Mariner Kemper
Chairman and
Chief Executive Officer

June 7, 2023

James P. Sheesley, Assistant Executive Director
Attention: Comments-RIN 3064-AF93
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

**Re: Special Assessments Pursuant to Systemic Risk Determination; 12 CFR Part 327 RIN 3064–AF93**

Mr. Sheesley,

UMB Financial Corporation appreciates the opportunity to comment on the proposal issued on May 11, 2023, by the Board of Directors ("Board") of the Federal Deposit Insurance Corporation ("FDIC").

We understand the FDIC's role in maintaining stability and public confidence in the nation's financial system, and we appreciate the steps taken to make depositors whole during the recent, idiosyncratic bank failures. As a member bank and steward of the banking industry, we understand the need for the FDIC to take action to recover the costs associated with protecting uninsured depositors in connection with the systemic risk determination announced in March. And we expect to pay our fair share so that there is no burden on taxpayers.

However, we believe the logic behind the application of the proposed assessment has several flaws and the potential to cause long-term damage to small and mid-sized regional banks.

**Executive Summary**

- We believe the proposed risk measurement is erroneously focused on uninsured deposits, as they were not the primary reason for the March bank failures.
- The largest burden should be borne by those who benefited from the failures, or those whose uninsured depositors would be covered by the systemic risk exception.
- The special assessment should be levied against total deposits versus uninsured deposits.
- The use of uninsured deposits as reported for December 31, 2022, is not representative of actual deposits at risk.

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- The proposed assessment is more punitive to banks with larger commercial customer bases and to those who serve municipalities.
- Regional banks that have a stronger financial composition would have a disproportionate impact on capital levels without the addition of a capital relief mechanism.
- Unintended consequences could include significant decreases in valuations among regional banks, constrained lending, potential job loss and additional deterioration in public confidence in the banking industry.

We feel the proposed assessment is based on incorrect metrics. The current proposed approach stigmatizes uninsured deposits which, as the Board's own data shows, is still an integral part of the funding base of regional and mid-sized banks. Uninsured deposits were not the primary reason for the bank failures that occurred in March 2023. We would also note that not all uninsured deposits are the same, as some are collateralized by securities while others are cash of captive affiliated entities and subsidiaries. While pandemic-driven excess liquidity contributed to increased levels of uninsured deposits, other trends in the latter part of 2022 and early 2023 were pointing to coming economic challenges. It was expected that evolving circumstances would likely present some inherent risks to the industry, requiring action from bank management teams and regulators.

This included the market response to the Federal Open Market Committee raising rates an unprecedented 10 times in fewer than 14 months, along with the emergence of other viable investment opportunities, continuing inflation, changes in the shape of the yield curve, and the outflows of excess liquidity built up during the pandemic. By design, it was clear this would eventually lead to the curtailment of credit and a slowing economy. While these issues were percolating within the banking system, there were other more direct contributors to the demise of the failed institutions.

These failed banks had large concentrations of depositors in the venture capital, startup and technology space, which by their nature are more susceptible to third-party decision makers and influencers. Lack of diversification and flexibility on the asset side further limited their optionality to cope with the rampant rise in funding costs. For example, 70% of Silicon Valley Bank's ("SVB") assets were in fixed income investments that were carried at mark-to-market losses, making the eventual deposit outflows unmanageable due to lack of liquidity. As we heard in the SVB CEO's testimony before the Senate Banking Committee, SVB had operated at a 90% uninsured deposit ratio for more than a decade.

Additionally, the proposal states that it *"applies the special assessment to the types of banking organizations that benefitted most from the protection of uninsured depositors. In general, large banks with large amounts of uninsured deposits benefitted the most from the systemic risk determination."* This assumes the systemic risk exception applies equally to all banks, which we do not believe is the intent. Charging regional banks a special assessment calculated on uninsured deposits, when their uninsured depositors would not be covered by a systemic risk exception is illogical.

The charge should be borne by those banks who benefited from the failures, or those whose uninsured depositors would be covered by the systemic risk exception, not smaller regional banks who, based on public commentary, would not be given the same exception. Moreover, the systemic risk exception was applied to SVB and Signature Bank, even though the failures were clearly related to regulatory and management failures at these banks. Based on media and other reports, these banks had numerous Matters Requiring Attention in place at the time of failure. Furthermore, any special assessment should be levied against total deposits as opposed to the flawed as-stated uninsured deposit balance.

The estimated balance of uninsured deposits is, as defined in the rules governing reporting, a bank's best effort to capture balances outside the umbrella of FDIC insurance coverage. As such, comparing this metric among banks is difficult at best. This total as reported in schedule RC-O of the company's Call Report is not representative of actual deposits at risk. It is a prescribed regulatory calculation, and by definition, includes not-at-risk balances such as affiliate deposits and those deposits collateralized by high-quality securities. This creates an uneven application of risk across regional banks. Many of those collateralized deposits are from municipalities and represent a service provided to our local and regional governments. Including those balances in an uninsured deposit calculation is penalizing banks for providing that high-value service to state and municipal entities.

Additionally, significant changes have occurred since December 31, 2022, and using a historical metric is not representative of current state. It does not consider proactive measures implemented by banks to provide insurance or other protection to depositors, nor does it consider deposits that migrated to large banks or to money markets immediately following the bank failures. A calculation based on a previous date could include deposits that are no longer uninsured or no longer with the bank. At a minimum, an ***adjusted*** uninsured deposit balance, preferably as of a more recent date, should be used to account for affiliate and collateralized deposits.

As written, the methodology for applying the special assessment penalizes us for being a commercial bank, as well as for serving a large number of municipalities. We feel that UMB is being unjustly penalized relative to other mid-cap banks by this construct. Our business model largely focuses on serving commercial and institutional clients, which by design differentiates our deposit base. We provide trust and custody services to large broker-dealers, mutual funds, and other corporate and municipal entities who utilize our services for their operational needs. Through the days that followed the March bank failures, these balances remained steady, suggesting they are stable, structural funding for banks like UMB. We naturally have a greater share of uninsured deposits than banks with larger retail businesses.

Finally, the proposal does not provide any capital transition relief and is punitive to capital as of the accrual date, which is likely to be in the calendar year 2023. As proposed, the one-time charge equates to an immediate impact of approximately 16 basis points to UMB's capital ratios. Given the current environment, this is the wrong time to add measures that will deplete capital. We would strongly urge the Board to consider a phase-in provision for the impact of the assessment.

Unintended consequences of the proposed assessment as written would include a significant decrease in valuations among regional banks, as expense levels in the current inflationary environment and capital ratios are impacted. In the current period of rising deposit betas, this puts an undue burden on banks by further increasing the cost of insured and uninsured deposit-taking. If we become uncompetitive by passing a portion of the impact to customers, mid-sized banks may lose market share to the "systemically important financial institutions". The natural progression in that scenario is constrained lending, especially to small business clients, potential job loss and a crisis of confidence in the banking industry.

**UMB's Position**

For more than 110 years, UMB has served clients and provided much-needed banking services in our communities. We have a long-tenured management team and enjoy long-tenured relationships with our clients. In fact, 55% of our depositors have been with us for at least 10 years, and many of them for more than 25 years.

Our extensive track record of unwavering underwriting standards has resulted in excellent asset quality that helps protect our business. We maintain strong asset-liability oversight and closely monitor key measures relating to interest rate and liquidity risk, and we are strongly positioned in all economic and business cycles. Nearly 60% of our earning assets are in loans, and 67% of our variable-rate loans reprice within 12 months, providing us with flexibility. Our prudence on the asset side of the balance sheet helps protect our depositors and is not a threat to the financial system. We feel this is true for many of our mid-sized bank peers as well.

We appreciate the FDIC's role to maintain stability in the nation's financial system, and the steps taken to make depositors whole during the recent bank failures. However, we firmly believe there are serious modifications to consider and implement to ensure banks are assessed fairly and equitably, using the most relevant factors. These modifications are critically necessary to prevent serious harm to UMB and other banks who, under the current proposal, would be responsible for an outsized assessment in an already tumultuous economic environment.

In closing, we strongly ask the FDIC to consider:

- A special assessment levied against total deposits instead of uninsured deposits, with the suggested minimum threshold of $10 billion, or, at a minimum, the use of an adjusted uninsured deposit measure at a more recent measurement date, to exclude collateralized, municipal and affiliate banking deposits.
- A capital relief mechanism, such as a transition period for recognition in Tier 1 capital levels.

Thank you for the opportunity to provide our comments.

Sincerely,

[redacted]

Mariner Kemper
Chairman, President and Chief Executive Officer