INDEPENDENT COMMUNITY
BANKERS *of* AMERICA®

August 19, 2022

James P. Sheesley
Assistant Executive Secretary
Attention: Comments – RIN 3064 – AF83
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Assessments, Revised Deposit Insurance Assessment Rates (RIN: 3064 – AF83)

Dear Mr. Sheesley:

The Independent Community Bankers of America ("ICBA") appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's ("FDIC" or "the agency") notice of proposed rulemaking to increase initial base deposit insurance assessments by 2 basis points ("the proposal" or "the proposed rule").[1] As proposed, all banks will incur the same deposit insurance assessment rate increase without any differentiation based on risk weight or asset size and will be subject to this uniform rate increase for an indeterminate amount of time unless and until the Deposit Insurance Fund ("DIF") reserve ratio reaches 2 percent.

ICBA strongly opposes this "one size fits all" approach to deposit insurance assessments because it will disproportionately burden community banks that do not pose significant risk to the DIF, and it will force community banks to pay the FDIC a premium for their deposits long after the DIF reaches the 1.35 percent reserve ratio mandated by Congress – a threshold the agency previously used to *reduce* the assessments paid by small banks.[2] As articulated in comments we submitted with the Bank Policy Institute, American Bankers Association, Consumer Bankers Association, Mid-Size Bank

[1] FDIC, *Assessments, Revised Deposit Insurance Assessment Rates*, 87 FR 39388 (Jul. 1, 2022), *available at* https://www.fdic.gov/news/board-matters/2022/2022-06-21-notice-dis-a-fr.pdf.

[2] *See* Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 334(e), 124 Stat. 1376 (12 U.S.C. 1817)(note)). *See also* FDIC, Final Rule, *Assessments,* 81 FR 16059 (March 25, 2016), *available at* https://www.govinfo.gov/content/pkg/FR-2016-03-25/pdf/2016-06770.pdf. *See also* FDIC, Final Rule, *Assessments*, 84 FR 65269 (Nov. 27, 2019), available at https://www.govinfo.gov/content/pkg/FR-2019-11-27/pdf/2019-25566.pdf.

Coalition of America, and the National Bankers Association, the agency's proposed deposit insurance assessment rate increases are drastic, prolonged, and unnecessary. We write separately, however, to emphasize the proposal is further flawed because it deviates from the agency's past assessment practices. Until now, the FDIC has properly recognized small banks with fewer than $10 billion in assets should not be subject to the same assessments levied against the nation's largest, most complex banks.[3]

For community banks, the proposed 2 basis point increase to assessment rates is material – in many cases resulting in 50% or higher increases to deposit insurance assessments, even for well capitalized institutions. This proposed increase will inevitably drive up the prices consumers pay for bank products and services across the entire banking industry, and will negatively impact community banks' abilities to lend money to their local communities. If any assessment increase is warranted, it should be imposed on the institutions that pose the most risk to the DIF – not community banks. Instead of collecting increased deposit insurance assessments from small banks, the FDIC should require Too-Big-To-Fail institutions to pay a systemic risk premium to the DIF that is large enough to pay for the substantial risk of insuring these institutions.

The FDIC's proposal unfairly penalizes community banks with higher deposit insurance assessments at a time when the DIF is capitalized at historically high levels and there are few problem banks that require resolution using funds from the DIF. According to the most recent Quarterly Banking Profile ("QBP") data, "[d]uring the first quarter 2022, the [DIF] balance decreased by $0.1 billion to $123.0 billion, the first decline in over a decade." Notably, even after experiencing this nominal decline, the DIF balance is even higher now than it was pre-pandemic, when the DIF reserve ratio rose to 1.4 percent – it's highest level since 1999.[4] But for the "extraordinary growth" in deposits caused by the U.S. government's unprecedented injection of trillions of dollars of stimulus monies into the banking system, the DIF reserve ratio would not likely have dipped below 1.35 percent. Plainly stated, the FDIC should not force community banks to pay for elevated deposits caused by COVID-19 relief measures when the DIF is not undercapitalized, and when community banks, who are themselves well capitalized, do not pose an imminent risk to the DIF.

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[3] *See* FDIC, Final Rule, *Assessments,* 81 FR 16059 (March 25, 2016), *available at* https://www.govinfo.gov/content/pkg/FR-2016-03-25/pdf/2016-06770.pdf, implementing large bank assessment surcharges and providing small bank assessment credits, and noting that assessment credits awarded to small banks "will result in a small increase in the income of small banks. Small bank annual earnings are estimated to increase . . ."

[4] *See* FDIC, *Quarterly Banking Profile Second Quarter 2019* (June 30, 2019) available at https://www.fdic.gov/analysis/quarterly-banking-profile/qbp/2019jun/qbp.pdf#page=1 "During the second quarter, the [DIF] balance increased by $2.6 billion to $107.4 billion . . . the strong growth in the fund balance, combined with flat insured deposit growth, increased the DIF reserve ratio . . . to 1.40 percent on June 30, 2019, the highest level since September 30, 1999."

Additionally, we are concerned the increased assessments will have a much more serious impact on community bank earnings and capital than the FDIC estimates. According to the FDIC, the total annual amount paid in assessments by small entities (those with fewer than $750 million in assets) under the proposed rule will "increase by approximately $160 million, from $320 million to $480 million."[5] The FDIC also estimates that "approximately 95 percent of profitable institutions are projected to have an increase in assessments of less than 5 percent of income."[6] These estimates understate the true impact the assessment increase will have on community banks, and ignore the fact that 5 percent or more of a community bank's income, in addition to amounts already paid in assessments and other expenses, is a significant cost for small banks to pay, particularly on an elevated deposit base created by the government and unrelated to these banks' strategic plans.

Importantly, the proposal does not specifically address the impact to community banks between $750 million and $10 billion (the FDIC's previous threshold for assigning small banks assessment credits). As a result of the FDIC's proposed assessment rate increase, hundreds of community banks will pay 5%, 10%, even 25% of pre-tax income for insurance assessments, while not a single bank over $10 billion will experience the same impact. These sharp increases to deposit insurance assessments for community banks warrant closer scrutiny, and the FDIC should perform a more detailed impact analysis, particularly when the risk of imposing procyclical increases is high.

The FDIC can and should ensure any approach to restoring the DIF to its statutorily required 1.35 percent reserve ratio is risk weighted and tailored to asset size, comports with past agency practice and Congressional mandates, and does not unfairly punish community banks for deposit growth caused by government issued stimulus monies weighing on the banking system. We urge the FDIC to not finalize the proposed rule, and to ensure any future proposals to increase deposit insurance assessments appropriately differentiate large and small banks.

Should you wish to discuss our positions in further detail, please feel free to contact Jenna Burke at jenna.burke@icba.org.

Sincerely,

/s/ Jenna Burke
Senior Vice President, Senior Regulatory Counsel
Independent Community Bankers of America

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[5] FDIC, *Assessments, Revised Deposit Insurance Assessment Rates*, 87 FR 39388 (Jul. 1, 2022), *available at* https://www.fdic.gov/news/board-matters/2022/2022-06-21-notice-dis-a-fr.pdf.

[6] *Id.*