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38 Fountain Square Plaza
Cincinnati, Ohio 45263

Huntington Bancshares Incorporated
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KeyCorp
127 Public Square
Cleveland, Ohio 44114

July 12, 2023

Via Email: comments@fdic.gov

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

Re: Notice of Proposed Rulemaking on Special Assessments Pursuant to Systemic Risk Determination — RIN 3064-AF93

Ladies and Gentlemen:

This comment letter is being jointly submitted by Fifth Third Bancorp ("Fifth Third"), Huntington Bancshares Incorporated ("Huntington") and KeyCorp ("Key") in response to the notice of proposed rulemaking, dated May 22, 2023 (the "Notice"), issued by the Federal Deposit Insurance Corporation (the "FDIC"), regarding special assessments pursuant to the recent systemic risk determination. The purpose of these special assessments is to recover the loss to the Deposit Insurance Fund (the "DIF") arising from the protection of uninsured depositors in connection with the systemic risk determination announced on March 12, 2023, following the closures of Silicon Valley Bank and Signature Bank.

Founded in 1858, Fifth Third is a diversified financial services company headquartered in Cincinnati, Ohio, and is the indirect holding company of Fifth Third Bank. As of March 31, 2023, Fifth Third Bank had $208.7 billion in assets and operates 1,069 full-service Banking Centers and 2,118 Fifth Third branded ATMs in Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, Tennessee, West Virginia, Georgia, North Carolina and South Carolina. Fifth Third has approximately 20,000 employees, banking centers across 11 states, and commercial and consumer lending presence across the United States.

Huntington is a $189 billion asset regional bank holding company headquartered in Columbus, Ohio. Founded in 1866, The Huntington National Bank and its affiliates provide consumers, small and middle–market businesses, corporations, municipalities, and other organizations with a comprehensive suite of banking, payments, wealth management, and risk management products and services. Huntington operates more than 1,000 branches in 11 states, with certain businesses operating in extended geographies.

Headquartered in Cleveland, Ohio, Key is a financial services company with assets of approximately $198 billion at March 31, 2023. Key provides deposit, lending, cash management, and investment services to individuals and businesses in 15 states through a network of approximately 1,000 branches and approximately 1,300 ATMs. Key also provides a broad range of sophisticated corporate and investment banking products, such as merger and acquisition advice, public and private debt and equity, syndications, and derivatives.

As a threshold matter, we thank the FDIC for its work in resolving Silicon Valley Bank, Signature Bank and First Republic Bank. The resolution of these institutions combined with the systemic risk determination contributed greatly to the continued strength and stability of the U.S. banking sector. We also express our appreciation for the work done by the FDIC staff in preparing the Notice. However, we believe that the following changes to the Notice are critically important in order to ensure that the special assessments are fair, appropriate and consistent with statutory intent.

The statutory foundation for the design and implementation of the special assessments is Section 13(c)(4)(G) of the Federal Deposit Insurance Act (the "FDI Act").[1] That statute requires the FDIC to consider "the types of entities that benefit from any action taken or assistance provided under this subparagraph; economic conditions, the effects on the industry, and such other factors that the Corporation deems appropriate and relevant to the action taken or assistance provided." In the Notice, the FDIC focused in particular on the types of entities that it believes benefitted from the systemic risk determination:

> In general, large banks and regional banks, particularly those with large amounts of uninsured deposits, were the banks most exposed to and likely would have been the most affected by uninsured deposit runs. Indeed, shortly after Silicon Valley Bank was closed, a number of institutions with large amounts of uninsured deposits reported that depositors had begun to withdraw their funds … Generally speaking, larger banks benefitted the most from the stability provided to the banking industry under the systemic risk determination. Under the proposal, the banks that benefitted the most from the assistance provided under the systemic risk determination would be charged special assessments to recover losses to the DIF from the protection of uninsured depositors, with banks of larger asset sizes and that hold greater amounts of uninsured deposits paying higher special assessments.

Based on the foregoing, the FDIC proposed in the Notice that an insured depository institution's special assessment would be calculated by multiplying the special assessment rate of 3.13 basis points by the institution's "special assessment base." The special assessment base is

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[1] 12 U.S.C. § 1823(c)(4)(G).

the institution's "uninsured deposits" (minus certain deductions) which is defined as the "estimated uninsured deposits as reported in Memoranda Item 2 on Schedule RC-O, Other data for Deposit Insurance Assessments in the Consolidated Reports of Condition and Income (Call Report) . . . for the quarter ended December 31, 2022, reported as of the date this rule is adopted." The Call Report instructions for calculating the amount of uninsured deposits recognizes that the exercise is not formulaic – rather, it is a reasonable estimate and specifically provides that "[i]n the absence of automated information systems, a bank may use nonautomated information such as paper files or less formal knowledge of its depositors if such information provides reasonable estimates of appropriate portions of its uninsured deposits."

In the Notice, the FDIC requests comment on all aspects of the proposed rulemaking. In this comment letter, we address the following points:

- Deposits held by a bank on behalf of its affiliates should not be treated as uninsured deposits for purposes of the special assessments.
- Collateralized governmental deposits also should not be treated as uninsured deposits for this purpose.
- The measurement date for the special assessment base should be as of March 31, 2023, instead of December 31 2022, as proposed in the Notice.

I. Excluding Affiliate Deposits from Uninsured Deposits

Affiliate deposits can be divided into three categories:

- Deposits held by the parent bank holding company;
- Deposits held by sister companies of the bank; and
- Deposits held by subsidiaries of the bank.

As noted above, the guiding principle for the Notice is that the banks that benefitted the most from the systemic risk determination should be the most responsible for paying the special assessments. The special assessments are targeted at uninsured deposits because, according to the Notice, they would have been withdrawn if not for the systemic risk determination. We respectfully submit that this rationale does not apply to deposits held by affiliates. We discuss each category of deposits below.

As the FDIC is aware, a parent bank holding company commonly holds deposits with its subsidiary bank for operational purposes and to provide liquidity. In addition, a bank holding company typically causes sister companies of its subsidiary bank to also hold deposits in the bank. This practice is consistent with the legal obligation of a bank holding company to act as a source of strength to its subsidiary bank.[2] Conversely, it would be inconsistent with this

[2] 12 C.F.R. § 225.4(a). 12 USC § 1831o-1(a).

obligation for a bank holding company to withdraw funds from its subsidiary bank in times of economic stress. During times like these, a bank holding company's source of strength obligation is more important than ever. Additionally, proactive and prudent liquidity risk management encourages building cash reserves at the holding company to meet future obligations in the event the bank subsidiary needs to retain earnings. The proposed assessment approach would penalize institutions that maintained higher cash reserves at the holding company level. For these reasons, neither our parent bank holding companies nor the sister companies of our banks materially withdrew funds from our banks immediately prior to or after the systemic risk determination.

It is even more implausible that deposits held by consolidated subsidiaries of bank would have been withdrawn in March absent the systemic risk determination. Except in unusual circumstances, a bank controls its subsidiaries and therefore has the ability to prevent the subsidiaries from withdrawing funds from accounts at the bank. More fundamentally, deposits held by subsidiaries of banks are effectively the bank's operating cash, rather than deposits held by a third parties.

In sum, unlike uninsured deposits held by unaffiliated third parties, uninsured deposits of affiliates that were held at our banks were not at risk of being withdrawn following the collapse of Silicon Valley Bank and Signature Bank. This would have been the case with or without the systemic risk determination. Because retention of these deposits in no way benefitted from the systemic risk exception, they should not be included as part of the special assessment base.

II. Excluding Collateralized Governmental Deposits

Similarly, we did not experience any material withdrawals of collateralized government deposits in March prior to the systemic risk determination. In our experience, deposits of states and municipalities that are fully collateralized are not withdrawn in times of economic stress. Because the deposits are fully secured even in the event of a bank's insolvency, they are extremely stable. Moreover, the amounts of these deposits are typically well in excess of FDIC insurances limits, so the depositors look to the collateral rather than deposit insurance for assurance of payment. Effectively, then, by bearing the cost of the collateral, banks are already paying insurance premiums for these deposits.

Collateralized governmental deposits are further protected by comprehensive regimes enacted by numerous states, governing the ability of depositories, including banks, to accept public funds from state, county, and municipal authorities. These regimes are intended to safeguard public funds placed on deposit with such institutions, and often require depositories to pledge high-quality collateral (such as securities issued by the U.S. government) with a market value that equals or exceeds the amount of funds placed on deposit. These comprehensive regimes often include detailed pledging, monitoring, recordkeeping, and reporting requirements.

As further protection, secured creditors have the highest priority claims in a receivership, with such claims being paid ahead of claims of unsecured creditors (including uninsured depositors) up to the value of the pledged collateral. Secured creditors look to the specific pledged collateral to protect their interests in the event of a receivership, because such assets are unavailable to the FDIC to pay the claims of other claimants. As a result, public deposits are qualitatively different from uninsured deposits and do not share any of risk characteristics that make them susceptible to a bank run.

Finally, in the event that a state or municipality elects to move its collateralized deposits to another bank, it is not often easy to do so. States and municipalities may need to first conduct a time consuming RFP process, collect bids and comply with applicable procedures.

III. March 31, 2023 as the Measurement Date.

Lastly, we submit that the special assessment base should be based on the amount of uninsured deposits for the quarter ended March 31, 2023, instead of December 31, 2022, as proposed in the Notice. March 31, 2023 is much closer in time to the March 12, 2023 systemic risk determination date and data as of that date will be a more accurate approximation of the amount of uninsured deposits that existed at that time. Importantly, if, as described in the Notice, following the March bank failures and the systemic risk determination, larger institutions witnessed an increase in deposits while smaller institutions experienced a decline in deposits, then the impact of such deposit inflows and outflows should be taken into account when determining which institutions benefitted the most from the systemic risk determination and should bear the most responsibility for paying the special assessments.

We appreciate the opportunity to comment on this important proposal.

Sincerely,

FIFTH THIRD BANCORP	HUNTINGTON BANCSHARES INCORPORATED	KEYCORP
By: [redacted]	By: ________________	By: ________________
James C. Leonard Executive Vice President and Chief Financial Officer	Zachary Wasserman Senior Executive Vice President, Chief Financial Officer	Clark H. Khayat Executive Vice President, Chief Financial Officer

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Executive Vice President and Chief Financial Officer

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Zachary Wasserman
Senior Executive Vice President, Chief Financial Officer

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