As the US banking crisis has intensified, we believe that pressure is “ramping up” in Washington to expand deposit guarantees, but that major legislative action is neither imminent nor likely near-term.

**Who?**
The Senate Banking Committee is the “center of gravity” for any potential action. The House Financial Services Committee will likely defer to the Senate for leadership if bank sector problems persist.

**When?**
Pressure to act is “ramping up” given duration of bank stress, but still not imminent or likely near-term. Timing would be post-debt ceiling resolution, and only if bank sector deteriorates substantively from here. Contagion to farming states, agriculture and auto sectors also likely needed.

**How?**
FDIC may expand insurance on a bank-by-bank basis (especially for closed banks) as they did for SVB and Signature, but a broad-based expansion of deposit insurance to all banks requires a joint resolution from Congress (60 votes in the Senate, 218 in the House), signed by the President.

**What?**
If needed, Congress could pass legislation to increase deposit insurance coverage, and expand FDIC/ regulatory powers. Since unlikely near term, Treasury use of the Exchange Stabilization Fund (ESF) is the more likely vehicle for bank sector support if needed near term as the FDIC’s Deposit Insurance Fund (DIF) declines. Treasury use of the ESF does not require Congressional approval.

The FDIC released a report on May 1 analyzing options for a sweeping overhaul of its deposit insurance program after multiple recent bank failures reduced the Deposit Insurance Fund (DIF). FDIC Chair Martin Gruenberg highlighted that digitization and growth in uninsured deposits have increased bank run exposure. Today, roughly 45%, or $7.7 trillion, of US deposits are uninsured.

### Potential changes to the FDIC insurance program

<table>
<thead>
<tr>
<th>Status Quo</th>
<th>FDIC Preferred Option</th>
<th>Politically Less Viable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited Coverage</td>
<td>Targeted Coverage</td>
<td>Unlimited Coverage</td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>Current framework ($250k per account)</td>
<td>Vary coverage by account type</td>
</tr>
<tr>
<td><strong>Advantages</strong></td>
<td>• Well tested</td>
<td>• Better align with business needs</td>
</tr>
<tr>
<td></td>
<td>• Minimum disruption</td>
<td>• Strengthens financial stability</td>
</tr>
<tr>
<td></td>
<td>• Less moral hazard</td>
<td></td>
</tr>
<tr>
<td><strong>Disadvantages</strong></td>
<td>• Greater deposit outflows</td>
<td>• More account types</td>
</tr>
<tr>
<td></td>
<td>• Higher financial stability risk</td>
<td>• More complexity</td>
</tr>
</tbody>
</table>

Source: FDIC “Options for Deposit Insurance Reform” (May 1, 2023).

---

**Global Corporate & Investment Banking**

**Capital Markets Strategy Team**

**Tom Joyce**
Managing Director
Tom.Joyce@mufgsecurities.com
(773) 408-7472

**Hailey Orr**
Director
Hailey.Orr@mufgsecurities.com
(773) 408-7429

**Stephanie Kendal**
Associate
Stephanie.Kendal@mufgsecurities.com
(773) 408-7443