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March 12, 2010

The Honorable Sheila C. Bair  
Chairman  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429

Dear Chairman Bair:

The Transaction Account Guarantee (TAG) Program has provided stability and confidence for many bank depositors at a time when there was significant worry and turmoil in the financial markets. While financial markets have turned the corner and shown improvement, the same cannot be said for the economic conditions in many parts of this country.

In fact, by some measures economic conditions have deteriorated since ABA wrote supporting the 6-month extension of the TAG Program last summer. For example, since last June, more than a million jobs have been lost, unemployment rates have increased across most states, business bankruptcies are up 12 percent, and non-performing mortgages have increased by 20 percent.

Besides the economic conditions, another important factor will be ever-present this year and likely next year as well: the failure of more banks and the attendant media coverage of them. This will continue to weigh on the minds of depositors and may trigger deposit outflows, particularly out of small banks to large ones that may still be considered too-big-to-fail. Even if Congress were to act to eliminate the too-big-to-fail problem in the coming months, it will take substantially longer for depositors' perceptions to change to fully reflect this new reality. As these economic conditions will continue to create stresses for bank customers and for banks themselves, it is important to assure depositors that their money is safe.

Liquidity concerns are also very much present in the current environment, particularly for community banks. Easing liquidity concerns was the very reason the FDIC established the Temporary *Liquidity* Guarantee Program (TLGP) – which included both the Debt Guarantee Program and the TAG Program. The debt guarantee program generally benefited the largest banks, and while a bank's decisions on issuing debt under TLGP had to be made before the end of October 2009, the program locked in FDIC guarantee funds into the *fall of 2012* (as the maximum maturity was three years). The TAG program – which has primarily benefited smaller banks – provides protection only through *June of 2010*. Thus, while the largest banks' liquidity concerns have been ameliorated (and indeed, many of the

largest opted out of the TAG program extension), the same cannot be said for many smaller banks.

The funding issues cannot be overstated. For example, the secondary market for residential and commercial real estate mortgages remains weak, and deposit insurance penalty rates on Federal Home Loan Bank (FHLB) advances and restrictions on use of brokered deposits – particularly reciprocal deposit programs – have made funding challenges more intense. As I detailed in my letter of March 3, 2010, there are steps that the FDIC and other regulators can take to help ease the funding concerns of banks, including: (1) interpreting the brokered deposit statute (or, if necessary, supporting a change in the statute) in a way that at least excludes reciprocal deposits from bank customers in the local market; (2) treating deposits in amounts up to the current full insurance limits as stable; and (3) not penalizing banks that demonstrate that they use FHLB advances in a safe and sound manner.

The bottom line is that the need for stable sources of funding remains critical. With lingering public insecurity, eliminating the added protection provided by the TAG Program could create liquidity risks that may be extremely difficult for some banks to manage without significantly reducing lending and other services they provide to their local communities. Thus, the ABA believes the TAG program should be extended.

We understand the desire to make this a temporary program and not to have this become a permanent source of insurance. Finding the right glide-path to achieve this is critical and is very much dependent on how quickly economic conditions improve. As we said, when the TLGP was first proposed, there should be “an exit strategy for this program that unwinds it in a way that is not disruptive to markets and the banking industry – and banks’ relationships with their customers. By careful and flexible planning, this program should be designed to end as markets normalize.” As markets have not yet normalized, *flexible* planning is even more important and argues strongly for an extension of the program.

Moreover, while some banks would like to see this program made permanent, other banks have expressed a great deal of concern about the long-term cost of the program, particularly given the losses that have already been realized. We reiterate the point made in our original comment letter on the proposal: as the entire banking industry must bear the costs of these initiatives, it is important that the risk be closely monitored, the pricing be subject to change so that those that participate pay a fair price to cover costs (and not impose costs on those that choose not to participate), and the program be unwound in a way that is least likely to be disruptive or create additional problems or costs for the industry.

It is essential that the risks of the program be managed, and continuation of a risk-based pricing system remains appropriate for any extension. The extension is not

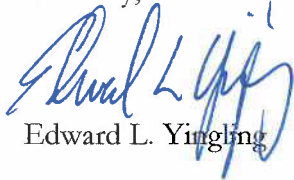
*Page three*  
*The Honorable Sheila C. Bair*

intended to delay the inevitable for seriously troubled institutions – nor should it be. But a sudden termination of the program while uncertainty among depositors still persists could trigger an adverse impact on banks that are viable. Such an outcome is clearly counter to good public policy and outweighs the potential cost of extending the program.

Given weakness in regional economic conditions, the need for continued access to liquidity, and the importance of maintaining depositor confidence, the ABA supports an extension of the Transaction Account Guarantee Program. Banks that are no longer interested in participating should have the opportunity to opt out of any extension and risk-based pricing should be maintained. As the current economic problems normalize we believe that it will be appropriate to find an orderly way to wind down the program. The steps outlined above to ease funding concerns would help facilitate an orderly transition.

We appreciate your consideration of our views and stand ready to work with you on addressing the issues in a constructive manner.

Sincerely,



Edward L. Yingling