In Support of Increasing Deposit Insurance
from the FDIC and NCUA Funds
for Small Business Payrolls and Operating Accounts

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hearing on Evaluating Perspectives on Deposit Insurance Reform

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Chair, Ranking Member, and Members of the Committee:
Thank you for the opportunity to testify.

Today, while you hear one singular voice. I speak for 144 million credit union members—families who depend on every paycheck and small businesses that keep Main Street alive. I also speak for 40 million Americans in the Defense Credit Union Council—Americans who serve or have served our country in uniform, and the loved ones who support their service with great personal sacrifice alongside them.

While credit unions remained safe during the March 2023 crisis, we are deeply concerned about the risks posed by implicit guarantees for "too-big-to-fail" banks and the threat this creates for Main Street and our National Security.

When their payroll is at risk, America's stability is at risk.
When their local banks are weakened, Main Street is weakened.
And when small businesses stumble due to corporate greed, our national security stumbles too.

This is bigger than banking. This is about paychecks, communities, and the strength of our nation. Our fellow Americans are counting on us.

Now, I realize that in financial policy we often find ourselves trying to choose either end of the sharp stick —between the dangers of moral hazard on one side and the need to buffer confidence in the system on the other. But this is no longer just a question of moral hazard. It's a question of national hazard. This is America, and we can grab and balance that stick in the middle.

The March 2023 Shock

In March 2023, our nation saw the fastest bank runs in modern history. Silicon Valley Bank lost a quarter of its deposits in a single day, Signature bank and First Republic soon followed. Depositors moved roughly $119 billion out of small banks in one week—double the previous record—while the largest institutions saw inflows. Per JPMorgan's analysis $550 Billion moved to big banks and money funds during the crisis.

This wasn't about better interest rates. It was about confidence. Americans believed the biggest banks were safer. Multiple studies—from the IMF to academic researchers at NYU—confirm that deposits fled smaller institutions even when large banks weren't offering higher returns.

If left unaddressed, this dynamic entrenches "too-big-to-fail" and hollows out relationship banking in our communities.

Why It Matters for Small Business

Small businesses are the backbone of America:

- 99.9% of firms,
- 59 million jobs, employing nearly half the private workforce,
- 43.5% of GDP,
- Key innovators producing patents at a rate 16 times greater than large companies.

Two-thirds of small businesses rely on local or regional institutions where they are known, and their market is understood. When confidence drives them to move deposits to Wall Street, communities lose credit, payrolls become unstable, and our defense supply chains grow brittle.

We've already seen the cost. In Lindsay, Oklahoma, the 2024 failure of a community bank left a local manufacturer Brandon Conner from C-Star MFG with a reported $150,000 uninsured loss—money meant for payroll.

We saw the cost in real time. When Silicon Valley Bank, also known as SVB, collapsed, an Ohio payroll company, Patriot Software, suddenly had its accounts frozen. Overnight, 8,100 small businesses across the country couldn't run payroll. One of them— Fry the Coop a restaurant in Chicago—missed paychecks for 227 employees. For those workers, this wasn't a debate about liquidity or systemic risk. It was rent, credit card bills, and groceries that couldn't be paid. And I can't help but wonder who paid their late fees?

A second payroll company, Rippling, had $545 million for payroll clients frozen for paychecks at SVB, way above the $250,000 FDIC and NCUA insurance limits. How can we hold working Americans responsible for where their employer banked and then in turn where their employer's payroll company banked?

These cases highlight the urgent need to secure payroll accounts, for all Americans. So far the only message we have sent to Main Street has been clear: if you're big, you're safe; if you're local, you're at risk.

A National Security Risk

This isn't just an economic issue, it's a national security issue. The DoD depends on small businesses for critical parts, innovation, and supply chain resilience. Small firms provide over $80 billion annually in direct defense contracts and $59 billion more through subcontracting.

When bank failures threaten small suppliers, defense programs are at risk. In 2023, firms building drones, propulsion systems, and defense AI nearly missed payroll because their cash was tied up at Silicon Valley Bank. It was a near miss with national-security consequences.

History—from the 1980s savings and loan crisis to the 2008 recession—shows that when small banks fail, small defense suppliers often exit the market. That weakens our industrial base and ultimately our deterrence.

What Congress Can Do

The challenge is balancing stability with avoiding moral hazard. Blanket guarantees calm panic but encourage reckless behavior. Instead, Congress can take targeted steps:

1. **Targeted coverage for business payment accounts.** Protect deposits used for payroll, payables, and taxes, without extending unlimited coverage to all accounts.
2. **Price risk properly.** Make banks with higher concentrations of risky, uninsured deposits pay more for insurance (roughly 95% of SVB deposits were uninsured according to the SEC filings from December 2022).
3. **Strengthen mid-size bank liquidity and transparency.** Require faster reporting and stress tests for $50–250B banks so depositors have clarity.
4. **Standardize reciprocal deposit protections.** Ensure small businesses can safely spread balances across banks without hidden risks.
5. **Clarify the "systemic risk exception."** Make clear criteria for when extraordinary coverage will apply, to reduce uncertainty and perceptions of favoritism.
6. **Protect defense supply chains.** Direct DoD to provide emergency bridge financing for cleared small vendors when bank failures threaten payroll or contract delivery.

Closing

The crisis taught depositors a simple lesson: size equals safety. That perception drained community and regional institutions, leaving small businesses—and even our defense base—exposed.

"Let us not ask what small businesses can do to survive our financial system—let us ask what our financial system must do to ensure small businesses, and the nation they sustain, will endure."

Thank you. I look forward to your questions.

Remarks before the Senate Committee on Banking, Housing, and Urban Affairs

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Effect on Mainstreet

In March 2023, the United States experienced the fastest modern bank runs on record. Silicon Valley Bank (25% loss of deposits in one day) and Signature failed within days, and First Republic soon followed. The facts are stark: in the week ending March 15, deposits at *small* institutions fell by roughly $119 billion—more than twice the previous record—while large banks saw inflows. That wasn't because big banks paid more; it was because depositors believed they were safer. Research since then shows that:

- In the weeks of March and May 2023, deposits at large banks grew 2–3 percentage points faster than at small banks—classic "flight to safety."
- 2024 Association for Professionals "Liquidity Survey" showed 45% of organizations moved deposits to larger institutions.
- The Conference of State Bank Supervisors stated: "*after March 2023 - small businesses moved deposit to the too-big-to-fail banks with implicit guarantees*", noting that reciprocal deposits had grown from $67.2 billion in the years previously to $173.9 billion as banks sought expanded coverage.

- Independent analysis by the IMF confirms the pattern: banks above $250 billion in assets experienced deposit inflows in March 2023, consistent with a reallocation from smaller institutions.

In plain English, many Americans concluded that the biggest banks were "too big to fail," and they acted on that belief.

If we do nothing, we entrench that "too-big-to-fail" advantage and hallow out relationship banking in communities across the country.

Evidence that deposits moved because large banks were seen as safer

National outlets asked—and answered—this question in real time:

- **Bloomberg (Mar 13, 2023):** "Too-Big-to-Fail Lenders Rake In Deposits…" (documenting immediate flows to the largest banks).
- **Reuters (Mar 24, 2023):** Fed H.8 data showed the $119B one-week outflow from small banks.
- **Washington Post (Mar 19 & 24, 2023):** "Big banks may get bigger…" and "Bye, banks…" reporting tens of billions flowing to giants and an estimated $550B shifting to big banks and money funds over two weeks, per JPMorgan analysis.
- **Wall Street Journal (Mar 30, 2023):** "Small Banks Are Losing to Big Banks…" quoting community bankers on competing against "too-big-to-fail" perceptions.
- **IMF (Mar 2024):** Formal analysis: deposit **inflows** at >$250B banks during the stress, consistent with perceived safety.
- **Academic evidence (2024):** "Flight to Safety in the Regional Bank Crisis of 2023" (Caglio, Dlugosz, Rezende): large banks' deposit growth outpaced small banks during failure weeks without rate sweeteners.

Why this matters for small business—and for America

Small businesses are the backbone of our economy and our security.

- They make up 99.9% of U.S. firms,
- employ about 59 million Americans (roughly 46% of the private workforce), and
- generate about 43.5% of GDP.
- They produce 16 times more patents than large companies.
- The receive more than a quarter of federal contracting dollars—26.5% in FY2022, a record at the time.
- 67% rely on small or regional financial institutions. Only 14% use national banks.

When small-business owners feel compelled to move deposits out of their hometown financial institutions, communities lose credit, payrolls become fragile, and our defense industrial base grows more brittle.

Real-world Main Street cases:

Lindsay, Oklahoma (2024)

The perception that big banks will be fully protected while small banks are not, became concrete in October 2024, when the First National Bank of Lindsay in Oklahoma failed after OCC cited fraud and unsafe conditions. Insured deposits were transferred, but uninsured depositors faced losses. Local media coverage profiled Brandon Conner, owner of C-Star MFG, who reported a $150,000 uninsured loss—payroll and operating cash.

Brookings characterized the case as a “return to normal” loss-sharing for uninsured accounts, in sharp contrast to 2023’s broad protection at large institutions. The point is to recognize how uneven backstops are perceived by small businesses on the ground. And with 67% of them ordinarily choosing local institutions this is a major destabilizer of our grander banking system

Payroll Company Case: Patriot Software and SVB

At the height of the March 2023 crisis, Patriot Software—an Ohio-based payroll provider—saw its accounts frozen at Silicon Valley Bank. Overnight, 8,100 of its business customers were unable to run payroll. One of those was Fry the Coop, a Chicago-based restaurant chain, which missed payroll for 227 employees.

The consequences rippled fast. Employees had rent, mortgages, credit card bills, and groceries depending on paychecks that never arrived. Questions remain:

- Did missed payrolls cascade into late fees, unpaid credit obligations, or damage to personal credit scores?
- Was food insecurity made worse in households that suddenly lost expected income?
- Who bore the cost—employees, their employers, or the financial system?

Workers had no idea their paychecks were tied up in a bank thousands of miles away in California. For them, this wasn’t an abstract debate about liquidity or systemic risk. It was missed rent, late bills, and an empty fridge.

"When payroll doesn’t run, Main Street doesn’t eat. And no American worker should discover their paycheck is hostage to a bank failure half a country away."

As a national security risk and impact on our Military and mission partners/communities

At the DoD, small businesses aren’t a “nice to have”—they’re essential. DoD’s own strategy underscores that small firms “keep our forces combat-ready with critical parts, cutting-edge technology, and services,” and they constitute the majority of firms in the Defense Industrial Base. DoD and the SBA have been pushing to expand that participation, with agencies repeatedly exceeding small business contracting targets.

Role of small business in DoD supply chains

- Small businesses receive 20-25% of direct contracting dollars $80-$85 billion annually
- DoD shows an additional $59 billion flowed to small businesses through subcontracts in 2022 alone
- Critical niche and sole source components, one example:
    - Importantly our next generation capabilities and war readiness are often driven through the SBIR (seed grants for early-stage innovation) programs with $1 billion annually to small innovative companies. SBIR turned a three-person robotics startup into the maker of bomb disposal battlefield life savers…and the Roomba in your living room.

National-security spillovers from the 2023 shock

The March 2023 failures rattled defense innovators. The Pentagon's Defense Innovation Unit and the Office of Strategic Capital quickly assessed risks to vendors, including startups on DoD contracts whose operating cash and payroll sat at Silicon Valley Bank. DIU officials publicly described the situation as "very concerning," and Defense One reported contingency planning to keep national-security work on track. SVB itself marketed dedicated banking to defense and aerospace startups—underscoring that the collapse touched companies in DoD's supply chain.

GAO (Government Accountability Office) and DoD consistently warn that the supply chain is fragile around the issue of small business financial resilience. Meeting payroll being one of those issues.

Small businesses are also major suppliers of the larger companies such as Lockheed Martin

America's largest defense prime relies on thousands of small suppliers. Lockheed Martin reports awarding about $6.6 billion—21.8% of supplier spend—to 7,355 small businesses in 2023. The Orion spacecraft program alone draws on ~2,900 suppliers, roughly half of them small businesses. Examples include:

- Ryan Electronics Corporation, Gardner Massachusetts
- AMAMCO Tool & Supply, Duncan South Carolina
- Paragon Space Development Corporation, Tucson Arizona

When small manufacturers fear uninsured losses at their community financial institution, programs underpinning U.S. deterrence are put at risk.

There has been several Near-Miss Case Studies: DoD Small Businesses & Bank Failures

While federal interventions (FDIC backstops, systemic risk exceptions) prevented outright collapse, these episodes demonstrate the fragility of small suppliers in the defense industrial base when financial institutions fail.

Case Study 1: Silicon Valley Bank (2023)

- Firms Affected: Shield AI (autonomous drones), Anduril Industries (defense AI systems), Ursa Major (rocket propulsion).
- Impact: All deposits at SVB; nearly missed payroll and contract milestones, risking DoD programs.
- Outcome: FDIC systemic risk exception guaranteed deposits. Firms survived, but the Pentagon acknowledged national security risk exposure.

Case Study 2: Great Recession (2008–2012)

- Firms Affected: Small contractors on DoD base housing and logistics projects, dependent on community banks.
- Impact: Over 450 bank failures eliminated credit lines and bonding capacity; projects delayed, suppliers exited the base.
- Outcome: Some small firms went bankrupt or withdrew. DoD rebid contracts, slowing readiness projects.

Case Study 3: Savings & Loan Crisis (1980s–1990s)

- Firms Affected: Local small businesses tied to military housing construction under privatization initiatives.
- Impact: Collapse of S&Ls; cut off construction financing; projects stalled midstream.
- Outcome: DoD had to restructure or reassign projects; many local suppliers exited the defense contracting space.

Key Takeaways

- No clear evidence of outright supplier wipeouts due solely to bank failures.
- But repeated misses show small businesses are vulnerable when banks collapse.
- Consequences include contract delays; supplier exits and weakened industrial base resilience.
- Protecting small business financial stability is a national security issue.

Could enemies of the state use a run on a Bank to destabilize our economy and defense supply chains?

In short the answer is yes.
In May 2019, a rumor started on WhatsApp, that regulators were about to seize the assets and deposits of a sure to fail UK bank. On the Monday following the rumor, the share price dropped 9%. By October 2019 Metro Bank had lost up to 24% of its retail customers. While the rumor did not cause the bank to fail, the episode highlights how fragile the system can be to pure rumor.

Banking failures seem to have hit communities around military bases disproportionately harder and needs more study

Several community banks near major military installations failed in recent years, exposing servicemembers to financial risks.

- Uninsured deposits ranged from $130M to $900M per bank, representing 14–25% of total deposits.
- La Jolla Bank (near Camp Pendleton & MCAS Miramar) carried the largest uninsured exposure: $900M.
- Naval Station Norfolk's Bank of the Commonwealth: $300M uninsured deposits - significant vulnerability in the nation's largest naval base area.
- Smaller bases were not exempt: Cooperative Bank (near Camp Lejeune) with $130M in uninsured deposits.
- Patterns show local economies serving service members were disproportionately impacted when banks collapsed.

What Congress can do—raise resilience without raising moral hazard

The Committee faces a hard truth: blanket guarantees calm panics but encourage risk-taking. We can thread this needle with reforms that protect the plumbing of the economy—payrolls and payments—without writing a blank check for every dollar everywhere.

1. **Adopt "Targeted Coverage" for business payment accounts.**
   The FDIC's 2023 reform study favored higher (even unlimited) insurance for *business payment* deposits—funds used for payroll, payables, and taxes—without extending it to all deposits. This approach directly reduces run risk on small-business operating cash and limits bailout expectations elsewhere. Congress can define qualifying accounts, require attestations, and direct risk-based premiums to fund the added coverage.

2. **Price risk properly and make it visible.**
   Align insurance assessments with concentrations of uninsured, non-operational deposits, unrealized securities losses, and fast-run exposure. The institutions that benefit most from targeted coverage should pay more for it—reducing cross-subsidies and moral hazard. (The FDIC has already special-assessed banks to recoup 2023 losses; Congress can codify a principled framework.)

3. **Strengthen *mid-size* bank liquidity and transparency.**
   Digital runs outpace traditional liquidity playbooks. Build on Fed/FDIC post-mortems to tighten hourly/liquidity reporting for banks between $50–$250B, stress-testing for deposit flight speed, and disclosure of interest-rate risk—so uninsured depositors aren't guessing.

4. **Standardize reciprocal and sweep protections – safely.**
   Reciprocal-deposit networks split large balances across many banks to stay under the cap. Their use has grown substantially since 2023. Treasury, FDIC, and the banking agencies should set uniform disclosure, operational standards, and supervisory expectations so small businesses can rely on these tools without hidden risks.

5. **Clarify the "systemic risk exception."**
   In 2023, invoking it stopped a panic; in 2024 (Lindsay, OK), uninsured depositors took losses. Clearer statutory criteria and ex-ante disclosures can reduce uncertainty—and perceived favoritism—while preserving the option for rare, true emergencies.

6. **Harden the defense supply chain's working capital.**
   Direct DoD to build a rapid-pay, emergency bridge-financing lane for cleared small vendors when a *banking* disruption threatens performance—coordinated with DIU/OSC. This reduces contagion from bank-specific shocks to national-security programs.

Closing

The March 2023 crisis taught depositors a simple lesson: size seemed to equal safety. That perception pulled money from community and regional institutions, especially the ones that finance the small businesses that power our economy and equip our military. We can fix this without inviting the next crisis: insure what's essential for commerce and payroll, price the risk fairly, modernize liquidity rules, and keep emergency tools exceptional.

If we do that, small businesses—from tech startups with DoD prototypes to family-owned machine shops supplying the F-35—won't have to choose between their local communities and their peace of mind.

Thank you. I look forward to your questions.

Biography

Peter Rice has served as the President and CEO of Hanscom Federal Credit Union since 2022. HFCU is the largest Massachusetts based defense credit union, a purpose driven organization founded by and for Americans with a passion for service. He also serves as the President of the HFCU Charitable Foundation which is dedicated to the better of the lives of those who have served our nation, our veterans.

During his tenure, Peter has championed financial wellness as a behavioral and human health issue, and has designed purpose built financial coaching and financial questing rooms designed to include those with disabilities so that they may learn through play in a hands on environment that seeks to banish shame and stigma from gaining access to the financial services system.

Peter comes to Hanscom with 20 years of financial services industry experience. He served as an advisor for international relations to two successive Governors of Nagano Prefecture Japan.

Peter also serves as the Chair of the National Defense Credit Union leagues Political Advocacy Committee, New England Council Board Member, The World Affairs Committee for America's Credit Unions, Advisory Board member of Blue Star Families and as an Honorary Commander at Hanscom Air Force Base.

A Native of Dublin Ireland, Peter and family live in Shrewsbury Massachusetts. Peter is a graduate of University of Ulster, has received the Japanese Monbusho Scholar award, completed the Furman University graduate program of Consumer Bank Associations, and has an MS in Finance from Harvard University.

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“What about credit unions and the NCUA?”

Let me also address credit unions and the National Credit Union Administration—the parallel to the FDIC in the credit-union world. The NCUA administers the National Credit Union Share Insurance Fund, which—like the FDIC—generally insures up to $250,000 per member, per insured credit union, per ownership category, with separate coverage for certain retirement and trust accounts. No member of a federally insured credit union has ever lost a penny of insured savings.

For small businesses that bank with credit unions, corporate/partnership/unincorporated-association accounts are insured up to $250,000 per credit union and separately from owners’ personal accounts—provided the entity is engaged in an “independent activity,” not just splitting funds to game coverage. (That’s codified in the NCUA’s share-insurance rule at 12 CFR §745.6.)

The NCUA also operates a Central Liquidity Facility (CLF)—a back-up source of loans to help member credit unions meet liquidity needs in stress, complementing their access to market funding. This is part of how the credit-union system manages runs without blanket guarantees.

During the March 2023 period, NCUA data show insured shares and deposits at federally insured credit unions were up ~2.3% year over year to ~$1.73T in Q1 2023—steady, not a surge. In other words, while deposits fled some smaller *banks* toward the very largest institutions, credit-union funding remained broadly stable.

Finally, on the resiliency of the insurance fund itself: the Share Insurance Fund’s equity ratio hovered around 1.30% at year-end 2024, slightly below the Board’s 1.33% normal operating level; as of year-end 2023 the Fund insured 4,615 credit unions with $1.7T in insured shares. Those metrics help this Committee benchmark the system’s loss-absorbing capacity as we evaluate any changes to deposit insurance.

Staff fact pack (NCUA quick hits & references)

- **Standard coverage**: $250,000 per member, per insured credit union, per ownership category; separate coverage for IRAs/Keoghs and trusts.
- **Business accounts**: Corporations/partnerships/unincorporated associations insured up to $250,000, separate from owners; requires “independent activity.” (12 CFR §745.6).
- **Trust rule simplification (2024)**: NCUA created a single “trust accounts” category (administrative simplification aligning with FDIC’s approach). NCUA
- **CLF**: NCUA’s Central Liquidity Facility provides contingency liquidity to member credit unions.
- **System size**: At 12/31/2023, NCUSIF insured 4,615 credit unions; insured shares ~$1.7T; total assets ~$2.26T.
- **Equity ratio**: ~1.30% (Q4 2024), below 1.33% normal operating level; Board projections published periodically.
- **Stability in 2023**: Insured shares/deposits +2.3% YoY to ~$1.73T in Q1 2023; NCUA noted growth had slowed as members drew down pandemic savings.