Senate Committee on Banking, Housing, and Urban Affairs
For Immediate Release
Thursday, July 01, 2010
Contact: Kirstin Brost, 202-224-7391

FACT CHECK: COMMUNITY BANKS WIN WITH FINANCIAL REFORM

Once again, opponents of Wall Street reform are engaged in a misinformation campaign about how reform will impact community banks. Don't be fooled. Community banks win with Wall Street Reform.

AT ISSUE: REBUILDING THE DEPOSIT INSURANCE FUND SAFETY NET

The economic crisis that started on Wall Street hit banks on Main Street across the country. Bank failures have left the FDIC's Deposit Insurance Fund seriously depleted. The bill requires large banks with over $10 billion in assets to cover the costs of increasing the minimum reserve ratio of the Deposit Insurance Fund from 1.15 percent of insured deposits to 1.35 percent, to ensure that FDIC has ample resources to cover bank failures. Community banks with under $10 billion in assets will not pay a penny for the increase; they have already paid enough for the economic downturn caused by Wall Street's failures.

A Depleted Deposit Insurance Fund Is a Threat to Banks: Since the start of the financial crisis, bank failures across the country have dramatically depleted the fund that protects insured deposits.

The Deposit Insurance Fund Can Only Be Used for Deposit Insurance and Nothing Else: Despite the claims, the Deposit Insurance Fund cannot be used to fund other aspects of the Wall Street Reform bill. Accusations that inclusion in budget calculations somehow threatens this fund are ludicrous. CBO includes deposit insurance spending and assessments in calculating the federal budget every year, and this bill does nothing to change that. And, previous budget bills have included changes to FDIC assessments that resulted in federal budget savings.

Consumer Protections Are Entirely Paid for by the Federal Reserve, Not the FDIC: The new Consumer Financial Protection Bureau is entirely funded by the operating budget of the Federal Reserve. Banks will not face assessments and the FDIC will not contribute to its budget.

Increasing the Deposit Insurance Fund Benefits Banks: When banks pay assessments to the FDIC, they are buying insurance to protect their customers. The recent crisis has shown that a higher ratio is needed to keep the fund sound.

Big Banks That Caused the Credit Crunch Pay to Replenish the Fund, Community Banks Will have More Money to Lend: Currently, all banks, including community banks, must pay assessments to reach the target set by the FDIC of 1.25 percent of insured deposits. This bill instead gives community banks a break by placing the burden on banks with over $10 billion in assets to fund the increase in the statutory minimum target from 1.15 percent to 1.35 percent. This will help community banks provide more credit to their local economies. Maintaining the fund at its higher level is at most a small fraction of the cost of increasing the fund.

Consumer Confidence Comes from a Strong Fund: Ensuring the FDIC will have sufficient resources to protect insured depositors is crucial to restoring consumer confidence.

Saving for a Rainy Day, Not Waiting for a Rainy Day: The FDIC has until September 30, 2020 to reach the new reserve target -- nearly four years more than under current law. Building up the fund over the next ten years will allow the FDIC to handle failures in a future crisis without the need to sharply increase premiums again at a time when funds are desperately needed by households and small businesses.

Expanding Coverage and Public Confidence in Deposit Insurance: This bill makes permanent the $250,000 insurance limit which will increase public confidence in deposit insurance and help community banks.