



1120 Connecticut Avenue, NW
Washington, DC 20036

1-800-BANKERS
www.aba.com

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Edward L. Yingling
President and CEO
Phone: 202-663-5328
Fax: 202-663-7533
E-mail: eyinglin@aba.com

September 19, 2008

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
Office of the Secretary
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

The Honorable Ben S. Bernanke
Chairman
Federal Reserve System
Eccles Board Building
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Dear Secretary Paulson and Chairman Bernanke,

I am writing to express our deepest concern about the program announced this morning to guarantee money market mutual funds. While we understand that we are in an extreme financial emergency, the program announced this morning runs the risk in the long run of profoundly changing the nature of our financial system and, specifically, undermining the nation's banking system. The debt instruments in a money market fund will pay a higher interest rate, and therefore the fund will pay a higher interest rate, than a bank deposit or short-term CD. It also appears there will be no limit on how much an individual or institution can invest in these funds. Therefore, such funds will be in a significantly superior market position to FDIC-insured bank deposits.

Banks across this country work hard every day to serve their communities. They take deposits, provide financial services and make loans to consumers and businesses, particularly small businesses. The great, great majority never made one subprime loan. While the traditional banking system is under stress, ninety-eight percent of banks are well-capitalized and the great majority are reporting profits, even in these difficult times. Banks have paid tens of billions of dollars into the FDIC fund and have accepted the prospect of paying high insurance premiums over the next few years to keep the FDIC fund strong without asking for any government funding. During the credit crunch, thousands of banks are continuing to lend, providing mortgages, small business loans and other credit.

Today's action will undermine the role of banks during this current crisis and has the potential to have an extremely negative impact in the future. Simply put, the

ability of banks to attract and keep deposits is being compromised in a profound fashion. Our bankers are, understandably, very upset by the action.

Among the critical questions raised by today's announcement are the following:

1. While the action is temporary, how will you address the perception by the market that money market mutual funds now have a permanent implicit government guaranty – much like Fannie Mae and Freddie Mac did?
2. Banks face a wide range of regulation and examination because of their FDIC insurance to ensure their safety and soundness. What equivalent regulation and examination will be placed on guaranteed money market funds? How will the government ensure the safety of its guaranty without equivalent regulation?
3. How will you keep corporations from taking unreasonable advantage of the lower cost of funding provided by the guaranty by moving more and more of their financing to commercial paper in these funds?
4. Will there be any limit on the amount an individual or institution can put in a guaranteed fund and still be covered by the guaranty, or will an individual or institution be able to have millions of dollars guaranteed by the government in a single fund?
5. The guaranteed funds will generally contain commercial paper of large, AAA-rated companies. Those companies will now have a funding advantage because of the guaranty. Funds will be moved from bank deposits to the guaranteed funds driving down interest rates large companies will need to pay. Since banks are the traditional lenders to smaller businesses, less credit will be available for small businesses. How will this impact on small business lending be addressed?
6. The FDIC fund consists of tens of billions of dollars paid by banks over the years, plus the interest the fund has earned. While the announcement says that fees will be charged for the guaranty, those fees will not fund the guaranty program in any material way. Unlike the FDIC fund, which is pre-funded by banks and then backed in the first instance by the almost \$1.5 trillion in bank capital, this new guaranty program is in the first instance a direct tax-payer funded program. How is that fair to the banking industry and what precedents are being set?
7. What is the exit strategy? How do you remove the guaranty at the end of the temporary period without causing severe market disruptions?
8. Will the guaranteed funds have some type of obligation to serve their communities, equivalent to the Community Reinvestment Act, which applies to banks?

While we understand this program was put together in great haste under emergency circumstances, we respectfully suggest these and other questions need to be answered immediately, before the program is finalized and any further long-term harm is done to our banking industry and the economy.

Sincerely,

A handwritten signature in blue ink, appearing to read "Edward L. Yingling". The signature is fluid and cursive, with the first name "Edward" being the most prominent.

Edward L. Yingling