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FDIC Proposes Special Deposit Insurance Assessment After Systemic Risk Exception

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The Federal Deposit Insurance Corporation (“FDIC”) Board voted (3-2) to propose a special assessment to recoup the expected $15.8 billion cost to the Deposit Insurance Fund “(DIF”) in the wake of invocation of the special risk exception (“SRE”) to cover all deposits at Silicon Valley Bank and Signature Bank in March. The Notice of Proposed Rulemaking (“NPR”) will be subject to comment for 60 days from publication in the Federal Register.

The NPR would assess a 12.5 basis point assessment on an insured depository institution’s estimated uninsured deposits reported at year-end 2022. This assessment base would be adjusted to exclude the first $5 billion in estimated uninsured deposits reported at year-end 2022. The assessment would be paid over 8 quarters, beginning in 2024. Using this estimated uninsured deposits as the assessment base for the assessment, FDIC Chair Martin Gruenberg stated “[t]he proposal applies the special assessment to the types of banking organizations that benefited most from the protection of uninsured depositors.”

Vice Chair Travis Hill and Director Jonathan McKernan raised concerns with the calibration of the proposal in the Board meeting, noting that many banks that saw large in-flows of deposits in a flight to perceived safety didn’t benefit from the SRE, yet will pay the biggest share of this special assessment. Both Vice Chair Hill and Director McKernan voted no on the proposal.

The use of the uninsured deposits as the assessment base is a somewhat novel approach by the FDIC. The FDIC’s staff memo regarding the proposal estimates that the proposal would result in 113 institutions paying the special assessment, with the approximately 48 institutions with greater than $50 billion in assets paying a little over 95% of the special assessments.

We will see whether any of the comments result in changes to the proposal. Comments made by Vice Chair Hill and Director McKernan at the Board meeting may show some prescience as to what the very largest institutions may argue given the large inflow of deposits they saw even before the SRE, and that a better calculation of the assessment base may be tied to percentage of uninsured deposits compared to total deposits rather than just an absolute number.

Federal Reserve Issues Latest Financial Stability Report

Earlier this week, the Federal Reserve Board ("FRB") issued its latest semi-annual Financial Stability Report.

As it has in past iterations, the Report notes that the FRB's monitoring framework "distinguishes between shocks to, and vulnerabilities of, the financial system," and "focuses primarily on assessing vulnerabilities, with an emphasis on four broad categories and how those categories might interact to amplify stress in the financial system." The four categories of vulnerabilities are (1) valuation pressures, (2) borrowing by businesses and households, (3) leverage within the financial sector, and (4) funding risks.

The overview of the Report notes the bank failures that have occurred since the November 2022 report was released, as well as actions taken by the FRB, Federal Deposit Insurance Corporation and the Department of Treasury in response in order "to protect bank depositors and support the continued flow of credit to households and businesses." The Report went on to note that "banking and financial markets normalized, and deposit flows have stabilized since March, although some banks that experienced large deposit outflows continued to experience stress" and that "[t]hese developments may weigh on credit conditions going forward."

The report identified several near-term risks identified by the FRB's survey respondents that could interact with the four financial vulnerabilities, including "more restrictive policy to address persistent inflation, banking-sector stress, commercial and residential real estate, and geopolitical tensions."

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