October 7, 2024

James P. Sheesley
Assistant Executive Secretary
Comments: RIN 3064-ZA42
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Request for Information on Deposits; Document Number 2024-17298; RIN 3064-ZA42; 89 FR 63946 (Aug. 6, 2024)

Dear Ladies and Gentlemen:

Better Markets[1] appreciates the opportunity to comment on the above-captioned Request for Information ("Request") from the Federal Deposit Insurance Corporation ("FDIC") regarding information on the characteristics of and data collection related to bank deposits.[2]

We applaud the FDIC for this Request, as improving and enhancing bank reporting on deposits is vital. The FDIC rightly acknowledges that different types of deposits have different characteristics and, therefore, have different implications for bank risk and overall financial system stability. However, banks are currently only required to disclose limited estimates of insured and uninsured deposits as part of quarterly and annual reporting on deposits. As a result, information on risks, specifically those stemming from ***risky and volatile uninsured deposits***, is limited and incomplete.

Better Markets fully supports adding new and expanded reporting requirements, particularly those related to uninsured deposits. Not only would such reporting provide valuable transparency for regulators, investors, and the public to understand risks in the banking system, but it would also improve offsite risk and liquidity monitoring, deposit insurance pricing, and the failed bank resolution process. The Request also continues the discussion of options for deposit insurance reform, most recently presented in the FDIC's 2023 report on the topic.[3] Better Markets

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1 Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements, and more.

2 Request for Information on Deposits; Document Number 2024-17298; RIN 3064-ZA42; 89 FED. REG. 63946 (Aug. 6, 2024); https://www.federalregister.gov/documents/2024/08/06/2024-17298/request-for-information-on-deposits.

3 FEDERAL DEPOSIT INSURANCE CORPORATION, OPTIONS FOR DEPOSIT INSURANCE REFORM (May 1, 2023), https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-full.pdf.

supports continued consideration of broadening deposit insurance to cover deposit accounts that directly support functions such as small business transactions and payroll.

BACKGROUND

The primary purpose of FDIC deposit insurance is to protect bank depositors in the event of a bank failure. Not only does deposit insurance provide Main Street Americans with confidence and peace of mind about the safety of their money, but it also provides stability to the broader financial system. The standard deposit insurance coverage limit is currently $250,000 per depositor, per FDIC-insured bank, per ownership category.[4] At most banks, especially most community banks that primarily provide traditional banking services to local residents, small businesses, community organizations, and municipalities, the vast majority of deposit accounts are below this coverage limit and therefore are insured and protected in the case of a bank failure. In fact, as of December 2022, more than 99 percent of ***deposit accounts*** were below the $250,000 deposit insurance limit and therefore fully insured.[5] However, the FDIC estimates that more than 40 percent of ***deposit balances*** were uninsured in recent years.[6] In other words, uninsured deposits are typically very large accounts, often held by corporate or business entities, not Main Street Americans. Uninsured deposits present specific and dangerous risks, and are most common at large banks:

> Uninsured deposits are held in a small share of accounts but can be a large proportion of banks' funding, particularly among the largest 10 percent and largest 1 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***.[7]

The March 2023 regional bank failures provided clear evidence of the risks associated with uninsured deposits:

> [R]uns of uninsured deposits contributed to the failures of Silicon Valley Bank and Signature Bank, respectively the second and third largest bank failures in the FDIC's history at the time, and the subsequent failure of First Republic Bank on May 1, 2023. These ***runs were exacerbated by each bank's high reliance on***

4 FDIC deposit insurance protects bank customers in the event that an FDIC-insured depository institution fails. Deposits are insured up to $250,000 per depositor, per FDIC-insured bank, per ownership category. Some examples of FDIC ownership categories, include single accounts, certain retirement accounts, employee benefit plan accounts, joint accounts, trust accounts, business accounts as well as government accounts. FDIC, *Deposit Insurance FAQs*, https://www.fdic.gov/resources/deposit-insurance/faq/index.html (last updated Mar. 20, 2023).

5 FEDERAL DEPOSIT INSURANCE CORPORATION, *supra* note 3 at 1 (emphasis added).

6 FEDERAL DEPOSIT INSURANCE CORPORATION, FDIC QUARTERLY 32 (Second Quarter 2024), https://www.fdic.gov/system/files/2024-09/qbp.pdf (emphasis added). In Table I-C, between second quarter 2021 and second quarter 2024, estimated uninsured deposits ranged from a low of 40.25% of total deposits to a high of 47.02% of total deposits.

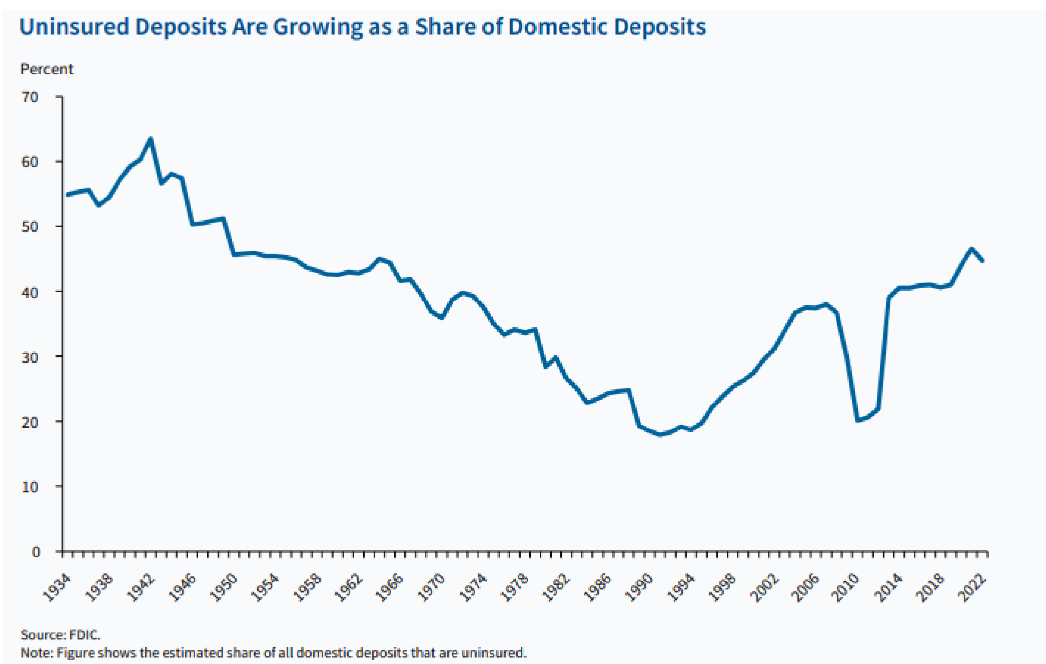
7 FEDERAL DEPOSIT INSURANCE CORPORATION, *supra* note 3 at 1 (emphasis added).

uninsured deposit funding and concentrations in the depositor base, among other factors.[8]

The failures of Silicon Valley Bank ("SVB"), Signature Bank ("Signature"), and First Republic Bank ("First Republic") stemming from a lack of accountability for poor management decisions as well as weak risk management practices led to the usual outcome of such a toxic combination—excessive risk-taking. The failures and required bailouts of SVB and other banks in 2023 directly cost healthy banks and taxpayers about $40 billion.[9] Improving uninsured deposit reporting, as well as the resulting policies, regulations, and research that such a change would facilitate, is a step in the right direction to reduce this cost to society in the future.

Uninsured deposit concentrations, as well as the associated risks, have been building for the last several decades (see Chart 1).[10] Between the mid-1940s and 1990, uninsured deposits as a share of total domestic deposits at the nation's banks were trending down. In 1990, only about 20 percent of all domestic deposits—by dollar amount—in the banking system were uninsured. However, that share more than doubled to around 45 percent of the dollar amount of deposits by 2022. This increase indicates heightened risk and volatility as uninsured depositors move their deposits—often to too-big-to-fail banks—during periods of uncertainty, resulting in liquidity challenges at banks from which depositors are pulling their funds.

Chart 1



8 Request for Information on Deposits, *supra* note 2 at 63947 (emphasis added).

9 *See e.g.*, FEDERAL DEPOSIT INSURANCE CORPORATION, ANNUAL REPORT 8 (2023), https://www.fdic.gov/system/files/2024-07/2023-arfinal.pdf.

10 FEDERAL DEPOSIT INSURANCE CORPORATION, *supra* note 3 at 10.

Concentration levels of uninsured deposits generally increase with bank size. In its rulemaking related to the special assessment that was required to replenish the Deposit Insurance Fund ("DIF") after SVB and Signature's failures,[11] the FDIC showed that larger banks have far higher concentrations of uninsured deposits (more than half of total deposits) compared to smaller banks with uninsured deposits only accounting for about one-third of total deposits (see Table 1).[12]

Table 1

Uninsured Deposits as a Percentage of Total Domestic Deposits, by Banking Organization Asset Size	
Asset Size of Banking Organization	**Ratio of Uninsured Deposits to Total Domestic Deposits (percent)**
$1 to $5 Billion	33.2
$5 to $10 Billion	35.0
$10 to $50 Billion	39.9
$50 to $250 Billion	44.2
Greater than $250 Billion	51.8

Even after accounting for asset size, however, SVB, First Republic, and Signature were outliers with extremely high levels of uninsured deposits. At the time of failure, 88 percent of SVB's deposits were uninsured,[13] well above the average for other banks in its size group. Signature[14] and First Republic[15] also exceeded their peers with about two-thirds of deposits that were uninsured just before failure.

In response to the March 2023 bank failures and evidence of a burgeoning banking crisis, growing depositor panic—especially among institutional depositors, and a potential credit crunch, the Secretary of the Treasury, in consultation with the President, and the Boards of the FDIC and Federal Reserve made a systemic risk determination for both SVB and Signature.[16] This action meant that ***uninsured depositors at both failed banks were protected along with insured depositors***. The purpose of the systemic risk determination was to instill confidence in the flagging

11 Special Assessments Pursuant to Systemic Risk Determination, RIN 3064–AF93, 88 FED. REG. 32694 (May 22, 2023), https://www.federalregister.gov/documents/2023/05/22/2023-10447/special-assessments-pursuant-to-systemic-risk-determination.

12 *Id*. at 32697-98.

13 *Id*.

14 *Id*.

15 FEDERAL DEPOSIT INSURANCE CORPORATION OFFICE OF INSPECTOR GENERAL, MATERIAL LOSS REVIEW OF FIRST REPUBLIC BANK 13 (Nov. 2023), https://www.fdicoig.gov/sites/default/files/reports/2023-12/EVAL-24-03.pdf .

16 *See* Press Release, U.S. Department of the Treasury, *Joint Statement by the Department of Treasury, Federal Reserve, and FDIC* (Mar. 12, 2023), https://home.treasury.gov/news/press-releases/jy1337.

banking sector, but a dangerous side effect was that it exacerbated the moral hazard problem and proved that too-big-to-fail was alive and well.[17]

Since its founding, the FDIC has rightly focused on its critical mission to protect Main Street Americans' bank deposits—***primarily insured deposits.*** The bank failures in spring 2023 provided evidence of the risks related to uninsured deposits which have grown substantially and present increasing risks to individual banks and the financial system as a whole. This Request focuses on the key problem—a lack of reporting on insured and uninsured deposits. The current reporting framework provides only limited information to regulators and the public about insured and uninsured deposits. Without question, more comprehensive reporting is in the best interest of Main Street Americans, regulators, and the banking system as a whole.

SUMMARY OF THE REQUEST

The FDIC recognizes that uninsured deposits pose serious risks to banks and the financial system. The stability and franchise value of banks' uninsured deposits has been proven over and over to be weaker than that provided by banks' insured deposits. Therefore, more detailed and more frequent public reporting on uninsured deposits would increase and enhance offsite risk and liquidity monitoring by financial regulators, inform analysis of potential changes to deposit insurance coverage that would benefit all Americans and the financial system, improve risk sensitivity in deposit insurance pricing, and provide analysts and the general public with more accurate and transparent data about a crucial topic when they are making decisions about which banks to trust with their deposits.[18]

The Request has two parts:

1. First, it seeks input about the collection of information and data on banks' deposits— particularly uninsured deposits—which is not currently part of the Call Report framework or other regulatory reporting.[19]

2. Second, it revives the conversation on deposit insurance reform and asks for comments on the pros and cons of the various possibilities presented in the FDIC's May 2023 deposit insurance options study.[20]

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17 *See* Better Markets, *Banking Fact Sheet: Powell-Led Federal Reserve Deregulation Caused the Failure of Silicon Valley Bank and the 2023 Banking Crisis* (Mar. 27, 2023), https://bettermarkets.org/wp-content/uploads/2023/03/BetterMarkets_FactSheet_Powell-Led_Fed_Eregulation_Caused_SVB_Failure_March-2023.pdf.

18 Request for Information on Deposits, *supra* note 2 at 63946.

19 *Id*. at 63949-50.

20 *Id*. at 63950-51.

SUMMARY OF COMMENTS

Better Markets is encouraged by this Request, as there is clear evidence of the risk that uninsured deposit concentrations pose to the banking system. We urge the FDIC to follow the Request with specific action to increase required reporting on uninsured deposits by banks. It is simply unacceptable to continue with the limited reporting that currently exists on deposits.

Our specific comments are as follows:

- More granular reporting on insured and uninsured deposits is needed for bank regulators, investors, and the public to understand banks' liquidity risk and other vulnerabilities. While banks ***do provide*** information on total deposits in required reports such as quarterly Call Reports and the annual Summary of Deposits data collection, ***most banks are not required to report separate totals for insured and uninsured deposits***. Given the serious risks that have been associated with uninsured deposits, requiring more granular reporting of insured and uninsured deposits is in the best interest of Main Street Americans as well as banking regulators and investors.

- The cost associated with more granular reporting is justified. We recognize that requiring more granular reporting may result in increased costs for some banks that need to change or improve reporting systems to meet a new requirement. However, this cost is justified not only by the fact that better reporting will benefit society and banking regulators but also by the fact that better reporting will also benefit the bank by enabling a more comprehensive understanding of its liquidity risk.

- Targeted increases in deposit insurance coverage for certain transaction accounts would benefit small businesses and Main Street Americans as well as improve financial stability. Following both the 2008 financial crisis and the 2023 bank failures, concerns about business transactional accounts increased. These accounts are used, for example, by small businesses to fund payrolls or other necessary costs. However, because of their function, these accounts are larger than an individual consumer's deposit account and therefore may exceed the deposit insurance maximum threshold of $250,000. Expanding deposit insurance coverage to protect these accounts would result in tangible and important benefits.

COMMENTS

I. MORE GRANULAR REPORTING ON INSURED AND UNINSURED DEPOSITS IS NEEDED FOR BANK REGULATORS, INVESTORS, AND THE PUBLIC TO UNDERSTAND BANKS' LIQUIDITY RISK AND OTHER VULNERABILITIES.

The FDIC and other financial regulators clearly recognize the risks that uninsured deposits can pose to individual banks as well as broader financial stability. For example, in its 2023 Annual Report, the FDIC explained the range of risks that uninsured deposits brought to Main Street America and the financial system as a whole:

> ***The contagion effect through uninsured deposits threatened additional bank failures and posed genuine financial stability risk.*** A significant number of the uninsured depositors at SVB and Signature Bank were small and medium-sized businesses. As a result, there were concerns that losses to these depositors would put them at risk of not being able to make payroll and pay suppliers. Moreover, with the liquidity of banking organizations further reduced and their funding costs increased, banking organizations could become even less willing to lend to businesses and households. These effects would contribute to weaker economic performance, further damage financial markets, and have other material negative effects.[21]

Moreover, federal financial regulators that make up the Financial Stability Oversight Council ("FSOC") recognize the serious threat of uninsured deposit concentrations. In its annual report, the FSOC advocates for greater data collection on uninsured deposits to bolster the understanding of the risk that these concentrations pose:

> The stresses in the banking sector that emerged in Spring 2023 raised concerns about some regional banks, although conditions have calmed since. This turmoil also ***highlighted the need to closely monitor uninsured deposit levels*** and further enhance resolution planning and preparedness capabilities to mitigate similar stresses in the future.
>
> Although it fundamentally resulted from poor risk management and heavy reliance on uninsured deposits, the failure of three regional banks in Spring 2023 underscored that even non-G-SIBs may pose risks to financial stability. The Spring turmoil also ***highlighted the need for additional data*** that would allow agencies to closely monitor not only uninsured deposit levels but also the composition and pricing of those deposits and to further enhance resolution planning and preparedness capabilities to mitigate similar crises in the future.[22]

Given the serious risks that have been associated with uninsured deposits, requiring more granular reporting of insured and uninsured deposits is unquestionably in the best interest of Main Street Americans as well as banking regulators and investors.

Furthermore, we recommend that the reporting of this deposit data be moved from schedule RC-O to schedule RC or RC-E. Schedule RC-O contains data used for deposit insurance assessments while schedule RC contains information about a bank's balance sheet and schedule RC-E contains information about deposit liabilities.[23] This move would appropriately show that a bank's deposit structure is a key indicator related to its safety and soundness, rather than just auxiliary data to be used for the calculation of its deposit insurance assessments.

II. THE COST ASSOCIATED WITH MORE GRANULAR REPORTING IS JUSTIFIED.

A new requirement for banks to regularly report ***actual*** insured and uninsured deposit subtotals could result in the need for system improvements or increased costs for banks. In the Request, the FDIC explains that some banks do regularly report ***estimates*** of uninsured deposits, such as the requirement for banks with $1 billion or more in total assets to report on Schedule RC-O in the Call Report.[24] Some banks reporting on RC-O may already have well-developed information systems that would make the transition to regularly reporting actual subtotals a relatively easy change, while other banks may need to invest in upgrading their reporting systems to deliver accurate data.

Not only would the reporting of insured and uninsured deposit subtotals be a fairly simple addition, but the cost of making this change is justified because of the range of benefits that the improved reporting will yield. The improved reporting will benefit society and banking regulators with better information for offsite bank risk and liquidity monitoring. It will also improve the FDIC's ability to conduct bank resolutions, which involve different coverage for insured and uninsured deposits, and price banks' deposit insurance, based on different risk levels of insured and uninsured deposits. Changes to bank reporting requirements for deposits will improve transparency for the general public. Finally, the reporting changes will benefit individual banks by enabling a more comprehensive understanding of liquidity risk and uninsured deposit concentrations. Indeed, particularly in the wake of the spring 2023 bank failures, any bank that is not already calculating its share of insured and uninsured deposits to understand its risk profile is not being run in a safe and sound manner.

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21 FEDERAL DEPOSIT INSURANCE CORPORATION, *supra* note 9 at 7 (emphasis added).

22 FINANCIAL STABILITY OVERSIGHT COUNCIL, ANNUAL REPORT 53 (2023), https://home.treasury.gov/system/files/261/FSOC2023AnnualReport.pdf (emphasis added).

23 Federal Financial Institutions Examination Council, *Instructions for Preparation of Consolidated Reports of Condition and Income* (June 2024), https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_202406_i.pdf.

24 Request for Information on Deposits, *supra* note 2 at 63951-52.

III. TARGETED INCREASES IN DEPOSIT INSURANCE COVERAGE FOR CERTAIN TRANSACTION ACCOUNTS WOULD BENEFIT SMALL BUSINESSES AND MAIN STREET AMERICANS AS WELL AS IMPROVE FINANCIAL STABILITY.

In the aftermath of the 2008 financial crisis, and following the 2023 regional banking crisis, concerns about transactional accounts that support entities such as small businesses and local municipalities grew. These transaction accounts benefit Main Street Americans and businesses—providing functionality such as facilitating regular salary payments for small businesses' employees. However, these transaction accounts may regularly exceed the deposit insurance limit and therefore be uninsured. The reality is that regulators are very unlikely to let these depositors get wiped out, particularly during an unstable period, fearing both broader contagion of fear across financial markets and the direct human consequences of businesses being unable to pay their employees.

With the current system of deposit insurance, holders of these transactional accounts could decide to pull funds from smaller banks and move them to larger banks that are perceived to be too big to fail. This increases liquidity risk for community banks, often at times when the banking system is already under stress.

In 2008, the Transaction Account Guarantee ("TAG") program was developed and could be used as a road map for the expansion of deposit insurance coverage. As the FDIC explains in its 2023 report on deposit insurance options, a targeted increase in insurance coverage would support businesses' operational needs and increase financial stability without substantially and materially increasing moral hazard or costs of deposit insurance for banks.[25] We therefore support continued exploration of the viability of such an expansion of deposit insurance. Moreover, improvements in deposit data reporting will enable better analysis of different options for deposit insurance expansion as well as ongoing evaluation of the deposit insurance program.

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25 FEDERAL DEPOSIT INSURANCE CORPORATION, *supra* note 3 at 4.

CONCLUSION

We hope these comments are helpful in evaluating and moving forward with increased data collection on deposits.

Sincerely,

[redacted]

Shayna M. Olesiuk
Director of Banking Policy
solesiuk@bettermarkets.org

Better Markets, Inc.
2000 Pennsylvania Avenue, NW
Suite 4008
Washington, DC 20006
(202) 618-6464
http://www.bettermarkets.org