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Opening Statement
Rep. Elijah E. Cummings, Ranking Member

Hearing on "Oversight of the FDIC Application Process"
July 13, 2016

Neighborhood banks are the lifeblood of local communities. They can be a key source of capital for small businesses, and they help working families save for the future.

No one knows this better than my constituents in west Baltimore, where banks are outnumbered by alternative financial services that sometimes offer the most basic products on abusive and predatory terms. The lack of basic banking services is one of the key challenges for families trying to climb out of poverty in this nation.

A discussion about what more can be done to ensure that all communities are adequately served by community banks is long overdue.

Some suggest that communities lack banks because the FDIC is inappropriately blocking the approval of new community banks. But this claim does not appear to be supported by the facts.

The Federal Reserve has reported that a key factor explaining the lack of new bank applications is our current low interest financial environment. A bank's income—particularly a new bank without an established lending portfolio—is closely tied to the federal funds rate, which has been close to zero since the Great Recession.

That is why the FDIC received only 10 applications for deposit insurance between 2011 and 2015, compared with more than 1,000 applications between 2004 and 2008, when the financial crisis began.

Our nation relies on the FDIC to protect the Deposit Insurance Fund, which repays depositors if an insured bank fails. The FDIC approves only those applications that meet strict standards and that are built around realistic business plans that are likely to ensure profitability. That's because if the Fund fails, taxpayers will be on the hook to pay for banks' mistakes.

Many other regulators failed in their duties prior to the Great Recession, but the FDIC's stewardship of the Fund before the financial crisis meant that the FDIC did not have to draw on taxpayer funds to repay the customers of failed banks.

These protective measures are not preventing community banks from succeeding.

In fact, the net income earned by community banks in the first quarter of 2016 grew by 7% over their income in the first quarter of 2015, according to the FDIC's most recent Quarterly Banking Profile. By comparison, the net income of non-community banks actually fell by nearly 3% in the first quarter of 2016 compared to the first quarter of 2015.

The FDIC has reported that over the past 12 months, "almost 62 percent of community banks improved their net income." As a result, the percentage of unprofitable community banks fell to its lowest level since 1998.

As our nation has seen first-hand, without rigorous standards, banks could take outsized risks, assuming that the Insurance Fund would clean up their losses.

Sadly, I am concerned that today's hearing is only the latest in a series of efforts by my Republican colleagues to roll back essential safeguards and put the financial system back at risk.

In 2014, the Republican Congress repealed a portion of the Dodd-Frank Act relating to swaps pushouts, allowing large banks to gamble with FDIC-insured funds.

Last year, Republicans introduced legislation to repeal the Volcker Rule, which stops banks that are too-big-to-fail from trading for their own profit.

And this year, the Republican Chairman of the Financial Services Committee has proposed a bill to prohibit the FDIC from ensuring that large banks do not cause another financial crisis if they fail.

Rather than trying to put the taxpayer back on the hook for risky practices, Congress should be trying to understand why, given that community banks appear to be thriving, critical and basic banking services are not being provided in some communities.

I look forward to the testimony, and I thank our witnesses for being here today.

Thank you, Mr. Chairman.

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