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Small Banks Score a Coup by Lobbying

By [EDMUND L. ANDREWS](#)

WASHINGTON — An obscure proposal to increase federal insurance on bank deposits won the support of the Bush administration, both presidential candidates and Republican and Democratic lawmakers on Tuesday, in a major lobbying coup for community banks.

At the same time that the measure was being hailed by Democrats and Republicans as a way to rescue the rescue plan, thousands of independent bankers scrambled to drum up support for the package in communities across the country.

The chairwoman of the [Federal Deposit Insurance Corporation](#), Sheila C. Bair, gave a ringing endorsement for the concept of increasing the limit on insured deposits to \$250,000 from \$100,000, at least temporarily.

She was following the presidential candidates, Senator [Barack Obama](#) and Senator [John McCain](#), who had announced their strong support for the idea earlier in the day.

Republicans and Democrats vied to claim the popular idea as their own. Republican lawmakers said they had championed it during last weekend's heated negotiations over the scope of the bailout bill, but that Democratic leaders had rejected it.

Democrats said they had no recollection of that provision being proffered in the chaotic talks, but top Democratic Congressional aides said the leadership was willing to add it to the bill and knew of no opposition.

Increasing the cap on deposit insurance, proponents say, would bolster confidence in the banking system and would help small-business owners, who often keep more than \$100,000 to meet payroll or for daily operations.

The idea has been discussed and even embraced abroad. France and Ireland, for example, have decided that all bank deposits will be insured, without limit, until the global crisis has passed.

But the real force behind it — and the big beneficiary — was the group that represents 8,000 local banks across the country, the Independent Community Bankers of America. The group has been in a long-running battle with rival financial institutions like money-market mutual funds and money management companies over insured deposits.

On Tuesday morning, as administration officials tried to map out a strategy for salvaging the [bailout plan](#), Treasury Secretary [Henry M. Paulson Jr.](#) held a conference call with members of the banking group. By the afternoon, the group's top officials in Washington had sent out an urgent appeal asking bankers to hold

“citizens’ meetings” that night to promote the bailout in any district where a member of Congress had voted against it.

Camden R. Fine, president of the Independent Community Bankers of America, said that the group had members in every Congressional district and that, “If we want to go grass roots, we can go grass roots.” He added, “We might be small, but we’re pretty nimble.”

It remained unclear whether that effort would deliver any extra votes.

Democratic and Republican leaders on Tuesday were sorting through short lists of other possible sweeteners to attract new votes for the bailout measure. Democrats raised the possibility of wooing liberal lawmakers, who saw the plan as too tilted toward Wall Street, by adding an economic stimulus measure to extend unemployment benefits and food-stamp assistance.

But Congressional leaders seemed most intent on attaching the deposit insurance proposal, possibly without charging higher premiums to banks, as the best way to save the bill. There were also plans to attach provisions that would extend a long list of expiring tax breaks, including \$14 billion for renewable energy projects.

Some versions call for a permanent increase in the insured deposits. A permanent increase would have to be financed with an increase in premiums paid by the banks, though that increase might not happen immediately.

Regardless of the details, Mr. Fine said, an increase in federal deposit insurance has been a passion of his members — especially now that federal regulators have begun putting taxpayer money behind shotgun marriages for loss-plagued banking giants like Washington Mutual.

“If we have learned one thing in the past several weeks, it is that we have a two-tiered banking system in this country,” Mr. Fine said. “We have the too-big-to-fail banks and we have the smaller banks. You can’t have one class of depositors who are 100 percent protected and another class of depositors who face risk.”

Investment firms and mutual fund companies, which compete in the market for low-risk savings instruments, have opposed higher deposit insurance out of fear that the banks would receive an unfair advantage over them.

The banks, meanwhile, have ardently opposed attempts to offer federal insurance on deposits in money-market mutual funds.

In fact, both the American Bankers Association and Mr. Fine’s independent bankers protested last week when the Treasury Department announced a new program to protect depositors in money-market mutual funds, which until last week were not guaranteed against loss.

“I was on the phone with Treasury less than 30 minutes after they made the announcement,” Mr. Fine said on Tuesday.

The Bush administration quickly retreated. Instead of offering to insure all deposits in money-market funds,

it said it would insure only deposits made before the panic broke out on Sept. 19 and it said the insurance would last only for an initial period of three months.

As it scrambled to rescue the bailout, the Bush administration signaled its strong support for an increase in deposit insurance and left open the issue of whether banks should have to pay for it. The F.D.I.C.'s reserves are already being depleted by losses from the failure of banks.

Ms. Bair has already said that the agency would have to increase premiums to shore up the insurance fund's reserves as officials brace for a wave of additional bank failures.

By more than doubling the protection on insured bank deposits, the government would increase its exposure to potential costs down the road. If the F.D.I.C.'s reserve fund cannot cover its costs, it has the authority to borrow money from the Treasury. Taxpayers would almost certainly have to foot the bill.

Indeed, many experts contend that Congress's decision to increase the limits on deposit insurance in 1990, to \$100,000, from \$40,000 per account, lulled depositors into complacency, encouraged reckless lending by [savings and loan](#) institutions and led to huge losses that ultimately cost the government more than \$200 billion.

David Stout contributed reporting.

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