

# United States Senate

WASHINGTON, DC 20510

August 2, 2012

The Honorable Martin Gruenberg  
Chairman  
Federal Deposit Insurance Corporation  
550 17th Street NW  
Washington, DC 20429

Dear Chairman Gruenberg:

I am writing today about the proposed extension of the Federal Deposit Insurance Corporation's Transaction Account Guarantee (TAG) program. The program is set to expire on December 31, which has led many community bankers to express their concern that funds in excess of \$250,000 might flee financial institutions and threaten the fragile economic recovery in parts of the country where uncertainty remains.

As you likely know, the program was always meant to be temporary. During the financial crisis in 2008, the FDIC created TAG to strengthen confidence, encourage liquidity, and prevent any sudden withdrawal of deposits that could be potentially destabilizing. After multiple extensions, we are still operating under this structure, and, in my view, we need to start thinking about what comes next. To that end I have a few questions.

1. Throughout its history, the potential for the moral hazard arising from FDIC insurance has been mitigated by the limit on the insurance level. What is your view of the moral hazard that might be generated by an extension of the TAG program with unlimited insurance?
2. The FDIC is generally required to charge premiums based on a risk-based insurance model and to design the premium structure to maintain adequate reserves. If TAG were to be extended, what changes, if any, would you recommend to the program relating to the payment of premiums to build reserves and to provide risk-based premiums at actuarially sound rates?
3. Two of the primary arguments for extending TAG are to provide funds to community banks to increase lending and liquidity. However, recent analysis indicates that bank loan-to-deposit ratios are very low by historic standards and that the industry has plenty of liquidity. Would you please provide the latest information the FDIC has on industry loan-to-deposit ratios and measures of liquidity, and tell me if in light of these ratios the TAG extension remains necessary?
4. Members of Congress and others have expressed concern about the increasing percentage of industry assets held by the largest banks. Community banks have expressed the concern that a TAG extension is needed to help them compete with the largest banks. At the same time, it appears proportionally more of the TAG deposits may be held by the largest banks, and these

deposits may account for a significant percentage of the growth in those banks. Could you please provide your latest information on the location of TAG deposits by size of banks? Of course, I would appreciate any other thoughts or recommendations you may have relating to our consideration of extending TAG.

I thank you for your time and look forward to working with you on this important issue.

Sincerely,

A handwritten signature in blue ink, appearing to read "Boucarkh", with a long horizontal flourish extending to the right.

Bob Corker  
United States Senator