Congress of the United States
Washington, DC 20515

April 11, 2023

The Honorable Janet Yellen
Secretary
Department of the Treasury
1500 Pennsylvania Avenue
Washington, DC 20220

Dear Secretary Yellen:

We are writing to express our concerns about the recent instability in the banking system and the second-order effects that small, community banks could experience given this turbulence. It is clear that there were significant risk-management failures by irresponsible financial institutions and regulators' inability or unwillingness to address these red flags. To be sure, Congress is still in the process of fact-finding and investigating specific cases. However, Treasury must understand that well-capitalized, well-managed community banks serving rural areas did not cause this crisis, nor should they be punished for it.

To illustrate, Silicon Valley Bank (SVB) provided banking services to start-ups with plenty of cash. Investors, including venture capital, provided capital to these companies, which deposited at SVB. The bank did not have a traditional lending base and instead held long-term U.S. Treasuries and mortgage-backed securities on their balance sheet as assets with relatively high exposure to interest rate risks.

As the Federal Reserve raised interest rates to combat inflation, SVB did not mark the value of their assets to market. While these interest rate increases also reduced market valuations of SVB asset holdings, SVB's depositors pulled their deposits to, for example, pay staff salaries and rents. Depositors, most of whom had uninsured balances, evidently began doubting the bank's ability to withstand further large deposit withdrawals, and a bank run began. The bank was forced to sell their underwater securities at a loss to cover the growing withdrawals. SVB attempted to raise capital but failed. The run, which drained more than $40 billion from the bank in a matter of days, led California state regulators to close SVB on March 10, 2023 and name the Federal Deposit Insurance Corporation (FDIC) as receiver.

On March 12, 2023, the FDIC, Fed, and Treasury, in consultation with the President, announced that SVB depositors would be made whole, even above the $250,000 statutory FDIC deposit insurance limit. Signature Bank of New York was also closed by the New York state financial regulator and taken into FDIC receivership and their depositors were also made whole, including for balances above the FDIC statutory insurance limit. In addition, the Fed stood up a 13(3) emergency lending facility to provide liquidity to banks who may be facing similar withdrawal demand, by accepting eligible collateral from financial institutions *at par* and lending that par-value amount of cash.

The savings and loan crisis of the 1980s, Great Recession of 2008, and turmoil at the beginning of the coronavirus pandemic demonstrated the importance of decisive action by regulators to prevent contagion. However, deposit insurance is not free. Losses to the Deposit Insurance Fund (DIF) are reimbursed by a special assessment on banks.

Community banks play a critical role in driving our economy and provide necessary deposit and lending services. We are deeply concerned the actions taken to support financial institutions that were irresponsibly managed and inadequately overseen by state and federal regulators will have a disproportionate impact on community banks, particularly those which are well-managed, in the form of high special assessments and/or increased premiums to the DIF, or other penalties.

Again, we urge the Department to keep in mind the causes of this recent instability—concentrated deposit bases, poor internal risk controls, and regulatory failure. The systemic risk exemption should be used sparingly in the most extreme circumstances, understanding the precedent it will set and burden it will shift across the banking system. Furthermore, community banks, who have played by the rules, must be treated equally and fairly with regard to loss and coverage protection under DIF—they should certainly not be penalized for the recklessness of others.

Sincerely,

Jodey C. Arrington
Member of Congress

August Pfluger
Member of Congress

Byron Donalds
Member of Congress

W. Gregory Steube
Member of Congress

Randy Feenstra
Member of Congress

Randy Weber
Member of Congress

Claudia Tenney
Member of Congress

Mike Collins
Member of Congress

Brad Finstad
Member of Congress

Marianette Miller-Meeks
Member of Congress

Bob Good
Member of Congress

John Moolenaar
Member of Congress