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## Legal Updates & News

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#### **FDIC Board Approves Phase Out of Temporary Liquidity Guarantee Program; Debt Guarantee Program to End October 31st**

September 2009

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##### **Overview**

On September 9, 2009, the FDIC Board adopted a Notice of Proposed Rulemaking (NPR) that reaffirms the expiration of the debt guarantee component of the Temporary Liquidity Guarantee Program (TLGP) on October 31, 2009. The FDIC will seek comment on whether a temporary emergency facility should be left in place for six months after the expiration of the current program. This NPR is subject to a 15-day comment period.

##### **Related Practices:**

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##### **Temporary Liquidity Guarantee Program**

In October 2008, the FDIC adopted the TLGP as part of a coordinated effort by the FDIC and other federal agencies to address disruptions in the credit market. The TLGP, together with Treasury's Capital Purchase Plan and the Federal Reserve's enhanced Commercial Paper Funding Facility, were intended to unfreeze inter-bank lending and enhance confidence in the banking system.

The TLGP consists of two programs, one that guarantees newly issued senior unsecured debt (Debt Guarantee Program, or the "DGP") and the second that insures the full balance in noninterest-bearing transaction accounts (Transaction Account Guarantee Program). The DGP provides an FDIC guarantee for qualifying senior unsecured debt issued by participating entities.

Addressing the need for financing for certain financial institutions, the DGP was limited to a brief window and was not intended to create a long-term safety net for eligible financial institutions.

##### **Two Alternatives Under NPR**

There are two alternatives contemplated under the NPR. Under Alternative A, the DGP would expire as provided for by the FDIC's existing regulation on October 31, 2009 with FDIC's guarantee for such debt expiring no later than December 31, 2012. Under Alternative B, the DGP will expire as provided for in the

current regulation but the FDIC would establish a six-month emergency guarantee facility to be made available in emergency circumstances to insured depository institutions and certain other entities participating in the DGP upon application to the FDIC and with the approval of the Chairman, after consultation with the Board.

If you have any questions pertaining to this alert, please feel free to call Barbara R. Mendelson at (212) 468-8118, Oliver I. Ireland at (202) 778-1614, Henry M. Fields at (213) 892-5275 or Mark T. Gillett at (213) 892-5289.