OPENING STATEMENT OF CHAIRMAN SPENCER BACHUS ON DEPOSIT INSURANCE REFORM JULY 26, 2001

The Subcommittee meets today for its second hearing in this Congress on reforming the Federal deposit insurance system. At our first hearing on this subject in mid-May, Donna Tanoue, the outgoing Chairwoman of the FDIC, presented the agency's recommendations for reform. Today, we will hear the perspectives of the other Federal banking regulators, as well as the Treasury Department.

Since the Subcommittee last met to consider these issues, there have been several significant developments. First, President Bush's choice to replace Ms. Tanoue at the FDIC, Don Powell, has been confirmed by the Senate, and is expected to assume his responsibilities shortly. My hope is that Chairman Powell will appear before the Subcommittee in September to share his views on deposit insurance reform.

Second, the FDIC released data last month reflecting that in the first quarter of this year, the ratio of reserves to insured deposits in the Bank Insurance Fund (BIF) dropped from 1.35% to 1.32%. The reserve ratio for the BIF now stands at its lowest point since 1996.

As most of the people in this room are well aware, once that number falls below the current "hard target" of 1.25%, every bank in America faces a 23-basis point premium assessment. It is estimated that such an assessment would require banks to pay billions of dollars in premiums -- a rude awakening after an extended period in which over 90% of banks have paid no premiums at all. Such a massive outflow of funds from the banking system would curtail lending to consumers and small businesses, with potentially devastating consequences for our economy and for communities across America.

By contrast, the FDIC reports that the (designated) reserve ratio in the Savings Association Insurance Fund (SAIF), which covers thrifts, held steady in the first quarter at 1.43%, unchanged from December 31, 2000. Assuming that current trends continue, the possibility therefore exists that banks will face sizable premium assessments at a time when most of their thrift industry counterparts are paying nothing.

The significant growth in insured deposits that triggered the decline in the BIF's reserve ratio in the first quarter is, in some respects, a "good news, bad news" story. The bad news is obvious for banks that could find themselves on the receiving end of a multi-billion dollar bill from the FDIC if current patterns persist and current law remains in effect.

The "good news" is an apparent reversal of a trend of core deposits leaving the banking system in recent years in search of higher returns elsewhere, making it difficult for some banks to meet loan demand in their local communities. The $84 billion jump in insured deposits in the first quarter reported by the FDIC - coming on the heels of a substantial increase in the fourth quarter of last year - is a welcome development for those concerned about the future of small community banks in America. Whether this flow of funds back into the banking system can be sustained - or proves to be a temporary blip driven by investors seeking safe haven from more speculative incidents remains to be seen.

Another contributor to the declining BIF ratio has been the subject of heated debate in the industry: large infusions of money by large brokerage houses from uninsured cash management accounts to insured accounts at banks owned by those same brokerage firms. Former Chairwoman Tanoue made addressing this so-called "free-rider" issue a centerpiece of her reform proposal. We will learn at today's hearing whether the other banking regulators share her concerns in this regard.

Let me now recognize the Ranking Minority Member, Ms. Waters, for an opening statement.