

Re: Opposition to Enhanced Deposit Insurance

Dear Members of Congress:

We, the undersigned organizations, and individuals, oppose any legislative or regulatory action that would increase the deposit insurance cap or fully insure all deposits at insured depository institutions on a temporary or permanent basis. Any enhanced deposit insurance framework would increase moral hazard, propagate a cycle of risky behavior that will force taxpayers to perennially bail out depositors, and subject insured depository institutions to more government control.

After the collapse of both Silicon Valley Bank (SVB) and Signature Bank (Signature), the federal government used an esoteric provision in statute to circumvent Congress and fully guarantee all deposits at the respective banks. Under normal circumstances, the Federal Deposit Insurance Corporation (FDIC) is only authorized to [insure deposits](#) of up to \$250,000 per depositor, per insured depository institution, per ownership category.

When the FDIC was established in 1933, deposit insurance covered up to [about](#) \$56,000 in today's dollars. Over time, the threshold has increased, market discipline has eroded, and moral hazard has gradually taken hold over the banking system.

The [Government Accountability Office](#) (GAO) has outlined the risks of moral hazard. This GAO report discusses how the [Federal Deposit Insurance Corporation Improvement Act](#) (FDICIA) of 1991 prohibits the FDIC from protecting uninsured depositors and creditors, "if such protection would increase losses to the fund."

The Biden administration's decision to insure all depositors at SVB and Signature and hint at [additional protections for the uninsured](#) seems to—in the words of the GAO report—"have induced moral hazard—encouraging market participants to expect similar emergency actions in future crises, thereby weakening their incentives to properly manage risks and also creating the perception that some firms are too big to fail." The GAO report goes on to say that expanded deposit insurance "could weaken incentives for newly protected, larger depositors to monitor their banks, and in turn banks may be more able to engage in riskier activities." This weakens market discipline and is what led to venture capital firms and tech startups withdrawing [\\$42 billion](#) from SVB in a single day. These financially sophisticated millionaires should have known better and should not have been bailed out.



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Some lawmakers have proposed temporarily insuring all deposits. By using the systemic risk exception as authorized in the FDICIA, the Biden administration waived the requirements to determine the “least-cost” methodology for insuring bank deposits at SVB and Signature. The federal government has done this in the past. In 2008, the government established the [Transaction Account Guarantee Program](#) (TAG) to insure non-interest-bearing accounts. In 2012, however, Congress did not reauthorize the TAG because Senate Republicans [opposed it for being the antithesis of free market policy](#). Now, in 2023, there are [calls](#) to establish another “temporary” program for *all* accounts.

Any new temporary program will likely increase fees on banks because under the TAG, if “fees were unable to cover bank defaults, the FDIC planned to levy a special assessment fee on the banking industry to cover the difference.” A de facto tax was imposed on banks, and it is being proposed once again.

Ultimately, taxpayers are on the hook for insuring deposits. Banks will have to pay more fees to shore up the FDIC’s Deposit Insurance Fund (DIF) because [federal statute](#) requires the FDIC to apply “1 or more special assessments” on banks to cover losses from using the systemic risk exception. The cost of these fees will be passed down to American consumers in the form of more expensive banking services, such as higher costs to receive a revolving line of credit through a credit card, which [83 percent](#) of Americans use every day.

Expanding deposit insurance will make the banking sector more reliant on the federal government. If deposits are fully guaranteed, banks will be more heavily regulated and may function more like government-sponsored enterprises, such as Fannie Mae and Freddie Mac. Fully guaranteed deposits will also give the government leverage to both determine which industries banks should favor and manipulate rates on loans. This egregious expansion of government power may lead the U.S. banking system down the road [to](#) “de facto nationalization.”

Additionally, an expansion of any type of deposit insurance would force lower-income Americans to bail out wealthier Americans. Americans have a median savings account balance of [about](#) \$5,300 while Black and Hispanic Americans have median bank account balances of approximately \$1,500 and \$1,900, respectively. Because of the SVB and Signature collapses, these depositors will have to pay higher banking service costs to bail out millionaires and billionaires. An expansion of deposit insurance will force lower-income depositors to pay even higher costs to cover future bailouts for wealthy depositors.



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Calls to increase the deposit insurance cap or insure all deposits will force banks to be reliant on the federal government. This will promote excessive risk-taking, require lower-income bank customers to subsidize wealthy bank depositors, and subject banks to more government control. Instead of operating with market discipline, banks will function more like state-sponsored entities.

We applaud lawmakers who have [already](#) opposed enhanced deposit insurance and encourage other lawmakers to reject any legislative or regulatory actions to increase or expand deposit insurance for any type of deposit on a temporary or permanent basis.

Sincerely,

Grover Norquist
President
Americans for Tax Reform

Brent Gardner
Chief Government Affairs Officer
Americans for Prosperity

Paul Teller
Executive Director
Advancing American Freedom

Thomas Kingsley
Director of Financial Services and Housing Policy
The American Action Forum

Steve Pociask
President / CEO
American Consumer Institute

Daniel J. Mitchell
President
Center for Freedom and Prosperity

Jeffrey Mazzella
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