Congress of the United States
Washington, DC 20515

October 17, 2022

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

The Honorable Michael J. Hsu
Acting Comptroller
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

The Honorable Rohit Chopra
Director
Consumer Financial Protection Bureau
1700 G Street NW
Washington, D.C. 20552

Dear sirs:

We write to express concern with the FDIC Board's proposed two basis point increase in the assessment rates for all banks starting next year. An increase in assessments next year would have a negative impact on access to credit for consumers and businesses against the prospect of a troubled economic outlook. With the Federal Reserve aggressively raising interest rates and reducing its balance sheet, financial conditions are tightening considerably; this is exactly when access to safe and reliable credit matters most.

For this very reason, Congress has specifically provided flexibility to allow the FDIC to avoid a dramatic increase in assessment rates, such as the proposed 54 percent increase. Congress intentionally extended the Federal Deposit Insurance Act to allow the FDIC an eight-year restoration period to recapitalize the fund. Congress did not intend for the FDIC to aggressively increase assessment rates to recapitalize the fund. It would be inconsistent with legislative language and spirit for the FDIC to do so.

Moreover, it appears unlikely that any increase in assessments will be needed to fulfill the legislative mandate to restore the fund to 1.35 percent within eight years.

In September 2020, after the fund's reserve ratio fell from 1.41 percent at the end of 2019 to 1.30 percent the following June, the FDIC Board established a plan to restore 1.35 percent by September 2028. The plan recognized that the drop in the reserve ratio was not a reflection on the condition of the banking industry, which was remarkably sound. Instead, it was driven by a

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massive surge of deposits into banks following the onset of the pandemic and the ensuing unprecedented federal support programs. Recognizing that much of the surge deposits would likely run off as the economy recovered, the plan called for no change in assessments but for the FDIC to monitor the condition of the fund and its progress toward return to at least 1.35 percent.

Strong deposit growth continued through the first quarter of this year, causing the fund's reserve ratio to decline further, to 1.23 percent as of this past March. However, deposits in U.S. bank offices declined at a 6.3 percent annual rate in second quarter 2022, leading insured deposits to fall at a 2.8 percent annual rate. As a result, the fund's reserve ratio rose to 1.26 percent.

These developments question the need to alter the restoration plan, as it appears likely that slowed insured deposit growth will restore the fund's reserve ratio to 1.35 percent or greater in the next six years without an increase in assessments. Additionally, the latest report on the banking industry shows that the industry is in an incredibly strong condition.[1] In the second quarter of this year, bank loan portfolios grew, credit quality remained strong, and 99.9 percent were "well capitalized" by regulatory standards. The number of banks on the FDIC's Problem Bank List was the lowest ever recorded. In short, there is every reason to foresee recovery of the fund's reserve ratio to 1.35 percent without the proposed assessment rate add-on.

On the other hand, we are concerned about the potential impact should bank assessments be artificially increased next year. Acting chairman Gruenberg has noted that the economy faces "downside risks from inflation, rising interest rates, slowing economic growth, and continuing pandemic and geopolitical uncertainties."[2] With inflation-adjusted GDP in decline for the last two quarters and significant uncertainties looking forward, we are very concerned about the potential that raising assessments will destabilize the banking sector at a time when its services are critical. In fact, a recent FDIC working paper provides evidence that increasing deposit insurance assessment rates reduces lending, worsening economic downturns.[3] The paper finds "that deposit insurance premiums ... can be a significant driver of bank credit procyclicality" and "that community banks are disproportionately affected by this mechanism." We cannot allow governmental initiatives to contribute to reductions in access to credit for our constituents.

In sum, we are concerned that an increase in the assessment rate at this time could pose real harm to consumers, particularly those with low and moderate incomes who may need access to credit. It is in their best interests to allow the fund to naturally recover over time as deposits run off. We expect the FDIC Board to take full advantage of the eight years provided in statute for restoration of its insurance fund to 1.35 percent, and refrain from imposing the proposed unnecessary assessment rate add-on. We look forward to your reply.

Sincerely,

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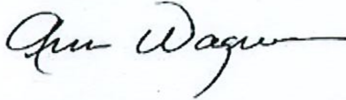
[1] FDIC *Quarterly Banking Profile*, Second Quarter 2022, available at www.fdic.gov/analysis/quarterly-banking-profile/qbp/2022jun/qbp.pdf

[2] FDIC, "FDIC-Insured Institutions Reported Net Income of $64.4 Billion in Second Quarter 2022," September 8, 2022, available at www.fdic.gov/news/press-releases/2022/pr22064.html.

[3] R. Hess and J. Rhee, FDIC Center for Financial Research, "The Procyclicality of FDIC Deposit Insurance Premiums," August 2022, available at www.fdic.gov/analysis/cfr/working-papers/2022/cfr-wp2022-10.pdf.

Blaine Luetkemeyer
Ranking Member
Subcommittee on Consumer Protection and Financial Institutions



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