October 11, 2022

Via Electronic Mail to comments@fdic.gov

Mr. James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street N.W.
Washington, D.C.

RE: ***Supplementary Comment on Assessments, Revised Deposit Insurance Assessment Rates (RIN: 3064-AF83)***

To whom it may concern,

The undersigned Associations[1] are submitting this letter to supplement comments submitted to the Federal Deposit Insurance Corporation on August 19, 2022[2] regarding the notice of proposed rulemaking to increase initial base deposit insurance assessment rates by 2 basis points until the Deposit Insurance Fund (DIF) achieves the FDIC's long-term goal of achieving a Designated Reserve Ratio of 2 percent of insured deposits.[3] We appreciate Acting Chairman Gruenberg's recent statements that "[t]he FDIC continues to incorporate recent data into its projections of the reserve ratio" and that the FDIC "will carefully consider all comments received."[4]

---

[1] More information about the Associations is available in Appendix A.

[2] *Available at* www.fdic.gov/resources/regulations/federal-register-publications/2022/2022-assessments-revised-deposit-insurance-assessment-rates-3064-af83-c-013.pdf (hereinafter, "Previous Associations Letter").

[3] FDIC, Assessments, *Revised Deposit Insurance Assessment Rates*, 87 FR 39388 (Jul. 1, 2022), *available at* www.federalregister.gov/documents/2022/07/01/2022-13578/assessments-revised-deposit-insurance-assessment-rates (hereinafter, the "proposal").

[4] Remarks by FDIC Acting Chairman Martin Gruenberg on Second Quarter 2022 Quarterly Banking Profile (Sep. 8, 2022), *available at* www.fdic.gov/news/speeches/2022/spsep0822.html?source=govdelivery&utm_medium=email&utm_source=govdelivery (hereinafter "Gruenberg Remarks").

As part of this effort to ensure the FDIC's projections of the reserve ratio are accurate, we urge the FDIC to use the most recent industry data to inform the agency's decision regarding deposit insurance assessment rates. Data published in the FDIC's *Quarterly Banking Profile* (QBP) for the second quarter of 2022[5] was made available to the public after the submission of our previous letter, and after the close of the public comment period. Importantly, this data supports and confirms that an assessment rate increase is unwarranted at this time. In fact, the data shows that such an increase not only would be unnecessary to ensure the FDIC meets its statutory requirement to return the ratio to 1.35 percent by September 15, 2028, but also could be procyclical and reduce access to credit for consumers and businesses at a time when financial conditions are tightening considerably—exactly when access to credit matters most. In light of this, a rate increase in pursuit of the 2 percent Designated Reserve Ratio target, which, as discussed in our previous letter, is not statutorily mandated and is calibrated based on outdated analysis, would be imprudent. The most recent data makes the case against an imminent increase to deposit insurance assessment rates even more compelling and we encourage the FDIC not to implement one at this time.

I. Incorporating the most recent data on deposit growth into the FDIC's projections demonstrates that an assessment rate increase is unwarranted.

In our previous letter, we outlined factors likely to cause insured deposit levels to decline and highlighted initial data indicating that the decline was already underway. Any decline or leveling in deposit levels is inconsistent with the FDIC's assumption that deposits will hereafter grow at a rate of either 3.5 or 4 percent annually. Our previous letter demonstrated that when the FDIC's assumption is corrected to reflect declining rather than increasing deposit levels, the FDIC is not at risk of failing to comply with its statutory mandate to return the DIF reserve ratio to 1.35 percent by September 15, 2028—a key justification provided for the presently proposed increase. Recent data both confirm this analysis and suggest that deposit levels will likely continue to decrease.

a. A projection that incorporates recent data on deposit growth accelerates the timeframe within which the DIF reserve ratio is likely to achieve 1.35 percent.

Data published in the FDIC's QBP for the second quarter of 2022 confirms our analysis that declines in deposit levels, including insured deposit levels, are well underway, and the FDIC's initial projections regarding the path of the DIF reserve ratio are unrealistic. Specifically, total deposits in U.S. bank offices declined at a 7.2 percent annual rate in the second quarter of 2022, and insured deposits fell at a 2.8 percent annual rate. Although it is not unusual for insured deposits to decline in the second quarter, this year's decline was far larger than the average 1.7 percent annualized decline for second quarter declines over the past two decades. As a result, the fund's reserve ratio *rose* from 1.23 percent to 1.26 percent in the second quarter. This trend appears to be continuing, with Federal Reserve weekly H.8 release data reflecting deposits

[5] FDIC, Quarterly Banking Profile (Sep. 8, 2022), *available at* www.fdic.gov/analysis/quarterly-banking-profile/?source=govdelivery&utm_medium=email&utm_source=govdelivery (hereinafter "2Q22 QBP").

continuing to decline at an annual rate of 7 percent in the third quarter through September 28, 2022.[6]

Our previous letter replicated the FDIC's projection methodology and corrected the FDIC's assumptions with respect to deposit levels and investment returns, based on preliminary data and estimates regarding the declining path of deposit levels available at the time of submission.[7] Based on the newly available data contained in the second quarter QBP and recent H.8 data, we further refined the Corrected Projection included in the previous letter. Specifically, we made the following changes and assumptions, and otherwise retained the projection methodology and assumptions described in that letter:

- We used the insured deposits, assessment base, and DIF reserve levels as of the end of the second quarter of 2022 provided the second quarter QBP;

- We assumed that, for the third quarter of 2022, insured deposits decline at an annual rate of 7 percent, which is the rate at which non-seasonally adjusted "other" deposits at domestic commercial banks has fallen in the third quarter to-date, as reported in the Federal Reserve's weekly H.8 release; and

- We assumed that investment returns in the third quarter of 2022 are zero to allow for the possibility that the FDIC experienced additional unrealized securities losses and that investment returns in the fourth quarter and onward match the median Federal Open Market Committee (FOMC) participant's expectations for the federal funds rate for the applicable quarter.

These modest adjustments further accelerate the timeframe within which the DIF reserve ratio reaches the statutory minimum of 1.35 percent. Taking into account the most recent data, the DIF ratio reaches this level in the first quarter of 2023 rather than in the second quarter, as was outlined in the projection reported in our previous letter. Thus, the recent data further demonstrate that an assessment rate increase is not necessary for the FDIC to comply with its statutory obligation to return the DIF reserve ratio to 1.35 percent by September 15, 2028.

Certainly, any marked deterioration in the health of the banking industry triggering elevated DIF payouts during the projection horizon could undermine progress toward the 1.35 percent minimum; however, the latest report on the condition of the banking industry shows this has not occurred, and that banks remained strong despite recent recessive cycles.[8] In the second quarter of this year, credit quality remained favorable: 95.1 percent of institutions were profitable, and 99.9 percent were "well capitalized" by regulatory standards. Moreover, the

---

[6] Board of Governors of the Federal Reserve System, Assets and Liabilities of Commercial Banks in the United States – H.8, *available at* www.federalreserve.gov/releases/h8/. The percentage change is calculated using the level for "other deposits, all commercial banks, not seasonally adjusted" for Wednesdays from June 29, 2022 through September 28, 2022. "Other deposits" means total deposits less large time deposits, and thus is a proxy for insured deposits.

[7] *See* Previous Associations Letter, *supra* note 2, at 6-8.

[8] 2Q22 QBP, *supra* note 5.

number of banks on the FDIC's Problem Bank List was the lowest ever recorded. In short, based on the most recently available data, there is every reason to foresee attainment of the fund's mandated reserve ratio of 1.35 percent well within the next six years without the proposed increase to assessment rates.

b. Recent economic trends further raise the likelihood of slowed insured deposit growth.

Rising inflation and an increasing interest rate environment further indicate that insured deposit growth will continue to decline beyond the second quarter of this year. After the first quarter of 2022, year-over-year consumer price inflation accelerated dramatically to 8.5 to 9 percent monthly. This factor, as much as anything, brought the national personal savings rate down to a four-year low. Consumers and businesses have needed to draw money out of deposit accounts to pay their bills.[9] Such deposit drawdowns will likely continue until inflation is brought under control, with little progress seen so far.

Heightened inflation has also driven interest rates higher. For example, interest rates on three-month U.S. Treasury bills rose from 0.4 percent in March to 3.35 percent at present. Steep changes in interest rates are expected going forward, as heighted inflation has driven the Federal Reserve to adopt more aggressive rate hikes.[10] As noted in our earlier comments, higher interest rates draw funds out of deposits into money market funds and other high-paying alternatives. It is worth repeating that rising interest rates will also increase DIF earnings, promoting growth of the fund balance. Thus, the trends reflected in the assumptions underlying the reserve ratio projection discussed above are likely to continue.

II. Recent data also further demonstrate the risk that an increase to deposit insurance assessment rates next year would be procyclical and harm the economy.

Our previous letter highlighted the risks posed to banks, borrowers and the broader economy should an assessment rate increase coincide with the onset of economic stress, as well as Congress' express intention to avoid such a procyclical increase. Based on recent data, the onset of such stress appears increasingly likely to coincide with the proposed timing of the assessment rate increase. In commentary accompanying the release of the second quarter QBP, Acting Chairman Gruenberg noted the economy faces "downside risks from inflation, rising interest rates, slowing economic growth, and continuing pandemic and geopolitical uncertainties."[11] Moreover, Federal Reserve chairman Jerome Powell recently noted that FOMC

[9] Further evidence of the effect of rising inflation on spending is seen in ramped-up use of credit cards, per Federal Reserve G.19 reports.

[10] In March, the FOMC's "dot plot" showed a median expectation for the ceiling of the federal funds target zone of 2 percent by the end of 2022 and 3¾ percent a year later; in September, those values jumped to 4¼ percent and 4¾ percent, respectively.

[11] Gruenberg Remarks, *supra* note 4.

[11] Transcript of Chair Powell's Press Conference following the FOMC's meeting of September 20-21, *available at* www.federalreserve.gov/mediacenter/files/FOMCpresconf20220921.pdf.

members "have always understood that restoring price stability while achieving a relatively modest decline, or rather increase, in unemployment and a soft landing would be very challenging and we don't know, no one knows whether this process will lead to a recession or if so, how significant that recession would be." It thus appears that any assessment rate increase next year is likely to coincide with a recessionary environment, and therefore be procyclical.

III. Conclusion

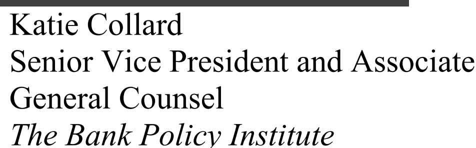
For all the reasons provided in our previous letter, increasing base assessment rates by 2 basis points is unnecessary to enable the FDIC to comply with its statutory responsibilities and would be inconsistent with the legislative language and intent underlying the assessment rate provisions of the Federal Deposit Insurance Act. The FDIC industry data that has become available since the submission of that letter further demonstrates that there is no meaningful risk that the FDIC will fail to meet the statutory requirement to return the DIF reserve ratio to 1.35 percent by September 15, 2028, and that an increase could prove counter-productive by reducing credit availability. The Associations therefore continue to strongly oppose any increase to base assessment rates at this time and encourage the FDIC to include this recent data as it decides whether to finalize its proposal.

* * * * *

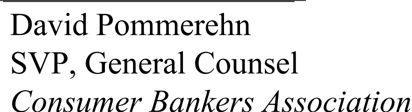
The Associations appreciate your consideration of the views expressed in this letter. If you have any questions, please contact Katie Collard, Senior Vice President and Associate General Counsel, The Bank Policy Institute, by phone at (202) 589-2533 or by email at katie.collard@bpi.com, or Robert Strand, Senior Economist, American Bankers Association, by phone at (540) 424-8600 or by email at rstrand@aba.com.

Respectfully submitted,

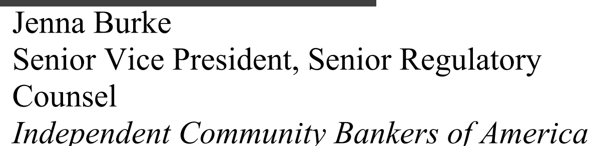
Robert W. Strand
Vice President and Senior Economist
The American Bankers Association



Katie Collard
Senior Vice President and Associate General Counsel
The Bank Policy Institute



David Pommerehn
SVP, General Counsel
Consumer Bankers Association



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

Brent Tjarks
Executive Director
The Mid-Size Bank Coalition of America

Nicole A. Elm, Esq.
President & CEO
National Bankers Association

Appendix A.

The American Bankers Association is the voice of the nation’s $23.7 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard nearly $19.6 trillion in deposits and extend $11.8 trillion in loans.

The Bank Policy Institute (BPI) is a nonpartisan public policy, research and advocacy group, representing the nation’s leading banks. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ nearly 2 million Americans, make nearly half of the nation’s bank-originated small business loans and are an engine for financial innovation and economic growth.

The Consumer Bankers Association is the only national financial trade group focused exclusively on retail banking and personal financial services—banking services geared toward consumers and small businesses. As the recognized voice on retail banking issues, CBA provides leadership, education, research, and federal representation for its members. CBA members include the nation’s largest bank holding companies as well as regional and super-community banks that collectively hold two-thirds of the total assets of depository institutions.

The Independent Community Bankers of America® is the nation’s voice for community banks with its mission to create and promote an environment where community banks flourish. With nearly 50,000 locations nationwide, community banks constitute roughly 99 percent of all banks, employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding nearly $5.9 trillion in assets, over $4.9 trillion in deposits, and more than $3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers’ dreams in communities throughout America.

The MBCA is the voice of America’s mid-size banks. The MBCA is honored to represent more than 100 banks that are devoted to driving positive change and helping their clients, employees and communities flourish. MBCA members range in size from about $10 billion to $100 billion in assets and average approximately $20 billion. Our banks collectively serve clients and communities through more than 13,000 branches in all 50 states, Washington, DC, and three U.S. territories. MBCA banks are typically the largest independent banks headquartered in their respective states. More information about MBCA and its member banks is available at www.midsizebanks.com.

Since 1927, the National Bankers Association has served as the leading trade association for the country’s Minority Depository Institutions (MDIs). Our members include Black, Hispanic, Asian, Pacific Islander, Native American, and women-owned and -operated banks across the country, all working to help minority and low- and moderate-income communities who are underserved by traditional banks and financial service providers. Today, there are 140+ MDI banks located across 29 states, the District of Columbia, Puerto Rico, and Guam with combined total assets of $323.1 billion.