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Rebeca Romero Rainey, *President and CEO*

April 13, 2023

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

Dear Chairman Gruenberg:

The Independent Community Bankers of America[1] strongly urges the Federal Deposit Insurance Corporation (FDIC) to completely exempt community banks from any special assessment that is imposed on the industry to recover losses to the FDIC's Deposit Insurance Fund (DIF) resulting from the failures of Silicon Valley Bank (SVB) and Signature Bank (Signature).

Under the Federal Deposit Insurance Act ("FDI Act")[2], the loss to the DIF arising from the use of a systemic risk exception must be recovered from one or more special assessments on insured depository institutions, depository institution holding companies, or both. In your written testimony before the Senate Banking Committee on March 28, 2023, you indicated that the FDIC has much discretion regarding the design and timeframe for any special assessment and that the law requires the FDIC to consider "the types of entities that benefit from the action taken, economic conditions, the effects on the industry, and such other factors that the FDIC deems relevant or appropriate." The FDI Act also specifically permits the FDIC to "establish

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[1]The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 50,000 locations nationwide, community banks employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than $5.8 trillion in assets, over $4.8 trillion in deposits, and more than $3.8 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

[2] 12 U.S.C. §1823(c)(4)(G)(ii)(I).

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separate risk-based assessment systems for large and small members of the Deposit Insurance Fund."[3]

An evaluation of any of these factors, as well as the spirit and intent of the FDI Act's assessment framework should lead to the conclusion that the large banks should pay for the special assessment since they are the chief potential beneficiaries of these two receiverships and in particular, the decision by the FDIC to cover any losses of the uninsured depositors of SVB and Signature. As evidenced by both post-failure auctions, large regional banks and too big to fail (TBTF) institutions are the acquirers of these institutions – forging a path for big banks to get even bigger and reinforcing consolidation in the industry. You noted in your written testimony that even though most banks are not reporting any significant "material deposit outflows', the largest banks appear to be the "net beneficiaries of deposit flows, increasing the amounts on deposit or held in custody."

At the House Financial Service Committee hearing, you also said in response to a question that the FDIC Board did have "discretion" under the FDI Act as to how to implement the special assessment and that the Board would consider a community bank exemption. Following your testimony, the White House issued a Fact Sheet indicating the Biden Administration's strong support for ensuring that "the costs of replenishing the DIF after these recent failures are not borne by community banks."

Community banks and their customers shouldn't have to pay for the miscalculations and speculative practices of large financial institutions like SVB and Signature. Before its closure on March 10, SVB was the 16th largest bank in the nation with $213 billion in assets at the end of 2022. Much of this growth was propelled by venture capital firms and tech companies that were flush with cash during the COVID-19 pandemic. Total assets at SVB grew rapidly from under $60 billion at the end of 2019 to $209 billion by the end of 2022. SVB also had significant cross-border operations, with a subsidiary in the United Kingdom and branches in Germany, Canada, and the Cayman Islands. On the day it was closed, depositors were attempting to withdraw an astounding $100 billion in deposits.

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[3] 12 U.S.C. § 1817(b)(1)(D).

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Like SVB, Signature Bank grew rapidly, from $43 billion in total assets at year-end 2017 to $110 billion at year-end 2022. Growth was particularly significant from 2019 to 2020, when assets grew 64 percent largely due to digital asset companies. Also, like SVB, Signature Bank was heavily reliant on uninsured deposits for funding. At year-end 2022, SVB reported uninsured deposits at 88 percent of total deposits versus 90 percent for Signature Bank. As of year-end 2022, deposits related to digital asset companies totaled about 20 percent of total deposits.

In a January 2023 letter to the FDIC and Board of Governors of the Federal Reserve System, ICBA noted that uninsured deposits comprise a significant portion of the funding base for institutions holding greater than $250 billion in assets – as of the first quarter of 2022 these institutions held roughly 40% of their deposits uninsured. Unlike these institutions, however, community banks do not hold as great a concentration of uninsured deposits. That large, regional banks are permitted to hold significant quantities of uninsured deposits is not only a source of risk (as demonstrated by the failures of SVB and Signature) but a benefit to this group of institutions and another reason why these banks should pay significantly more for deposit insurance.

The failures of SVB and Signature illustrate the risks of large, rapidly growing financial institutions over-concentrating their activities in certain industries, which can lead to losses as the economic environment changes. By contrast, community banks operate under an entirely different business model, one that is focused on relationships with consumers and small businesses in the cities and towns they call home.

ICBA strongly believes that any such special FDIC assessment should be tiered so that the TBTF banks pay for all of the special assessment. No community bank should pay for the losses resulting from the failure of SVB or Signature. These two banks engaged in very risky banking activities, had unacceptable levels of uninsured deposits combined with a very weak contingent liquidity program, and in effect eschewed the community bank business model of serving the bank's local community so that they could grow quickly by servicing such risky areas as the crypto industry.

Community banks are already experiencing a 2-basis point increase in FDIC assessments for 2023 which for many well capitalized community banks increased their assessments by more

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than 50 percent. If any assessment increase is warranted, it should be imposed on the institutions that pose the most risk to the DIF—not community banks.

Sincerely,
/s/
Rebeca Romero Rainey
President & CEO

CC: Travis Hill, Vice Chairman, FDIC
Michael J. Hsu, Acting Comptroller of the Currency and Director, FDIC
Rohit Chopra, Director of the Consumer Financial Protection Bureau and Director, FDIC
Johnathan McKernan, Director, FDIC

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