Inactive

United States Government Actions to Strengthen Market Stability and FDIC's Temporary Liquidity Guarantee Program

The Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program will operate as set out below.

Purposes of the Action

The U.S. Government is implementing a series of initiatives to strengthen market stability, improve the strength of financial institutions, and enhance market liquidity. These collective actions, including the Federal Deposit Insurance Corporation's guarantee program, will help restore market confidence and better enable the functioning of our credit markets. The FDIC program includes guaranteeing newly issued senior unsecured debt of banks and thrifts and certain holding companies, and providing full coverage of non-interest bearing deposit transaction accounts.

This initiative is being implemented under the powers granted to the FDIC to mitigate significant risks to our economic system and to address a general lack of liquidity among financial institutions. The FDIC's action is a response to the broad uncertainty that is causing banks to be unwilling to lend generally and especially the vital activity of banks lending to each other.

The additional protection for non-interest bearing deposit transaction accounts will be especially beneficial to smaller institutions, which is important to the continued health and viability of community banks.

Eligible Institutions

Eligible institutions include FDIC-insured depository institutions and certain bank, financial, and savings and loan holding companies that engage only in activities that are permissible for financial holding companies to conduct under section 4(k) of the Bank Holding Company Act. For those institutions that currently have no unsecured debt, special eligibility arrangements will be considered on a case-by-case basis.

Scope and Term of Guarantee

The FDIC's guarantee would apply only to the following liabilities:

- Newly issued senior unsecured debt issued between October 14, 2008, and June 30, 2009, including promissory notes, commercial paper, inter-bank funding, and any unsecured portion of secured debt. Prepayment of term debt instruments expiring during this period and replacement with FDIC-guaranteed debt will not be allowed. The amount of debt covered by the guarantee may not exceed 125 percent of debt that was outstanding as of September 30, 2008, that was scheduled to mature before June 30, 2009. For eligible debt issued on or before June 30, 2009, coverage would only be provided until June 30, 2012, even if the liability has not matured.

- Effective immediately, funds held by FDIC-insured banks in non-interest-bearing transaction deposit accounts until December 31, 2009.

Period during which guarantee will be issued

Initially, all FDIC-insured institutions will be covered under this program for a period of 30 days. Prior to the end of this period, banks must inform the FDIC whether they will opt-out of either part of the program. If a bank opts out of one or both parts of the program, the guarantee or insurance will expire at the end of the 30-day period, regardless of the term of any instrument. The ability of banks to issue guaranteed debt under this program expires on June 30, 2009.

Banks availing themselves of the guarantee program will be subject to supervisory oversight to prevent rapid growth or excessive risk-taking. Eligibility and use will be determined by the FDIC in consultation with the institution's primary regulator.

Fees

Fees for coverage would be waived for the first 30 days. After the first 30 days, a fee would be imposed as follows:

- For eligible senior unsecured debt, an annualized fee will be collected equal to 75 basis points multiplied by the amount of debt guaranteed under this program.
- For non-interest bearing transaction deposit accounts, a 10 basis point surcharge on the institution's current assessment rate would be applied to deposits not otherwise covered by the existing deposit insurance limit of $250,000. Fees for the 10 basis point surcharge on the non-interest bearing transaction accounts over $250,000 will be collected through the normal assessment cycle.
- These fees will be accounted for separately on the books and records of the FDIC.
- A special assessment will be collected to cover any losses not covered by the fees to ensure no impact on the Deposit Insurance Fund or the U.S. taxpayer.

Eligibility of guaranteed instruments as collateral

The FDIC is recommending the instruments guaranteed under this program are eligible to be delivered as collateral for borrowing and will coordinate with the appropriate regulatory agencies.

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