IBC
INTERNATIONAL BANCSHARES
CORPORATION

August 11, 2022

**Via email:** Comments@fdic.gov

Federal Deposit Insurance Corporation
Mr. James P. Sheesley, Assistant Executive Secretary
Attn: Comments – RIN 3064-AF83
550 17th Street N.W.
Washington, D.C. 20429

Re: Comments on Proposed Rulemaking Regarding Assessments, Revised Deposit Insurance Assessment Rates (RIN 3064-AF83)

Dear Sir:

The following comments are submitted by International Bancshares Corporation ("IBC"), a publicly-traded, multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains 167 facilities and 259 ATMs, serving 75 communities in Texas and Oklahoma through five separately chartered banks ("IBC Banks") ranging in size from approximately $480 million to $9.3 billion, with consolidated assets totaling over $16 billion. IBC is one of the largest independent commercial bank holding companies headquartered in Texas.

This letter responds to the notice of proposed rulemaking ("Notice") by the Federal Deposit Insurance Corporation ("FDIC") related to the FDIC's assessments, including assessment rates. The Notice states the FDIC's intention to aggressively raise deposit insurance assessment rates, proposing a two basis-point increase beginning in the first quarterly assessment period of 2023. The proposed increase would amount to a 54% increase of the current average assessment rate, which was 3.7 basis points for the assessment period ending in March 2022 according to the FDIC.[1] The assessment increase would remain in effect until the Deposit Insurance Fund ("DIF") reserve ratio meets the FDIC's long-term goal of 2%. The FDIC cites the sustained increase in insured deposits due to the pandemic and major unrealized losses in its securities portfolio as the driving force in the reserve ratio decrease to 1.23% as of March 31, 2022. [Notice at 39395-96]

The Notice lists two specific requests for comment. IBC has provided general comments and comments to the specific requests as noted below.

**General Comments**

[1] FDIC Memorandum Regarding Restoration Plan Semiannual Update and Amended Restoration Plan, June 21, 2022, available at https://www.fdic.gov/news/board-matters/2022/2022-06-21-notice-sum-b-mem.pdf



P.O. DRAWER 1359, LAREDO, TEXAS 78042-1359 (956) 722-7611

IBC cannot stress enough that the FDIC's proposed assessment increase is completely uncalled for and not supported by the current state of the economy. The Notice generally points to the increase in deposits and losses in the DIF's securities portfolio as the primary drivers of the decrease in the DIF. The Notice states that the FDIC's forecasted growth in the DIF will not reach the required minimum level of 1.35% by Q3 of 2028. [Notice at 39388] This forecast is based on several estimates, including expected growth in insured deposit balances, expected average assessment rates, and the DIF's investment income and fund loss provisions. Forecasts for these key elements are being made at a time of historic and short-term volatility in deposits, the stock market, and interest rates, and so the level of uncertainty in these estimates is similarly uncertain. Yet the FDIC treats these current inputs and forecasts as an almost absolute certainty. Although total deposit balances increased significantly in 2020 and 2021, industry-wide balances decreased during Q2 of 2022. As noted below, the cause for the deposit balance increase can be largely attributed to historic, short-term externalities related to the pandemic and its equally short-term effect on consumer saving and spending habits and huge government stimulus. The magnitude of the proposed assessment rate increase is too abrupt and relies too heavily on an incorrectly forecasted growth rate, which appears to be normalizing as consumers return to pre-pandemic lifestyles.

As a general matter, insured banks should not be responsible for the investment decisions of the FDIC and its securities portfolio losses. If the FDIC is not able to responsibly manage its investments, the solution cannot be to shift the burden to banks, especially not as we are finally exiting a period of historic volatility and uncertainty. Given the period of volatility, the FDIC should have focused the portfolio on treasuries and asset-backed securities, and it should have maintained a short duration on any of those investments to avoid a temporary loss of value. Perhaps the FDIC should be required to regularly conduct and publish the results of an asset and credit quality assessment much like banks must do with their Current Expected Credit Losses accounting?

While the immediate market decline may have affected the total value of the DIF, it would be imprudent to raise assessment rates at this time based on that decrease. If the FDIC is unable to appropriately invest the DIF to maintain the required reserve ratio, perhaps it should look more carefully at how it manages its investments. For the FDIC to enact such a drastic assessment increase based on a small window of enormous and anomalous market volatility seems like a "knee-jerk reaction." If the FDIC does not think its DIF investments will return to normal by 2028, there are larger issues to address in the economy and market. If market conditions reverse, which is incredibly likely, that loss could evaporate overnight, and certainly well before 2028. Raising assessment rates right now would be a major overreaction.

Additionally, the DIF is currently underfunded, in part, because of the historic flow of cash into the banking system, driven primarily from stimulus funds from the government and a change in depositor saving habits due to uncertainty caused by the pandemic and the government's response. This increase in deposits clearly has not been due to or the result of organic growth. Because of that, IBC strongly urges the FDIC to pause any proposed reaction until it understands if the excess funds will be in the banking system in the long

term. IBC believes this will not be the case, as the FDIC's own data shows that deposit growth rates are slowing to pre-pandemic levels due to the decrease of government stimulus programs and increases in consumer spending. [Notice at 39396] At the very least, the DIF targets need to be re-assessed given the unusual circumstances around the growth in deposits. The FDIC should thoughtfully consider why it has chosen 2% as its target reserve ratio for the DIF. Virtually no banks have a reserve for loan losses that is much beyond 1.5%, so it is perplexing that the FDIC would require a much greater reserve than the industry. It is also imperative to note that increased interest rates will assist in growing the DIF in a safe and sustainable manner. A hasty reaction to increase assessment rates is simply unnecessary given the economic outlook.

Overall, the banking industry is in the best shape in its history with regards to loan quality, capital, earnings, and liquidity. While IBC appreciates the FDIC's concern for the health of the DIF, there has actually been a dearth of failing banks for several years. Only eight banks have closed in the past four and one-half years, with all of them appearing to be small and mid-sized institutions.[2] It is important to reiterate that the DIF has not been decreased because of losses and costs related to bank failures, the DIF has been reduced because of market volatility and government stimulus programs that inorganically increased bank deposits and the money supply. This is a balloon that will shrink over time, especially with the Federal Reserve Board's ("FRB") recent actions to tighten the money supply. The FDIC should also focus on cutting its expenses. Without a bank failure since 2020, the FDIC's budget should primarily focus on funding and managing the DIF.

The FDIC has also not considered the effect the proposed assessment increase would have on community banks, as the FDIC intends to implement a flat two basis point increase regardless of the risk profile or size of the bank. Notably, the lowest risk banks currently have an assessment rate of three basis points (prior to downward adjustment modifiers, with 1.5% being the lowest after applying modifiers). The weighted average assessment rate as of March 2022 was 3.7. [Notice at 39395] If the FDIC's proposed assessment increase is enacted, these small, low-risk institutions will see their assessments increase by approximately 65%. The FDIC should consider the effect of the assessment increase on low risk institutions and create an appropriate sliding scale for determining to what, if any, increase an institution should be subject.

Instead of considering and addressing this unfair, blanket increase, the FDIC attempts to frame the increase as a percentage of an institution's net income, stating over and over that the increase is overall predicted to reflect 1% of an institution's net income. [Notice at 39400][3] But this focus ignores the recent actions taken by the federal bank regulators to restrict banks' ability to generate non-interest income through product and service fees and charges. The bank regulators, primarily the Consumer Financial Protection Bureau, have been incredibly focused on restricting the ability of banks to charge fees to consumer customers for financial products and services. Many institutions have been forced to decrease or eliminate many traditional fees, such as overdraft fees, that help compensate

[2] See https://www.fdic.gov/resources/resolutions/bank-failures/failed-bank-list/

[3] See also, FN 1.

the bank for products and services provided. This has made banks' ability to maintain their safety and soundness through non-interest income extremely difficult. With the FDIC now proposing to raise insurance assessment rates, banks, primarily small and mid-sized institutions, will face an even steeper uphill climb to stay profitable. If banks are not provided sufficient flexibility in raising non-interest income, an increase in FDIC assessment rates will be fatal to many small and mid-sized institutions, even if the assessment increase represents what the FDIC considers a low percentage of net income.

Moreover, both the FRB and Office of the Comptroller of the Currency ("OCC") have recently released comprehensive studies that show banks are generally in a strong position to respond to any market or economic downturns or issues on the horizon. While it is obviously incredibly important to have a safety net for failing banks, the population of banks that may fail is currently very small and does not justify the huge assessment rate increase the FDIC is proposing. There is simply no need for the drastic assessment rate increase the FDIC is pursuing. It is particularly ironic that the FDIC is proposing to increase its fees, while simultaneously criticizing banks for their customer fees.

According to the FRB's June 2022 Stress Test Results, banks are currently healthy enough to continue lending even during a "severe recession."[4] The recent FRB stress tests confirm the current strong and sustainable banking sector. The FRB found nothing that would require an increase in the DIF safety net. The results found that large banks continued to maintain strong capital levels under a hypothetical severe global recession and substantial stress in commercial real estate and corporate debt markets. These stress test results clearly show that the nation's banks are and will remain well positioned to absorb any range of economic shocks while continuing to support their communities. Similarly, the OCC recently published its Spring 2022 Risk Report, finding that banks are well-positioned for economic headwinds.[5] The report found that banks' financial condition is strong and they are well-positioned to "deal with the economic head-winds arising from geopolitical events, higher interest rates and increased inflation." The report noted that bank financial performance faces challenges from inflation, a rising interest rate environment and other factors related to the pandemic and geopolitical events, to say nothing of an FDIC assessment increase. Banks, along with the world writ-large, are finally getting back to pre-pandemic "normal," and have shown incredible resilience in the face of economic upheaval. The effects of increased money supply over the past two years are still evident, but they are waning. The FDIC should not reward the strong position banks are in by enacting an enormous assessment rate increase. Essentially, the FDIC is simply proposing a tax.

**Specific Requests for Information**

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[4] Available at https://www.federalreserve.gov/publications/files/2022-dfast-results-20220623.pdf

[5] Available at https://occ.gov/publications-and-resources/publications/semiannual-risk-perspective/files/pub-semiannual-risk-perspective-spring-2022.pdf

Question 1: The FDIC invites comment on its proposal to increase deposit insurance assessment rates uniformly by 2 basis points, beginning with the first quarterly assessment period of 2023. How does the approach in the proposed rule support or not support the objectives of the Amended Restoration Plan and the FDIC's long-term fund management plan?

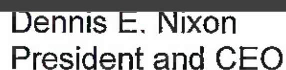
**IBC Comment:** Please see IBC's General Comments above.

Question 2: The FDIC invites comment on the reasonable and possible alternatives described in this proposed rule. What are other reasonable and possible alternatives that the FDIC should consider?

**IBC Comment:** The FDIC does not need an alternative to meet the Amended Restoration Plan. As explained herein, the decrease in the reserve ratio has been primarily caused by temporary historic economic events that are quickly dissipating. This includes increased deposit totals caused by the pandemic and the government response to the pandemic. Deposit totals surged as consumers saved more money due to the unpredictable consequences of the pandemic, including mass job losses, lockdowns, decreased spending on non-essential goods and services, stimulus checks, and the freeze on student loan payments. As the effects of the pandemic and related response continue to wane, these deposits will almost certainly decrease back to their historic averages. Consumers have more opportunity to spend money, businesses are opening back up at capacity, supply chain issues are evening out, and no further stimulus is expected. To raise deposit insurance assessments just as the economy is returning to normal seems short-sighted.

Thank you for the opportunity to share IBC's view.

INTERNATIONAL BANCSHARES CORPORATION



Dennis E. Nixon
President and CEO