

**STATEMENT BY**

**MARTIN J. GRUENBERG  
CHAIRMAN  
FEDERAL DEPOSIT INSURANCE CORPORATION**

**on**

**“Oversight of Prudential Regulators”**

**before the**

**COMMITTEE ON FINANCIAL SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES**

**May 16, 2023  
2128 Rayburn House Office Building  
Washington, DC**

Chairman McHenry, Ranking Member Waters, and Members of the Committee, I am pleased to appear at today’s hearing on “Oversight of Prudential Regulators,” to discuss the condition of the banking industry and the Deposit Insurance Fund (DIF), provide the Committee with an update on the Federal Deposit Insurance Corporation’s (FDIC) resolution of three recently closed insured depository institutions, and share the results of two recently released reports, *The FDIC’s Supervision of Signature Bank* and *Options for Deposit Insurance Reform*. Additionally, my testimony will discuss the agency’s rulemaking agenda for the coming year, including the Notice of Proposed Rulemaking (NPR) issued last week providing for the Special Assessment required by law to recover the loss to the DIF arising from actions taken in March to resolve Silicon Valley Bank (SVB), Santa Clara, California, and Signature Bank, New York, New York.<sup>1</sup>

### **State of the Banking Industry**

The banking industry has proven to be quite resilient during this period of stress. Early reports from first quarter 2023 indicate that first quarter aggregate bank net income was roughly unchanged compared to the fourth quarter, excluding the effects on acquirers’ incomes of their acquisitions of failing banks. In addition, asset quality metrics remain favorable, and the industry remains well capitalized. Recent declines in medium- and long-term rates have reduced somewhat the volume of unrealized losses on securities.

Risks to the outlook include the potential for weakening credit quality and profitability that could result in further tightening of loan underwriting, slower loan growth and higher provision expenses. Commercial real estate (CRE) loan portfolios, particularly loans backed by office properties, face challenges should demand for office space remain weak and property

---

<sup>1</sup> 12 U.S.C. § 1823(c)(4)(G)(ii).

values continue to soften. Higher interest rates and reduced property values may contribute to increased financing costs and make refinancing CRE loans more difficult.

Notably, the recent banking turmoil exacerbated deposit movement to other deposit accounts or non-deposit alternatives outside of the banking system<sup>2</sup> and accelerated an already developing trend of increasing deposit costs seen in the 46 basis point increase between the third and fourth quarters of 2022. While the FDIC Quarterly Banking Profile data will not be available until later this month, early reports from first quarter 2023 indicate that deposit costs have risen more than asset yields, which may result in a tightening of net interest margin for some banks.

Securities and other assets with longer maturities and lower yields may hinder earnings and adversely affect bank balance sheets in coming quarters, further limiting the ability of banks to lend, raise capital, or restructure. Banks with high levels of mortgages may be particularly impacted, as these loans, even commercial mortgages, tend to have at least certain periods where payments are made based on fixed rates. As noted above, recent declines in medium and long-term rates have reduced somewhat the volume of unrealized losses on securities.

The economy slowed in recent months in part from higher interest rates and inflation, and the outlook for 2023 weakened in March. Stress in the banking system may reduce credit availability and slow economic growth. Credit tightening is likely to be most prominent in banks that experienced the largest deposit outflows during the banking turmoil, although the banking industry in aggregate could tighten lending as a reaction to general liquidity concerns. Early reports from first quarter 2023 indicate some slowdown in quarterly loan growth as deposit

---

<sup>2</sup> Balances at institutional Treasury and Government MMMFs surged by 11% to \$2.9tn in March 2023 after March 12, 2023.

outflows have continued. Banks have already begun to tighten underwriting standards over the past year across a range of household and business loans, and they tightened further in the first quarter of this year.<sup>3</sup>

The FDIC will continue to examine prevailing trends in the banking industry and will publicly release data for the first quarter of this year as part of the Quarterly Banking Profile.

### **Liquidity Monitoring**

Over the past two months, the FDIC has continued to closely monitor liquidity, including deposit trends, across the banking industry. Overall, liquid assets in the banking industry remain higher than pre-pandemic levels, though they have been declining since mid-2021. Following the decision to fully protect all depositors in the resolution of both SVB and Signature Bank, there has been a moderation of deposit outflows at the publicly traded banks that were experiencing large outflows in the immediate aftermath of those failures. In general, banks have taken steps to increase liquidity and build liquidity buffers, including through borrowings secured by securities and loans. In the weeks immediately following these two failures, banks initiated new Federal Home Loan Bank (FHLB) advances to strengthen liquidity and also pre-positioned additional collateral at the FHLB to support future draws, if needed. Banks also accessed the Federal Reserve Board's (Federal Reserve) Discount Window, with borrowings increasing sharply from approximately \$5 billion on March 8 to nearly \$153 billion on March 15, before declining to \$5 billion as of May 3. Additionally, banks utilized the Federal Reserve's

---

<sup>3</sup> Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices, April 2023. <https://www.federalreserve.gov/data/sloos/sloos-202304.htm>

new Bank Term Funding Program (BTFP),<sup>4</sup> with borrowings during April through May 3 remaining near the peak of \$81 billion reached on April 26, 2023.<sup>5</sup>

### **Condition of the Deposit Insurance Fund**

As of December 31, 2022, the Deposit Insurance Fund (DIF) balance totaled \$128.2 billion, up \$5.1 billion (4.1 percent) from one year earlier while annual insured deposit growth was 3.3 percent. Slower insured deposit growth in relation to the growth in the DIF balance resulted in the reserve ratio increasing by 1 basis point from 1.26 percent as of December 31, 2021 to 1.27 percent as of December 31, 2022.<sup>6</sup>

As required by the Federal Deposit Insurance Act (FDI Act),<sup>7</sup> the FDIC has been operating under a Restoration Plan since September 15, 2020,<sup>8</sup> when extraordinary growth in insured deposits that occurred during the first half of 2020 resulting from actions taken in response to the COVID-19 pandemic caused the DIF reserve ratio to decline below the statutory minimum of 1.35 percent as of June 30, 2020. The Restoration Plan aims to restore the DIF to the statutory minimum of 1.35 percent within the eight-year deadline required by statute, or by September 30, 2028.

On June 21, 2022, based on projections that the reserve ratio was at risk of not reaching the statutory minimum of 1.35 percent by September 30, 2028, the Board amended the

---

<sup>4</sup> The BTFP provides qualified institutions with eligible securities the ability to access longer term (one year) funding at par, which should alleviate the need to sell those securities at a loss in times of stress, as happened at Silvergate Bank and SVB. For more information, see <https://www.federalreserve.gov/monetarypolicy/bank-term-funding-program.htm>.

<sup>5</sup> Federal Reserve Statistical Release, H.4.1 Factors Affecting Reserve Balances, March 9, 2023, through May 4, 2023. Factors Affecting Reserve Balances of Depository Institutions. <https://www.federalreserve.gov/releases/h41/>.

<sup>6</sup> The reserve ratio is calculated as the ratio of the net worth of the DIF (fund balance) to the value of the aggregate estimated insured deposits at the end of a given quarter. See 12 U.S.C. 1813(y)(3).

<sup>7</sup> Section 7(b)(3)(E) of the Federal Deposit Insurance Act, 12 USC 1817(b)(3)(E), available at <https://www.fdic.gov/regulations/laws/rules/1000-800.html#fdic1000sec.7b>.

<sup>8</sup> 2020 FDIC Restoration Plan, 85 FR 59306 (Sept. 21, 2020), available at <https://www.fdic.gov/news/board-matters/2020/2020-09-15-notice-dis-a-fr.pdf>.

Restoration Plan. In conjunction with the Amended Restoration Plan, the Board proposed, and subsequently finalized, an increase in initial base deposit insurance assessment rate schedules of 2 basis points, to improve the likelihood that the reserve ratio would be restored to at least 1.35 percent by September 30, 2028.<sup>9</sup> The revised assessment rate schedules became effective January 1, 2023, and are applicable to the first quarterly assessment period of 2023.

The FDIC estimated the cost to the DIF for the failures of SVB and Signature Bank to be \$16.1 billion and \$2.4 billion, respectively.<sup>10</sup> Of that estimated total cost of \$18.5 billion, the FDIC estimated that approximately \$15.8 billion was attributable to the cost of covering uninsured deposits as a result of the systemic risk determination made on March 12, 2023, following the closures of SVB and Signature Bank.<sup>11</sup> By statute, the FDIC is required to recover the \$15.8 billion estimated loss through one or more special assessments. Accordingly, the FDIC initiated a notice of proposed rulemaking to establish this special assessment, as described later in this testimony.

The remaining estimated loss from the failures of SVB and Signature Bank of \$2.7 billion, and an additional \$13 billion in loss from the subsequent closure of First Republic Bank, for which no systemic risk determination was made, will directly impact the DIF. As with all

---

<sup>9</sup> 2022 FDIC Amended Restoration Plan, 87 FR 39518 (July 1, 2022), available at <https://www.fdic.gov/news/board-matters/2022/2022-06-21-notice-sum-b-fr.pdf>. Notice of Proposed Rulemaking on Assessments, Revised Deposit Insurance Assessment Rates, 87 FR 39388 (July 1, 2020), available at <https://www.fdic.gov/news/board-matters/2022/2022-06-21-notice-dis-a-fr.pdf>.

<sup>10</sup> See FDIC: PR-21-2023 3/19/2023 and FDIC: PR-23-2023 3/26/2023.

<sup>11</sup> The cost estimate for the sale of the Silicon Valley Bridge Bank to First-Citizens Bank & Trust Company has been revised from the original estimate of \$20.0 billion to approximately \$16.1 billion, due to a decrease in the amount of liabilities assumed by First Citizens relative to the initial estimate, higher anticipated recoveries from certain other assets in receivership, and an increase in the market value of receivership securities. This revised cost estimate forms the basis for the SVB portion of the current special assessment calculation, and, as with all failed bank receiverships, will be periodically adjusted as assets are sold, liabilities are satisfied, and receivership expenses are incurred.

failed bank receiverships, loss estimates will be periodically adjusted as assets are sold, liabilities are satisfied, and receivership expenses are incurred.

As required under the Restoration Plan, the FDIC continues to monitor potential losses, deposit balance trends, and other factors that affect the reserve ratio, and will continue to update projections for the DIF balance and reserve ratio at least semiannually while the Restoration Plan is in effect. In the next update, the FDIC will provide clarity on how losses from past bank failures and reserves related to future bank failures will have affected the reserve ratio. At this time, no further adjustments to assessments are contemplated and the DIF remains on track to meet the statutory reserve ratio by September 30, 2028.

### **Recent Bank Failures**

On March 8, 2023, SVB announced that it sold securities at a loss to meet deposit withdrawals that had been occurring since the second quarter of 2022 and planned to raise capital.<sup>12</sup> The same afternoon, Silvergate Bank, La Jolla, California (Silvergate) announced its intent to self-liquidate<sup>13</sup> after similarly selling securities at a loss to meet depositor withdrawals. These events prompted a deposit run on SVB.<sup>14</sup> SVB had a high level of uninsured deposits, at 94 percent of domestic deposits at year-end 2022, and a concentrated and connected customer base that fueled the run through social media. It is now known that in a period of less than 24 hours, depositors withdrew or sought to withdraw nearly all of the SVB's deposits prior to its

---

<sup>12</sup> See SVB Financial Group Form 8-K (March 8, 2023), available at <https://www.sec.gov/ix?doc=/Archives/edgar/data/719739/000119312523064680/d430920d8k.htm>.

<sup>13</sup> See Silvergate Capital Corporation Press Release, *Silvergate Capital Corporation Announces Intent to Wind Down Operations and Voluntarily Liquidate Silvergate Bank* (March 8, 2023), available at <https://ir.silvergate.com/news/news-details/2023/Silvergate-Capital-Corporation-Announces-Intent-to-Wind-Down-Operations-and-Voluntarily-Liquidate-Silvergate-Bank/default.aspx>.

<sup>14</sup> See *New York Times*, "Silicon Valley Bank's Financial Stability Worries Investors" (March 9, 2023), available at <https://www.nytimes.com/2023/03/09/business/silicon-valley-bank-investors-worry.html>.

closure by the California Department of Financial Protection and Innovation (CADFPI) on March 10, 2023.

Contagion effects from SVB's failure began to spread through traditional media, social media, and short sellers to other banks with perceived similar risk characteristics, notably, those with high levels of uninsured deposits, concentrations of customers in the venture capital and tech industries, and high levels of unrealized losses on securities. Contagion effects initially manifested in large declines in stock prices and then in deposit outflows at certain other banks. For two of these banks – Signature Bank and First Republic Bank, San Francisco, California (First Republic Bank) – deposit outflows became deposit runs and exposed other weaknesses that could not be overcome, leading to their failure. For Signature Bank, poor governance and inadequate risk management practices put it in a position where it could not effectively manage its liquidity in a time of stress, making it unable to meet very large withdrawal requests. While First Republic Bank was initially able to manage liquidity to meet withdrawal requests, management's strategic decision to retain a long-standing business model with a significant asset/liability mismatch during a period of rising interest rates contributed to a loss of confidence in the bank on the part of depositors, and, ultimately constrained options for the bank to restructure its balance sheet, sell assets, or raise capital.

First Republic Bank highlighted a related risk characteristic to unrealized losses on securities, namely the difference between the fair value and amortized cost<sup>15</sup> of loans. The amortized cost and fair value of securities, which provide the data to determine related unrealized losses, are readily available and reported quarterly on all insured institutions'

---

<sup>15</sup> The amortized cost basis is the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion, or amortization of premium, discount and net deferred fees or costs, collection of cash, write-offs, foreign exchange, and fair hedge accounting adjustments.



Consolidated Reports of Condition and Income (Call Report).<sup>16</sup> In accordance with U.S. Generally Accepted Accounting Principles (GAAP), publicly traded banks and bank holding companies include fair value measurement disclosures on appropriate classes of assets and liabilities, which may include loans, in the notes to consolidated financial statements,<sup>17</sup> but they are not required to report loans intended to be held for investment at fair value on their financial statements or Call Report. Unlike SVB, First Republic Bank’s unrealized losses on its securities portfolio did not exceed its capital, per its Call Report, it was not experiencing deposit withdrawals, and it did not sell assets at a loss to meet withdrawals. Nonetheless, the bank’s long-dated and low yielding loan portfolio resulted in a large difference between the amortized cost and fair value of the bank’s loans.<sup>18</sup>

At least beginning on March 10, 2023,<sup>19</sup> reports began to highlight, and social media and short seller forums began to amplify, banks and bank holding companies with high levels of uninsured deposits that also had notable differences between the fair value of loans reported in public financial statements and the loans’ amortized cost, including First Republic.

---

<sup>16</sup> See Call Report Schedule RC-B, Securities.

<sup>17</sup> The Financial Accounting Standards Board Accounting Standards Codification (ASC) addresses fair value. ASC Topic 820, Fair Value Measurement, defines fair value, establishes a framework for measuring fair value, and addresses financial statement disclosures about fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the asset’s or liability’s principal (or most advantageous) market at the measurement date. This value is often referred to as an “exit” price.

<sup>18</sup> The amortized cost basis, net of allowances for credit losses, exceeded the fair value by \$22 billion on real estate secured mortgage loans and other loans as of December 31, 2022. See Form 10-K, February 28, 2023, <https://ir.firstrepublic.com/static-files/89a1df66-7e28-4491-86aa-a331900db222>. The difference between amortized cost (net of allowances for credit losses) and fair value is not reported on the balance sheet or income statement and does not reduce equity capital in accordance with U.S. generally accepted accounting principles. With regard to held for investment loans reported at amortized cost, disclosed changes in fair values that are not included in the balance sheet or income statement are also not included in regulatory capital.

<sup>19</sup> See “Monetary Tightening and U.S. Bank Fragility in 2023, Mark-to-Market Losses and Uninsured Depositor Runs?” Erica Jiang, Gregor Matvos, Tomasz Piskorski, and Amit Seru, first published March 13, 2023 at <https://www.nber.org/papers/w31048> and “First Republic Hit by SVB Failure, Investors have Grown Wary of First Republic Bank for Reasons Similar to Those that Caused Concern at SVB,” Jonathan Weil, Wall Street Journal, March 10, 2023 at <https://www.wsj.com/articles/first-republic-hit-by-svb-failure-7431495e>.

## **First Republic Bank Closing**

First Republic Bank was established on July 1, 1985. The bank focused on offering banking services to high-net-worth individuals, including residential real estate lending, private banking, business banking, wealth management, trust, and brokerage services. As of March 31, 2023, the bank had total assets of \$232.9 billion and total deposits of \$104.5 billion, of which, approximately 48 percent were uninsured, and total wealth management assets under management or administration of \$271 billion.

On the day the run on SVB began, March 9, 2023, the bank received a material net inflow of deposits, likely some of which was from SVB customers, as both were headquartered in San Francisco. While the bank did not have a venture capital business line featuring commercial loans to startups of various phases, by virtue of its market and business model, it served customers employed in and related to the venture capital and tech industries. On March 10, however, with the failure of SVB, the deposit trend reversed and the bank began experiencing significant deposit outflows due to contagion effects from SVB and subsequent wider-spread stresses at regional banks with higher levels of uninsured deposits. The bank's level of uninsured deposits to total deposits was 68 percent at year-end 2022. On March 10, First Republic Bank's share price, as with certain other banks, declined by over 50 percent intraday in the wake of significant negative short seller and social media attention, with trading halted several times. Deposit outflows reached approximately \$25 billion at the end of the day, or approximately 17 percent of total deposits, requiring significant draws on the bank's Federal Home Loan Bank and Federal Reserve lines. The bank received additional liquidity through the Federal Reserve's Discount Window on Sunday, March 12.

On Monday, March 13, after the subsequent failure of Signature Bank on March 12 and announcement of the Systemic Risk Determination, which among other things, protected all uninsured depositors at the two failed banks, negative short seller and social media attention continued and accelerated, resulting in an additional 62 percent decline in the bank's stock price; trading was again halted several times. Depositor withdrawal demands were significant, with approximately \$40 billion in deposit outflows on March 13. Outflows continued that week, albeit at somewhat of a lesser pace. On March 16, 2023, a consortium of 11 major U.S. banks placed \$30 billion in uninsured deposits at First Republic Bank to reflect confidence and support in the bank and overall banking sector and in an effort to help stem the contagion effect of the SVB and Signature Bank failures to the wider banking system.<sup>20</sup> With the \$30 billion in consortium deposits, withdrawals slowed, and then stabilized during the week ending March 24. The bank began working with outside firms on March 15 to raise capital and implement steps to restructure its balance sheet and business model, which now reflected significant reliance on more costly borrowings to replace lost deposits.

On April 24, 2023, the bank reported its financial results for the first quarter of 2023. The disclosure of a significant loss of deposits prompted a negative market response, a significant decline in the bank's stock price and a resumption of deposit outflows of more than \$10 billion between Wednesday, April 26 and Friday, April 28, 2023. Given the further deterioration in the bank's condition with the additional deposit loss, and the lack of progress and prospects for improving the bank's condition, the FDIC and CADFPI downgraded the bank to

---

<sup>20</sup> JPMorgan Chase & Co., Citigroup Inc., Bank of America Corp., and Wells Fargo & Co. each made a \$5 billion uninsured deposit, Morgan Stanley and Goldman Sachs Group Inc. contributed \$2.5 billion each, and U.S. Bancorp, PNC Financial Services Group Inc., Truist Financial Corp., Bank of New York Mellon Corp., and State Street Corp contributed \$1 billion each.  
<https://www.businesswire.com/news/home/20230316005695/en/>.

problem status on April 28, 2023. The downgrade shifted the bank's borrowing status with the Federal Reserve to Secondary Credit, which eliminated remaining capacity to meet liquidity demands due to additional collateral haircuts.

On May 1, 2023, First Republic Bank was closed by the CADFPI, which simultaneously appointed the FDIC as receiver. The FDIC entered into a purchase and assumption agreement with JPMorgan Chase Bank, National Association, Columbus, Ohio (JPMC) to assume all of the deposits and substantially all of the assets of First Republic.<sup>21</sup> As part of the transaction, First Republic Bank's 84 offices in eight states reopened that same morning as branches of JPMC. All depositors of First Republic Bank became depositors of JPMC.

During the week of April 24, 2023, a small number of institutions contacted the FDIC to express their interest in acquiring First Republic Bank should it be placed into receivership. On April 27, 2023, the FDIC engaged with these institutions to better understand the nature of their interest, and subsequently requested indicative bids from these institutions by 5:00 P.M. on April 28, 2023 to gauge the strength of the market for the bank and prepare for a formal marketing process. The formal marketing process was then initiated on the evening of April 28, 2023, with a bid deadline of April 30, 2023 at 12:00 P.M. The FDIC invited 21 banks and 21 nonbanks to participate in the bidding process, and received 12 bids from four bidders. As a result of the competitive first round of bidding, the FDIC requested best and final offers from the four bidders by 7:00 P.M. on April 30, 2023. The resolution of First Republic Bank involved a highly competitive bidding process that resulted in a transaction that clearly represented the least cost

---

<sup>21</sup> See *JPMorgan Chase Bank, National Association, Columbus, Ohio Assumes All the Deposits of First Republic Bank, San Francisco, California*, FDIC: PR-34-2023, (May 1, 2023), available at: <https://www.fdic.gov/news/press-releases/2023/pr23034.html>.

option to the DIF, was consistent with the least cost requirements of the FDI Act, and could be pursued upon the closure of the bank.

As part of the transaction, the FDIC and JPMC entered into a loss-share agreement on the single-family mortgage and commercial loan portfolios it purchased of First Republic Bank. The FDIC and JPMC will share in the losses and potential recoveries on the loans covered by the loss-share agreement, which is projected to maximize recoveries on the assets by keeping them in the private sector. In addition, JPMC also assumed all Qualified Financial Contracts.

The FDIC estimates that the cost to the DIF will be \$13 billion. This initial loss estimate is subject to further revision, and the final cost will be determined when the FDIC terminates the receivership.

### **Silicon Valley Bank Receivership**

On March 26, 2023, the FDIC approved First-Citizens Bank & Trust Company (First Citizens), Raleigh, North Carolina, as the successful bidder to assume all deposits and loans of Silicon Valley Bridge Bank (SV Bridge Bank). First Citizens also acquired the bank's private wealth management business. The 17 former branches of SV Bridge Bank in California and Massachusetts reopened as First Citizens branches on March 27.

As of March 10, 2023, SV Bridge Bank had approximately \$167 billion in total assets and approximately \$119 billion in total deposits. The transaction with First Citizens included the purchase of about \$72 billion of SV Bridge Bank's assets at a discount of \$16.5 billion.

Approximately \$87 billion in securities and other assets were retained by the receivership for later disposition by the FDIC. In addition, the FDIC received equity appreciation rights in First Citizens BancShares, Inc. common stock, which were exercised on March 28, 2023, and sold on April 4, 2023, at a total return of \$500 million.

At SVB, for which 88 percent of domestic deposits were uninsured at the point of failure, the portion of the total estimated loss of \$16.1 billion that is attributable to the protection of uninsured depositors is \$14.2 billion. The cost estimate for the sale of the SV Bridge Bank to First Citizens has been revised from the original estimate of \$20.0 billion to approximately \$16.1 billion, due to a decrease in the amount of liabilities assumed by First Citizens relative to the initial estimate, higher anticipated recoveries from certain other assets in receivership, and an increase in the market value of receivership securities. This revised cost estimate forms the basis for the SVB portion of the current special assessment calculation, and, as with all failed bank receiverships, will be periodically adjusted as assets are sold, liabilities are satisfied, and receivership expenses are incurred. As noted below, the amount of the special assessment will be adjusted as the loss estimate is refined over time.

The FDIC is currently undertaking a marketing process to sell the \$87 billion securities portfolio of the former SVB that was retained in the receivership. The securities are primarily comprised of Agency Mortgage Backed Securities, Collateralized Mortgage Obligations, and Commercial Mortgage Backed Securities. On April 5, 2023, the FDIC announced that it had retained BlackRock Financial Market Advisory, pursuant to a competitive bidding process, to conduct portfolio sales, which will be gradual and orderly, and will aim to minimize the potential for any adverse impact on market functioning by taking into account daily liquidity and trading conditions.<sup>22</sup>

---

<sup>22</sup> See *FDIC Announces Retention of Financial Advisor to Assist with the Liquidation of Securities of the Former Signature Bank, New York, NY, and Silicon Valley Bank, Santa Clara, CA*, FDIC: PR-29-2023 (April 5, 2023), available at: <https://www.fdic.gov/news/press-releases/2023/pr23029.html>.

## **Signature Bank Receivership**

On March 19, 2023, the FDIC board approved a purchase and assumption agreement for the acquisition of substantially all deposits and certain loan portfolios of Signature Bridge Bank by Flagstar Bank, N.A. (Flagstar Bank), a subsidiary of New York Community Bancorp, Inc. The 40 former branches of Signature Bank began operating under Flagstar Bank on Monday, March 20, 2023. Depositors of Signature Bridge Bank, other than those whose deposits were not assumed by Flagstar Bank, automatically became depositors of the acquiring institution.

As of December 31, 2022, Signature Bank had total deposits of \$88.6 billion and total assets of \$110.4 billion. The transaction with Flagstar Bank included the purchase of about \$38.4 billion of Signature Bridge Bank's assets, including loans of \$12.9 billion purchased at a discount of \$2.7 billion. Approximately \$60 billion in loans and \$27 billion in securities were retained by the receivership for later disposition by the FDIC. In addition, the FDIC received equity appreciation rights of up to \$300 million in New York Community Bancorp, Inc. common stock, which were exercised on March 21, 2023. The FDIC is retaining an underwriter to assist in liquidating the shares received under this transaction and expects to do so this month.

Flagstar Bank assumed most of Signature Bank's deposits, but did not seek to acquire approximately \$4 billion of deposits related to Signature Bank's digital-assets banking business. On Saturday, March 25, the FDIC notified those depositors that Flagstar had not assumed their deposits and requested that they contact Flagstar Bank, who served as FDIC's paying agent, to obtain their deposits and facilitate closing their account by April 5, 2023.

The FDIC estimates the cost of the failure of Signature Bank to the DIF to be approximately \$2.4 billion. At Signature Bank, for which 67 percent of deposits were uninsured at the point of failure, the portion of the total estimated loss of \$2.4 billion that is attributable to

the protection of uninsured depositors is \$1.6 billion. As with all failed bank receiverships, this estimate will be periodically adjusted as assets are sold, liabilities are satisfied, and receivership expenses are incurred. As noted below, the amount of the special assessment related to the loss associated with the coverage of Signature's uninsured deposits will be adjusted as the loss estimate is refined over time.

As with the securities retained from the SVB receivership, the FDIC has undertaken a marketing process to sell the \$27 billion securities portfolio of Signature Bank. The securities are primarily comprised of Agency Mortgage Backed Securities, Collateralized Mortgage Obligations, and Commercial Mortgage Backed Securities. BlackRock Financial Market Advisory will also conduct this portfolio sale.<sup>23</sup>

On April 3, 2023, the FDIC announced the framework of a marketing process for the approximately \$60 billion loan portfolio retained in receivership following the failure of Signature Bank.<sup>24</sup> The portfolio is comprised primarily of CRE loans, commercial loans and a smaller pool of single-family residential loans. The CRE loans include a concentration of multifamily properties, primarily located in New York City.

The FDIC has a statutory obligation, among other factors, to maximize the preservation of the availability and affordability of residential real property for low- and moderate-income individuals.<sup>25</sup> The FDIC is currently reviewing the CRE loans secured by multifamily residences that are rent stabilized or rent controlled, both of which are important sources of affordable housing in New York City. The FDIC is committed to engaging with state and local government

---

<sup>23</sup> See *FDIC Announces Retention of Financial Advisor to Assist with the Liquidation of Securities of the Former Signature Bank, New York, NY, and Silicon Valley Bank, Santa Clara, CA*, FDIC: PR-29-2023 (April 5, 2023), available at: <https://www.fdic.gov/news/press-releases/2023/pr23029.html>.

<sup>24</sup> See *FDIC Announces Upcoming Sale of the Loan Portfolio from the Former Signature Bank, New York, New York*, FDIC: PR-26-2023 (April 3, 2023), available at: <https://www.fdic.gov/news/press-releases/2023/pr23026.html>.

<sup>25</sup> 12 U.S.C. § 1823(d)(3)(D)(v).



agencies, as well as community-based organizations, to seek their input as the FDIC develops its marketing and disposition strategy. The FDIC expects to begin its marketing of the retained loan portfolio of former Signature Bank later this summer. Newmark & Company Real Estate, Inc. has been retained as an advisor on this sale.

The FDIC has also retained Signature Bank's interest in the Signet platform, a blockchain-based digital payments platform, in the receivership. The FDIC has evaluated the intellectual property, third-party service contracts, and owned technology, which together make up the Signet platform and will begin to competitively market these assets shortly.

### **Internal Review of the FDIC's Supervision of Signature Bank**

Following the failure of Signature Bank, the FDIC's Chief Risk Officer conducted, at my request, an internal review of the cause of failure and evaluation of the FDIC's supervision of the bank. The Chief Risk Officer is independent of the Division of Risk Management Supervision, which was responsible for the oversight of Signature Bank. The results of this review were released on April 28, 2023.<sup>26</sup> The review identified several matters for further study – including reinforcing the FDIC's forward-looking supervision philosophy and the importance of addressing risk management weaknesses before financial decline occurs; considering the need for enhanced examination guidance for supervising banks that are overly reliant on uninsured deposits and for assessing liquidity risk management practices; continuing to evaluate the continuous examination process and to implement necessary changes; and evaluating, and escalation processes for situations involving repeat recommendations, among others.

---

<sup>26</sup> See *FDIC Releases Report Detailing Supervision of the Former Signature Bank, New York, New York*, FDIC: PR-33-2023 (April 28, 2023), available at: <https://www.fdic.gov/news/press-releases/2023/pr23033.html>.

## **Causes of Failure and Material Loss**

The report of the FDIC Chief Risk Officer found that the primary cause of Signature Bank's failure was illiquidity precipitated by contagion effects in the wake of the announced self-liquidation of Silvergate, on March 8, 2023, and the failure of SVB, on March 10, 2023, after both experienced deposit runs. However, the root cause of Signature Bank's failure was poor management. According to the Chief Risk Officer, Signature Bank's board of directors and management pursued rapid, unrestrained growth without developing and maintaining adequate risk management practices and controls appropriate for the size, complexity and risk profile of the institution. Bank management did not prioritize good corporate governance practices, did not always heed FDIC examiner concerns, and was not always responsive or timely in addressing FDIC supervisory recommendations.

Signature Bank funded its rapid growth through an overreliance on uninsured deposits without implementing fundamental liquidity risk management practices and controls. Additionally, the bank failed to understand the risk of its association with, and reliance on, crypto industry deposits or its vulnerability to contagion from crypto industry turmoil that occurred in late 2022 and into 2023. Although fallout from the liquidation of Silvergate and the failure of SVB was unprecedented and unfolded rapidly, Signature Bank's poor governance and inadequate risk management practices put the bank in a position where it could not effectively manage its liquidity in a time of stress, making it unable to meet very large withdrawal requests.

## **The FDIC's Supervision of Signature Bank**

While the report of the FDIC Chief Risk Officer identified the root cause of Signature Bank's failure as poor management, it also identified areas where the FDIC's supervisory efforts could have been more timely, forward looking, and forceful. Specifically, the report found that it

would have been prudent to downgrade the bank's Management component rating to "3," (i.e., needs improvement) as early as the second half of 2021.<sup>27</sup> Doing so would have been consistent with the FDIC's forward-looking supervision concept, likely lowering Signature Bank's Composite rating, and supporting consideration of an enforcement action.

Additionally, the report found that the FDIC's communication of examination results to Signature Bank's Board and management was often not timely. Supervisory Letters and annual roll-up examination reports frequently exceeded elapsed-day benchmarks and in some cases were significantly delayed. While staffing shortages impacted timeliness, the FDIC New York Regional Office management's implementation of the continuous examination process contributed to timeliness issues. For example, critical corporate governance examiner findings completed and discussed with bank management in May 2022 were not delivered to Signature Bank's Board of Directors until January 2023, after the issuance of the 2021 roll-up examination in December 2022. Once examiners delivered these findings to the Bank's Board of Directors and discussed the findings with the Board, it was evident that bank management did not previously convey the seriousness of examiner concerns.

From 2017 to 2023, the FDIC was not able to adequately staff an examination team dedicated to Signature Bank, with a number of positions filled on a temporary basis. The dedicated team experienced frequent vacancies and continuous turnover. The vacancies and skillsets of the dedicated examiner team slowed earlier identification and reporting of Signature Bank weaknesses. FDIC has taken actions to address staffing challenges; however, more work is needed.

---

<sup>27</sup> Bank examiners review and evaluate an institution's condition using the Uniform Financial Institutions Rating System, also known as CAMELS (Capital, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk). CAMELS ratings are scored on a scale of "1" (best) to "5" (worst). Examiners assign a rating for each CAMELS component and an overall Composite rating.

The report of the FDIC’s Chief Risk Officer is a thorough and straightforward review of the causes of Signature Bank’s failure, as well as areas where the FDIC’s supervision could have been stronger. The challenges identified in the report and the recommendations for further study are an urgent focus of attention and action by the FDIC.

### **Proposed Special Assessment**

The failures of SVB and Signature Bank were due to sudden and unexpected liquidity needs created by large withdrawals of uninsured deposits. By statute, the FDIC is required to recover through special assessments the losses to the DIF incurred as a result of the actions taken pursuant to the determination of systemic risk.<sup>28</sup> The FDIC estimates the cost to the DIF for these failures to be \$16.1 billion and \$2.4 billion, respectively. Of that estimated total cost of \$18.5 billion, the FDIC estimates that approximately \$15.8 billion was attributable to the cost of covering uninsured deposits pursuant to the systemic risk determination made on March 12, 2023. However, as with all failed bank receiverships, this estimate will be periodically adjusted as assets are sold, liabilities are satisfied, and receivership expenses are incurred. The exact amount of losses incurred will be determined when the FDIC terminates the receiverships.

On May 11, 2023, the FDIC Board of Directors approved a notice of proposed rulemaking with a 60-day comment period to impose a special assessment to recover the loss to the DIF arising from the protection of uninsured depositors in connection with the systemic risk determination announced on March 12, 2023, following the closures of SVB and Signature Bank, as required by the FDI Act.<sup>29</sup> Under the proposal, the FDIC would apply an annual special assessment rate of approximately 12.5 basis points to an assessment base that would

---

<sup>28</sup> 12 U.S.C. 1823(c)(4)(G).

<sup>29</sup>See *Notice of Proposed Rulemaking on Special Assessments Pursuant to Systemic Risk Determination*, available at <https://www.fdic.gov/news/board-matters/2023/2023-05-11-notice-dis-a-fr.pdf>.

equal an insured depository institution's (IDI) estimated uninsured deposits reported as of December 31, 2022. For IDIs that are not part of a holding company, the first \$5 billion in estimated uninsured deposits would be excluded from the assessment base. For IDIs that are part of a holding company, the first \$5 billion of the combined banking organization's estimated uninsured deposits would be excluded.

Defining the assessment base in this way would effectively exclude most small banks from the special assessment. In implementing the special assessment, the law requires the FDIC to consider the types of entities that benefit from any action taken or assistance provided as well as economic conditions, the effects on the industry, and other factors deemed appropriate and relevant.<sup>30</sup> In general, large banks with large amounts of uninsured deposits benefitted the most from the systemic risk determination. Under the proposal, no banking organizations with total assets under \$5 billion would pay the special assessment.

Based on data reported as of December 31, 2022, the FDIC estimates that 113 banking organizations, which include IDIs that are not subsidiaries of a holding company and holding companies with one or more subsidiary IDIs, would be subject to the special assessment. Banking organizations with total assets over \$50 billion would pay over 95 percent of the special assessment.

The FDIC is proposing to collect the special assessment at an annual rate of approximately 12.5 basis points, over eight quarterly assessment periods, which it estimates will result in total revenue of \$15.8 billion. Because the estimated loss pursuant to the systemic risk determination will be periodically adjusted, the FDIC would retain the ability to cease collection early, extend the special assessment collection period beyond the initial eight-quarter collection period to

---

<sup>30</sup> 12 U.S.C. 1823(c)(4)(G)(ii)(III).

collect the difference between actual or estimated losses and the amounts collected, and impose a final shortfall special assessment on a one-time basis after the receiverships for SVB and Signature Bank terminate. The FDIC is proposing an effective date of January 1, 2024, with special assessments collected beginning with the first quarterly assessment period of 2024 and the first payment due on June 28, 2024, providing time for institutions to prepare and plan for the special assessment.

As proposed, the FDIC estimates that it would collect through the special assessment the estimated loss from protecting uninsured depositors at SVB and Signature Bank of approximately \$15.8 billion. In order to preserve liquidity at IDIs, and in the interest of consistent and predictable assessments, the special assessment would be collected over eight quarters.

Consistent with generally accepted accounting principles, it is assumed that the effects of the special assessment on capital and income would be recognized in one quarter only. Given the estimated loss amount, the FDIC estimates that the proposed special assessment would result in an average estimated one-quarter reduction in income of 17.5 percent for banking organizations subject to the special assessment. The FDIC also estimates that the proposed special assessment would decrease the dollar amount of Tier 1 capital of banking organizations that would be required to pay the special assessment by an estimated 0.61 percent, on average. No banking organizations are expected to become less than well capitalized as a result of the special assessment.

Comments on the proposal are due 60 days from the date of publication in the Federal Register. The FDIC will carefully consider the comments received when developing a final rule.

## **Review of the Deposit Insurance System**

The FDIC was established in 1933 in response to widespread bank runs and bank failures that inflicted severe damage on the U.S. economy.<sup>31</sup> Although many banks have failed since, with the advent of FDIC insurance all insured deposits have been fully protected.

The failures of SVB and Signature Bank, and the approval of the recommendation for a Systemic Risk Exception, raised fundamental questions about the role of deposit insurance in the United States banking system. To address the broader questions about the role of deposit insurance to promote financial stability and prevent bank runs, at my request, the FDIC initiated a comprehensive report to place these recent bank failures in the context of the history, evolution, and purpose of deposit insurance since the FDIC's creation. The report, *Options for Deposit Insurance Reform*, was released on May 1, 2023, and examines the role of deposit insurance, as well as additional policies and tools that may complement changes to deposit insurance coverage.<sup>32</sup>

The bank failures of March 2023 suggest that the banking system has evolved in ways that could increase its exposure to deposit runs. These developments include the increased volume and proportion of uninsured deposits in the banking system, the ease and speed of moving deposits to other deposit accounts or non-deposit alternatives with the widespread adoption of mobile banking, and the amplification of concerns through social media.

At its peak in 2021, the proportion of uninsured deposits in the banking system was 46.6 percent, higher than at any time since 1949. Uninsured deposits are held in a small share of accounts but can be a large proportion of banks' aggregate funding, particularly among the

---

<sup>31</sup> The current deposit insurance requirements may be found in the FDI Act, 12 U.S.C. 1811, *et seq.*

<sup>32</sup> See *FDIC Releases Comprehensive Overview of Deposit Insurance System, Including Options for Deposit Insurance Reform*, FDIC: PR-35-2023 (May 1, 2023), available at <https://www.fdic.gov/news/press-releases/2023/pr23035.html>.

largest ten percent and largest one percent of banks by asset size. Large concentrations of uninsured deposits, or other short-term demandable liabilities, increase the potential for bank runs and can threaten financial stability.

The ubiquity of social media and mobile banking may mean that bank runs, when they occur, happen much faster than they have in the past. Technological advances in the financial sector allow for large financial transactions to occur with unprecedented ease. Depositors can easily set in motion the transfer of millions of dollars, open and close accounts, link bank accounts with other financial accounts, and move funds across asset classes. In addition, the role of social media in the SVB depositor run illustrates the dynamics that can arise. Social media posts advised depositors to withdraw funds from SVB, and uninsured depositors did so all at once. The concentration of these large deposits in technology industry firms and individuals who appear to have been part of closely overlapping virtual communities may have contributed to the synchronized nature of the deposit outflows.

The effectiveness of deposit insurance depends upon how it is used with other policy tools. Regulation and supervision play important roles in constraining moral hazard and supporting financial stability. Tools such as capital requirements and supervision of bank growth can reduce moral hazard that arises from deposit insurance, and regulation and supervision of liquidity can help reduce run risk.

This report evaluates three options to reform the deposit insurance system: (1) Limited Coverage, which maintains the current structure of deposit insurance in which there is a finite deposit insurance limit (possibly higher than the current \$250,000 limit) by ownership rights and capacities; (2) Unlimited Coverage, which extends unlimited deposit insurance to all depositors; and (3) Targeted Coverage, which allows for different levels of deposit insurance coverage



across different types of accounts and focuses on higher coverage for business payment accounts. Although each option has strengths and weaknesses, which are discussed in greater detail in the report, Targeted Coverage for business payment accounts captures many of the financial stability benefits of expanded coverage while mitigating many of the undesirable consequences.

Because losses on uninsured deposits associated with business payments are most likely to create spillovers, providing higher coverage on these deposits increases financial stability without expanding the safety net more broadly. Relative to savings and investment accounts, business payment accounts are less likely to seek yield and are more difficult to diversify across banks in the current system to obtain full deposit insurance. However, there are significant unresolved practical challenges to Targeted Coverage, including defining accounts for additional coverage and preventing depositors and banks from circumventing differences in coverage.

It should also be noted that all of the options for expanding deposit insurance coverage examined in the study would require Congressional action. The FDIC remains committed to engaging with the public, as well as with stakeholders in the industry and with policymakers in the Congress as policies to strengthen the deposit insurance system and meet emerging challenges are considered.

### **Update on the FDIC's Regulatory Agenda**

#### **Strengthening and Modernizing the Community Reinvestment Act**

On June 3, 2022, the three federal banking agencies – the Federal Reserve, the Office of the Comptroller of the Currency (OCC), and the FDIC adopted a NPR in an effort to strengthen and enhance the Community Reinvestment Act's (CRA) effectiveness in achieving its core mission by: expanding access to credit, investment, and basic banking services in low- and moderate-income (LMI) communities; adapting to changes in the banking industry, including

mobile and internet banking by modernizing assessment areas while maintaining a focus on branch-based areas; providing greater clarity, consistency, and transparency in the application of the regulations through the use of standardized metrics as part of CRA evaluation and clarifying eligible CRA activities focused on LMI communities and under-served rural communities; tailoring CRA rules and data collection to bank size and business model; and maintaining a unified approach among the regulators.<sup>33</sup>

The last major revision of the rule implementing CRA occurred in 1995, over 25 years ago. A great deal has changed in the banking industry during that time. This NPR represents a major revision of CRA intended to strengthen its impact and increase its transparency and predictability. The three banking agencies received approximately one thousand unique comments from a wide range of stakeholders.<sup>34</sup> The staffs of the three agencies are working diligently to review those comments and consider possible changes to the NPR in response to those comments in crafting a final rule.

### **Finalizing the Basel III Capital Rules**

After the global financial crisis of 2008, the FDIC, OCC and Federal Reserve sought to strengthen the banking system through changes to the regulatory capital framework. This work has been based largely on two sets of standards issued by the Basel Committee on Banking Supervision (BCBS), known as Basel III.<sup>35</sup> The agencies' initial revisions in 2013 included an increase in the overall quality and quantity of capital. The agencies are now turning to the second set of BCBS standards to finalize the implementation of Basel III.

---

<sup>33</sup> See Joint Notice of Proposed Rulemaking: Community Reinvestment Act, 87 FR 33884 (published June 3, 2022), available at <https://www.govinfo.gov/content/pkg/FR-2022-06-03/pdf/2022-10111.pdf>.

<sup>34</sup> Comment submission closed on August 5, 2022. Comments received on the proposed changes to the Community Reinvestment Act are available at <https://www.regulations.gov/docket/OCC-2022-0002/comments>.

<sup>35</sup> See Basel III, International Framework for Banks, available at <https://www.bis.org/bcbs/basel3.htm>.

In September 2022, the three agencies reaffirmed their commitment to implementing enhanced regulatory capital requirements that align with the final set of Basel III standards issued by the BCBS.<sup>36</sup> These standards, issued by the BCBS in 2017, include ways to strengthen capital requirements for market risk exposures, improve the capital requirement for financial derivatives, and simplify the measurement of operational risk for regulatory capital purposes.

The agencies plan to seek public input on the new capital standards for large banking organizations and are currently developing a joint proposed rule for issuance as soon as possible. Community banks, which are subject to different capital requirements, would not be impacted by the proposal, given their limited overall size and trading activities.

### **Resolution-Related Long-Term Debt Requirement for Large Banking Organizations**

In October 2022, the FDIC Board approved the publication of an Advance Notice of Proposed Rulemaking (ANPR) concerning potential new resolution-related resource requirements, such as a long-term debt requirement, for large banking organizations to improve the prospects for the orderly resolution of large banks in the United States. The ANPR was proposed jointly by the FDIC and the Board of Governors of the Federal Reserve System.<sup>37</sup> In order to improve the prospects for the orderly resolution of large banks in a way that minimizes the destruction of value, addresses the impact on depositors and local communities, maintains U.S. financial stability, while minimizing the cost to the DIF, the agencies believed it was appropriate to consider whether additional measures are warranted to increase the resources available for an orderly resolution of a large bank. This includes whether a layer of loss-

---

<sup>36</sup> See *Agencies Reaffirm Commitment to Basel III Standards*, FDIC PR-65-2022, (September 9, 2022), available at <https://www.fdic.gov/news/press-releases/2022/pr22065.html>.

<sup>37</sup> Resolution-Related Resource Requirements for Large Banking Organizations, 87 Fed. Reg. 64170 (October 24, 2022).

absorbing debt held at the bank would be effective in supporting options to resolve large insured depository institutions across a range of scenarios.

The comment period for the ANPR closed on January 23, 2023, with 65 comments received. This ANPR was the first step in developing an approach to address the risks associated with the resolution of large banks, including the risks to the DIF, to the customers and counterparties of the banks, to local communities, and to the safety and soundness and stability of the banking system. The recent bank failures demonstrate the implications that banks with assets of \$100 billion or more can have for financial stability. Given the financial stability risks caused by the recent failures, the methods for planning and carrying out a resolution of banks with assets of \$100 billion or more merit special attention, including consideration of a long-term debt requirement to facilitate orderly resolutions. A long-term debt buffer would have also improved the likelihood that an all-deposits bridge bank resolution would have met the least-cost resolution requirement, and protected all uninsured depositors without use of a systemic risk exception. To the extent that losses to the depositor class are absorbed by a buffer of long-term debt, it is more likely that the preservation of that franchise value will reduce the cost to the DIF and support the determination that an all-deposits bridge is the least-costly approach to resolution. For that reason, the agencies are considering issuing in the near future a proposed rulemaking to implement resolution-related long-term debt requirements for banking organizations with at least \$100 billion in assets.

## Reviewing the Bank Merger Process

The Bank Merger Act of 1960 (BMA) established a framework that requires, in general, approval by the Federal Reserve and the OCC, or the FDIC, as appropriate, of bank mergers.<sup>38</sup> FDIC approval is also required for a bank merger with a non-insured entity.<sup>39</sup> The statute generally requires the banking agencies to consider several factors when reviewing a merger application, including whether a proposed merger would substantially lessen competition or tend to create a monopoly, the financial and managerial resources and future prospects of the existing and proposed institutions, the convenience and needs of the community to be served, and the risk to the stability of the United States banking or financial system.<sup>40</sup> The FDIC has adopted a rule and a policy statement implementing the statutory requirements but neither yet address the financial stability factor, which was added to the BMA under the Dodd-Frank Act of 2010.<sup>41</sup>

In March 2022, the FDIC Board submitted to the Federal Register a Request for Information and Comment on Rules, Regulations, Guidance, and Statements of Policy Regarding Bank Merger Transactions (RFI).<sup>42</sup> The RFI requested comment on the four statutory factors the FDIC must consider in reviewing bank merger applications: competition, prudential risk, the convenience and needs of the communities affected, and financial stability.

---

<sup>38</sup> Bank Merger Act, Pub. L. 86-463, 72 Stat. 129 (1960); Bank Merger Act Amendments of 1966, Pub. L. 89-356, (codified as amended at 12 U.S.C. 1828(c)(2018)), available at <https://www.fdic.gov/regulations/laws/rules/1000-2000.html#1000sec.18c>.

<sup>39</sup> 12 U.S.C. § 1828(c)(1) and (2).

<sup>40</sup> 12 U.S.C. § 1828(c)(5).

<sup>41</sup> 12 CFR part 303, available at <https://www.fdic.gov/regulations/laws/rules/2000-250.html> and 63 FR 44762, August 20, 1998, effective October 1, 1998; amended at 67 FR 48178, July 23, 2002; 67 FR 79278, December 27, 2002; and FDIC Statement of Policy on Bank Merger Transactions, 73 FR 8871, February 15, 2008, available at <https://www.fdic.gov/regulations/laws/rules/5000-1200.html>. See also Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, section 604(f), 124 Stat. 1376, 1602 (2010) (codified at 12 U.S.C. 1828(c)(5)), available at <https://www.govinfo.gov/app/details/PLAW-111/publ203>.

<sup>42</sup> Request for Information and Comment on Rules, Regulations, Guidance, and Statements of Policy Regarding Bank Merger Transactions, 87 Fed. Reg. 18740 (published March 31, 2022).

Although there has been a significant amount of consolidation in the banking sector over the last thirty years, facilitated in part by mergers and acquisitions, there has not been a significant review of the implementation of the BMA by the agencies in that time. Additionally, the prospect for continued consolidation among both large and small banks remains significant. Particularly in light of recent events, a review of the regulatory framework implementing the BMA is both timely and appropriate.

The comment period closed on May 31, 2022, with 31 comments received.<sup>43</sup> The FDIC is considering updates to its BMA Statement of Policy in light of the comments received. Moreover, the FDIC is working collaboratively with the other banking agencies and the Department of Justice on an interagency review of the bank merger application process.

### **Conclusion**

The banking industry has proven to be quite resilient during this period of stress. Early reports from first quarter 2023 indicate that first quarter aggregate bank net income was roughly unchanged compared to the fourth quarter, excluding the effects on acquirers' incomes of their acquisitions of failing banks. In addition, asset quality metrics remain favorable, and the industry remains well capitalized. Recent declines in medium- and long-term rates have reduced somewhat the volume of unrealized losses on securities.

Nevertheless, there are significant downside risks to the outlook. These include the potential for weakening credit quality and profitability that could result in further tightening of loan underwriting, slower loan growth, and higher provision expenses. CRE loan portfolios,

---

<sup>43</sup> Comments received are available at <https://www.fdic.gov/resources/regulations/federal-register-publications/2022/2022-rfi-rules-regulations-statements-of-policy-regarding-bank-merger-transactions-3064-za31.html>.

particularly loans backed by office properties, face challenges should demand for office space remain weak and property values continue to soften.

Given these risks, the FDIC will be focused on monitoring the condition of the banking industry, including the impacts of the recent bank failures on liquidity; giving close consideration to the recommendations and options resulting from the studies on the FDIC's supervision of Signature Bank and the deposit insurance system, respectively; and pursuing several important rulemakings.

Finally, the failures of SVB and Signature Bank also demonstrate the implications that banks with assets of \$100 billion or more can have for financial stability. The prudential regulation and supervision of these institutions merits additional attention, particularly with respect to capital, liquidity, and interest rate risk. This would include the capital treatment associated with unrealized losses in banks' securities portfolios. Given the financial stability risks caused by the failed banks, the methods for planning and carrying out a resolution of banks with assets of \$100 billion or more also merit special attention, including consideration of a long-term debt requirement to facilitate orderly resolutions.

The FDIC remains committed to engaging with the public, industry stakeholders, and members of Congress on the policies and priorities outlined in this testimony.