Justification for Nonmaterial/Nonsubstantive Change
to Transaction Account Guarantee Program IC
OMB 3064-0170

Background

In October 2008, the FDIC adopted the Temporary Liquidity Guarantee Program (TLGP) following a determination of systemic risk by the Secretary of the Treasury (after consultation with the President) that was supported by recommendations from the FDIC and the Board of Governors of the Federal Reserve System (Federal Reserve). The TLGP is part of an ongoing and coordinated effort by the FDIC, the U.S. Department of the Treasury, and the Federal Reserve to address unprecedented disruptions in the financial markets and preserve confidence in the American economy.

The TLGP comprises two distinct components: the Debt Guarantee Program (DGP), pursuant to which the FDIC guarantees certain senior unsecured debt issued by entities participating in the TLGP; and the Transaction Account Guarantee (TAG) program, pursuant to which the FDIC guarantees all funds held at participating IDIs (beyond the standard maximum deposit insurance limit) in qualifying noninterest-bearing transaction accounts.

The TAG component of the TLGP was developed, in part, to address concerns that a large number of account holders might withdraw their uninsured account balances from IDIs due to then-prevailing economic uncertainties. Such withdrawals could have further destabilized financial markets and impaired the funding structure of smaller banks that rely on deposits as a primary source of funding while also negatively affecting other institutions that had relationships with these banks. In designing the TAG program, the FDIC sought to improve public confidence and to encourage depositors to maintain their transaction account balances at IDIs participating in the TAG program.

The TAG program was originally set to expire on December 31, 2009. The FDIC recognized that the TAG program was contributing significantly to improvements in the financial sector, but also noted that many parts of the country were still suffering from the effects of economic turmoil. As a result, on August 26, 2009, following a public notice and comment period, the FDIC issued a final rule that extended the TAG program through June 30, 2010.

In extending the TAG program through June 30, 2010, the FDIC reiterated its belief that the country was experiencing overall improved economic conditions and that it had made progress toward a stable, fully functioning financial marketplace. Yet the FDIC cautioned that this progress could be impeded or even undone by terminating the TAG program too quickly. As such, the FDIC deemed its initial extension of the TAG an appropriate step to a gradual phase out the program.

While the immediate financial crisis that led to the creation of the TLGP in October 2008 has abated, it was followed by an intensification of the recession that began in late 2007 and which continues to pressure local communities across the country. At the same time, the financial distress that emerged in 2008 has spread from large, systemically important banks to banks of all sizes, particularly in regions suffering from ongoing economic turmoil.

Although the condition of IDIs as a whole has deteriorated since the establishment of the TLGP, the TAG program has lessened some of their distress by enabling them to retain longstanding customer transaction relationships, such as payroll accounts from municipalities and small businesses. These deposits have significantly improved the funding situation of IDIs and allowed them to continue making investments in the communities they serve. Over 70 percent of industry assets were funded by deposits as of fourth quarter 2009, up from 65 percent a year ago. This increased reliance on deposit funding highlights the importance of the TAG program.

Based on these economic factors, the FDIC has concluded that allowing the TAG to expire on June 30, 2010, could negatively affect the banking system at a time when many IDIs continue to experience stressful economic and financial conditions. The FDIC is concerned that allowing the TAG program to expire in the current environment could cause a number of community banks to experience deposit withdrawals from their large transaction accounts and risk needless liquidity failures. To the extent IDIs are able to replace these deposits with brokered deposits or secured borrowings, their overall liquidity risk profile would increase going forward. However, the loss of longstanding large depositor relationships would negatively affect IDIs' deposit franchise values to an acquirer in the event of a failure, thus increasing the FDIC's resolution costs.

By extending the TAG program beyond its current program termination date of June 30, 2010, the FDIC seeks to maintain stability for IDIs and to promote a continuing and sustainable economic recovery throughout the country. Specifically, the FDIC anticipates that its extended guarantee of noninterest-bearing transaction accounts may provide participating institutions with a continued stable funding source. Moreover, recognizing the gap between funding costs of large and small banks, the FDIC believes that a continuation of its TAG program will help maintain community banks' ability to compete for and secure low-cost large deposits, thereby preserving deposit franchise value and supporting the rebuilding of earnings and capital.

Change to Paperwork Burden

The August 26, 2009, final rule extending the TAG program through June 30, 2010, provided then participating institutions with a one-time opportunity to opt-out of the program extension. Those electing to opt-out were required to disclose to customers that funds held in noninterest-bearing transaction accounts that were in excess of the standard maximum deposit insurance amount would not be guaranteed after December 31, 2009. In addition, institutions electing to continue their participation in the program to update any disclosures containing the December 31, 2009, termination date to reflect the new termination date of June 30, 2010.

By virtue of this second program extension, current program participants will have a second one-time opportunity to opt-out and be required to make the same disclosures regarding guarantees for excess funds held in noninterest-bearing transaction accounts. Likewise, institutions that elect to participate in this second program extension will need to update any disclosures containing a June 30, 2010, termination date to reflect the December 31, 2010, termination date. Therefore, the FDIC is adjusting its burden estimates to reflect the additional paperwork associated with the program extension.