



Capital
Markets

March 12, 2023

U.S. Banks: The White Hats Have Arrived

U.S. Treasury, Federal Reserve, and FDIC Step In to Stabilize Banking System

Our view: Following the failure of Silicon Valley Bank on Friday, about two hours ago, the Federal Reserve, U.S. Treasury, and FDIC (Federal Deposit Insurance Corporation) issued a joint statement announcing plans to stabilize the banking system. The plans include the establishment of a new Bank Term Funding Program (BTFP), which will be backed-stopped (if needed) by \$25 billion from the Exchange Stabilization Fund from the U.S. Treasury. Advances can be requested under the Program until at least March 11, 2024. The swift action by the Federal Reserve, U.S. Treasury, and FDIC reduces any contagion risk from the Silicon Valley bank failure, in our opinion.

- **The White Hats:** In the classic John Ford Westerns of the 1930s to 1960s, when the homesteaders or small towns were under attack from the outlaws, the good guys wearing white hats would come in and save the day. In today's version it is the Federal Reserve, U.S. Treasury, and FDIC that have come in to stabilize the banking industry following Friday's regulatory seizure of Silicon Valley Bank, the primary banking subsidiary of SVB Financial Group.
- **Federal Reserve, U.S. Treasury, and FDIC Actions:** Qualified depository institutions will have access to collateralized lines of credit from the Federal Reserve through the newly created Bank Term Funding Program (BTFP), which will offer loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. ***These assets will be valued at par, which is important.*** The BTFP will be an additional source of liquidity against high-quality securities, eliminating an institution's need to quickly sell those securities in times of stress. Second, with approval of the Treasury Secretary, the Department of the Treasury will make available up to \$25 billion from the Exchange Stabilization Fund as a backstop for the BTFP. The Federal Reserve does not anticipate that it will be necessary to draw on these backstop funds.
- **Signature Bank (SBNY) Closed:** In addition to the news regarding the creation of the BTFP, it was disclosed that SBNY was closed today by its state chartering authority.
- **All Depositors Protected but Not Bondholders or Shareholders:** The joint announcement also stated that the FDIC will complete its resolution of Silicon Valley Bank in a manner that fully protects all depositors. Depositors will have access to all of their money starting Monday, March 13. The statement went on to say that all depositors of SBNY will be made whole. This is an important element of the plan and should provide confidence to depositors in other institutions.
- **FHLB Advances:** In addition to tonight's action by the Federal Reserve, U.S. Treasury, and FDIC, FHLB (Federal Home Loan Bank) advances have always been available to member banks. The advances are collateralized by residential mortgages or mortgage-backed securities. Access to these advance will provide further liquidity to banks with larger mortgage lending portfolios, particularly if institutions continue to see deposit outflows.
- **Impact on Bank Stocks:** We expect further turbulence in the bank equity markets tomorrow, but we also anticipate a stabilization of prices as investors realize that the **liquidity squeeze** caused by the run on deposits is over due to the actions announced by the Federal Reserve, U.S. Treasury, and FDIC.

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