Wisconsin Bankers ASSOCIATION

July 21, 2023

VIA E-MAIL ONLY

James P. Sheesley,
Assistant Executive Secretary,
Attention: Comments-RIN 3064–AF93,
Federal Deposit Insurance Corporation,
550 17th Street NW,
Washington, DC 20429

RE: Special Assessments Pursuant to Systemic Risk Determination; Docket No: RIN 3064–AF93

Dear Assistant Executive Secretary Sheesley:

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing nearly 200 state and nationally chartered banks, savings banks, and savings and loan associations located in communities throughout the State. WBA appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC's) request for comment on its proposal to impose special assessments to recover the loss to the Deposit Insurance Fund (DIF) arising from the protection of uninsured depositors in connection with the systemic risk determination announced on March 12, 2023 (special assessment).

Background

On March 12, 2023, the Secretary of the Treasury, acting on the recommendation of the FDIC Board and Board of Governors and after consultation with the President, invoked the statutory systemic risk exception to allow the FDIC to complete its resolution of both Silicon Valley Bank and Signature Bank (SVB and Signature respectively) in a manner that fully protected all depositors. FDIC subsequently transferred all deposits (both insured and uninsured) to FDIC-operated bridge banks, under the systemic risk exception, and later entered into purchase and assumption agreements.

Under section 13(c)(4)(G) of the FDI Act, 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 (IDI), depository institution holding companies (with the concurrence of the Secretary of the Treasury with respect to holding companies), or both, as the FDIC determines to be appropriate. Pursuant to the FDI Act, FDIC has proposed the special assessment, the base of which would be equal to an IDI's estimated uninsured deposits, reported as of December 31, 2022, adjusted to exclude the first $5 billion in estimated uninsured deposits from the IDI.

Comments

Given the unique events that occurred back in March with these two financial institutions, notably the speed at which the events were transpiring, WBA appreciates FDIC's efforts to maintain the full protection of all depositors in these instances, rather than imposing losses on uninsured depositors, in order to strengthen public confidence in the nation's banking system during this unprecedented time. FDIC's swift action stemmed the stress swelling within the public through market pressures and the media. In light of this action, WBA acknowledges that the FDI Act requires FDIC to subsequently recover the loss to the DIF through use of a systemic risk exception. As a result, WBA offers the following comments for consideration as FDIC works to finalize this proposal.

WBA supports the provision in the FDIC's special assessment proposal excluding from the calculation the first $5 billion in estimated uninsured deposits from the IDI. Based on the many varied public reports of these two institutions, it is clear that there were many risk factors that led to the ultimate failure of these institutions that do not exist in the operation of most banks. Therefore, some relief is necessary for banks as the broad industry should not be required to shoulder this unnecessary, unprecedented burden. Furthermore, WBA recommends that however this proposal is finally adopted, this special assessment formula should not necessarily set the standard for any future special assessments.

With regard to the base calculation used in this proposal, WBA recommends that FDIC expressly exempt collateralized or otherwise insured public deposits from the uninsured deposits calculation. FDIC has proposed to define the term ''uninsured deposits'' for purposes of this special assessment to mean an institution's estimated uninsured deposits as reported in Memoranda Item 2 on Schedule RC–O, Other Data For Deposit Insurance Assessments in the Consolidated Reports of Condition and Income (Call Report). Based upon Call Report instructions, an insured depository institution can include reporting of public deposits insured through other funds in this "uninsured deposits" line. WBA does not believe that collateralized or otherwise insured public deposits are a risk to the fund and, as a result, should be excluded from this calculation.

For example, Wisconsin maintains a public deposit guaranty fund for which public deposits can be insured, in addition to the Standard Minimum Deposit Insurance Amount (SMDIA), up to an additional $400,000 per public depositor. In addition, many WBA members also provide collateral to secure these public deposits above the FDIC and state limits or purchase excess deposit insurance from a private carrier. A Wisconsin bank could include these otherwise insured or protected deposits within its report of "uninsured deposits" on this Call Report line, yet it would be an overstatement of what deposits are truly uninsured. Again, these deposits should be excluded from the "uninsured deposit" calculation.

Regarding FDIC's use of a systemic risk exception in these instances and future ones, WBA requests more transparency from FDIC. First, WBA believes it is important for FDIC to provide more details regarding its approach to the resolutions of SVB and Signature, so that the industry can better understand this reasoning in hindsight. Moreover, WBA recommends that FDIC issue a proposal, through notice and comment, that identifies conditions and circumstances that may warrant a systemic risk determination. Given the serious nature of this type of invocation, and the effect it has on the broader industry (financially as well as perceived), the industry should clearly understand the criteria that will be used in the future and have an opportunity to comment on what it believes the appropriate criteria to be. Perhaps at the same time, this rulemaking could also address how FDIC would calculate future special assessments and align those calculations with the criteria ultimately comprising a future system risk determination.

Finally, WBA recommends that in future, separate rulemaking, FDIC consider proposing changes to increase the SMDIA in certain instances (e.g. non-interest-bearing transaction accounts used for payroll) as well as changes in the FDIC insurance premium calculation. With regard to the latter, the greater the risk an institution poses through its operations to the DIF, the greater the premium should be. Adding risk factors such as significant sudden growth and excessive concentrations within single volatile industries should be factored into a bank's premium calculation.

Conclusion

While WBA commends FDIC's swift action during these exigent circumstances, and as a result is generally supportive of this special assessment proposal, WBA does recommend that FDIC exclude collateralized or otherwise insured public deposits from the base calculation. WBA also encourages FDIC to consider our other comments above regarding invoking systemic risk exceptions and future rulemaking changing the composition of the SMDIA.

Once again, WBA appreciates the opportunity to comment on this important proposal.

Respectfully,

Rose Oswald Poels

Rose Oswald Poels
President/CEO