ICBA
One Mission. Community Banks.

April 2024

ICBA Regulatory Update: Deposit Insurance

Topic/Issue: Deposit Insurance Reforms, Deposit Insurance Assessments

Agency: FDIC

Background and Status:

I. **Base Deposit Insurance Assessment Increases**

Effective January 1, 2023, all banks are subject to an FDIC rule that imposes a uniform 2 basis point increase on all banks' quarterly base assessment rates. The increase will remain in effect each quarterly assessment period until the DIF reaches a 2% designated reserve ratio – a target the fund has never reached in its history.

II. **Special Assessment Pursuant to Systemic Risk Determinations for SVB and Signature Bank New York**

The FDIC recently finalized a rule to collect approximately $20.4 billion in special assessments from an estimated 114 banking organizations for the failures of Silicon Valley Bank and Signature Bank. By law, when the FDIC makes a "systemic risk determination," as the agency did following the closures of Silicon Valley Bank and Signature Bank, the agency must recover costs from the banking industry through a special assessment, but the agency has flexibility in crafting the special assessment. **Importantly, ICBA was the only national trade association to advocate that no banking organizations with total assets under $5 billion should pay any special assessment – an approach ultimately adopted by the FDIC.**

Under the rule, the large banks that benefitted the most from the systemic risk determinations for SVB and SBNY were those holding large amounts of uninsured deposits that were vulnerable to deposit runs. The special assessment will be collected at a quarterly rate of 3.36 basis points for a projected total of eight quarterly assessment periods beginning with the first quarterly assessment period of 2024.

For IDIs that are not part of a holding company, the first $5 billion in estimated uninsured deposits is excluded from the assessment base. For IDIs that are part of a holding company, the first $5 billion of the combined banking organization's estimated uninsured deposits is excluded. **In effect, community banks with fewer than $5 billion in assets are exempt from paying any special assessment under the proposed methodology.**

Community bankers responded in force to ICBA's grassroots advocacy campaign supporting the FDIC's proposal to exempt community banks under $5 billion in assets from its special assessment. Of the roughly 232 comment letters submitted to the FDIC on its special assessment proposed rule, more than 80% came from ICBA members, all of which expressed support for the proposal.

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III. FDIC Report on Deposit Insurance Reforms

In 2023, the FDIC published a report setting forth options for deposit insurance reform but neither the agency nor Congress have advanced any specific proposals to change the current deposit insurance framework.

The FDIC's report discusses three options for deposit insurance reform, with the FDIC expressing a preference for targeted coverage.

- **Limited Coverage:** Maintaining the current deposit insurance framework, which provides insurance to depositors up to a specified limit (possibly higher than the current $250,000 limit) by ownership rights and capacities.
- **Unlimited Coverage:** Extending unlimited deposit insurance coverage to all depositors.
- **Targeted Coverage:** Offering different deposit insurance limits across account types, where business payment accounts receive significantly higher coverage than other accounts. This option is most analogous to the 2008 TAG program.

ICBA Position:

- ICBA opposes uniform increases to base deposit insurance assessments, and encourages the FDIC to consider developing a systemic risk premium to ensure large banks pay for the outsized risk they pose to the DIF.
- ICBA encourages the FDIC to revisit increases to base deposit insurance assessment increases once the DIF reaches its statutory minimum reserve ratio of 1.35%.
- ICBA applauds the FDIC for recognizing that community banks were not the primary beneficiaries of the recent systemic risk determinations for SVB and SBNY and for finalizing an exemption for community banks with fewer than $5 billion in uninsured deposits.
- ICBA will review any future proposals to reform the deposit insurance framework to identify and evaluate implications for community banks, including specifics about the costs, length, and voluntariness of any proposed increases or adjustments to deposit insurance coverage.