FDIC Stability and Guarantee Programs

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A September to Remember

- Sept. 7 - Government seizes Fannie and Freddie
- Sept. 14 - B of A to acquire Merrill
- Sept. 15 - Lehman files for bankruptcy
- Sept. 16 - $85B loan to AIG
- Sept. 19 - Administration announces bailout
- Sept. 21 - Goldman, Morgan become BHC's
- Sept. 26 - WAMU fails; JP Morgan purchases banking operations
- Sept. 29 - Citigroup acquires Wachovia banking operations (FDIC brokers)
- Sept. 29 - DOW falls 777.68 points

2

FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

And then October arrives

- Oct. 3 - Wells offers its competing proposal to acquire Wachovia
- Oct. 3 - Emergency Economic Stabilization Act - establishes $700B for TARP; temporarily increases federal deposit insurance to $250,000
- Oct. 14 - Treasury announces TARP program and funds with $250 B
- Oct. 14 - FDIC Announces Temporary Program to Encourage Liquidity and Confidence in the Banking System invoking a systemic risk determination
- Issue interim final rule on Temporary Liquidity Guarantee Program (TLGP)

3

TLGP

FDIC 75 YEARS

- Authorized under the systemic risk exception of the FDIC Improvement Act of 1991
- Voluntary, Temporary and Fee-based
- Two components:
  - Debt Guarantee
  - Transaction Account Guarantee
- Does not rely on taxpayer money or the deposit insurance fund.
- Has been subsequently amended in November, 2008 and February, March, and May 2009 and July.

4

TLGP Debt Guarantee Program

- Types of Debt Guaranteed
  - Non-contingent senior unsecured debt with a fixed principal amount.
  - As of 2-27-09, rule extends eligible debt to mandatory convertible debt;
    - Must meet the definition of senior unsecured debt in Section 370.2(e)
    - Must be newly issued after February 27, 2009
    - Must provide in the debt instrument for mandatory conversion of the debt into common shares of the issuing entity on a specific debt no later than the last date that FDIC's debt guarantee is effective.
    - Will not result in a change to an entity's existing debt guarantee cap.

5

TLGP Debt Guarantee Program (cont'd)

- Guarantee Limit
  - 125% of senior unsecured debt outstanding on 9/30/08 that is scheduled to mature on or before 6/30/09.
  - 2% of consolidated total liabilities for insured depository institutions that had no senior unsecured debt outstanding or only federal funds purchased on 9/30/08.

6

TLGP Debt Guarantee Program (Continued)

- Long Term Non-Guaranteed Debt Option
  - Under Section 370.3(g), an eligible entity may elect to issue non-guaranteed senior unsecured debt with maturities beyond 6/30/12, at any time, in any amount, and without regard to its guarantee limit, by paying a one-time fee of 37.5 bps times the amount of the entity's senior unsecured debt outstanding on 9/30/08 and maturing on or before 6/30/09. Fee must be paid by 12-5-08.

7

Extension of Debt Guarantee Program (Interim Final Rule March 17, 2009; Final Rule May 29, 2009)

- There is evidence that TLGP debt program was effective in improving short-term and intermediate term funding for banking organizations.
- Risk spreads remain elevated above historic averages
- Suggests a more orderly phase-out of the TLGP is warranted.

8

Extension of Debt Guarantee Program

- Provides a limited four-month extension for the issuance of debt under the TLGP (from June 30, 2009 to October 31, 2009)
- The time period of the FDIC's guarantee will be extended until December 31, 2012.
- The extension will not change existing debt guarantee limit or cap.

9

Applications Required under TLGP

- To request an increase in debt guarantee limit.
- To request an increase in presumptive debt guarantee limit of zero
- To request a nonparticipating surviving entity (in the case of a merger) to opt in to debt guarantee program.
- Request by an affiliate to participate in program
- Non depository institutions to issue guaranteed debt after April 1, 2009 up until October 31, 2009 if had not previously issued debt. (application due by June 30, 2009)
- To issue mandatory convertible debt (deadline October 31, 2009)
- Certain participating entities to issue non-guaranteed debt after June 30,2009

10

Assessment Fees for Debt

- Range from 50 bps to 100 bps depending upon maturity.
- In the case of Mandatory Convertible Debt – the fees will be based on time period from issuance until debt's mandatory conversion date.
- March 17 Interim rule and final rule issued May 29 impose surcharges to be applied on an annualized basis and apply only to FDIC-guaranteed debt with maturities of at least one year as follows:
- For IDI's: 25 bp
- For other participating entities: 50 bp

11

TLGP Transaction Account Guarantee Program

- Types of Deposits Guaranteed
  - Non-interest bearing transaction accounts, including NOW accounts paying interest of 0.50% or less and IOLTAs.
  - Funds swept from a non-interest bearing transaction account into another non-interest bearing transaction account or into a non-interest bearing savings account.
- Guarantee Limit
  - 100% of non-interest bearing transaction account balance.
- Fees
  - Beginning 11/13/08, an annualized cost of 10 bps assessed quarterly.
- Duration of the Program
  - 10/14/08 – 12/31/09??

12

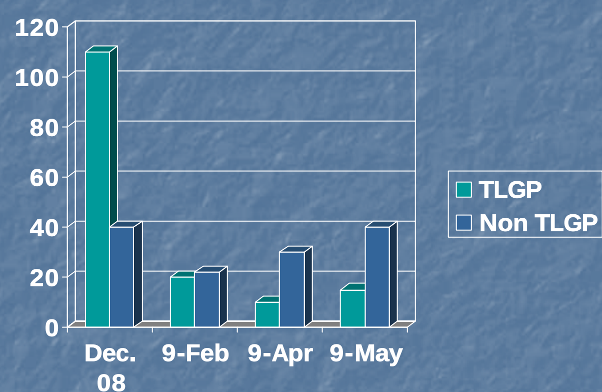
Statistics – TLGP

TLGP Opt-in Statistics (3-31-09)

- Debt Guarantee Program
  - Approximately half of eligible entities opted in;
  - Guaranteed debt outstanding is approximately $336B
- Transaction Account Guarantee Program
  - Approximately 90% institutions opted in
  - Over 6500 institutions reported transaction accounts greater than $250,000
  - Approximately $700B guaranteed
- Non-Guaranteed Debt Issuance Option
  - Minimal participation

Debt Issuances under Guarantee Program				
Dollar figures (in millions March 31, 2009)	#	Debt	Cap	%Debt to Cap
IDI's <= $10 Billion	46	$1,425	$3,079	46.3%
IDI's > $10 Billion	20	58,768	297,058	19.8%
BHC/ THC/ Affiliates	31	276,109	468,355	59.0%
All issuers	97	336,302	768,492	43.8%

15



16

TLGP

- Dedicated website: www.fdic.gov/tlgp
- FAQs
- Federal Register Notices
- Press releases

17

LLP/ PPIF - Rationale

- The Treasury and the FDIC established the Legacy Loans Program to remove troubled assets from banks.
- This program was believed necessary because uncertainty about the value of these assets makes it difficult for banks to raise capital and secure stable funding to support lending to households and businesses.

18

What is a PPIF?

- The vehicle for purchasing assets from a bank will be Public-Private Investment Funds (PPIFs).
- Private investors will bid for the opportunity to contribute up to 50 percent of the equity for the PPIF.
- The winning bid for this equity share will set the implied value of the equity share held by the Treasury.
- With proposed financing (FDIC determines leverage) guaranteed by the FDIC, this will define the overall price offered to the selling bank.