

May 18, 2023

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Investment Corporation
550 17th St. NW
Washington, DC 20429

Dear Chairman Gruenberg:

I write regarding reports from earlier this week that big banks are seeking approval for a “gambit” that will allow them to repay nearly \$16 billion that they owe to replenish the federal deposit insurance fund with Treasury bonds that are worth much less¹ – “an extreme transfer of losses from banks to taxpayers.”² The FDIC should quickly, forcefully, and publicly reject this proposed backdoor bailout for big banks.

The deposit insurance fund has been tapped for \$16 billion to cover the failures of Silicon Valley Bank (SVB) and Signature Bank,³ and an additional \$13 billion to cover the failure of First Republic Bank.⁴ Last week, the FDIC released a proposal to cover the costs of the SVB and Signature Bank shortfalls by imposing a special assessment that would fall primarily on the nation’s largest banks, “the types of banking organizations that benefitted most from the protection of uninsured depositors.”⁵ That proposal was a positive development.

But according to this week’s report,

Banks have spent the past week or so testing what would be a clever gambit: Paying billions of dollars they collectively owe to replenish a federal deposit insurance fund using Treasuries instead of cash. The idea—floated to regulators and lawmakers by PNC Financial Services Group and supported by others—could allow banks to take securities

¹ Wall Street Journal, “Banks Explore Gambit to Replenish FDIC Insurance Fund,” Andrew Ackerman, May 17, 2023, <https://www.wsj.com/livecoverage/stock-market-today-dow-jones-05-17-2023/card/banks-explore-gambit-to-replenish-fdic-insurance-fund-85TvtCk6Dh2birf7Xbl7>.

² Matt Levine, Bloomberg News, Banks Want a Break from the FDIC, May 17, 2023, <https://www.bloomberg.com/opinion/articles/2023-05-17/banks-want-a-break-from-the-fdic>.

³ YahooFinance, FDIC wants big lenders to shoulder Silicon Valley, Signature Bank busts,” Eric Revell, May 12, 2023.

⁴ American Banker, “Banks’ deposit insurance costs could soar after First Republic failure,” Ebrima Santos Sanneh and Kyle Campbell, May 1, 2023, <https://www.americanbanker.com/news/banks-deposit-insurance-costs-could-soar-after-first-republic-failure>.

⁵ American Banker, “Banks’ deposit insurance costs could soar after First Republic failure,” Ebrima Santos Sanneh and Kyle Campbell, May 1, 2023, <https://www.americanbanker.com/news/banks-deposit-insurance-costs-could-soar-after-first-republic-failure>.

that are currently worth, say, 90 cents on the dollar, and give them to the Federal Deposit Insurance Corp. at full price.⁶

In simple terms, the biggest banks – who have experienced a surge in deposits after the SVB failure,⁷ received favorable loans from the Fed’s Bank Term Funding Program in March 2023,⁸ and had \$30 billion of their own deposits guaranteed in the First Republic sale,⁹ – are now seeking to pay back the gap in the deposit insurance fund with devalued assets, getting those assets off their books, while leaving the federal government to assume the risk. This is an unjustified giveaway that could be worth billions of dollars to the big banks and threatens the stability of the deposit insurance trust fund.

Approval of this proposal would be an outrageous breach of the FDIC’s responsibilities, and I urge you to reject it or any similar approach that would unjustly enrich big banks at taxpayer expense.

Sincerely,



Elizabeth Warren
United States Senator

⁶ Wall Street Journal, “Banks Explore Gambit to Replenish FDIC Insurance Fund,” Andrew Ackerman, May 17, 2023, <https://www.wsj.com/livecoverage/stock-market-today-dow-jones-05-17-2023/card/banks-explore-gambit-to-replenish-fdic-insurance-fund-85TvtCk6Dh2birf7Xbl7>.

⁷ CNN Business, Big banks experience deposit spike after Silicon Valley collapse, March 15, 2023, <https://www.cnn.com/2023/03/15/economy/big-banks-deposit-spike-svb/index.html>.

⁸Federal Reserve Bank of Dallas, “Bank Term Funding Program,” <https://www.dallasfed.org/banking/btftp#:~:text=The%20Bank%20Term%20Funding%20Program,securities%20and%20other%20qualifying%20assets>; Liberty Street Economics, Federal Reserve Bank of New York, “Bank Funding during the Current Monetary Policy Tightening Cycle,” Stephan Luck, Matthew Plosser, and Josh Younger, May 11, 2023, <https://libertystreeteconomics.newyorkfed.org/2023/05/bank-funding-during-the-current-monetary-policy-tightening-cycle/>.

⁹ Letter from Sen. Elizabeth Warren to FDIC and OCC, May 17, 2023, <https://www.warren.senate.gov/imo/media/doc/2023.05.17%20Letter%20to%20FDIC%20and%20OCC%20re%20First%20Republic%20JPMorgan%20Deal.pdf>.