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September 24, 2025

Jennifer M. Jones, Deputy Executive Secretary
Attn: Comments – RIN 3064-AG15
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Dear Madam,

The Iowa Bankers Association (IBA) is a trade association representing 97 percent of the 265 state- and national-chartered banks and federal thrifts operating in the state of Iowa. On behalf of its members, the IBA appreciates the opportunity to comment on Federal Deposit Insurance Corporation's (FDIC) notice of proposed rulemaking to adjust and index certain regulatory thresholds. Tailoring the regulatory requirements based on bank size, risk profile and level of complexity is essential providing the index also considers overall changes in economic growth and inflation to ensure that the thresholds preserve their intended purpose over time.

IBA members generally support the proposal to revise several FDIC thresholds and index them for growth and inflation. Doing so will allow the regulatory framework to evolve over time without requiring repeated rulemaking or legislative action. However, IBA members urge the FDIC to consider methodological changes to ensure indexing mechanisms are appropriately tailored to the nature and purpose of each threshold as discussed below.

12 CFR PART 363 PROPOSED CHANGES – INITIAL ADJUSTMENT

The FDIC acknowledges the \$500 million threshold has never been adjusted and the \$1 billion and \$3 billion thresholds have not been adjusted since 2005. Since that time, compliance with audit and reporting requirements has become even more burdensome and costly, particularly for smaller nonpublic banks. The FDIC proposes to adjust the independent audits and reporting requirements related to internal controls over financial reporting, and compliance with designated laws and regulations, as well as related reporting requirements. Specifically, the FDIC proposes to adjust the \$500 million to \$1 billion, and \$1 billion and \$3 billion to \$5 billion respectively to reflect historical inflation. As stated in the proposal, when the FDIC initially implemented part 363, the \$500 million threshold captured approximately 1,000 banks out of 14,000 (approximately 7% of all banks). At that time, these banks held 75% of the U.S. banking assets. Today, due to industry consolidation and increases in inflation, more than 42% are subject to these requirements. The same is true for the requirements related to banks with assets of \$1 billion or more.

Several IBA members expressed frustration with the current low thresholds, especially related to banks that are part of a holding company. One banker indicated their holding company exceeded the audit threshold as of year-end 2023 which triggered the requirements for a full audit of both the Holding Company and its subsidiaries for the following year. This process encompassed a substantial increase in workload for this relatively small bank including modifying their audit committee structure, income tax preparation processes, and other operational functions. This same bank indicated, due to this stress on resources, one of the banks under the holding company which hovers near \$500 million strategically made decisions to restrain natural growth. Having to make these types of strategic decisions due to an arbitrarily low and static threshold is unacceptable. The burden these static and outdated thresholds place on his small community bank are unwarranted, especially considering these smaller banks do not have a systemic influence in the banking system and do not have a broad-based securities impact.

Many Iowa banks are located in rural areas and find identifying and accessing qualified auditors and personnel to complete FDICIA work at a reasonable price is a significant challenge. Having recently passed the \$1 billion threshold, the bank mentioned above indicated increased direct audit expenses of \$500,000, which does not include the time and work invested by the internal employees responsible for building controls, executing those controls, and working with auditors. These tasks are being performed by staff that wear multiple hats, taking time away from their primary responsibilities and their ability to serve their customers. Another banker shared they have been actively pursuing the addition of outside, independent directors qualified to serve on their audit committee for over a year. They have found the pool of qualified candidates is limited, especially in rural areas.

IBA members agree with the FDIC's statement that "adjusting regulatory thresholds to reflect inflation would help ensure that they preserve their intended application in real terms over time and remain generally aligned with their intended policy objectives". As such, they generally support the proposed initial thresholds change levels and believe they more accurately reflect the overall risk profiles and complexities of banks of this size. The question remains, are the proposed thresholds set at the right levels to reflect past growth? IBA members urge the FDIC to consider thresholds that capture the 32 years of growth in the U.S. economy that have occurred since these thresholds were originally set in 1993. As an example, rather than the \$1 billion threshold proposed (currently \$500 million), when using nominal GDP for periodic adjustments, that number would be \$2.2 billion today indicating this proposed threshold may be too low. The same would be true for the \$1 billion and \$3 billion thresholds adjusting to \$5 billion. Further analysis is needed to ensure these adjustments are correctly calibrated before indexing in future years. For more information, see additional notes on index selection below.

TIMING IMPACT OF INITIAL THRESHOLD ADJUSTMENTS

Equally important to the initial threshold re-adjustment is the timeframe for making this change and related impact. Thresholds under part 363 operate on a fiscal year basis. Banks that cross a threshold would remain subject to those requirements until April 1 of the following year, even if the revised threshold would otherwise exempt them. Our members stress this timeline severely diminishes the reduction in regulatory burden and can stifle organic growth. The FDIC should permit banks currently subject to the requirements who would be exempt upon re-adjustment to discontinue efforts to comply with the requirements immediately upon the effective date of the re-adjustment. Further, to lessen the impact of banks that hover close to these thresholds (e.g., may

exceed a threshold for one quarter but fall below the subsequent quarter), IBA members recommend the FDIC consider an average asset test versus the current bright line test in place today. One option would be to consider average assets over four consecutive quarters. Another would be to consider a requirement that the bank exceeds the threshold for two consecutive fiscal years, similar to the requirements under the Community Reinvestment Act. Both options would account for the volatility of short-term fluctuations.

12 CFR PART 363 PROPOSED CHANGES – PERIODIC ADJUSTMENTS

Having bright line triggers for regulatory requirements based on static thresholds does not reflect the evolving structure of the banking sector or inflation. Economic conditions can change dramatically over time making static thresholds meaningless and out of step with the size, complexity and risk currently experienced by those subject to those static, arbitrary thresholds. If the FDIC elected to only perform a one-time threshold adjustment, economic growth and inflation will erode the real value of those thresholds resulting in some banks being subject to regulatory requirements not intended for them as is currently the case. Therefore, IBA members support periodic adjustments to these thresholds. These anticipated adjustments support long-term planning and will ensure the regulatory requirements remain aligned with actual risk. Moreover, the upward threshold adjustments help address the unique challenges faced by smaller community banks, especially those in rural areas considering the difficulties faced in recruiting the requisite talent needed to satisfy the audit committee requirements.

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While IBA members support indexing required thresholds, they question whether using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) would most accurately and sustainably reflect changes over time. Conceptually, IBA members support either the use of CPI-W or nominal Gross Domestic Product (GDP) as both would balance the objectives of preserving the levels of part 363 on an inflation-adjusted basis and reduce the burden on smaller, less complex banks. Those meeting or exceeding the adjusted thresholds would experience the safety and soundness benefits of audit and financial control requirements.

However, after analysis, member banks identified a weakness using the CPI-W as the index. They found threshold adjustments using the CPI-W, although commonly used, consistently lagged in comparison to using either the H-8 or nominal GDP as indexes at various asset levels. This lag demonstrated a potential weakness in ensuring that thresholds remain proportionate to the size of the broader economy while indexing to total industry assets. For example, excluding the initial adjustment discussed above, the \$1 billion threshold would increase to \$1.6 billion using the CPI-W compared to \$2.2 billion using nominal GDP. For the \$10 billion threshold, the CPI-W would garner a result of \$14.8 billion compared to \$19.3 billion using nominal GDP. Nominal GDP seems to more accurately reflect both real growth and changes in inflation. Therefore, the recommendation by our members would be to use the nominal GDP as the index for future adjustments.

TIMING OF FUTURE ADJUSTMENTS

IBA members strongly support the FDIC's proposal to adjust the thresholds at the end of every consecutive two-year period based on the cumulative percentage change of the index selected. Bankers agree the two-year timeframe will provide consistency while adjusting the thresholds on a timely basis. In calendar years that reflect unusually large changes to inflation or banking conditions, a timelier adjustment may be warranted. IBA members support a minimum of 8% upward variation as the trigger for mid-cycle adjustments, depending on index selected. Such a

change would help ensure threshold amounts reflect inflation in a timely manner and avoid the undesirable and unintended consequences of extreme inflation between adjustments. Members further support the stance the thresholds would not be lowered in any given year due to deflation should it occur. Due to the impact on bank resources, an adequate ramp up period is needed to respond to periodic changes to the thresholds. Regarding the effective date of subsequent threshold changes, IBA member banks suggest flexibility in managing related requirements. Upon publication of the new index, banks no longer subject to the requirements should be able to cease activities related to those requirements without having to maintain those requirements until the subsequent April 1. For banks newly subject to the requirements, the rule should also allow a minimum of 12 months following publication date (e.g., rule finalized 10/15/26 would be effective 4/1/28). This timeframe allows for intentional, thoughtful consideration of audit committee structure, and thorough vetting of third parties conducting audit services. Having an adequate ramp up timeframe helps reduce the need for smaller community banks to defensively manage their balance sheets to minimize unintended burden.

ADDITIONAL CONSIDERATION

Under Part 363.3(f), auditors are subject to the most restrictive independence standards of the AICPA, SEC, or PCAOB. This means a private, closely held institution's auditors are subject to the same independence standards as public company auditors. For a private, closely held institution, this restricts auditors from providing certain services that they might otherwise be permitted to offer under AICPA standards, imposing additional burdens on institutions just crossing over the (current) \$500 million threshold. IBA members ask the FDIC to consider removing private entities from the SEC and PCAOB independence requirement.

In conclusion, IBA members fully support the proposal to increase the initial Part 363 thresholds as stated above. They further applaud efforts to develop a sound and transparent framework for future adjustments. This initiative represents a long overdue modernization of a regulatory framework that has not kept pace with economic growth, the evolving structure of the banking sector, or inflation. The FDIC should carefully consider whether the initial threshold adjustments are correctly calibrated to reflect decades of growth and inflation and adjust them accordingly. Moreover, while general support for using the CPI-W index was indicated, the overall preference would be to use the nominal GDP for future threshold adjustments.

Lastly, IBA members strongly encourage the FDIC to apply the same methodology across all regulations (such as the Dodd-Frank Act, Community Reinvestment Act, HMDA reporting exemption, etc.) when thresholds are based on assets. While many of these require legislative action, IBA members encourage the FDIC to consider this a critical first step in pursuing indexing efforts, internally, through interagency coordination, and in collaboration with Congress.

For questions related to this comment letter, the FDIC may contact me at [REDACTED] or at [REDACTED].

Respectfully Submitted By,

[REDACTED]

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Iowa Bankers Association