INDEPENDENT COMMUNITY
BANKERS of AMERICA®

December 22, 2021

The Honorable Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington, DC 20551

Mr. Michael Hsu
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Dear Chairman McWilliams, Chair Powell, and Acting Comptroller Hsu:

The Independent Community Bankers of America[1] and the undersigned state banking associations, representing thousands of community banks and the communities they serve, write to urge the banking agencies to extend the temporary asset threshold relief measures the agencies

[1] The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 50,000 locations nationwide, community banks constitute roughly 99 percent of all banks, employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding nearly $5.9 trillion in assets, over $4.9 trillion in deposits, and more than $3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

issued during the COVID-19 pandemic.[2] The temporary relief, which provided much-needed accommodation for community banks whose balance sheets swelled during the pandemic, will soon expire on December 31, 2021 even though community bank deposits have not returned to historical, pre-pandemic levels but, instead, have reached record-highs.

In October 2020, when the banking agencies first issued the temporary relief measures, it seemed plausible that the pandemic would not extend beyond December 31, 2021, and it was reasonable to assume deposit runoff would gradually reduce deposit levels over time. However, recent publications from the World Health Organization (WHO) and the Federal Deposit Insurance Corporation (FDIC) confirm the pandemic is ongoing and the massive deposit surplus weighing on community banks persists. Less than one month ago, the WHO designated a new mutation of COVID-19, the "omicron variant," as a "variant of concern" based on preliminary evidence suggesting an increased risk of reinfection.[3] And just three weeks ago, the FDIC published its most recent Quarterly Banking Profile (QBP) Report for the third quarter 2021 which confirmed that among community banks "deposit growth was widespread" with "***nearly seven out of ten community banks (68.4 percent) report[ing] an increase in deposit balances.***"[4]

As evidenced by the FDIC's QBP data for 2020 and 2021, and as illustrated in the chart below[5], community banks have experienced unprecedented deposit growth since the beginning of the pandemic, and in every quarter thereafter, with community bank deposits rising from $2,049,529 million in the third quarter of 2020 to $2,334,128 million in the third quarter of 2021, an increase of $284,599 million. This 2021 increase is *in addition to* the $206,760 million deposits added to community bank balance sheets between the first and third quarters of 2020 that initially motivated the banking agencies to issue temporary asset threshold relief measures. Notably,

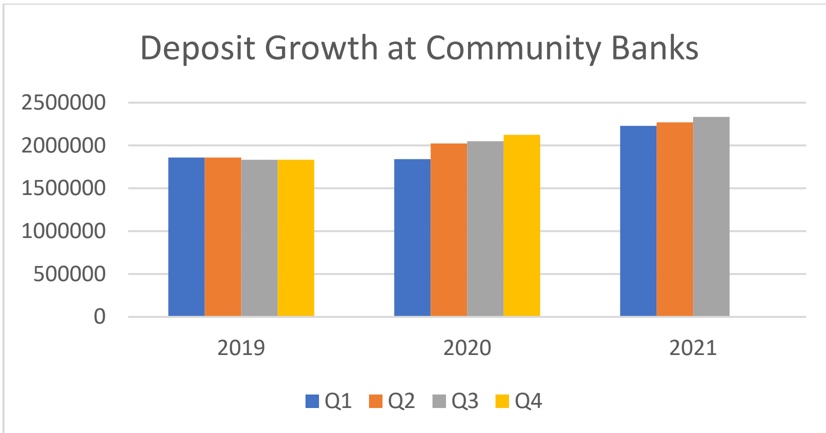
[2] In October 2020, the FDIC published an interim final rule that allow banks to determine the applicability of part 363 requirements for fiscal year 2021 based on the lesser of their consolidated total assets as of December 31, 2019 or consolidated total assets as of the beginning of their fiscal year 2021. The interim final rule is effective through December 31, 2021, unless extended by the FDIC. *See* FIL 99-2020, *Applicability of Annual Independent Audits and Reporting Requirements for Fiscal Years Ending in 20212* (October 23, 2020). Additionally, on November 20, 2020 the FDIC Board of Directors, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve issued an interim final rule (IFR) to provide temporary relief to insured depository institutions with $10 billion or less in total consolidated assets as of December 31, 2019. The interagency IFR provides temporary relief for eligibility for the community bank leverage ratio framework, thresholds in the FDIC's rule regarding management official interlocks, eligibility for reduced reporting on the FFIEC 051 Call Report, and thresholds concerning the frequency of examinations for domestic banks and insured branches of foreign banks. *See* FIL 108-2020, *Interagency Interim Final Rule Provides Regulatory Relief to Institutions Experiencing Temporary Asset Growth in Connection with COVID-19 Related Programs* (Nov. 20, 2020).

[3] *See* World Health Organization "Classification of Omicron (B.1.1.529): SARS-CoV-2 Variant of Concern" (Nov. 26, 2021) *available at* https://www.who.int/news/item/28-11-2021-update-on-omicron.

[4] *See* FDIC QBP Third Quarter 2021, Volume 15 Number 4 (September 30, 2021) *available at* https://www.fdic.gov/analysis/quarterly-banking-profile/qbp/2021sep/qbp.pdf#page=1.

[5] Chart data retrieved from the following QBP publications: FDIC QBP Second Quarter 2020, Volume 14 Number 3 (June 30, 2020); FDIC QBP Third Quarter 2020, Volume 14 Number 4 (September 30, 2020); FDIC QBP Fourth Quarter 2020, Volume 15 Number 1 (December 31, 2020); FDIC QBP First Quarter 2021, Volume 15 Number 2 (March 31, 2021); and FDIC QBP Second Quarter 2021, Volume 15 Number 3 (June 30, 2021); and FDIC QBP Third Quarter 2021, Volume 15 Number 4 (September 30, 2021).

community bank deposits have not declined, as expected, during a single quarter since March 2020 and are there are no indications this trend will dramatically reverse course before the banking agency's temporary relief measures expire on December 31, 2021.



Although deposit runoff has not occurred, and COVID-19 economic stimulus has placed significant pressure on bank balance sheets, community banks will soon be required to use recent and deposit heavy call report data to calculate asset thresholds and comply with regulatory audit and reporting requirements beginning January 1, 2022. Thus, if a community bank's pre-pandemic deposits were well below regulatory asset thresholds using 2019 call report data, but the bank's balance sheet now exceeds those thresholds, the bank will be penalized beginning January 1, 2022 for holding pandemic-related stimulus and deposit growth even if the institution never deliberately intended to grow its asset size. The ICBA and the undersigned state associations oppose this unnecessary, unfair, and unjustifiably costly regulatory treatment and strongly urge the banking agencies to provide community banks a minimum one-year extension of the agency's temporary asset threshold relief measures to allow deposit runoff to take effect and for deposits to return to normalized, pre-pandemic levels.

We appreciate the banking agencies' attention to this important issue and thank you for your consideration.

Sincerely,

Independent Community Bankers of America

Alabama Bankers Association

Arkansas Community Bankers

Community Bankers of Washington

Arizona Bankers Association

California Community Banking Network

Independent Bankers of Colorado

Connecticut Bankers Association

Florida Bankers Association

Community Bankers Association of Georgia

Community Bankers of Iowa (CBI)

Idaho Bankers Association

Community Bankers Association of Illinois

Indiana Bankers Association

Community Bankers Association of Kansas

Bluegrass Community Bankers Association

Louisiana Bankers Association

Massachusetts Bankers Association, Inc.

Maryland Bankers Association

Maine Bankers Association

Community Bankers of Michigan

Independent Community Bankers of Minnesota

Missouri Independent Bankers Association

Mississippi Bankers Association

Montana Independent Bankers

North Carolina Bankers Association

Independent Community Banks of North Dakota

Nebraska Independent Community Bankers

New Hampshire Bankers Association

New Jersey Bankers Association

Independent Community Bankers Association of New Mexico

Independent Bankers Association of New York State

Community Bankers Association of Ohio

Community Bankers Association of Oklahoma

Oregon Bankers Association

Pennsylvania Association of Community Bankers

Independent Banks of South Carolina

Independent Community Bankers of South Dakota

Tennessee Bankers Association

Independent Bankers Association of Texas

Virginia Association of Community Banks

Vermont Bankers Association, Inc.

Wisconsin Bankers Association

Community Bankers of West Virginia

Wyoming Bankers Association

Cc:

The Honorable Rohit Chopra
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

The Honorable Michelle Bowman
Governor
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington, DC 20551

Mr. Martin Gruenberg
Director
Federal Deposit Insurance Corporation
550 17th Street NW
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