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HOUSE COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON CAPITAL MARKETS

SUBCOMMITTEE ON NATIONAL SECURITY, ILLICIT FINANCE, AND INTERNATIONAL FINANCIAL INSTITUTIONS

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SUBCOMMITTEE ON ECONOMIC GROWTH, TAX, AND CAPITAL ACCESS
CHAIRMAN

SUBCOMMITTEE ON RURAL DEVELOPMENT, ENERGY, AND SUPPLY CHAINS

August 23, 2023

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

Dear Chairman Gruenberg:

We write regarding the Federal Deposit Insurance Corporation's (FDIC) May 1, 2023, *Options for Deposit Insurance Reform* (Options Paper).[1] The FDIC prepared the report following runs by uninsured depositors in March 2023 on Silicon Valley Bank and Signature Bank, the second and third largest bank failures in the FDIC's history. These runs were the result of failures by bank management to adequately manage basic banking risks, and supervisory failures that allowed these management failures to go unremediated.

In the Options Paper, the FDIC notes that the U.S. banking system is increasingly reliant on uninsured deposits. At its recent peak in 2021, the proportion of uninsured deposits in the banking system was 46.6 percent, a proportion above anything seen since 1949. Between 2009 and 2022, uninsured domestic deposits at FDIC-insured institutions increased at an annualized rate of 9.8 percent, from $2.3 trillion to $7.8 trillion. Uninsured deposits are concentrated at a handful of institutions, with uninsured deposits representing a particularly large proportion of banks' funding among banks in the largest 10 percent and 1 percent of banks by asset size. Despite this significant growth in uninsured deposits, more than 99 percent of deposit accounts remain under the $250,000 deposit insurance limit.

The Options Paper lays out several alternative deposit insurance schemes to address the potential risk posed by growth in uninsured deposits. First, the existing deposit insurance system can be maintained with increased deposit insurance limits. Second, deposit insurance could be extended to cover all deposits, without limit. Third, unlimited coverage could be extended to certain types of deposits, such as business payment accounts. Fourth, a voluntary excess deposit insurance system can be developed, wherein banks may opt into additional insurance coverage. Finally, the deposit insurance system can be reformed to require that large uninsured deposits be

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[1] FDIC, *Options for Deposit Insurance Reform* (May 1, 2023), available at https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-full.pdf.

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collateralized, which is already required for certain municipal, county, and state government accounts, or to restrict the timing of withdrawals of large uninsured deposits.

As the Deposit Insurance Report highlights, any changes to the deposit insurance system come with costs and consequences for the banking and financial system. Expanded deposit insurance—and unlimited deposit insurance in particular—may have a large impact on bank risk-taking and would remove depositor discipline. Likewise, unlimited deposit insurance may result in an inflow of deposits into the banking system, which could disrupt asset markets. Importantly, any expansion in deposit insurance would likely require an increase in the size of the Deposit Insurance Fund (DIF), and a concomitant increase in deposit insurance assessments.

Given the likely costs of the deposit insurance options presented in the Deposit Insurance Report, we ask that you answer the following questions to ensure that we more fully understand the potential risks and costs associated with any reforms:

1) With respect to unlimited deposit insurance:

    a) Based on uninsured deposits as of June 30, 2023 and recognizing the 2 basis point (b.p.) add-on per the DIF Recapitalization Plan, what additional increase in the average deposit insurance assessment rate would be needed to achieve the legal minimum Designated Reserve Ratio (DRR) of 1.35 percent by September 2028?

    b) Once the 1.35 percent level is achieved, what would be the estimated continuing impact on the average assessment rate?

2) With respect to expanded coverage for business payment accounts up to $1,000,000 or unlimited:

    a) Based on uninsured deposits as of June 30, 2023 and recognizing the 2 b.p. add-on per the DIF Recapitalization Plan, what increase in the average assessment rate would be needed to achieve the minimum legal DRR of 1.35 percent by September 2028?

    b) Once the 1.35 percent level is achieved, what would be the estimated continuing impact on the average assessment rate?

    c) The Options Paper identifies difficulties in identifying eligible business payment accounts while avoiding arbitrage opportunities. Does the FDIC believe that it could address these challenges through rulemaking, if provided appropriate direction and rulemaking authority by Congress?

        i) Would it be feasible for the Federal banking agencies to develop a pre-certification process through either existing supervision processes or deposit insurance assessment processes to confirm eligibility of business payments accounts?

        ii) In the alternative, could the Federal banking agencies through rulemaking require business payment account holders to provide commitments and contractual warrants

regarding the purpose of their accounts?

3) With respect to either option:

   a) Could the legal minimum DRR of 1.35 percent be achieved while excluding community banks with less than $10 billion in consolidated assets (inclusive of assets of any affiliated banks) from any assessments increases?

   b) Is it feasible for the FDIC to revise its risk-based assessments pricing to charge banks with large, concentrated deposits higher rates than banks with smaller, diverse depositor bases?

4) The FDIC's Transaction Account Guarantee (TAG) program, created under a systemic risk exception, was in effect from October 2008 to year-end 2010. The TAG Program was a voluntary differential coverage approach that provided unlimited deposit insurance to a targeted class of transaction accounts for a surcharge fee. According to the Options Paper, the Program collected approximately $1.3 billion in fees and, as of year-end 2022, had an estimated gross loss of around $1.46 billion.

   a) If a program much like the 2008-2010 TAG Program were reinstituted, what level of assessments on deposits covered would be appropriate to completely offset its costs in today's environment?

   b) Given that financial technology has evolved since the 2008-2010 period, are there reasons why a TAG program would be ineffective in guarding against bank runs and contagion today?

5) Raising the FDIC coverage level should not increase the cost when a bank fails because, in almost every case, the FDIC delivers all of the deposits of a failed bank, insured and uninsured, to a healthier bank. Moreover, increased coverage may reduce bank failures by lessening the risk of runs on banks.

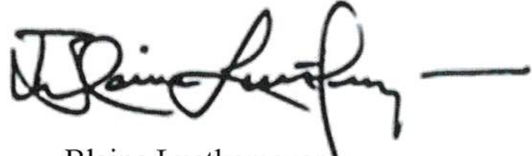
   a) In this case, could higher FDIC coverage justify a lower Congressionally mandated minimum DRR than 1.35 percent?

   b) The Options Paper notes that unlimited deposit insurance could disrupt asset markets. What is the expected disruption and what steps could be taken to mitigate such disruptions?

We appreciate your attention to this request. Please respond as soon as possible, but no later than September 1, 2023.

Sincerely,

Dan Meuser
Member of Congress



Blaine Luetkemeyer
Member of Congress