



July 21, 2023

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

Regarding: Notice of Proposed Rulemaking – Special Assessment Pursuant to Systemic Risk Determination – RIN 3064-AF93

Dear Chairman Gruenberg:

The Community Bankers Association of Illinois (“CBAI”) is honored to represent nearly 300 Illinois community banks. We appreciate the opportunity to respond to this notice of proposed rulemaking regarding the special assessment pursuant to systemic risk determination (“Proposed Rule” or “Proposal”). CBAI understands the Federal Deposit Insurance Corporation (“FDIC”) is seeking to “impose special assessments to recover the loss to the Deposit Insurance Fund (DIF) or (Fund) arising from the protection of uninsured depositors in connection with the systemic risk determination announced on March 12, 2023, following the closure of Silicon Valley Bank, Santa Clara, CA, and Signature Bank, New York, NY, as required by the Federal Deposit Insurance Act (FDI Act).” Further, “The assessment base for the special assessment would be

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equal to an insured depository institution's (IDI) estimated uninsured deposits, reported as of December 31, 2022, adjusted to exclude the first \$5 billion in estimated uninsured deposits from the IDI, or for IDIs that are part of a holding company with one or more subsidiary IDIs, at the banking organization level." Also, "Under the Proposal, the FDIC would collect special assessments at an annual rate of approximately 12.5 basis points, over eight quarterly assessment periods, which would result in an estimated total revenue of \$15.8 billion."

The events that led up to the need for this Proposal indicate apparent mismanagement at both the Silicon Valley Bank ("SVB") and Signature Bank ("SBNY"), and failures by the banks' state and federal regulators. Also, in addition to too-big-to-fail banks ("TBTF") which continue to threaten the banking and financial system, our economy and American consumers and taxpayers, policymakers have created an additional category of banks that are too-big-to-not-completely-insure although they will fail. This not only perpetuates but expands the inequitable treatment of the nation's approximately 5,000 community banks which continue to be viewed by policymakers as too-small-to-save and whose depositors are too-insignificant-to-completely-insure.

CBAI was shocked that within a period of 48 hours, there occurred two of the three largest bank failures in the history of the FDIC. The process of resolving SVB and SBNY involved invoking the systemic risk exception which enabled the FDIC to insure the uninsured deposits of these failed banks. CBAI was alarmed at the initial broad statement made by the FDIC that the industry would be responsible for reimbursing the DIF for losses sustained by these bank failures. CBAI and the Independent Community Bankers of America ("ICBA") reacted early and vocally against this early pronouncement by the FDIC.

CBAI engaged with banking regulators and our Illinois members of the United States Congress in strong opposition to such a broad-brush application of the requirement under section 13(c)(4)(G) of the Federal Deposit Insurance Act ("FDI Act") and the requirement that "the loss to the DIF arising from the use of the systemic risk exception must be recovered from one or more special assessments on IDIs ..." However, this section of the FDI Act provided the FDIC "with discretion in the design and timeframe for any special assessments to recover the losses to the DIF as a result of the systemic risk determination."

CBAI was encouraged by a subsequent statement from the Administration that supported a community bank exemption and was pleased that the FDIC Board approved this Proposed Rule

to accomplish that objective.

When large banks fail, and if policymakers need to make a systemic risk exception that permits taking extraordinary steps to protect depositors of failed banks, the banks that are similar or larger in size and makeup, and benefit most from the protective steps being taken, need to pay the cost of these failures – not community banks.

CBAI strongly supports the Proposal Rule. We applaud the Proposal’s transparency, that it justifiably uses uninsured deposits as the assessment base, it is not a one-size-fits-all approach to rulemaking, and it appropriately exempts community banks from the special assessment.

This Proposal is a reasonable step among several others that may be needed to not only recover the losses to the DIF for insuring the uninsured deposits of SVB and SBNY, but also address other issues concerning the deposit insurance and the FDIC.

This rulemaking may be the first step in a review and reform of the FDIC to prepare it to insure deposits at IDIs in a future that will look very different than the past, and one which is changing more rapidly than we have ever experienced before. The failures of SVB and SBNY gave us a glimpse of these challenges which should serve as a warning that we ignore at our peril.

CBAI recommends that during any future review and reform of deposit insurance and the FDIC, the following (in addition to others) should be included in these discussions.

Community banks should not be harmed during this process.

Community banks find that all too often new regulations designed to reign in the misdeeds of the largest banks eventually trickle down and harm community banks who are innocent of misbehaving. This “trickle down” of unnecessary regulations adds to the already stifling regulatory burden on community banks and must be avoided.

The issue of TBTF is still unresolved and remains a significant threat. In addition, the threat has been expanded with policymakers creating a new category of banks for special treatment, namely those that are too-big-to-not-completely-insure, which puts community banks at a further disadvantage among other categories of banks in the industry. This

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additional inequity must be dealt with in an equitable manner, to not harm community banks.

While CBAI supports the FDIC decision to exercise its discretion to exempt community banks from the special assessment to reimburse the DIF for the losses associated with insuring the uninsured deposits of SVB and SBNY, this decision by the FDIC Board was discretionary - not mandatory. It is possible that future FDIC Boards may view similar situations very differently and then community banks may need to pay for the complete resolutions of SIFIs because of a systemic risk exception. This would be an unreasonable outcome that must be avoided.

There has been recent talk of linking any increase in FDIC deposit insurance levels or types of accounts covered to an increase in banks' social accountability requirements. The FDIC provides deposit insurance which is paid for by banks through regular and as-needed special assessments. In addition, the FDIC's administrative expenses are paid for by the banks the FDIC regulates. These banks are subject to regulations and examinations which are designed to ensure their compliance with laws and regulations including the Community Reinvestment Act. At least from a community bank perspective, whose performance is exemplary in treating their customers and communities fairly and with respect, such calls to link deposit insurance reform with increased thresholds for social accountability requirements are misguided.

CBAI appreciates the opportunity to comment on this Proposal. If you require any additional information, please contact me at 847-909-8341 or at davids@cbai.com.

Thank you.

Sincerely,

A solid black rectangular box used to redact the signature of David G. Schroeder.

David G. Schroeder
Senior Vice President
Federal Governmental Relations