



The Temporary Liquidity Guarantee Program

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5555 San Felipe Ste. 2200
Houston, TX 77056-2725
(713) 435-4300
www.coastalsecurities.com

Risk aversion was the theme throughout 2008 and going into 2009. In an attempt to restore confidence to corporate bond market participants in the wake of the Lehman Brothers bankruptcy, the Federal Reserve established the Temporary Liquidity Guarantee Program (TLGP). The program is designed to reestablish investor confidence in newly issued senior unsecured debt of financial institutions by guaranteeing timely payment of principal and interest with the full faith and credit of the United States through June 30, 2012. A summary of the program follows.

Eligible Entities

All U.S. bank or financial holding companies, FDIC insured depository institutions and S&L holding companies with FDIC insured depository institution subsidiaries are eligible for the program. The FDIC also reserves the right to designate other affiliated entities as eligible at its discretion (for example, G.E. Capital). There is no minimum size requirement for eligible entities.

Eligible Debt Obligations

The FDIC will guarantee senior unsecured debt of financial institutions issued through June 30, 2009 with maturities exceeding 30 days, including commercial paper. Fixed, floating or zero coupon bonds are eligible, as is foreign currency denominated debt. Specifically **excluded** are callable bonds, convertible bonds and structured notes. All debt issued is guaranteed under the program by default, however participating banks can issue non-guaranteed debt at a cost of 37.5 bp of their cap amount.

Fees to Participating Institutions

The FDIC charges an annual guarantee fee of 50 bp for debt with maturities of 31-180 days, 75 bp for debt with a maturity of 181-364 days and 100 bp for debt with maturities of 365 days or greater.

Opting-out of the Program

Eligible institutions are enrolled in the program by default. The deadline for opting-out of the program was December 5th, 2008 and the election was irrevocable except for the decision to opt-in after a merger. A list of banks that have elected to opt-out is available from the FDIC upon request.

Size of the Program

For a given entity, the program limit is designed to cover 125% of debt outstanding on September 30th of 2008 and maturing on or before June 30, 2009. The limit for banks with no outstanding senior unsecured debt is 2% of total liabilities.

Credit Ratings

All three credit rating agencies have given debt issued under the TLGP program the same rating as U.S. government debt (AAA/A-1+).

Risk Weighting

The FDIC, the Office of Thrift Supervision and the Office of the Comptroller of the Currency have set the risk weighting of TLGP backed debt at 20%.

Secondary Market

FDIC backed bonds are trading in an active secondary market with current spreads at +50 bp to +75 bp to comparable Treasuries.

Summary

This program should help provide liquidity to the distressed financial sector. Financial issuers will be able to refinance their existing or maturing debt, while market participants get a FDIC guaranteed bond at an attractive spread to Treasuries. Contact your Coastal Securities representative for current offerings.

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