December 6, 2024

Mr. James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Request for Information on Deposits [RIN 3064-ZA42]

Dear Mr. Sheesley:

The Independent Community Bankers of America[1] ("ICBA") welcomes the opportunity to provide comments in response to the Federal Deposit Insurance Corporation's ("FDIC") request for information on deposits ("RFI").[2] The RFI seeks information on the characteristics that affect the stability and franchise value of different types of deposits and whether more detailed or more frequent reporting on these characteristics or types of deposits could enhance offsite liquidity risk and liquidity monitoring, inform analysis of the benefits and costs associated with additional deposit insurance coverage for certain types of deposits, improve risk sensitivity in deposit insurance pricing, and provide analysts and the general public with accurate and transparent data. Through this request, the FDIC is seeking to further evaluate whether and to what extent certain types of deposits may behave differently from each other, particularly during times of stress.

ICBA supports the FDIC collecting comments and inviting discussion on these topics. However, as an initial matter, we note the scope of the RFI is extremely broad and seeks data and information on over forty complex questions addressing liquidity risk supervision and regulation, market transparency, deposit insurance pricing and reform, and bank resolutions. To improve the agency's review of these important topics and collect more actionable feedback from the industry, the FDIC should narrow the scope of its request, conduct a study on core and brokered deposits, and provide more time to collect data from individual banks and compile aggregate industry data. Additionally, we encourage the FDIC to consider the following observations and recommendations.

I. The FDIC Should Simplify and Tailor Call Reports to Alleviate Reporting Burden for Community Banks.

Section 205 of the Economic Growth, Regulatory Relief and Consumer Protection Act ("S.2155") directs the

[1] The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation's community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America's community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers' financial goals and dreams.
[2] FDIC, Request for Information, Request for Information on Deposits,89 Fed. Reg. 63946 (Aug. 6, 2024).

federal banking agencies to issue regulations allowing covered depository institutions to complete a short-form call report in the first and third quarters of each filing year.[3] Importantly, Congress passed this legislation to provide tangible and meaningful reporting relief for community banks to limit the amount of time spent on government reporting and reallocate resources to serving their communities.[4]

Despite S.2155's directives to the banking agencies to alleviate reporting burdens for community banks, the RFI contains troubling language that suggests the FDIC may instead consider expanding Call Report data requirements for community banks. For example, the FDIC is expressly evaluating "whether more detailed or more frequent reporting on characteristics of or types of deposits could improve the accuracy and transparency of data reported on the Call Report." Elsewhere, the FDIC acknowledges it would like information on whether "additional data, including more granular or more frequently reported data, should be considered for collection" and that "[b]ecause banks do not report … categories of uninsured deposits on the Call Report, the FDIC does not have historical data on banking industry trends for these types of deposits." ICBA strongly opposes "more frequent" and "granular" reporting of deposits as such changes would impose significant and unnecessary burdens on community banks.

From an operational perspective, expanded reporting requirements for uninsured deposits would be particularly challenging for community banks for two reasons. First, there is not a uniform method among community banks for tracking uninsured deposits. Some community banks track accounts exceeding the deposit insurance limit on a per account basis, while others track uninsured deposits as a total amount without segmenting based on customer type. And some community banks only track municipal and individual accounts exceeding deposit insurance limits while others track all relationships exceeding the $250,000 standard maximum deposit insurance amount ("SMDIA"). The reason these methods vary is because many types of deposits can be categorized as uninsured. As such, the types and amounts of uninsured deposits a bank holds varies depending on the bank's business model and customers. Community banks should not be required to needlessly track data without a strong business or supervisory justification. Given the mix of deposits captured in the line item for uninsured deposits, more "granular" reporting will invariably require significant resources from community banks.

Second, regardless of how the bank tracks its uninsured deposits, the process is either entirely manual or requires a manual scrub of data because core provider systems do not currently have the functionality or capability to amalgamate accounts as determined by the FDIC insurance limit rules. In fact, these platforms often overestimate a bank's uninsured deposits. In a recent ICBA survey, 69% of members indicated that while they can use current tools to adequately estimate their uninsured deposits, their current systems cannot automatically pull data on specific categories of uninsured deposits with a level of detail that could be included in the Call Report, and that manual reviews would be necessary to provide this information.

---

[3] Public Law No: 115-174.

[4] Statements from the Congressional record emphasize that Congress specifically intended that the FDIC provide targeted, tailored Call Report relief to community banks. *See [164 Cong. Rec. E1586-02, 164 Cong. Rec. E1586-02, E1586](). "Community banks are spending too much time trying to comply with unnecessary regulations taking away from their main mission of serving their customers." See also [164 Cong. Rec. S1619-04, 164 Cong. Rec. S1619-04, S1619-20]() "The problem is, the small community banks-the ones that are disproportionately harmed by this overregulation-weren't the cause of the great recession, the financial meltdown of 2010 and 2009, but they are the collateral damage. . . What happens is, these community banks have less money to loan because they have had to use the money, they would loan to hire more people to help them comply with all the unnecessary red tape because of the Dodd-Frank overregulation."*

For example, some municipal accounts are intentionally spread across multiple portfolios but because core processing systems do not provide functionality for aggregating these accounts, manual reviews are required. Likewise, current systems do not account for all deposit relationships, and tracking beneficiary information requires manual processes. For example, if John Doe has a personal savings account in the amount of $250,000, and he is also a beneficiary of a trust account and one of four owners on a business account, the core processor is unable to remove John Doe's insurance benefit from the trust and business account when reporting individual account insurance limits based on ownership. As another example, to establish total coverage for a retirement account, community banks must manually track payable on death beneficiaries at the account level to tie back to individual retirement account owners.

Core processors would need to significantly overhaul current systems to create reports for community banks that could separate deposit amounts by deposit category, capture customer information on primary and secondary ownership, and have the functionality of adding or subtracting owners from individual or business accounts. Further complicating matters is the fact that the underlying data that would feed into these reports is not static, meaning banks would have to constantly monitor changes in balances and changes in beneficiaries if required to report granular data on uninsured deposits.

Given the significant changes that core providers would be required to make to their systems to facilitate granular reporting of uninsured deposits, it is unlikely these changes would be included in banks' current contracts – meaning community banks would likely have to make significant investments in new add-on products. And even with improved core system functionality, the manual processes that would still be required to verify reports would require community banks to increase their staffing in order to comply with expanded reporting requirements.

Expanding Call Report data for community banks is a solution in search of a problem - there is little benefit to community banks or the FDIC to invest in continuous monitoring of uninsured deposits when the FDIC already has an in-depth understanding of the behavior and risks posed by certain categories of, or concentrations in, uninsured deposits, and when the FDIC can confirm that community banks do not hold massive quantities of uninsured deposits. The vast majority of community banks do not operate novel business models, do not pose outsized risks to the financial system, and are not considered industry outliers for their liquidity management and concentration risk. Using its current tools and supervisory practices, the FDIC can adequately (1) evaluate whether community banks are leveraging a healthy mix of funding sources or are reliant on concentrations of risky deposits; (2) require community banks to take prompt corrective action if the FDIC observes concerning deposit practices; and (3) evaluate estimated losses to the deposit insurance fund when necessary. ICBA recommends the FDIC leverage existing tools before it seeks to create new ones.

II. Changes to Regulatory Reporting Must Not Reinforce Too-Big-to-Fail Banks.

Through its experiences as a receiver for failed institutions and as a bank supervisor, the FDIC has its own historical data on banking industry trends. The FDIC does not need additional "granular" Call Report data to better understand that certain types of deposits may behave differently from each other, particularly during times of stress. In fact, expanding "granular" Call Report data on uninsured deposits could exacerbate depositor panic during times of stress and reinforce deposit flight to Too-Big-to-Fail banks.

As the events of March 2023 demonstrated, intense and real-time public scrutiny of a few public data points created a media frenzy that incited panic among depositors, and ignited deposit flight. As the Federal Reserve's Vice Chair for Supervision observed in his report on the failure of Silicon Valley Bank ("SVB"), "the combination of social media, a highly networked and concentrated depositor base, and technology may have fundamentally changed the speed of bank runs. Social media enabled depositors to instantly spread concerns about a bank run, and technology enabled immediate withdrawals of funding."[5]

Given the potential for Call Report users to exaggerate the importance of or misinterpret Call Report data on uninsured deposits, ICBA urges the FDIC to exercise caution in requiring banks to publicly disclose additional and detailed data on uninsured deposits and/or deposit outflows. Additionally, ICBA strongly encourages the FDIC to avoid changes to Call Report data that could encourage or exacerbate a perceived flight to safety to too-big-to-fail institutions. Most banks hold at least some uninsured deposits, and holding uninsured deposits is not, on its own, an indicator that a bank is at risk of failure. The potential for consumers to misinterpret uninsured deposit risk and cause or worsen panic far outweighs any potential benefits of "granular" disclosure.

III. Deposit Insurance Reforms Should Promote Depositor Confidence in All Banks.

The FDIC's deposit insurance system has served the nation well since its creation in 1934 and is a critical tool for reassuring depositors in times of uncertainty and preempting bank runs and contagion. While ICBA conceptually supports some changes to modernize the deposit insurance framework, such changes should only occur at the margins. For example, periodic increases to the SMDIA and transaction account guarantee ("TAG") programs have both proven to be time-tested and effective methods of adjusting deposit insurance coverage.

In considering reforms to the deposit insurance system, legislation is needed to address the "dilemma" current law creates for the FDIC, Federal Reserve, and Treasury. Last year, these agencies utilized the "systemic risk exception" to the "least-cost resolution" requirement in order to guarantee the uninsured deposits of SVB and Signature Bank. The agencies needed to invoke the systemic risk exception because they lacked other timely, viable options to protect the enormous concentration of uninsured deposits held at these very large banks. While this approach fixed the immediate problem by slowing panic and social media-fueled contagion, use of the systemic risk exception carries a host of unintended consequences. Invoking the exception incentivizes perceived flight to safety, reinforces too-big-to-fail institutions, and imposes costs to the deposit insurance fund to be borne by other institutions. Congress should consider giving the FDIC more finely calibrated instruments so that it can, when necessary, resolve troubled institutions of any size with immediacy and protect depositors without needing to first make a determination of systemic risk. This includes adjustments to the least-cost resolution standard to provide the FDIC flexibility to choose bidders for failed banks who are willing to assume all of the deposits of the failed institution.

The Dodd-Frank Act limited the FDIC's authority to quickly authorize a temporary Transaction Account Guarantee (TAG) program. If the FDIC had authority to create a TAG-like program last year, or if a pre-existing program had been in place, that may have been sufficient to protect depositors, and the agency might not have had to make any determination of systemic risk. Disparities in when the FDIC invokes the systemic risk exception, and when the FDIC can protect uninsured depositors under the least cost resolution standard, produce harmful and unfair outcomes that institutionalize Too-Big-to-Fail banks and reinforce their implicit guarantees. Any improvements to the deposit insurance system should provide consistent protections to depositors to promote depositor confidence in all banks.

***

[5] Board of Governors of the Federal Reserve System, Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank (April 28, 2023).

ICBA supports the FDIC's efforts to further evaluate deposit stability, liquidity monitoring, and deposit insurance reforms to promote the safety and soundness of the financial system, and we look forward to ongoing research and dialogue about these topics. Should you wish to discuss our positions in further detail, please contact Jenna Burke at jenna.burke@icba.org.

Sincerely,

/s/ Jenna Burke
Executive Vice President
General Counsel, Gov. Relations & Public Policy
Independent Community Bankers of America