FEDERAL DEPOSIT INSURANCE CORPORATION

JELENA McWILLIAMS
CHAIRMAN

October 21, 2021

Rebeca Romero Rainey
President & CEO
1615 L Street, Suite 900
Washington, DC 20036

Dear Ms. Rainey:

Thank you for your letters dated September 20, 2021 and September 27, 2021, encouraging the Federal Deposit Insurance Corporation (FDIC) to make changes to the community bank leverage ratio (CBLR) framework and requesting increases to the asset thresholds for annual independent audits and reporting requirements under 12 C.F.R. 363 (Part 363).

As a result of the economic relief measures related to the COVID-19 pandemic, institutions have experienced a significant temporary expansion of their balance sheets due, in part, to unprecedented deposit growth. As shown in the FDIC's Quarterly Banking Profile, deposit balances have increased by $4.2 trillion (29 percent) since the fourth quarter of 2019.[1] I recognize that this level of deposit growth has placed significant pressure on some institutions' leverage ratios and has resulted in an inflation of some institutions' asset size relative to the thresholds established for numerous regulations, including the audit and reporting requirements under Part 363.

In 2020, the FDIC worked closely with the other federal banking agencies to implement targeted regulatory changes, including temporarily lowering the CBLR requirement to 8.0 percent in 2020 and 8.5 percent in 2021. In addition, the FDIC issued an interim final rule that permitted an insured depository institution to determine whether it is subject to the requirements of Part 363 for fiscal years ending in 2021 based on the lesser of the institution's (a) consolidated total assets as of December 31, 2019, or (b) consolidated total assets as of the beginning of its fiscal year ending in 2021. Subsequently, the FDIC and the other federal banking agencies issued a joint rule to similarly allow institutions to use asset size as of December 2019 for determining applicability of several other rules, including the 18-month examination cycle and eligibility for the community bank leverage ratio.

A year later, the level of deposit balances remains significantly elevated, and hundreds of community banks continue to experience pressure on their leverage ratio and face the potential of becoming subject to increased audit and reporting requirements under Part 363 or other regulations for which relief was provided. FDIC staff has been engaged with the other federal banking agencies to explore whether additional modifications to the CBLR framework are

[1] *See* https://www.fdic.gov/analysis/quarterly-banking-profile/qbp/timeseries/balance-sheet.xlsx.

warranted. I also have asked staff to explore extending relief of Part 363 audit and reporting requirements. Extending any such relief would require a majority vote from the FDIC Board of Directors and, in the case of interagency rules such as CBLR, support of the other federal banking agencies (in addition to a majority vote from the FDIC Board for any new rule issuance).

Finally, in your September 20 letter, you expressed concern that the deterioration of leverage ratios resulting from this unprecedented deposit growth could impact institutions' CAMELS ratings. The federal banking agencies, together with the state bank and credit union regulators, issued interagency examiner guidance in June 2020 that instructs examiners to consider the unique, evolving, and potentially long-term nature of the issues confronting institutions, such as unexpected deposit growth, and to exercise appropriate flexibility in their supervisory response.[2] I encourage any institution with a concern about examiner implementation of the interagency examiner guidance to discuss the matter with their examiner or regional management.[3]

Thank you again for contacting the FDIC, and I hope this information is useful. If you have other questions or concerns, please contact me Arleas Upton Kea, Deputy for External Affairs, at akea@fdic.gov or (703) 562-2100.

Sincerely,

Jelena McWilliams

Jelena McWilliams

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[2] *See* https://www.fdic.gov/news/financial-institution-letters/2020/fil20064.html.

[3] *See* https://www.fdic.gov/news/financial-institution-letters/2016/fil16051.html.