Written by Sen. Tom Harkin
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Measure ensures Iowa's community banks are not required to cover Wall Street's risky bets

WASHINGTON, D.C. – Senator Tom Harkin (D-IA) applauded this morning's passage of an amendment he cosponsored with Senator Jon Tester (D-MT) and Senator Kay Bailey Hutchison (R-TX) that changes the way the Federal Deposit Insurance Corporation (FDIC) charges banks for deposit insurance to ensure that banks are assessed at a level commensurate with their risk. The amendment, which passed 98 to 0, will be included in the financial reform bill.

"As we take up legislation to hold Wall Street accountable, it is crucial that we avoid placing an undue burden on Iowa's community banks," **said Harkin.** "This amendment will help ensure that Iowa's community banks can compete on a level playing field with the largest banks who engage in the most hazardous behavior. It also provides community banks with additional capital they can loan to Iowa's communities, which will give our local economies a boost."

Under current law, the FDIC charges banks a fee related to their percentage of domestic deposits to cover the cost of winding down a failed bank. But by only using deposits to calculate the assessment, FDIC assessments neglect the non-deposit assets used by the very large banks to fund the riskiest types of activities that the larger banks engage in that could cause a bank to fail. The existing system discriminates against community banks, which typically engage in low-risk lending in their local communities, rather than riskier trading carried out by larger banks, which is not calculated in FDIC deposit insurance. As a result, community banks that serve Main Street across the country pay 30 percent of all FDIC premiums even though they only hold 20 percent of the nation's banking assets.

To change this system, the amendment requires the FDIC to base these fees on the amount of a banks' total assets, not just deposits. This change ensures that FDIC assessments reflect the risks that the largest banks that are engaged in the riskiest activities pose to the Deposit Insurance Fund. Harkin's history of work in this field goes back to 2009, when the FDIC issued a special assessment and Harkin successfully wrote to the FDIC urging that it be based on the formula established in this amendment.

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