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Portfolio

[tag] Checks & Balances

[hed] ICBA successfully defends against FDIC special assessment

[dek] As soon as the news broke about Silicon Valley Bank and Signature Bank, ICBA sprang into action, shielding community banks from paying for the failures of the megabanks.

[byline] By Stephen Keen

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It’s not every day a financial crisis unfolds, and it’s certainly not something community bankers expect while attending the industry’s leading convention, ICBA LIVE. But that’s exactly what happened in the aftermath of the failure of Silicon Valley Bank (SVB) and Signature Bank in March. It set the stage for a successful fight against the effort to force community banks to pay the price for the mismanagement of much larger, riskier financial institutions.

ICBA’s national convention in Honolulu was already guaranteed to be one of the most memorable community banking events of the year. Community bankers from across the country arrived with plans to learn from industry experts, network with peers and explore products and services. But as news of the failure of Signature Bank sparked fears of contagion, community bank leaders found themselves taking on a new task: calming outside fears and protecting their banks from a special assessment to restore the Federal Deposit Insurance Corporation (FDIC) deposit insurance fund (DIF) after the second and third largest bank failures in U.S. history.

A typical crisis would require conference calls to coordinate logistics. With the majority of the nation’s community bankers gathered in one hotel, they were able to confer and act in real time.

**[subhed] Reassurance and differentiation**

ICBA’s government affairs team quickly sprang into action, engaging in emergency meetings with bankers, staff, lobbyists and regulators. Recognizing that a special FDIC assessment was imminent, ICBA asserted that community banks should not have to pay for the sins of the largest banks. ICBA argued that the responsible management of community banks should not be overshadowed by the poor practices of the big players—the only national trade association to advocate this position.

The phone calls from congressional staff, Senate offices, committee staff and leadership offices began immediately after Signature Bank collapsed. Having long relied on ICBA for insights into banking, the economy and Main Street, they wanted to know if community banks would remain safe and sound. ICBA staff and bankers reassured that community banks remained strong, with no run on deposits. They also went on the offense to gain allies in the fight against a potential special assessment levied against community banks whose prudent stewardship stood in contrast with the risky behavior that led to the big-bank failures.

**[subhed] The fight continues**

The effort continued after community bankers flew home with grassroots efforts playing a key role. Community bankers maintain excellent relationships with both regulators and legislators. Leveraging these relationships while using tools such as the ICBA Grassroots Action Center (*icba.org/takeaction*) to send messages and engaging with the media allowed community bankers to effectively share their message and ensure it was heard by those who needed to hear it.

The state associations also played a crucial role in supporting ICBA's efforts. Their involvement added a local voice that amplified ICBA’s lobbying.

ICBA’s message was heard. In Senate and House hearings in late March, members of Congress repeatedly asked FDIC chairman Martin Gruenberg about the possibility of an exemption for community banks. Noting that the FDIC can tailor the special assessment as it sees fit, Gruenberg said the FDIC is "keenly sensitive to potential impact on community banks."

On March 30, President Biden released a statement calling on the FDIC to ensure community banks would not be required to bear the costs of replenishing the DIF. ICBA thanked the White House for its support and sent a letter to the FDIC urging that it use discretion.

“Community banks and their customers shouldn’t have to pay for the miscalculations and speculative practices of large financial institutions like SVB and Signature,” ICBA president and CEO Rebeca Romero Rainey wrote. “If any assessment increase is warranted, it should be imposed on the institutions that pose the most risk to the DIF—not community banks.”

ICBA claimed victory for community banks on May 11 when the FDIC proposed to fully exempt community banks under $5 billion in assets from the assessment. ICBA commended the FDIC for the proposal, which shields the majority of ICBA members.

ICBA’s efforts to protect community banks from paying for the mistakes of larger, riskier banks highlights the value of a trade association that exclusively represents the interests of community banks. ICBA acted swiftly with a clear and decisive message that recognized the likelihood of a special assessment and the potential impact it would have on community banks. It’s a powerful reminder of the power of collective action and effective advocacy play in safeguarding the interests of community banks.

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