December 3, 2012

Dear Members of Washington’s Congressional Delegation:

I am writing to ask you to support S. 3637 – Senator Reid’s proposed extension of the Transaction Account Guarantee (TAG) program – unlimited FDIC insurance for non-interest bearing deposits.

TAG has helped protect the safety and security of public funds in Washington State since its inception in 2009. TAG coverage for state and local government deposits, along with strong collateral requirements for uninsured public deposits, kept these funds safe as 19 of Washington’s public depositary banks closed since January 2009.

As of October 31, 2012, 79 banks and 9 credit unions are qualified to accept deposits of state and local government funds in Washington. These institutions hold more than $5 billion in public deposits. We require 100 percent collateral coverage for all uninsured public deposits and rely on standard FDIC insurance and TAG coverage to protect the rest.

It will take several more years for the economy to deleverage and for housing and commercial real estate markets to fully heal. Extending TAG coverage for another two years can help community banks as they bear the brunt of this slow recovery.

TAG coverage also helps our local governments by providing access to the community-based banking services they need. Several small community banks still use TAG to insure a substantial portion, if not all, of their public deposits from local governments. Many of these local governments have limited options for banking in their local communities and find working with a community bank more practical than working with larger banks.

Attached is the resolution by the National Association of State Treasurers calling for the extension of TAG. We are not asking that this program be extended indefinitely, and would be willing to see it phased down over two years or even less. What we do ask is that it be phased out gradually and in consultation with large depositors – especially state and local governments – so that we avoid unanticipated consequences for state and local treasuries.

Unless extended again by Congress, TAG will expire December 31, 2012 at which time our public depositary banks will need to provide 100 percent collateral for all public deposits. An abrupt end to TAG could discourage some of these banks from accepting local government deposits, and drive depositors to larger banks and/or riskier investments, so please extend TAG for another two years.

Please do not hesitate to contact me or Assistant Treasurer Wolfgang Opitz should you have any questions about this matter. Thank you for your consideration.

Sincerely,

James L. McEntire,
Washington State Treasurer