

March 4, 2003

Opening Statement by Congressman Paul E. Gillmor
House Committee on Financial Services
Full Committee Hearing on HR 522, the Federal Deposit Insurance Reform Act of 2003

I would like to thank both Chairman Oxley and Subcommittee Chairman Bachus for their important leadership on the issue of FDIC reform. Last Congress, this committee and the full House of Representatives passed a comprehensive reform package, HR 3717. However, due to the Senate's lack of action we are here again this morning to begin debate on HR 522, the Federal Deposit Insurance Reform Act of 2003.

I am very glad to have been included in the negotiations on this proposal again in the 108th Congress and was pleased to see the text of my "Municipal Deposits Insurance Protection Act," included in HR 522 as introduced.

With the constructive changes from the text originally considered in the 107th Congress, this legislation would provide increased coverage for municipal deposits equal to the lesser of \$2 million or \$130,000 plus 80% of the amount of deposits in excess of the new standard.

Providing this essential coverage will help local communities keep public moneys in their area, improving the economic climate by enabling local banks to offer more loans for cars, homes, education and community needs.

Currently, municipalities are faced with a hard choice when deciding where to place their deposits. Local officials care about their communities and would like to foster economic development by putting their funds in local banks. However, without the guarantee of FDIC coverage, they are often forced instead to put the money in large out of state institutions.

It may also be the case that small banks are not even in a position to accept such deposits. Many states require institutions to collateralize municipal deposits. This makes it harder for community and small banks to compete for these funds with larger banks. Many community banks are so loaned-up that they do not have the available securities to use as collateral.

Just last year, the FDIC closed a bank in my congressional district, the Oakwood Deposit Bank in Oakwood, OH. Local municipalities and other public entities that held deposits at this institution were put at risk due to the \$100,000 cap in FDIC coverage.

In cases of fraud such as this one, securitization was not adequate insurance, as many bonds and securities appearing on the bank's balance sheet were not actually held. In this situation, Paulding County, Ohio lost approximately \$150,000, Paulding County Hospital \$1.3 million dollars, and Wayne Trace School District around \$1 million even with the

current FDIC coverage. This risk is simply too high for any community in this country and can have a devastating impact on local budgets.

Again, I applaud both Congressmen Oxley and Bachus and their staff for all their hard work on this issue and, for again in the 108th Congress, crafting this responsible reform proposal.

I trust our committee and the full House of Representatives will again take the necessary action to reform and modernize the Federal Deposit Insurance System by swiftly passing this legislation and that the new Senate leadership will follow suit.