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INFORMED OPINION

Economic Recovery Still Needs TAG

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To date, the public dialogue about the Transaction Account Guarantee program has been divided between the political and reputational risks of continuing this extraordinary federal insurance and the potential liquidity crisis that could ensue if the program ends prematurely and abruptly.

As a state regulator who witnessed firsthand the role the TAG program has played in ensuring financial stability, I encourage Congress to continue TAG for at least two years and mandate a study to examine the costs and benefits of creating a permanent insurance program to provide full coverage of transaction accounts.

The U.S. economy and the banking industry have recently showed promising signs of improvement. For instance, the FDIC's *Quarterly Banking Profile* shows insured depository institutions reported a profit of $26.3 billion in the fourth quarter of 2011, marking nearly a $5 billion increase in profits from fourth quarter 2010. Further, asset quality indicators show signs of continued improvement, and loan portfolios are growing.

Overall, the banking industry is better off than it was a few short years ago. However, the dust from the recession has yet to fully settle and the industry is still in recovery. Specifically, many of the banks my fellow state regulators and I supervise continue to face a challenging economic environment with low loan demand and painfully low interest rates.

To fully appreciate the need to continue this program, we must recall its genesis. The program was crafted at the height of the financial crisis as nervous depositors began to move to institutions which they believed the U.S. government would not allow to fail. This implicit 100% federal guaranty of deposits for a handful of institutions was actually creating instability in the market. Many of the provisions of the Dodd-Frank Act seek to address this inequity by increasing the prudential standards and creating a resolution regime for the nation's largest, most complex, and systemically significant financial institutions.

The federal regulators are doing a commendable job of writing and implementing these regulations, but much work remains. Until the mandates of the Dodd-Frank Act are fully implemented and a comprehensive resolution process exists for the biggest banks, we will have failed to restore equality to the financial system. As long as there is a widespread perception that "too big to fail" still exists, programs like TAG that provide some equity in the bank industry must remain in place.

After all, the TAG program remains a useful tool to stabilize and strengthen community and regional banks across the nation. In turn, these banks fuel small business lending, which spurs economic growth and job creation. In fact, according to the FDIC, it is estimated that community banks account for 40 percent of all small business lending which could be jeopardized if TAG is prematurely ended. For that purpose, the Conference of State Bank Supervisors, of which I am chairman, has strongly endorsed the continued need of the TAG program.

Extending TAG two years beyond the set expiration date of December 31, 2012 would help maintain public confidence and industry stability during this time of recovery. Further, a study performed by the FDIC to investigate the costs and benefits of making the TAG program permanent would provide useful information about the types of accounts that could be reasonably covered on a permanent basis, as well as how the FDIC would assess for the program. With such valuable information, the industry itself could then determine if a permanent TAG program is desirable.

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