



Parent Company to Oxford Bank

July 11, 2023

The Honorable Martin J. Gruenberg  
Chairman  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street NW  
Washington, DC 20429

Dear Chairman Gruenberg:

Oxford Bank (“We”), and our team of employees, strongly urges the Federal Deposit Insurance Corporation (FDIC) to use your current authority under the Federal Deposit Insurance (FDI) Act to exempt community banks from any special assessment levied on the banking industry to cover losses to the Deposit Insurance Fund (DIF) from the recent failures of Silicon Valley Bank (SVB) and Signature Bank of New York.

Oxford Bank relies on FDIC insured deposits to fund their balance sheet to a much greater extent than large banks do. We have much higher percentages of FDIC insured deposits to total deposits than large regional banks or mega banks, so we get hit much harder proportionately when FDIC assessments are increased because most of our funding base comes from FDIC insured deposits. In addition, our uninsured deposits are from very long-term relationships known personally by myself and executive team, so very stable deposits. This needs to be accounted for in any surcharge deliberations. We, and believe our supervisors, consider it a strength that we have a higher percentage of deposit funding to total assets but should trigger lower costs - not higher costs. Perhaps a surcharge could be added for banks that have too high a percentage of uninsured deposits as they present the greatest liquidity risk to the financial system and those are the kind of institutions that failed – Silicon Valley Bank and Signature Bank. Likewise, a discount could be applied to banks that have most of their liabilities in FDIC covered deposits.

The continued building of disparate treatment of community-based banks in terms of explicit or implied complete deposit insurance guarantee is not sustainable for the community banking sector which still funds most small businesses nationally. An example from the last downturn where big banks received TARP funds contributed to them not paying their fair share of the FDIC insurance surcharges. This unlevelled the playing field for large banks versus community banks like Oxford Bank. It created an unfair advantage in at least three ways:

- Large banks used TARP proceeds to write bad loans down to zero to get regulators off their back – especially residential construction loans. This was then used by regulators against community banks, and they were forced to write their residential construction loans down to zero or near zero, using up loan loss reserves and crushing capital. This in turn led to lower CAMEL ratings and higher FDIC surcharges for community banks relative to large banks.

- Large banks were handed an unfair advantage with these assessment changes. The TARP funds they received pumped up their capital rating and kept them from falling to undercapitalized or critically undercapitalized levels and they could also use TARP to fund reserves and write down loans, which then helped the credit quality rating. This elevated future earnings, and they could even use the funds to cover the increased FDIC assessment expense. All things considered; the TARP funds created an artificially propped up CAMELS rating in a number of categories for larger banks which led to much lower FDIC assessment surcharges for them versus community banks.
- This action successfully reassured the marketplace that the large banks were not going to fail due to the TARP funds and they were safe places to bank. Early on, bankers had concerns about taking TARP funds because it might signal issues at their bank, and it looked like a bailout. That eventually dissipated and banks that took TARP funds had a capital funding advantage. It was nearly impossible to raise bank capital at the height of the great recession so banks that the government approved for TARP funds ended up with a huge advantage over banks that could not get it – they had capital no one else could get. Community banks had to be rated 3 or better to even have a chance at TARP funds while some large regional and mega banks were on the brink of failure and clearly would have been rated below a 3 and yet they were bailed out with TARP funds. Community banks like Oxford Bank that were 4 rated had no access to TARP funds and paid horrendous surcharges to the FDIC, piling on to their problems. I understand that many 3 rated community banks were denied access to TARP funds, also leading to many of them paying much higher FDIC insurance surcharges until they could get back to a 2 rating.

This historical information is critical in understanding how the consequences of these actions had a detrimental impact and led to more rapid industry consolidation for community banks, the lifeblood of so many towns and communities throughout our state, and country. We do not want the mistakes of the past to be perpetuated in the future.

Another point to consider is the FDIC assessment formula has already changed from deposits to total assets as the base. This change was made to capture the additional risk for banks funding with borrowings as a substitute for growing deposits. Consideration should be given to exclude those from assessments at the community bank level as we move forward is requested. This would be a return to the previous methodology. The recent bank failures prompted these borrowings, and the runoff has been abetted by competing with the Fed on overnight rates. In essence, the regulator has become the competitor for funding and driving up deposit costs, due to no fault or actions of community banks.

Community bank dollar losses to the FDIC insurance fund pale in comparison compared to the losses sustained by large banks when they fail. Clearly there were more community banks that failed in the great recession than large banks, but the number of failures is not the operational issue – it is the amount of losses to the FDIC insurance fund and the big bank losses are far larger. Therefore – larger banks should pay the greatest percentage of the surcharge.

The FDIC should consider dividing up the DIF to create two separate tranches of reserves – one for community organizations with assets below a threshold level which could be established at perhaps \$10 billion of assets and a separate fund for the large banks. This would allow for the proper risk assessments to be calculated for the risks to the fund from community banks versus money center banks. It would also keep community banks from having one less government-imposed burden which systemically disadvantages community banks versus credit unions and farm credit system lenders as a lower cost could be imposed on community banks. Also, credit unions should be hit with the same DIF

charges by the federal government through the NCUA for their insured deposits as community banks are charged for theirs.


We were encouraged by your recent testimony before the Senate Banking and House Financial Services Committees where you highlighted the FDIC's discretion to design the special assessment in a way that recognizes the types of entities that benefit from the systemic risk exception as well as economic conditions and effects on others in the industry. We encourage you to use that discretion to not disadvantage community banks like what happened in the great recession.

Further, we applaud the White House for issuing a Fact Sheet indicating strong support for ensuring that "the costs of replenishing the DIF after these recent failures are not borne by community banks" and urge you to consider their comments when determining the specifics of the special assessment. Separating FDIC insurance funds into two categories, one for large banks over \$10 billion and another for smaller community banks should be a consideration.

Community banks did not benefit, and in fact were damaged, from the most recent systemic risk exemption and should not shoulder a proportionate burden of paying the estimated \$23 billion loss to the fund. The size, rapid growth, and excessive risk of SVB and Signature Bank of New York are not reflective of the community banks in our state or across the nation. Community banks operate under a completely different model based on diverse funding sources, long term personalized relationships, sound underwriting and risk management practices that protect our customers and communities across the state. We know our customers and they know us.

Oxford Bank strongly believes that community banks should be exempt from any special assessment to cover the losses of SVB or Signature Bank of New York. Community banks are already experiencing a 2 bp increase in FDIC assessments for 2023 which for many well capitalized community banks increased their assessments by more than 50 percent. If any assessment increase is warranted, it should be imposed on the institutions that pose the most risk to the DIF—and they are not community banks.

Sincerely,



David P. Lamb  
President and CEO