Chairman Sherrod Brown
Committee on Banking, Housing and Urban Affairs
"Perspectives on Deposit Insurance Reform after Recent Bank Failures"
Opening Statement
July 20, 2023

This hearing will come to order.

All of our work on safeguards for our banking system must come back to one goal:

Protecting Americans' hard-earned money in the bank, and protecting American taxpayers.

Because working people have been forced to pay for big bankers' bad decisions over and over.

In the wake of three of the nation's largest bank failures in history, this committee held a series of hearings with failed bank executives, the bank regulators, and outside experts.

It's our job to hold accountable everyone responsible for the gross mismanagement and risk-taking behaviors of these banks' executives that threatened the stability of our banking system.

Out of that effort, this committee came together to advance a bipartisan bill that will hold bank executives accountable for their misconduct, help prevent future bank failures, and protect consumers and taxpayers.

The RECOUP Act will ensure that executives who follow the Wall Street, profit-at-all-costs business model will not be able to cash out when their bad decisions threaten middle- and working-class families' financial security.

The RECOUP Act is an important and necessary step to prevent future bank failures, and this Committee will work to get it passed into law.

The collapse of SVB, Signature Bank, and First Republic Bank illustrate why we need important guardrails – on executives, and on the way big banks operate.

We need better protections, like stronger capital and liquidity standards, tougher stress tests, and more rigorous supervision and enforcement.

The bank failures also raised questions about our federal deposit insurance system.

SVB and Signature Bank ignored liquidity risks and used uninsured deposits – all concentrated in the same industry – to finance unsustainable growth.

More than 90% of deposits at SVB and Signature Banks were uninsured. That's about twice the average at Ohio's regional banks, and far more than at community banks.

And when those bets didn't pay off, venture capitalists triggered a social-media fueled bank run, a panic that led to customers yanking $42 billion out of SVB in less than a day. Signature Bank lost $17.8 billion.

When these banks failed, small businesses whose accounts were at SVB and Signature Bank – from Ohio to Utah and across the country, just wanted to make payroll.

And Ohio banks and credit unions didn't want to see their deposits flee to Wall Street megabanks.

Regulators – both Republicans and Democrats – came together to prevent the panic from spreading, protecting customer and small business deposits, without taxpayer money.

The recent failures were not the first time we've covered the losses of uninsured depositors. We've used the systemic risk exception and temporarily expanded deposit insurance in the past, including during emergencies like COVID and the 2008 financial crisis.

We all understand the need to protect depositors and promote confidence and stability in the banking system in a time of crisis.

It's also our job to make sure banking safeguards work for everyone – for consumers, for small businesses, for banks that serve their local communities – not Wall Street megabanks and big investors.

Deposits serve a critical function in our banking system and economy. They are the source of our money supply and the financing that banks use to make loans to middle- and working-class Americans looking to buy a home or start a business.

Community banks play a pivotal role in making these loans. They maintain close ties with their communities and have a vested interest in the customers they serve and they see every day.

People know those bankers and trust them to use their deposits to invest in their local communities and make loans to their neighbors.

Yet decades of bank consolidation and concentration have led to deposit flight to Wall Street megabanks, stripping wealth from local economies. Over the past twenty years, the number of commercial banks has been cut in half. Today only 14% of deposits are held by community banks.

If customers move their deposits to megabanks because they think they're the only place their deposits are safe, it has an outsized impact on investments in local economies—especially in rural communities where often community banks are the only commercial bank presence.

And when regulators take action to protect uninsured depositors and prevent a crisis from spiraling out of control, those costs—like the special assessment to pay for the failures of SVB and Signature— should be borne by the banks that take on the most risk yet somehow still benefit the most.

We can't let Wall Street megabanks siphon deposits from smaller banks, scoop up failed bank assets at a discount, and then continue to grow unchecked.

When we created deposit insurance 90 years ago, we promised Americans that reckless gambling on Wall Street wouldn't put families' hard-earned deposits at risk.

Since then, every time a bank has failed, FDIC has made sure that insured depositors didn't lose a penny. And working American families have had the confidence to keep their money in banks without fear of a bank run.

The purpose of today's hearing is to understand whether our current federal deposit insurance framework continues to fulfill that promise. Our panelists come from diverse backgrounds and present unique perspectives on what changes, if any, should made.

We need to make sure deposit insurance protects small savers, workers, and businesses, and promotes competition, confidence, and stability in the banking system – in community banks, credit unions, and regional banks, not just the megabanks and big investors.

We also need to make sure that the rules banks have to follow to prevent bank failures are strong enough, too.

Because make no mistake, increasing deposit insurance coverage without putting in place stronger guardrails is akin to throwing a lit match into a pile of dried leaves.

Changing deposit insurance is not a cure-all, it's a complement to stronger financial regulations and banking supervision.

Sending a signal that the financial industry can make risky bets with abandon, and if their banks fail the government will always pick up the tab, will only lead to more bank failures and more financial crises.

We've seen what happens when big banks don't properly manage risks and build up sufficient capital – too often, it's workers who end up facing the consequences.

Every time Wall Street crashes our economy, we put tougher guardrails in place to protect workers and consumers and prevent it from happening again.

And then the lobbyists get to work, watering down – or too often, erasing altogether – important financial safeguards.

We can’t make changes without first undoing the rollbacks of financial safeguards that have reduced bank supervisors’ ability to police unsafe practices and to ensure the biggest banks have sufficient capital and liquidity.

Our financial watchdogs must work to strengthen our banking system, help our economy grow, support local communities, and ensure working families’ and small businesses’ money is safe.

Ranking Member Scott.

###