EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 21, 2002
(House)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

H.R. 3717 – Federal Deposit Insurance Reform Act of 2002
(Rep. Bachus (R) Alabama and 63 cosponsors)

The Administration supports those provisions of H.R. 3717 that would improve the deposit insurance system's operation and fairness. Specifically, the Administration supports provisions that would: (1) allow the insurance fund reserve ratio to vary within a range and eliminate triggers that could cause sharp changes in premiums; (2) merge the bank and thrift insurance funds; and (3) ensure that institutions appropriately compensate the FDIC for insured deposit growth while also taking into account the past contributions of many institutions to build fund reserves.

The Administration, however, strongly opposes those provisions of H.R. 3717 that would raise deposit insurance coverage limits. The interests of depositors will not be served by an increase in deposit insurance coverage limits. The average saver would derive no financial benefit from increased coverage limits. The small fraction of savers with substantial deposits may obtain as much coverage as desired at minimal inconvenience by placing deposits at multiple institutions. An increase in coverage limits would neither enhance competition among depository institutions in general nor make the nation's community banks more competitive in raising funds.

Increased coverage limits would also expose taxpayers to additional risk while providing no benefit to the overwhelming majority of Americans. Higher coverage limits would mean greater off-balance sheet contingent liabilities of the Government and weaker market discipline, exposing the insurance fund and taxpayers to increased risk of loss.

To avoid dilution of FDIC and NCUA reserves resulting from the higher coverage limits provided in H.R. 3717, banks, thrifts, and credit unions will need to pay at least $3.5 billion in higher insurance assessments according to CBO and OMB estimates. A substantial amount of the higher industry costs will occur in the first year.

The Administration notes the submission to Congress by the FDIC of recommendations for legislative or administration action is subject to the President’s authority under the Recommendations Clause of the Constitution.

Pay-As-You-Go-Scoring

Any law that would reduce receipts or increase direct spending is subject to the PAYGO requirements of the Balanced Budget and Emergency Deficit Control Act (BEA) and could cause a sequester of mandatory programs in any fiscal year through 2006. The requirement to score PAYGO costs expires on September 30, 2002, and there are no discretionary caps beyond 2002. The Administration will work with Congress to ensure fiscal discipline consistent with the President's budget and a quick return to a balanced budget. The Administration will also work with Congress to ensure that any unintended sequester of spending does not occur.

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