

**OPENING STATEMENT OF REP. SPENCER BACHUS  
CHAIRMAN, SUBCOMMITTEE ON FINANCIAL INSTITUTIONS  
AND CONSUMER CREDIT  
MAY 16, 2001 HEARING ON DEPOSIT INSURANCE REFORM**

The Subcommittee meets today for the first of a planned series of hearings on the subject of reforming our country's deposit insurance system. The focus of today's hearing will be on a report prepared by the FDIC entitled *Keeping the Promise: Recommendations for Deposit Insurance Reform*.

Federal deposit insurance – established during the Great Depression to restore confidence in the nation's troubled banking system – is that rare product of the legislative "sausage-making factory" that has actually worked pretty much as it was intended to. It has enhanced economic stability; largely eliminated the prospect of panic-driven "runs" on banking institutions; and succeeded in minimizing the risk to taxpayers from bank failures.

Yet even the most effective government programs require periodic review and updating to ensure that they continue to serve the purposes for which they were originally created. Our objective this morning is to begin what I hope will be a constructive dialogue about the future of the deposit insurance system. I can think of no better starting-point for that discussion than the report unveiled by the FDIC last month. We are pleased to have FDIC Chairman Donna Tanoue with us this morning to present the agency's findings and recommendations.

The Subcommittee's consideration of deposit insurance reform comes at a time when the system itself is as healthy as it has been in more than 20 years. Thanks largely to sizable contributions by the banking and thrift industries in the 1990s, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) are both fully capitalized, with combined balances exceeding \$41 billion. The strong condition of the deposit insurance funds might cause some to conclude that the status quo should simply be maintained. Other factors, however, argue for a more proactive approach.

As the FDIC has correctly pointed out, the current system leaves open the possibility of sizable 23-basis point premium assessments on institutions if and when the designated reserve ratio falls below 1.25 percent. While there is significant debate within the industry about the factors that might cause a penetration of this 1.25 "hard target," there is no doubt that a 23-basis point assessment – which has been aptly compared to "falling off a cliff" – would have serious consequences, both for banks' profitability and for their ability to fund economic growth in the communities they serve, if it were to occur in a period of economic weakness. The FDIC's request for more flexibility in setting the reserve ratio therefore warrants the Committee's careful consideration.

Perhaps no deposit insurance issue has been more hotly debated than the question of whether to increase coverage levels above the current \$100,000 per account limit. While several influential policymakers have been openly skeptical of the need for such an increase, all of us on this Committee have heard from community bankers in our districts who strongly believe that a substantial coverage increase is critical to their ability to attract core deposits and remain competitive in their local markets. In my view, devising solutions to the funding challenges faced by community banks should be this Committee's highest priority, and I will be reviewing the various reform proposals that we will consider in the coming months with that in mind.

In this regard, I am particularly interested in hearing from our witnesses on the issue of higher coverage levels for municipal deposits, which have historically been a vital source of funding for community banks but have become increasingly expensive to attract and maintain.

In closing, I want to commend Chairman Oxley for his leadership in placing the issue of deposit insurance reform on the Committee's agenda. I look forward to working with him and with other Members of the Committee to develop legislation that ensures the continued strength and vitality of a system that has served us well for almost 70 years.

I now recognize the Ranking Minority Member, Ms. Waters, for any opening statement she wishes to make.

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