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July 18, 2023

James P. Sheesley
Assistant Executive Secretary
Legal Division
Office of the Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Subject: May 22, 2023 Special Assessments Pursuant to Systemic Risk Determination-Notice of Proposed Rule Making: Comment Request

To the FDIC Board of Directors:

The FDIC is doing the right thing by exempting smaller banks from the special assessment to replenish the Deposit Insurance Fund following two large bank failures in March 2023. [Notice of Proposed Rulemaking on Special Assessment Pursuant to Systemic Risk Determination, Federal Register Vol. 88, Page 32694.] Thank you for recognizing that the damage to the Deposit Insurance Fund had nothing to do with the thousands of community banks that form the backbone of our banking system.

As a $2 billion-asset community bank serving a diverse array of businesses, individuals and organizations in the Washington, D.C., Metro area, MainStreet Bank would feel the squeeze of a special assessment. We would inevitably have to absorb some of these costs, which would reduce our capacity to lend, and we would have to pass other costs along to our customers, who are already experiencing the impact of an economic slowdown and a looming recession.

It is appropriate that large banks should absorb this special assessment. The circumstances that led to the failures were unique to large, idiosyncratic banks whose balance sheets bear little resemblance to those of community banks. As Warren Buffett has aptly put it, when the tide goes out, you find out who's swimming naked. As we saw, the tide went out in an extreme way in March, and it became clear that a handful of large banks couldn't cover withdrawals from big hedge funds and other risky deposit sources. Once they had to liquidate securities to cover their outflows, that started a vicious cycle and triggered a classic run on deposits—the fastest, most damaging one we've ever seen.

Inevitably, community banks like MainStreet Bank were tossed about in the ensuing frenzy, even though we are 180 degrees the opposite of Silicon Valley Bank and Signature Bank of New York. We are smaller and very diversified in our assets and liabilities. We have excellent risk management systems, and we test our liquidity daily. We have a relatively small investment portfolio with very little AOCI exposure.

We did what any good bank would do amid this turmoil: We calmed fears, counseled customers, and bolstered our liquidity. It was the right thing to do, but it was also costly for community banks, which have already paid a high price in terms of the disruption to our business.

In the weeks following the collapse of Silicon Valley Bank, the energies of the community bank sector were diverted from the basic business of banking—taking in deposits and making loans. Suddenly, we found our role had shifted nearly full-time to that of educator about problems we never caused. We spent hours explaining to our customers and our teams precisely what had happened to cause a few bank failures and putting their minds at ease.

Like all community banks, we know that our superpower is that we excel at connecting personally with customers, understanding their needs, and devising solutions. So, we gladly counseled our customers and assisted many of them by restructuring any deposits exceeding the $250,000 FDIC minimum to maximize their deposit insurance coverage. But if it had not been for the recklessness of a few large banks, we would have spent a lot less time calming fears and a lot more time helping our customers and our communities grow.

Although we knew we had to invest our time this way, and we did so very effectively, it was frustrating to have to reroute our energies to deal with problems created by big banks whose operating model is vastly different from ours. The FDIC's action to exempt small banks is commendable because it recognizes that relatively few banks have the capacity to cause a large impact to the Deposit Insurance Fund.

Thank you for providing us with the opportunity to submit comments on the proposed special assessment.

Sincerely,

[redacted]

Jeff W. Dick
Chairman & CEO