



Written Testimony of Grover G. Norquist, President of Americans for Tax Reform

Chairman Hill, Ranking Member Waters, and members of the subcommittee,

Thank you for the invitation to testify. As the President of Americans for Tax Reform – a nonprofit, 501(c)(4) taxpayer advocacy organization that opposes all tax increases and supports limited government – I testify today against putting taxpayers and consumers on the hook for bank failures.

This includes expanding federal deposit insurance coverage beyond the current \$250,000 limit. **An expanded guarantee would magnify moral hazard, slow lending and economic growth, and expose taxpayers to unlimited backstop liabilities.** Members should understand that raising deposit insurance coverage will only make bank bailouts more likely.

Despite the FDIC's codification in 1933 under Glass-Steagall, bank failures still happen. Since 1973, 90 banks with at least \$1 billion in assets have failed, from the savings and loan crisis of the 80s to the global financial crisis in 2008 to the collapse of Silicon Valley Bank two years ago. No amount of regulation can fix bad decision-making and poor risk management. If market forces are not allowed to enforce discipline and discourage excessive risk-taking, all deposit insurance will do is insulate banks from the consequences of their own bad decision-making.

The proposal to raise deposit insurance coverage will not deter future bank failures but increase their costs when they occur and leave taxpayers footing the bill. Given the government's poor track record in attempting to insulate the financial sector from all types of risk, more intervention in the banking sector is unwarranted.

Deposit insurance was created to protect consumers and maintain confidence in the banking system, not to absolve corporations and wealthy individuals from the consequences of their risk-taking.

The FDIC claims that no depositor has ever lost money at an insured institution. This statement deceptively overlooks the fact that while most depositors are made whole, bank failures disrupt

normal business activity and customers lose access to services. That is why it is especially important to prevent bank failures rather than treating deposit insurance as a cure-all.

Increases in federal guarantees shift risks from those who should bear the burden to the public. This breeds moral hazard, the tendency of actors to take greater risks when they know losses will be socialized. Rather than curtailing systemic risk, expanding deposit insurance would fuel it.

Senators Bill Hagerty and Angela Alsobrooks are proposing legislation in the Senate, the *Main Street Depositor Protection Act*, to increase deposit insurance coverage to \$10 million for non-interest-bearing transaction accounts at banks with under \$250 billion in assets.¹

There is no coherent justification for this policy change. As it stands, 99% of all U.S. bank accounts are covered under the existing insurance limit.² The United States provides the highest deposit insurance coverage of any country. As reported by the Federal Reserve, the median household transaction account balance is \$8,000.³ This figure is well below the current coverage limit, meaning regular depositors do not stand to benefit from the legislation.

Rather than insulate banks from the consequences of bad decisions, Congress should restore freedom to the banking industry so the market can discourage irresponsible behavior.

Market Distortions

Deposit insurance has a long history of creating perverse incentives that undermine financial stability rather than protect it. The history of deposit insurance's failures dates back to the nineteenth century, when the New York legislature attempted to create a first-of-its-kind deposit insurance framework in the United States. New York's deposit insurance fund was depleted after the failure of eleven banks, with the state bank examiner identifying "reckless banking," particularly speculation in stocks and real estate, as the primary cause. The examiner noted that the existence of the safety fund itself had eroded concern for prudence and safety. New York's model faltered during the panic of 1837 and exhausted itself by 1842.

Similar dynamics played out in other states. In Oklahoma, rising insurance assessments prompted stronger banks to recharter as national institutions to escape the system, leaving behind a weaker, riskier pool of insured banks and further driving up assessments. Prior to the FDIC's creation, Kansas banks party to the state's deposit insurance fund during the Great Depression failed at higher rates than non-member banks.⁴ A 1956 FDIC report reviewing early twentieth-

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<https://www.congress.gov/119/bills/s2999/BILLS-119s2999is.pdf>

² <https://www.cato.org/blog/less-one-percent-accounts-are-above-fdic-limit>

³ <https://www.federalreserve.gov/econres/scfindex.htm>

⁴ <https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/1989/1/cj8n3-8.pdf>

century guaranty funds acknowledged that state-backed deposit insurance had fueled rapid and unsustainable expansions in the number of state banks, total deposits, and loan portfolios.⁵

Losing depositors should be treated as a market signal for banks to alter their behavior. By raising the insurance limit, banks will have less incentive to carefully manage their balance sheets. The Savings and Loans crisis of the 1980s demonstrated this clearly. Congress raised deposit insurance from \$40,000 to \$100,000 in 1980. When the Federal Reserve hiked rates, savings and loan institutions' asset portfolios lost market value, leading them to pay more interest to attract deposits and continue lending until they finally went insolvent. In 1982, the FSLIC closed 252 thrifts but allowed 201 insolvent “zombie” institutions with negative net worth to continue operating.⁶ These thrifts, backed by deposit insurance, offered abnormally high interest rates to attract deposits and pursued increasingly speculative investments in a desperate bid for survival. Deposit insurance incentivized these institutions to increase their risk exposure thanks to a government backstop guarantee.

By 1984, the number of insolvent institutions had grown to more than 400, and their mounting losses threatened the FSLIC's solvency. As assessments rose to cover the losses, healthy thrifts exited for FDIC insurance, prompting the FSLIC to impose punitive exit fees in 1986 and to ban withdrawals from the FDIC altogether by 1987. In 1989, Congress authorized a \$124 billion taxpayer bailout to resolve the insolvent FSLIC fund.⁷ This vicious cycle, where losses led to higher assessments, drove out strong institutions and left a riskier pool behind. This ultimately left taxpayers footing the bill.

In a report to the President and Congress on the crisis, the National Commission on Financial Institution Reform, Recovery, and Enforcement wrote that “combining insured deposits with risky activities of the institutions offering them courted disaster because it robbed the system of the market discipline needed to control risk.”⁸

The Basel Committee on Banking Supervision, in conjunction with the International Association of Deposit Insurers, published a report on core principles for effective deposit insurance coverage in 2009. In the report, they acknowledged the moral hazard of excessive coverage, stating that the limit on coverage should be “low enough to discourage moral hazard.” They also recognized that a cap on the coverage threshold is necessary for “large and sophisticated depositors to discipline their bank.”⁹ Deposit insurance was never meant for large businesses or

⁵ <https://fraser.stlouisfed.org/title/annual-report-federal-deposit-insurance-corporation-3768/annual-report-1956-476763?page=20>

⁶ <https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/1989/1/cj8n3-8.pdf>

⁷ <https://www.federalreservehistory.org/essays/savings-and-loan-crisis>

⁸ <https://babel.hathitrust.org/cgi/pt?id=pur1.32754063100741>

⁹ <https://www.bis.org/publ/bcbs151.pdf>

sophisticated depositors. These factors discourage banks from undertaking speculative and risky investments. The withdrawal of deposits by large-scale players curtails the assumption of excessive risk in bank portfolios. Heightened deposit insurance coverage removes this critical safety mechanism.

The mismatch between the interest paid on liabilities and the interest received on assets was also the cause of Silicon Valley Bank's collapse. In both cases, these banks increased their conviction on riskier bets to recoup the costs of the financial pressures they faced.

Banks are prone to runs because they borrow short by taking in demand deposits and lend long by making loans and investments with longer maturities. This mismatch creates inherent risk that, when not correctly managed, leads to bank failures as seen in the 1980s Saving and Loans crisis and the 2023 wave of regional bank failures. In every historical case, imprudent management is the main cause of failure, not a lack of deposit insurance.

Failed Regulation will not be Fixed by More Government

Further government intervention is not the answer to protecting depositors. Silicon Valley Bank was a prime example of how excessive regulation backfires and fuels the very problems it is meant to solve. Large banks are compelled by regulators to hold more High Quality Liquid Assets (HQLAs) and maintain stronger bank capital buffers compared to smaller banks. These assets, such as treasuries and other securities, are perceived to be safe and liquid enough to hedge against periods of financial stress and unforeseen outflows.

When SVB and major banks bought trillions in treasuries during the pandemic to fund multi-trillion-dollar fiscal shortfalls, they did not think the Federal Reserve would raise rates to counteract the inflationary pressures that followed. As a result, banks wound up exposing themselves to hundreds of billions in unrealized losses on their portfolios, making SVB and other banks such as First Republic and Signature Bank unable to meet depositors' demands when they were compelled to sell their portfolio holdings.

The failure of Silicon Valley Bank does not support the case for raising deposit insurance. Regulators failed to act in a timely manner to address the banks' interest rate risk and internal liquidity issues that had been compounding prior to the bank's failure. Federal Reserve examiners issued three times as many warnings as the average for banks of a similar size. Despite flagging concerns surrounding the removal of interest rate hedges and an underwater bond portfolio, SVB also failed internal liquidity tests mandated under the Fed's regulation YY.¹⁰

¹⁰ <https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf>

In 2022, the Fed's CAMELS rating gave SVB's liquidity a 3 and gave a 2 or 1 rating for capital, asset, management, and interest rate sensitivity. Regulators failed to follow their own rules – adding more regulation will not change anything as long as deposit insurance insulates banks from the consequences of risky loans. The government cannot prevent or solve every crisis that emerges. If the Fed was unable to take precautionary measures to save SVB, placing faith in the FDIC makes little sense.

Banks already have a diverse array of other tools at their disposal to meet liquidity needs, such as borrowing at the discount window and the Bank Term Funding Program. SVB was ineligible for discount window borrowing at the San Francisco Fed since it failed to set up the collateral needed to qualify in the emergency they experienced in March of 2023.¹¹ The record is clear: The tools to prevent SVB's collapse existed, yet the bank deliberately chose not to position itself to use them.

In 2008, policymakers used emergency authority to extend guarantees far beyond statutory limits under the Treasury Account Guarantee (TAG) program, providing unlimited coverage. It set the precedent that no matter how large or sophisticated a bank is, Washington will always step in to save it. Some complain that not a single CEO went to jail following the 2008 collapse, but they should be complaining that not a single major bank was allowed to fail through the TAG extension.

In 2012, then-Treasury Secretary Timothy Geithner opposed the extension of the TAG program, citing moral hazard, stating before the Senate Banking Committee in 2012 that “our judgment so far has been it's not necessary to extend [TAG].”¹²

The TAG program was implemented at a time of unprecedented distress in the financial sector. The program was not renewed in 2012, partly because doing so would have sent a negative message to markets and the public that Congress and the President lacked confidence in the security and safety of the U.S. banking system. In 2012, Congress let the Treasury Account Guarantee program expire with good cause. It amplified moral hazard by removing the only barrier standing between a sound bank and insolvency. Without market discipline from depositors willing to scrutinize banks, there is little incentive for banks to prevent their own failures.

Fast forward to 2023, and this assumption fueled concentration risk in institutions like Silicon Valley Bank, where nearly 94 percent of deposits were uninsured, yet customers behaved as if

¹¹ <https://som.yale.edu/story/2023/lessons-discount-window-march-2023-bank-failures>

¹² <https://elischolar.library.yale.edu/cgi/viewcontent.cgi?article=9314&context=ypfs-documents>

the government would protect them anyway. And they were right. The FDIC's "systemic risk exception" effectively bailed out depositors in full, including venture capital funds and tech companies, high-risk sectors prone to large losses that should have known better.

Incentivizing risk-taking behavior through raising the deposit insurance cap will increase systemic risk. The systemic risk exception used by the FDIC to justify covering all deposits at SVB was a one-off use and has been abused, as evidenced by the interest piqued in extending deposit insurance coverage further to the tune of tens of millions of dollars. It is a gross misdiagnosis of the issue to perceive regional bank failures as a justification for adding new regulations. Signature Bank and First Republic failed due to poor risk management and bad decision-making. The vast majority of banks of all sizes weathered the 2023 wave of bank collapses unscathed because these incidents were localized. It did not devolve into a financial crisis meltdown similar to 2008 because these risks were not systemic to begin with; they were isolated to specific banks with poor internal management.¹³

The government's response to SVB signals to other institutions that they will be bailed out in the event of a bank failure. SVB's depositors should have paid the price that depositors of Signature and First Republic did. The systemic risk exception has already created the perception that depositors who are too big to fail enjoy a free pass in the case of failure. That deters corrective and preemptive action from fixing the root issue.

A Solution in Search of a Problem

While it is a mistake in general to insulate financial institutions from the consequences of their bad decisions, it is also unnecessary to expand deposit insurance because of SVB's collapse in particular. Two years following the collapse of SVB, the banking system emerged unscathed with no long-term fallout, confirming the nature of SVB's collapse was an anomaly.

Annual stress tests have also continued to demonstrate resilience in the banking sector. The most recent findings concluded that systemically important banks are well-capitalized and hold enough liquidity to weather crisis scenarios such as an unprecedented capital outflow or a recession. The Fed's April report also noted that banks hold more capital than they are required to by law.¹⁴

The financial sector is one of the most regulated industries. Banks and financial institutions spend billions on regulation, compliance, and assessments. Raising deposit insurance coverage is

¹³ <https://www.chicagofed.org/publications/working-papers/2025/2025-04>

¹⁴ <https://www.federalreserve.gov/publications/files/financial-stability-report-20240419.pdf>

a low value-add proposition with a high price tag. It is estimated that the proposal costs \$42 billion.¹⁵ For context, the FDIC collected \$11.6 billion in assessment fees from banks in 2024.¹⁶

The Main Street Depositor Protection Act is an explicit subsidy to small and mid-sized banks. It exempts banks with less than \$10 billion in assets from paying insurance premiums to pay for the proposal. Larger banks will pick up the tab instead. The beneficiaries of the bill are seeking to shift the costs of the proposal to their competitors for their own advantage. That is textbook rent-seeking. Destroying competition and subsidizing banks will reduce consumer choice and raise costs.

The bill exacerbates the proposal's true cost by deferring payment into the future. A provision in S. 2999 exempts FDIC insured depository institutions with under \$10 billion in assets from paying special assessments to recapitalize the DIF for 10 years.

Raising insurance coverage without compelling small and midsized banks to contribute to recapitalizing the DIF is a covert "Buy Now Pay Later" scheme.

The FDIC's Deposit Insurance Fund (DIF) established a statutory minimum reserve ratio of 1.35% and instituted a restoration plan to meet the statutory minimum by 2028, following the partial depletion of the fund during the 2023 bank run crisis. As of Q2 2025, the Deposit Insurance Fund stands at 1.36%, or just 1 basis point above the statutory minimum and is still under the FDIC's target of 2% to withstand severe stress events.¹⁷ Raising deposit insurance will further strain the FDIC's financial goals as raising the amount of covered deposits will automatically put the fund under the statutory minimum ratio, and distance it further from its funding goal of 2%.

By expanding the deposit base, the FDIC would reverse its progress and automatically fall under its statutory minimum. They would then hike assessment fees on banks like they did in 2008. Additionally, the FDIC reserves the right to conduct special assessments and to require prepayment of several years' worth of assessments to replenish its funds. These assessments are a de facto tax on a bank's assets. If a severe financial meltdown occurs, the burden would ultimately fall onto taxpayers to cover the Treasury's increased borrowing. The FDIC claims an emergency \$100 billion line of credit with the Treasury to borrow if the Deposit Insurance Fund (DIF) is depleted, as it was in 2008.¹⁸

¹⁵ <https://www.protectingtaxpayers.org/federal-agencies/new-proposal-raises-price-tag-for-deposit-insurance-reform-rises-to-42b/>

¹⁶ <https://fdic.gov/financial-reports/2024-annual-report-full-report.pdf>

¹⁷ <https://www.fdic.gov/news/financial-institution-letters/2020/fil20090.html>

¹⁸ <https://www.congress.gov/crs-product/IF10055>

By covering more deposits, the FDIC would have relatively less money on hand to resolve failed banks. Enacting the proposal to expand deposit insurance would actively move the DIF in the opposite direction of its funding goals. Pushing the FDIC to cover more deposits actively increases the risk of not being able to resolve failed banks during a crisis scenario. It will undermine faith in the FDIC's abilities by stretching its capacity beyond what it can reasonably cope with.

Slowing Growth

Deposit Insurance premiums also have ramifications for the entire economy. Banks are the primary conduit for monetary policy transmission by lending credit to households and businesses. They enable investment in productive ventures and help businesses scale operations, expand, and invest in labor and capital. Every dollar paid in premiums to the FDIC is a dollar not invested in economic growth. Every dollar taken by regulators is a dollar the real economy loses. Research shows that increases in deposit insurance premiums are associated with a decline in lending and higher borrowing costs.¹⁹

In times of stress, deposit insurance can amplify recessionary disturbances. Banks are assessed deposit insurance premiums based on supervision ratings given by regulators. Bank assets perform poorly in times of recession. Borrowers default, late payments increase, and credit slows. Since banks are assessed on their capital holdings, asset quality, and earnings, they pay higher premiums when they are perceived to be riskier. This further constricts lending activities in recessionary periods.

Deposit insurance is a regressive policy, burdening less sophisticated depositors who do not take advantage of the generous insurance ceilings enjoyed by wealthier depositors.

Proponents of raising deposit insurance claim that large banks benefit from deposit flight during times of economic uncertainty. Small and mid-sized banks claim the implicit guarantee of deposit safety by larger banks needs to be rectified by giving them a piece of the government largesse.

Depositors, however, are rational actors that naturally gravitate towards institutions with stronger reputations and balance sheets. Deposit outflows from smaller institutions represent normal market functioning. Proponents are also wrong to claim that large banks attracting deposits represent moral hazard. In fact, it is the opposite. Depositors price in risk and assess where their money is most safely placed. Outflows should be taken as a market signal for banks to tweak their liquidity practices and manage risk more effectively.

¹⁹ <https://www.fdic.gov/analysis/cfr/working-papers/2022/cfr-wp2022-10.pdf>

Regulations Already Cover Most Risk

Larger banks, such as G-SIBs at the center of this proposal, are subject to numerous capital rules and regulations due to Basel III capital rules and Dodd-Frank. American banks hold more liquid capital than the statutory minimums to avoid unwanted scrutiny from federal regulators²⁰.

Bank capital regulations specifically target larger banks and make them disproportionately attractive by holding them to a higher standard. The issue of regulatory discrepancy and perceived moral hazard lies at the feet of the regulators, not large banks themselves.

Researchers from the IMF and World Bank found that deposit insurance discourages depositors from enforcing market discipline, encouraging banks to finance high-risk projects in search of returns, raising the likelihood of banking crises. The researchers also found an increased likelihood of banking in countries with more extensive deposit insurance guarantees.²¹

The research also found that excessive deposit insurance coverage can fuel bank crises by creating perverse incentives for banks to take excessive risks. The International Monetary Fund recommends limiting deposit insurance coverage to no more than one to two times a country's GDP per capita. When the United States raised its coverage limit from \$40,000 to \$100,000 in 1980, the ratio of insurance coverage to per capita GDP surged to roughly nine. Economists later estimated that the probability of the 1980s S&L failures occurring would have been less than half if the ratio had been just 0.5. The IMF also found in its research that countries with deposit insurance coverage exceeding four times GDP per capita are five times more likely to experience banking crises than those with lower ratios.²² Deposit insurance coverage should be limited to ensure that large depositors continue to monitor bank risk.

The *Main Street Depositor Protection Act*, which suggests raising this guarantee to \$10 million, would greatly expand the covered deposit base and make it unlikely for the FDIC to credibly commit to its coverage limit when the Deposit Insurance Fund is barely above the statutory minimum and is still far from its goal of covering two percent of total deposits. At present, the U.S. coverage ratio to GDP per capita stands around three, indicating that the banking system is more than adequately insured.

Conclusion

²⁰ <https://www.reuters.com/sustainability/boards-policy-regulation/fed-says-banks-resilient-hypothetical-downturn-clearing-way-capital-plans-2025-06-27>

²¹ <https://www.imf.org/external/np/seminars/eng/2006/mfl/pam.pdf>

²² <https://www.imf.org/external/np/seminars/eng/2006/mfl/pam.pdf>

Raising deposit insurance would signal that policymakers remain preoccupied with the regional bank turmoil of 2023. Despite there being no evidence of lasting fallout, policymakers are instead searching for a non-existent problem to solve, creating the perception that the U.S banking system is unstable when this could not be further from reality. Insulating banks further from the risks inherent in irresponsible lending will invite more instability, not less. The costs would disproportionately fall on banks that are not reaping the benefit. In short, the *Main Street Depositor Protection Act* would make our banking system worse. Congress should not pass this bill.