Testimony of

Kenneth Kelly

On Behalf of the

American Bankers Association

before the

Senate Banking, Housing and Urban Affairs Committee

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Chairman Scott, Ranking Member Warren, and Members of the Committee, thank you for the opportunity to testify at today's hearing entitled: "Evaluating Perspectives on Deposit Insurance Reform." I am Kenneth Kelly, Chairman and CEO of Detroit-based First Independence Bank, a minority depository institution with nearly $700 million in assets. We have proudly served customers in Detroit for more than 50 years, and more recently opened two branches in Minneapolis. In addition to my role at the bank, I serve on the Federal Reserve Bank of Minneapolis's Community Advisory Board. I am also Chair-elect of the American Bankers Association (ABA) and am testifying today in that capacity. The ABA is the voice of the nation's $25 trillion banking industry, which is composed of small, regional and large banks that together employ approximately 2.1 million people, safeguard $19.7 trillion in deposits and extend $13.1 trillion in loans.

The deposit insurance and resolution framework, which lies at the core of money and banking in the United States, is complex, multifaceted and foundational to our financial system and the U.S. economy. Created in 1933, deposit insurance, which is fully funded by banks, promotes financial stability by helping to prevent runs and stem contagion should depositors lose confidence in a single institution or the industry more broadly.[1] Bank resolutions, which take place outside of the codified bankruptcy framework, help mitigate the costs of failures and ensure depositors have timely access to their funds. The Federal Deposit Insurance Corporation (FDIC), which oversees and manages deposit insurance and resolutions, is fully funded through assessments paid by banks, not taxpayers.

The current deposit insurance and resolution framework has served the nation well. The failure of Silicon Valley Bank (SVB) in March 2023 renewed questions about whether deposit insurance coverage levels are keeping pace with the needs of all depositors, and if, given the speed at which money moves today, the FDIC needs a more modern set of tools that allow swift action to manage and mitigate a modern stress event. Moreover, as the resolution of SVB unfolded, it became clear that a more robust and transparent process is needed around systemic risk determinations and the subsequent special assessments levied on banks.[2] Importantly, no

[1] Public Law 73-66, 48 Stat. 162.
[2] FDIC Special Assessment Pursuant to Systemic Risk Determination, in relation to the failure of SVB.

taxpayer funds were used in SVB's resolution. Instead, the costs were borne by the Deposit Insurance Fund (DIF), which is funded by bank assessments.

Since the failures of March 2023, the failure of First National Bank of Lindsay, Oklahoma, in October 2024 raised questions about the fairness of resolutions, whether the FDIC should more rigorously consider the costs of a failure to local economies, and how to allow for greater community bank participation in the acquisition of failed banks. Combined, these policy questions have led Congress,[3] the FDIC,[4] and the banking industry to consider how the deposit insurance and resolution framework, which includes the tools the FDIC has to mitigate a stress situation, could be modernized to reflect the needs of today's depositors, banks and communities while promoting financial stability and a level playing field for banks of all sizes.

When most policymakers, depositors and other stakeholders think about deposit insurance, they tend to focus on the deposit insurance coverage limit, which currently stands at $250,000. Deposit insurance coverage limits, however, are only one aspect of the framework, which also includes the structure and management of the DIF, resolution of failed banks, the role of the FDIC in an emergency, and how deposit insurance fits into financial stability and the broader supervision and regulation of banks. Any meaningful review of the deposit insurance framework must consider all of these aspects.

To assess the need for modernization in the wake of the SVB failure and provide the banking industry's perspective to the policy debate, ABA consulted with the breadth of its membership, comprised of banks of all sizes from the smallest community banks to midsize and regional banks and the largest globally active institutions. In the spring of 2023, ABA convened a member working group with banks of all sizes to identify areas in need of modernization and recommend policy solutions. In January 2025, the ABA formed an executive-level Task Force representing a cross-section of the industry to further refine policy recommendations that could be helpful to Congress, regulators and other stakeholders.

I was honored to be asked to chair the Task Force. which met bi-weekly beginning in January. During those discussions, it was clear that members had a range of ideas, and each suggestion had potential costs and benefits. Slowly but surely, we started to identify changes that we believed could make a tangible difference, earn the support of most banks and, importantly, stood a chance of winning approval from policymakers.

In July, the Task Force unanimously approved sending 10 specific recommendations to the ABA Board, which subsequently approved the recommendations unanimously at its July meeting. On August 12, 2025, ABA shared the "ABA Deposit Insurance Task Force Recommendations" with members and posted the report and recommendations publicly. The full report is attached to this testimony. Throughout ABA's work over the past two years, what is clear is that there are no simple or "right" answers, and that there are difficult tradeoffs in any of the varied policy options. ABA intends this report to be an initial set of recommendations based on currently

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[3] House Financial Services Committee, Roundtable on Deposit Insurance Reform, 2023.

[4] FDIC Options for Deposit Insurance Reform, 2023 ABA Deposit Insurance Task Force Recommendations August 12, 2025, Page 3 of 12.

available information that we hope advances the policy debate surrounding deposit insurance modernization. Half of the recommendations would require legislative action in Congress.

The following is a summary of the Task Force's recommendations:

Emergency Actions and Authority

1. **Congressional pre-approval for enhanced FDIC coverage to mitigate severe stress events.** Congress should pre-approve authority for the FDIC to create a program similar to the transaction account guarantee program that would temporarily guarantee bank and holding company liabilities during times of severe stress. This action could reduce the risk of contagion.
2. **Improve transparency of systemic risk determinations and special assessments.** Congress should require the FDIC to develop guidelines on specific considerations that warrant a systemic risk determination and the methodology it will use to identify beneficiaries for purposes of a special assessment.

Deposit Insurance Coverage, the Deposit Insurance Fund and Assessments

3. **Ensure the coverage limit and any modifications to it are empirically based and indexed to inflation.** ABA believes that some depositors may benefit from additional deposit coverage, that such coverage should enhance financial stability and that any change in coverage should be data driven, with significant input from the banking industry and other stakeholders. The FDIC should expand its efforts to collect relevant data and info that can help the nation's banks and policymakers analyze the tradeoffs between specific coverage limit options. Once a limit is established, it should be indexed to inflation.
4. **Maintain a Deposit Insurance Fund that is stable and properly calibrated to risk.** ABA recommends that Congress and the FDIC reassess the size and structure of the Deposit Insurance Fund. The FDIC should continue to use a risk-based approach when setting assessments and ensure its methodology is based on modern risk principles.
5. **Make deposit insurance assessments tax deductible.** Congress should reverse the Tax Cuts and Jobs Act of 2017 sliding-scale method for determining the deductibility of FDIC assessments.
6. **Evaluate the potential costs and benefits of offering additional insurance for purchase by individual banks.** Allowing banks to purchase excess deposit insurance would likely result in lower costs for banks relative to excess deposit insurance products provided by the private sector. The FDIC should evaluate the potential costs and benefits of such an approach.

Bank Resolutions

7. **Broaden the scope of considerations applied in determination of "least cost" to include potential contagion or other unwanted impacts.** Congress should allow the

FDIC to consider the cost of resolutions strategy on a wider range of banks or the industry not just the deposit insurance fund.

8. **Enhance community bank participation in resolutions to preserve essential banking services.** Congress should allow the FDIC to consider the cost of resolutions strategy on communities and provide the FDIC with the power to balance the least cost test for community bank failures with options to mitigate negative impacts, such as loss of essential banking services, on the relevant communities.
9. **Open resolution-associated asset auctions to a greater diversity of investors.** An FDIC change that would enhance fairness to the failed bank bidder qualification process, increasing the spectrum of institutions permitted to bid on failed institution franchises and assets.
10. **Publicly release resolution approaches considered in a given case and their respective estimated costs.** FDIC should release the resolution approaches considered and the estimated costs of each failure to improve the transparency and accountability associated with failed institution resolutions.

Conclusion

As the voice of the banking industry for the last 150 years, ABA believes it is important to take on complex issues that require asking difficult policy questions and bringing banks of all sizes together, as only ABA can, in search of solutions that give all banks the best chance to succeed and thrive. The challenge of determining how best to modernize the nation's deposit insurance program represents one of those moments.

The deposit insurance system has served the nation well, and Americans appreciate the peace of mind they receive from having their hard-earned funds in an FDIC-insured bank. We recognize, however, that recent events have raised legitimate questions about whether the system can be improved to reflect the realities of banking today. We also recognize that the Task Force's recommendations do not answer all the complex policy questions surrounding the deposit insurance framework.

Taken as a whole, however, we believe these recommended changes would make the existing system more responsive in moments of financial stress, more transparent and fairer to the institutions participating in the system and the customers they serve. Importantly, we also believe these recommendations can win support from a wide range of stakeholders, including banks of all sizes.

We hope the ABA's recommendations will inform and drive the discussion over modernizing deposit insurance in Congress and at the FDIC. We stand ready and willing to offer our perspective and feedback on these ideas and other constructive suggestions that may surface. We remain open to other constructive proposals and encourage other stakeholders to share their perspective.

Thank you for the opportunity to testify on this important issue and I look forward to your questions.