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Financial Services Report

Special Report

# FDIC Temporary Liquidity Guarantee Program

The Federal Deposit Insurance Corporation ("FDIC") has created a temporary liquidity guarantee program ("Program") in an effort to strengthen confidence and encourage liquidity in the banking system. The Program has two components:

- Unlimited FDIC deposit insurance on non-interest-bearing deposit transaction accounts; and
- FDIC guarantee of newly issued senior unsecured debt.

## Insured Non-Interest-Bearing Transaction Accounts

Effective immediately, and without any further action on the part of any depository institution, the FDIC is fully insuring all non-interest-bearing transactional accounts.

- **Duration.** The guarantee will expire on December 31, 2009.
- **Cost.** The FDIC will assess the institution a fee of ten (10) basis points, which will be calculated on the uninsured portion of the transaction account.
- **Limit.** None.
- **Effective Date.** The guarantee is effective immediately and without charge for the first 30 days. Thereafter, institutions must opt out if they do not wish to participate. If institutions do not opt out before the expiration of the 30 days, they will participate for the duration of the guarantee.
- **Eligibility.** All FDIC-insured institutions.

## Newly Issued Senior Unsecured Debt

The FDIC is fully guaranteeing certain newly issued senior unsecured debt issued between October 14, 2008 and June 30, 2009 in the event the issuing institution fails or its holding company files for bankruptcy.

- **Type.** Includes promissory notes, commercial paper, inter-bank funding, and unsecured portions of secured debt.
- **Duration.** Debt is guaranteed through June 30, 2012, but the maturity on the debt may exceed that date.
- **Cost.** The FDIC will assess the institution an annualized fee of seventy-five (75) basis points calculated on the amount of debt issued under the Program. This fee will be paid for the duration of the guarantee.
- **Limit.** The amount of the debt guarantee may not exceed 125 percent of the institution's debt outstanding as of September 30, 2008, which is scheduled to mature before June 30, 2009.
- **Effective Date.** The guarantee is effective immediately and without charge for the first 30 days. Thereafter, institutions must opt out if they do not want to participate. If institutions

do not opt out before the expiration of the 30 days, they will participate for the duration of the guarantee.

- **Eligibility.** FDIC-insured banks and thrifts, U.S. Bank Holding Companies, U.S. Financial Holding Companies, and certain U.S. Savings and Loan Holding Companies are eligible.
- **Oversight and Supervision.** The FDIC has indicated that it, in conjunction with the other federal banking regulators, will monitor participating institutions for abuses of the Program, such as excessive risk-taking or rapid growth.
- **Separate Account.** All fees collected under the Program will be held in a separate account to cover any costs incurred under the Program. If the costs exceed the fees collected, a special assessment would be imposed on the banking industry.
- **Exclusivity.** The two components of the Program are exclusive. Participants may choose to participate in one and not to participate in the other.
- **Collateral.** The FDIC has indicated that it will coordinate with other regulators in order to allow institutions to use the instruments guaranteed under the Program as collateral.

VEDDERPRICE®

222 NORTH LASALLE STREET
CHICAGO, ILLINOIS 60601
312-609-7500 FAX: 312-609-5005

1633 BROADWAY, 47th FLOOR
NEW YORK, NEW YORK 10019
212-407-7700 FAX: 212-407-7799

875 15th STREET NW, SUITE 725
WASHINGTON, D.C. 20005
202-312-3320 FAX: 202-312-3322

www.vedderprice.com

**Financial Services Report**

*Editor in-Chief*

| | |
|---|---|
| James M. Kane | 312-609-7533 |

*Executive Editors*

| | |
|---|---|
| Robert J. Stucker | 312-609-7606 |
| Daniel C. McKay II | 312-609-7762 |
| James M. Kane | 312-609-7533 |
| Douglas M. Hambleton | 312-609-7684 |
| Jeffrey C. Davis | 312-609-7524 |
| Daniel O'Rourke | 312-609-7669 |

We welcome your suggestions and comments. Please contact James M. Kane in Chicago at 312-609-7533; Neal I. Korval in New York at 212-407-7799; or Theresa M. Peyton in Washington, D.C. at 202-312-3360.

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