIC previously did not have such explicit authority but during the financial crisis adopted a temporary guarantee program for such accounts to help address acute liquidity problems at banks. That program originally was set to expire on December 31, 2009 but was extended by the FDIC through June 30, 2010 and later through December 31, 2010 with the possibility of further extensions.

Section 343 of the Dodd-Frank Act removes doubts concerning the legal basis for the FDIC's temporary guarantee of noninterest bearing transaction accounts going forward. That section makes clear, however, that the FDIC's authority to implement or renew the guarantee program ends on December 31, 2012.

Section 343 of the Dodd-Frank Act constitutes a mandate by Congress that the FDIC shall not further guarantee or insure noninterest bearing transaction accounts after December 31, 2012 (beyond the otherwise applicable insured amount—$250,000). We believe that such a mandate is appropriate for several reasons. In particular, an unlimited guarantee of such accounts at insured depository institutions would:

> Vastly increase the exposure of the FDIC insurance fund to losses in the event of bank failures without any corresponding increase in insurance premiums.
>
> Substantially increase the exposure of U.S. taxpayers to potential losses.
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> Subsidize insurance coverage for deposits that otherwise would not qualify for insurance.
>
> Greatly expand moral hazard in the financial system by encouraging market participants to rely on government guarantees rather than careful analysis of financial risks and alternatives.
>
> Create systemic risk by undermining depositor discipline and prudent investor behavior.
>
> Expand the federal safety net to an extent inconsistent with federal policies that support efficient operation of the capital markets and that seek to limit the use of sovereign credit to support selected market segments.
>
> Magnify the competitive imbalance between federally insured depository institutions and other financial institutions that offer efficient, high quality investment alternatives for large depositors, such as money market funds.
>
> Potentially result in rapid disintermediation during a financial crisis by encouraging a flight to banks and the federal safety net, thereby potentially destabilizing portions of the financial markets and triggering potentially wide ranging market repercussions.
>
> Necessitate an expansion of the federal safety net to other financial institutions, such as occurred during the recent financial crisis.

A key purpose of the Dodd-Frank Act is to prevent future bailouts and subsidies of financial institutions and to limit the perception that such institutions are "too big to fail." An unlimited guarantee of noninterest bearing transaction accounts at banks is fundamentally inconsistent with this purpose. We believe that section 343 makes clear that, after December 31, 2012, the FDIC will have no legal authority to implement such a program.

Accordingly, we urge the FDIC to make as clear as possible that the guarantee of noninterest bearing transaction accounts will not extend beyond December 31, 2012.

As a technical matter, we note that the FDIC's proposal is intended to exclude from the guarantee any transaction account that "may" earn interest, such as a NOW account or money market deposit account. The proposal requires each depository institution to post a notice to this effect in its lobby and on its web site. However, the text of the regulation itself does not include this exclusion. In particular, the definition of "nonterest-bearing transaction account" does not exclude an account that "may" earn interest. We urge the FDIC to amend the regulatory language to clearly state that the temporary guarantee does not apply to such accounts.

Thank you for this opportunity to comment on the FDIC's proposal.

Sincerely,

Melanie L. Fein

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cc: Eugene F. Maloney, Esq.
Federated Investors, Inc.