Testimony of Chris Furlow
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of the
Texas Bankers Association
before the
U.S. House Committee on Financial Services
Hearing on "The Future of Deposit Insurance"
November 18, 2025
Rayburn House Office Building

Chairman Hill, Ranking Member Waters, and members of the Committee, thank you for the invitation to testify on behalf of the Texas Bankers Association on the proposed two-step deposit insurance modernization strategy.

We appreciate that there are a number of deposit insurance reform proposals before Congress including the Ranking Member's bill aimed at raising small business deposit insurance thresholds—and on the Senate side, the bill by Senators Hagerty and Alsobrooks.

We are not here today to oppose those bills, but to provide immediate protection of the banking system while allowing time to appropriately collect missing data and to evaluate the best approach to achieve long-overdue permanent modernization.

The risk profile and competitive structure of today's marketplace is dramatically different than it was when the Depression-era economy led to FDIC's creation in 1933. Yet the objective of providing depositor confidence remains critical today.

I would like take us back to the failures in the Spring of 2023. Over a nerve-racking weekend, the social media-driven SVB bank failure nearly brought the banking system—and our economy—to its knees. It was quickly followed by Signature Bank's failure.

Community and regional banks—through no fault of their own—were suddenly at risk from a deposit insurance system not up to the task because depositors moved large sums of capital to institutions believed to be "too big to fail," to government money market funds, and to other perceived safe havens. Regulators scrambled to put facilities in place before markets opened that Monday and a media frenzy ensued.

Simply put. We got lucky.

Current processes to address systemic risk are antiquated and do not keep up with contagion that now runs at digital speed and with a 24-hour news cycle. We must have deposit insurance that helps prevent systemic failure first—rather than first arguing over who pays when the system fails to stop it.

With no firm consensus within industry or Congress, we strongly support a two-step process to provide immediate system protection, and enable a data-driven, multi-stakeholder process to achieve long-term modernization.

The two-step approach is not just supported by the Texas Bankers Association—America's largest state banking association. It is an idea backed by the Arkansas Bankers, Colorado Bankers, Kentucky Bankers, Missouri Bankers, Oklahoma Bankers and New Hampshire Bankers Associations. These associations from Middle and Main Street America represent over 1,000 banks of every size and nearly one quarter of FDIC-insured institutions.

The first step: An Emergency Transaction Account Guarantee or E-TAG capability. Deposit insurance must, first, be a prophylaxis against bank runs, not a reactionary facility. With the confidence this proactive capability provides, impacts to the Deposit Insurance Fund can be prevented in the first place, which helps avoid expensive and always contentious assessments.

Our E-TAG proposal would ensure that in a true systemic emergency, depositors at banks of ALL sizes are protected—not just those at institutions deemed "too big to fail." This approach was specifically designed to address key concerns and 2023 shortfalls that put the system on edge. This includes:

Stopping Contagion Risk – The E-TAG proposal provides a 120-day period in which there is full coverage of transaction accounts at banks of all sizes—not just the largest banks. A pause, if you will. 120 days can

preserve confidence while allowing the precipitating conditions that caused the systemic instability to subside.

Bureaucratic Delay – In the digital/social media age, our proposal would replace bureaucratic Fed-FDIC processes when time is of the essence and depositor confidence is at most risk. With notice to the FDIC and Fed, our proposal enables the Treasury Secretary to invoke systemic risk authority to quickly implement the E-TAG program without the current prerequisite that at least one bank is placed into receivership.

Moral Hazard – The 120-day period is for systemic emergencies and is, therefore, by design, temporary. The 120-day period also allows the collection of a full post-event quarter of data to inform forward-looking decision making by Congress, the Administration, and regulators.

Checks and Balances – Under this emergency TAG proposal, any extension beyond 120-days would require Congressional approval.

Members, this proposal is fair across all constituencies and bank sizes.

This E-TAG approach will ensure that the system works as intended to prevent bank runs, in contrast to 2023 when uncertainty caused too many community, mid-size, and regional banks to experience deposit flight.

This E-TAG proposal does not pick winners and losers among banks. It protects all depositors regardless of the size of the institution that they choose.

This is not reactionary. It is the most proactive step we can take. The mere fact that the FDIC would have this tool will instill long-term faith and confidence in our financial system for depositors, investors, and financial markets in a way that no purely coverage-based approach can ensure.

With a backstop in place, we can move to accomplish the second, more complex and politically sensitive step: to fully and fairly modernize the

nation's federal deposit insurance system. There are important questions that remain unanswered.

What are appropriate assessment thresholds? What are the costs and who pays? How do we get reliable data? Will modernization include updates to the bank resolution process, enhanced consumer savings initiatives, and will it address the security features necessary to accommodate modern payment-system technologies? Exam procedures and appeals also deserve review under the umbrella of comprehensive reform.

Mr. Chairman, one final comment. Deposit Insurance is not a government bailout of banks. Banks pay deposit insurance premiums. Yet, as 2023 demonstrated, our community, mid-size and regional banks were not just put at risk, they were stiffed and are subject to ongoing reserve ratio premiums. At the time of the SVB and Signature Bank failures, the government could not say if it would follow through to protect those that paid deposit insurance. A comprehensive deposit insurance system for the 21st Century should address this inequity.

In closing, we suggest Congress reconsider what constitutes the concept of a "systemically important bank." All banks—to include small, rural and urban community banks—and the mid-size banks that often work with them—are "systemically important" to the communities they serve.

We look forward to working with this Committee to mitigate the potential for deposit "run-offs" that have destabilized regional and community bank deposits twice in the last five years.

And we stand ready to consider all proposals for a modernized system that will inspire depositor confidence regardless of the size of bank that depositors choose.

Thank you again for the opportunity to be here today.