

March 17, 2005

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Financial Institutions and Consumer Credit
Hearing on H.R. 1185, the Federal Deposit Insurance Reform Act of 2005

Thank you, Mr. Chairman, for calling this hearing today to discuss the merits of H.R. 1185, the Federal Deposit Insurance Reform Act of 2005. Furthermore, I welcome you here today Chairman Powell, and look forward to your testimony and comments.

As an original cosponsor of H.R. 1185, I am particularly pleased to see that this important reform measure again incorporates a measure that I re-introduced last month, H.R. 544, the Municipal Deposit Insurance Protection Act of 2005. Of note, such language increases 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 neighborhood, improving the economic climate by enabling local banks to offer more loans for cars, homes, education and other community needs.

Currently, local government entities, such as villages, towns, counties and school districts, 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 and often times community banks are so “loaned-up” that they do not have the available securities to use as collateral.

As I have mentioned numerous times throughout our panel’s deposit insurance debate history, in 2002, 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. This risk is simply too high for any community in this country and can have a devastating impact on local budgets. The community in Oakwood is still feeling the effects of this failure. The village was forced to miss a federal loan payment for its sewers and was forced to lay off municipal employees, all because of the funds it lost. Wayne Trace Local school district and Paulding County Hospital were also harmed by this lack of coverage.

Again, I applaud the Chairman for bringing this important issue to the table in the 109th Congress, am remain hopeful that our panel can move forward and present another meaningful reform bill on the House floor. I yield back the remainder of my time.