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Statement by Federal Deposit Insurance Corporation Sheila Bair

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Press Releases

Statement by Federal Deposit Insurance Corporation Chairman Sheila Bair; U.S. Treasury, Federal Reserve, FDIC Joint Press Conference
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Good morning. Thank you for coming.

As Secretary Paulson and Chairman Bernanke indicated, the extraordinary steps we're taking today are intended to bolster public confidence in our financial institutions and throughout the American economy.

Achieving this goal will require a sustained and coordinated effort by government authorities. In short, all of us are prepared to do whatever it takes, to fix whatever problems arise, and to work with Wall Street and Main Street to unclog the financial system so that it can continue fueling economic growth, and creating jobs.

Our efforts also parallel those by European and Asian nations. Their guarantees for bank debt and increases in deposit insurance would put U.S. banks on an uneven playing field unless we acted as we are today.

Despite what we hear about the credit crisis and the problems facing banks, the fact is that the bulk of the U.S. banking industry is healthy and remains well-capitalized. What we do have, however, is a liquidity problem, largely caused by uncertainty about the value of mortgage assets, which is making banks reluctant to lend to each other, or lend to consumers and businesses.

Today's actions to inject more capital into the banking system, combined with other recent coordinated measures to free up credit markets, should give banks the self-assurance to resume normal lending.

FDIC liquidity program

In addition to the actions just announced by Secretary Paulson and Chairman Bernanke, the FDIC board yesterday approved a new Temporary Liquidity Guarantee Program to unlock inter-bank credit markets and restore rationality to credit spread. This will free up funding for banks to make loans to creditworthy businesses and consumers.

The program, which is voluntary, has two key features.

The first feature guarantees new, senior unsecured debt issued by any bank, thrift or holding company, which will help banks fund their operations. Both term and overnight funding of banks has come under extreme pressure, with the costs of funding ballooning to several hundred basis points.

This guarantee will allow banks and their holding companies to roll maturing senior debt into new issues fully backed by the FDIC. However, guaranteed maturities cannot extend beyond three years. The ability to tap into this program expires at the end of June 2009.

The second feature of the new program gives unlimited insurance coverage for non-interest bearing deposit transaction accounts. These are mainly payment processing accounts such as payroll accounts used by businesses. Frequently, they exceed the current maximum insurance limit of $250,000. Many smaller, healthy banks have been losing these accounts to their much larger competitors because of uncertainties in the financial system.

This new, temporary guarantee –- which runs until the end of next year — should help stabilize these accounts, and help us avoid having to close otherwise viable banks because of deposit withdrawals.

This aspect of the program allows bank customers to conduct normal business knowing that their cash accounts are safe and sound. This is the fundamental goal of deposit insurance, safeguarding peoples' money, and vital to public confidence in the banking system.

No cost to taxpayers or insurance fund

Let me stress that the program does not rely on taxpayer funding. Nor does it rely on the Deposit Insurance Fund.

Instead, both aspects of the program will be paid for by direct user fees included as part of a bank's regular insurance premium.

Coverage for both parts of the program will be automatic for the first 30 days, without charge. After that, the FDIC will begin assessing premiums for the coverage unless an institution opts out. If an institution opts out, the guarantees are good only for that first 30 days.

These are all major steps necessitated by the crisis in our credit markets, which has been fed by mounting fear about our economic future. They are designed to hold down the cost of any future bank failures, and to lead to a return to normal bank lending activity.

The FDIC is taking this unprecedented action because we have faith in our economy, our country, and our banking system. The overwhelming majority of banks are strong, safe and sound. But a lack of confidence is driving the current turmoil. And it is a lack of confidence that these guarantees are designed to address.

Above all else, there must be no doubt in our government. Institutions like the FDIC -- created 75 years ago to deal with times of financial stress -- are strong, and will successfully bring the country through these extraordinary times. Thank you.

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communications@fdic.gov