August 19, 2022

Mr. Mike Spencer
Associate Director
Financial Risk Management
Federal Deposit Insurance Corporation (FDIC)
550 17th Street NW
Washington, DC 20429

Ms. Ashley Mihalik
Chief
Banking and Regulatory Policy
Federal Deposit Insurance Corporation (FDIC)
550 17th Street NW
Washington, DC 20429

RE: Notice and request for public comment, Revised Deposit Insurance Assessment Rates / Vol. 87, No. 126 / 12 CFR Part 327 / RIN 3064-AF83 / Friday, July 1, 2022

Dear Director Spencer and Chief Mihalik:

The members of the Community Development Bankers Association (CDBA) and the National Bankers Association (NBA) respectfully submit the following in response to the FDIC's July 1, 2022 request for comments, regarding a proposed increase of initial base deposit insurance assessment rates by two (2) basis points, beginning with the first quarterly assessment period of 2023.

- CDBA is the national trade association for banks and thrifts that are US Treasury-designated Community Development Financial Institutions (CDFIs). Our members have a primary mission of promoting community development and target at least 60% of their total lending and activities to Low- and Moderate-Income (LMI) communities and customers that are underserved by traditional financial service providers. Many are also Minority Depositary Institutions (MDIs).

- NBA is the leading trade association for the country's MDIs. Our mission is to serve as an advocate for the nation's MDIs on all legislative and regulatory matters concerning and affecting our member institutions as well as the communities they serve. Many of our member institutions are also CDFIs.

Collectively, our members work in impoverished urban, rural, minority and Native American communities, to narrow the wealth gap and create real economic opportunity, including jobs, business expansion, affordable housing, and access to fair and responsible financial services. CDFI and MDI banks are often the only financial institution in these local communities focused on making a difference. As of the date of this letter, there are 175 banks with the Treasury's CDFI designation and there are 143 MDIs.

Response to Request for Public Comment

Per the Request for Public Comment, the FDIC proposes to increase initial base deposit insurance assessment rates by two basis points, beginning with the first quarterly assessment period of 2023, *applicable to all insured banks*. The FDIC intends the increase in assessment rates to raise the reserve ratio to the minimum threshold of 1.35 percent by the statutory deadline of September 30, 2028.

We strongly urge the FDIC to reconsider applying the assessment fee increase to <u>all</u> FDIC insured banks. In particular, we ask the FDIC to <u>not</u> increase the assessment fee for CDFI and MDI banks. Increasing the assessment fee for CDFI and MDI banks will blunt the impact of transformational government and private investments at the very time the banks are preparing to raise unprecedented deposits in order to leverage that capital. Raising fees on <u>these</u> banks, especially at <u>this</u> time, runs counter to other FDIC policies that support the missions of CDFI and MDI banks.

In particular, many are preparing to increase their deposit levels in response to economic recovery and racial equity motivated investments, including (but not limited to) approximately $9 billion made by the U.S. Treasury via the Emergency Capital Investment Program (ECIP) in mission-driven depositories, of which approximately $6.2 billion is being invested in banks,[1] to "support() their efforts to provide financial products for small and minority-owned businesses and consumers in low-income and underserved communities."[2]

The FDIC's assessment fee increase risks eroding the community benefits of these investments by increasing costs just as ECIP's target communities are struggling to adapt to rising interest rates and a slowing economy.

ECIP is intended by Congress to provide low-cost capital for the express purpose of bringing relief *and* sustainable growth to the nation's most under-resourced, low-and moderate income and minority communities. *The FDIC's own goals and policies regarding mission-driven banks reflect and amplify this intent*. We note particularly recent provisions included in the joint-agency CRA Notice of Proposed Rulemaking published May 5, 2022,[3] as well as longstanding support directed to MDI and CDFI banks through the FDIC's Office of Minority and Community

[1] Estimate. Final investment amounts have not been made public.
[2] Rate Reduction Guideline Incentives, page 1, www./home.treasury.gov/system/files/136/Rate-Reduction-Incentive-Guidelines.pdf
[3]Joint Agency Notice of Proposed Rulemaking, FDIC RIN 3064-AF81, published May 5, 2022 pages 92, 93 etc.

Development Banking, the Minority Depository Institutions Program,[4] and the FDIC's own efforts to bring attention and capital to these banks via the Mission Driven Bank Fund[5].

FDIC Assessment Fees and ECIP Dividends

ECIP features below market rates and favorable terms that incentivized broad participation and help ensure banks maximize community reinvestment. For example, *banks can reduce their annual ECIP dividends to 0.5% if they increase their qualified lending*[6] *via "deep impact" financing by at least 400% of the amount of Treasury's investment.*[7] The potential exists for that rate to continue in perpetuity.[8] At this level, a two basis point (.02%) increase in FDIC assessment fees is significant – potentially equivalent to as much as 4% of the "deep impact" dividend. At the deposit funding level required to keep pace with ECIP capital investments, the FDIC's increased costs will couple with rising interest rates (up 0.75% as of July 28, 2022) and an economic slowdown (two quarters of GDP decline as of July 28, 2022). This will erode the benefits of deploying ECIP capital in the communities that have suffered most from the pandemic, the economic crises, and now inflation.

If we use a rough model of deposit leverage at 10 times capital, and bank ECIP investments at $6.2 billion, ECIP banks may collectively need to raise as much as $62 billion in deposits over the period of their participation. In this scenario, the proposed assessment increase would increase participating CDFI and MDI banks' expenses by $1.24 billion – funds that would otherwise be reinvested to bring relief and sustainable growth to the nation's most under-resourced, low-and moderate income and minority communities.

At the same time, the combined number of CDFI and MDI banks represent just a small portion – 6.0% of the total number and 0.9% of the total assets – of FDIC-insured depositories, *and they are among the most sound.* As FDIC Acting-Chairman Gruenberg stated in comments delivered to the June 2022 CDBA Peer Forum in Washington D.C, "*At present, MDI and CDFI banks exceed the performance of all community banks and all FDIC insured banks on a number of metrics*." According to Acting Chairman Gruenberg, these banks show "*Higher earnings, as measured by ROA, than community banks and all FDIC insured banks as a whole*. *They also have significantly higher loan growth . . . . and core capital ratios have remained stable despite asset growth. Both CDFI and MDI banks' return on shareholder equity increased and compares favorably to that of community banks and other banks that are not mission driven*."[9] (Emphasis CDBA).

We certainly appreciate the requirement to meet the statutory minimum set for the Deposit Insurance Fund (DIF). However, the costs of meeting the statutory minimum should not be borne by mission-driven depositories such as CDFI and MDI banks. These banks are on the verge of an historic deposit raising effort, they represent a very small portion of the overall banking industry, and they represent no greater collective risk to the DIF than any other

[4] FDIC Minority Depository Institutions Program, www.fdic.gov/regulations/resources/minority/mdi.html
[5] FDIC Mission Driven Bank Fund www.fdic.gov/regulations/resources/minority/mission-driven/infographic.pdf
[6] ECIP Senior Preferred Stock Term Sheet, www.home.treasury.gov/system/files/136/Senior_Preferred_Stock_Term_Sheet.pdf
[7] In the case of institutions that have received senior preferred stock
[8] ECIP Senior Preferred Stock Term Sheet, www.home.treasury.gov/system/files/136/Senior_Preferred_Stock_Term_Sheet.pdf
[9] Remarks by FDIC Acting Chairman Martin Gruenberg to the Community Development Bankers Association" June 8, 2022, recorded.

subgroup. Neither their collective numbers nor their performance suggest they present anything close to the risk that would justify imposing increased costs on them at precisely the moment they are poised to leverage deposits in ways that advance important policy goals of the FDIC, congress, and the other bank regulatory agencies. The additional fees gathered from these banks would be small in proportion to the total, and they would be better reinvested into LMI and minority communities.

The members of CDBA and NBA sincerely appreciate the opportunity to comment and offer feedback. We look forward to working with the FDIC to mitigate the potential adverse impact of this proposed increase on CDFIs and MDIs and their communities.

Please feel free to contact Jeannine Jacokes, CDBA Chief Executive Officer, at (202) 207-8728 or jacokesj@pcgloanfund.org or Nicole Elam, NBA President & CEO, at (202) 590-6880 or nelam@nationalbankers.org, if you have any questions about the positions stated in this letter.

Thank you for considering our recommendations.

Sincerely,

Jeannine Jacokes
Chief Executive Officer
Community Development Bankers Association

Nicole Elam
President & CEO
National Bankers Association