



February 4, 2019

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Regarding: Request for Information on the FDIC's Deposit Insurance Application Process – RIN 3064-ZA03

Dear Mr. Feldman:

The Community Bankers Association of Illinois (“CBAI”), which proudly represents almost 320 Illinois community banks, appreciates the opportunity to provide our recommendations regarding the Federal Deposit Insurance Corporation (“FDIC”) Notice and Request for Information on the FDIC’s deposit insurance application process (“Proposal”). CBAI appreciates that the FDIC is seeking comments “from interested parties on all aspects of the deposit insurance application process”, “including with respect to the transparency and efficiency of the process, and any unnecessary burdens that have become part of the process.” **CBAI encourages the FDIC to follow the recommendations contained in this comment letter and approve many more applications for federal deposit insurance for de novo community banks.**

CBAI is dedicated to exclusively representing the interests of Illinois community banks and thrifts through effective advocacy, outstanding education, and high quality products. CBAI’s 320 members hold more than \$70 billion in assets, operate 860 locations statewide, and lend to consumers, small businesses, and agriculture. For more information, please visit www.cbai.com.

CBAI Supports De Novo Community Banks

CBAI has long been a proponent of de novo community banks (which require FDIC insurance) and has repeatedly expressed its frustration and disappointment at the lack newly chartered banks since the financial crisis.

In a September 2, 2014 comment letter in response to the regulatory review under the Economic Growth and Regulator Paperwork Reduction Act of 1996 (“EGRPRA”) CBAI stated,

“Newly chartered or de novo community banks are needed to maintain a growing, evolving and vibrant banking industry particularly given the decline in the number of banks from recent bank failures and industry consolidation.

CBAI disagrees with the FDIC’s apparent position of actively inhibiting de novo community bank formation. The FDIC has approved only a single de novo bank since 2010. This is a dramatic shift from an average of 170 per year for many years. Even in the depths of the Savings & Loan crisis (1984-1992), when 1,800 banks and savings institutions failed, an average of 196 de novos were formed annually.

CBAI understands, to a degree, the reluctance of the FDIC to approve new applications during the recent financial crisis when they were fully occupied with a growing list of troubled institutions and because de novos failed at a greater rate than other banks. To completely shut-down the pipeline of new charters, however, is clearly regulatory overreaction.”

During the EGRPRA outreach meeting in Chicago on October 19, 2015, and in remarks directed to FDIC Chairman Gruenberg, CBAI made its position clear by stating,

“In our opinion, the current regulator and supervisory policy for de novos is far too restrictive, and harmful to community banking, the financial system and our economy; and we strongly urge a significant change in the current position and policy regarding de novo community banks.”

In a February 19, 2017 letter in response to a Request for Comments on the FDIC’s publication *Applying for Deposit Insurance – A Handbook for Organizers of De Novo Institutions*, CBAI stated,

“[We agree with] Chairman Gruenberg’s statement that “Newly chartered (de novo) community banks are vitally important to maintaining a strong, growing, evolving and vibrant banking profession”, and that “De novo institutions add vitality to our local banking markets, providing credit and services to communities that may be overlooked by larger institutions.” Notwithstanding the FDIC’s proposed *Application Handbook*, CBAI remains disturbed by the almost total lack of de novo banks during the past seven years and has consistently included support for new community bank formation in its Federal Policy Priorities.

The number of community banks has declined through failures during the recent financial crisis, and consolidation from a relentless increase in regulations, which has also resulted in the continued concentration of banking assets in the largest banks in the country. The virtual absence of any new bank charters has compounded this already distressing situation.

The *Application Handbook* contains a useful roadmap for those interested in deposit insurance for a proposed new bank charter, and CBAI believes interested parties will find this to be a useful resource. The absence of a roadmap, however, was not the barrier to obtaining deposit insurance in the recent past. The lack of de novo charters was apparently the result of a decision by the FDIC, despite a formal position to the contrary, to require applicants to prove they were virtually failure proof rather than just having a reasonable likelihood of succeeding.

CBAI hopes the Chairman’s recent comments and additional resources which include this *Application Handbook*, outreach meetings to inform industry participants about the FDIC’s application process, and rescinding its Financial Institution Letter (FIL) 50-2009 titled Enhanced Supervisory Procedures for Newly Insured FDIC-Supervised Depository Institutions (which among other measures extended the “de novo” period from 3 to 7 years for examinations, capital maintenance and other requirements) signals a sincere change in the position of the FDIC towards approving applications for deposit insurance for de novo charters.

CBAI looks forward to seeing rapid and the tangible results from these initiatives and a resumption of many de novo charters being approved each year to help revitalize the community banking profession.”

Unfortunately, since the financial crisis, the reasonable chance of receiving an approval for deposit insurance was so remote that even in 2019, with recent efforts to reverse course by the FDIC, only a small trickle of applications is even being pursued by prospective bank organizers.

Response to the RFI's Questions 1, 2, 12 and 13

CBAI visited with a number of community bankers who chartered de novo banks (and obtained deposit insurance) prior to the financial crisis. These community bankers did not have any of the formal resources that are available today, which are surely welcomed and will be helpful, but they successfully navigated the deposit insurance application process none-the-less.

The consensus opinion, among CBAI and these community bankers, is that all of the new resources and initiatives will accomplish nothing unless the FDIC is genuinely serious about setting reasonable expectations and requirements (e.g., capital requirements and the sufficiency of Needs and Convenience Demonstrations) – and then actually approving applications for deposit insurance. At this point, **CBAI concludes that to encourage a healthy flow of applications will require consistent proof of success in obtaining FDIC insurance for scores of community banks over the next several years. CBAI strongly encourages the FDIC to swiftly move in that direction.**

Thank you for considering our recommendations to your Proposal on this important issue. If you have any questions or require any additional information, please contact me at davids@cbai.com or (847) 909-8341.

Sincerely,

/s/

David G. Schroeder
Senior Vice President
Federal Governmental Relations