



Fallout from US banking turmoil

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Marketing Communication

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Outline



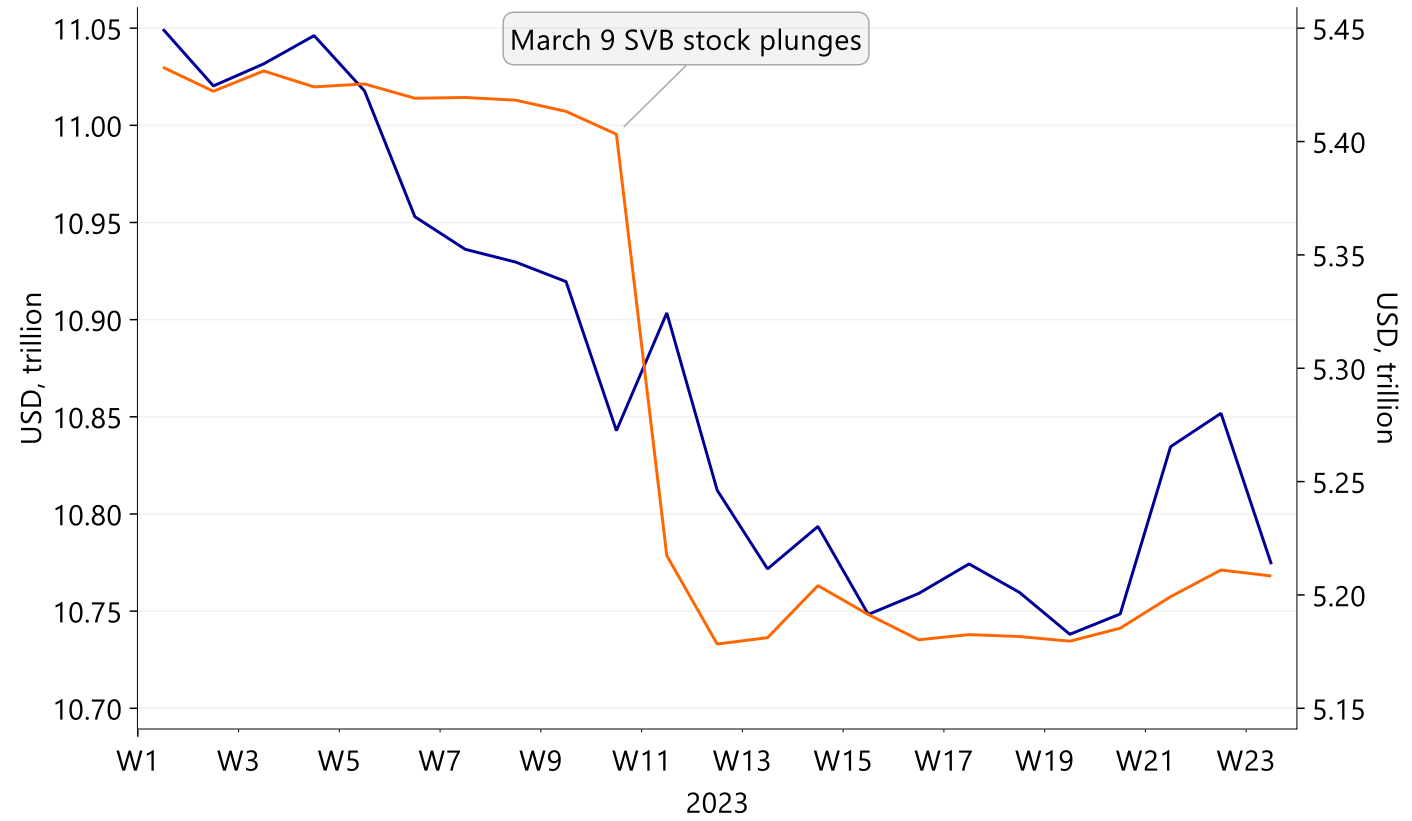
- Banking turmoil: deposit flows
- Impact on money markets
- Impact on credit conditions
- Further bank consolidation ahead?
- Fed's review of SVB collapse
- Impact on regulation

Banking turmoil

- Runs on midsize US banks:
 - Silicon Valley Bank
 - Signature Bank
 - First Republic
- Fed's response:
 - Bank term funding program
 - More frequent dollar swap operations
- Impact:
 - Adds to recession risk
 - Complicates Fed's monetary policy



Deposit flows from all banks

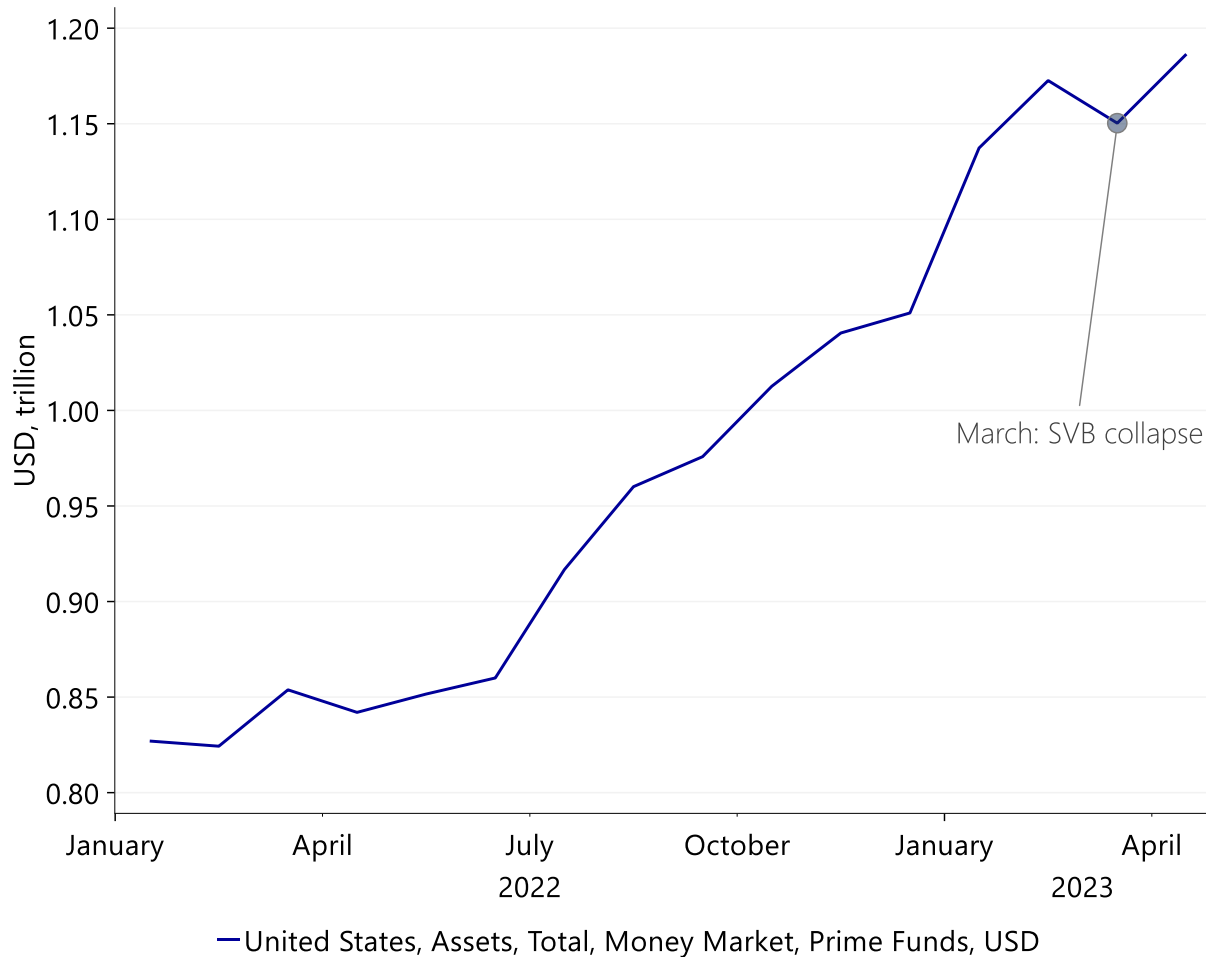


- Small Domestically Chartered Commercial Banks, rhs
- Large Domestically Chartered Commercial Banks, lhs

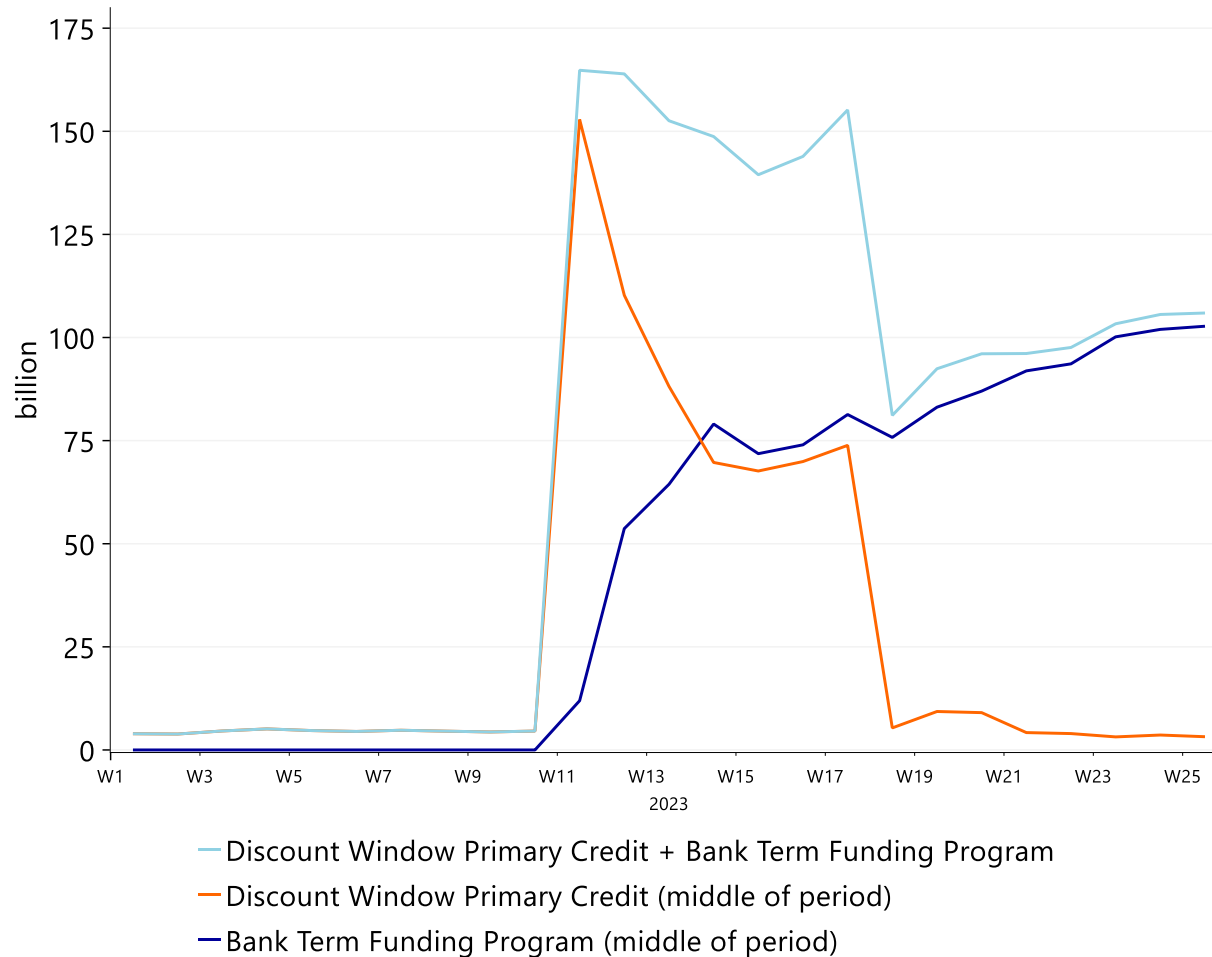
Deposit flows to MMFs



Government MMFs rather than prime MMFs



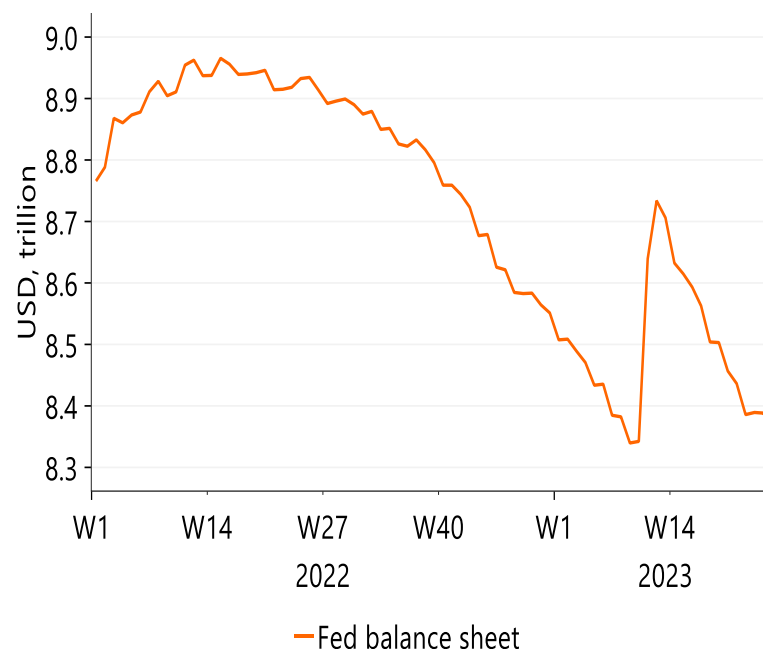
Bank Term Funding Program continues to grow



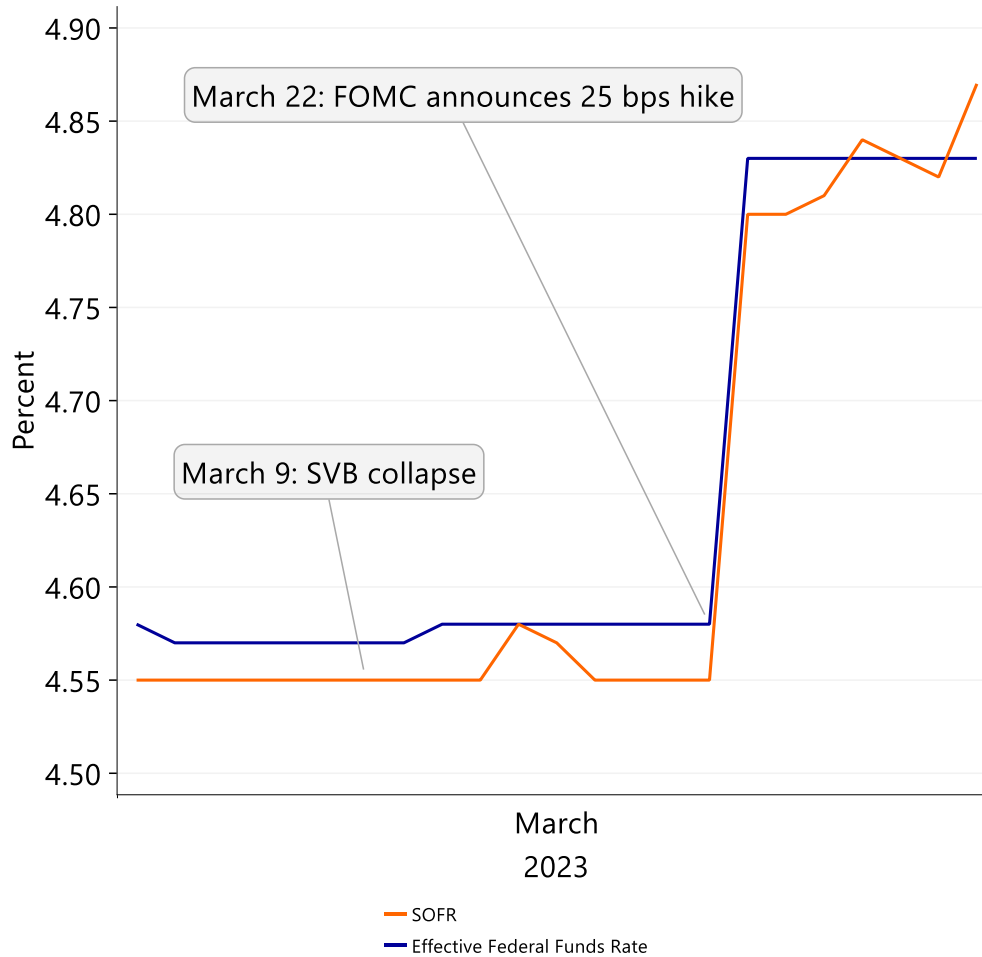
Liquidity provision has set back balance sheet normalization



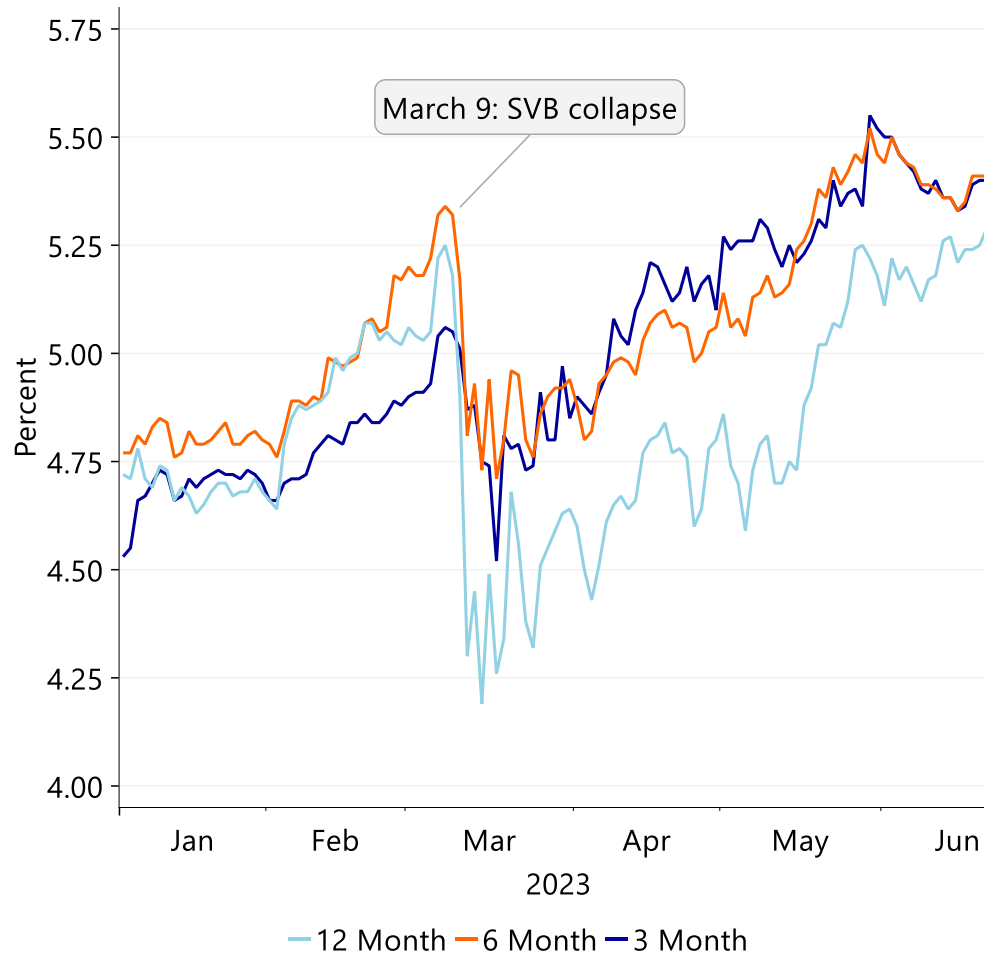
- The Fed's balance sheet reduction schedule has remained unchanged since September 2022, with the pace of reduction at \$95 billion per month
 - \$60 billion in Treasury securities
 - \$35 billion in agency debt and agency MBS
- However, liquidity provision through the Discount Window and the Bank Term Funding Program has expanded the Fed's balance sheet since March 2023



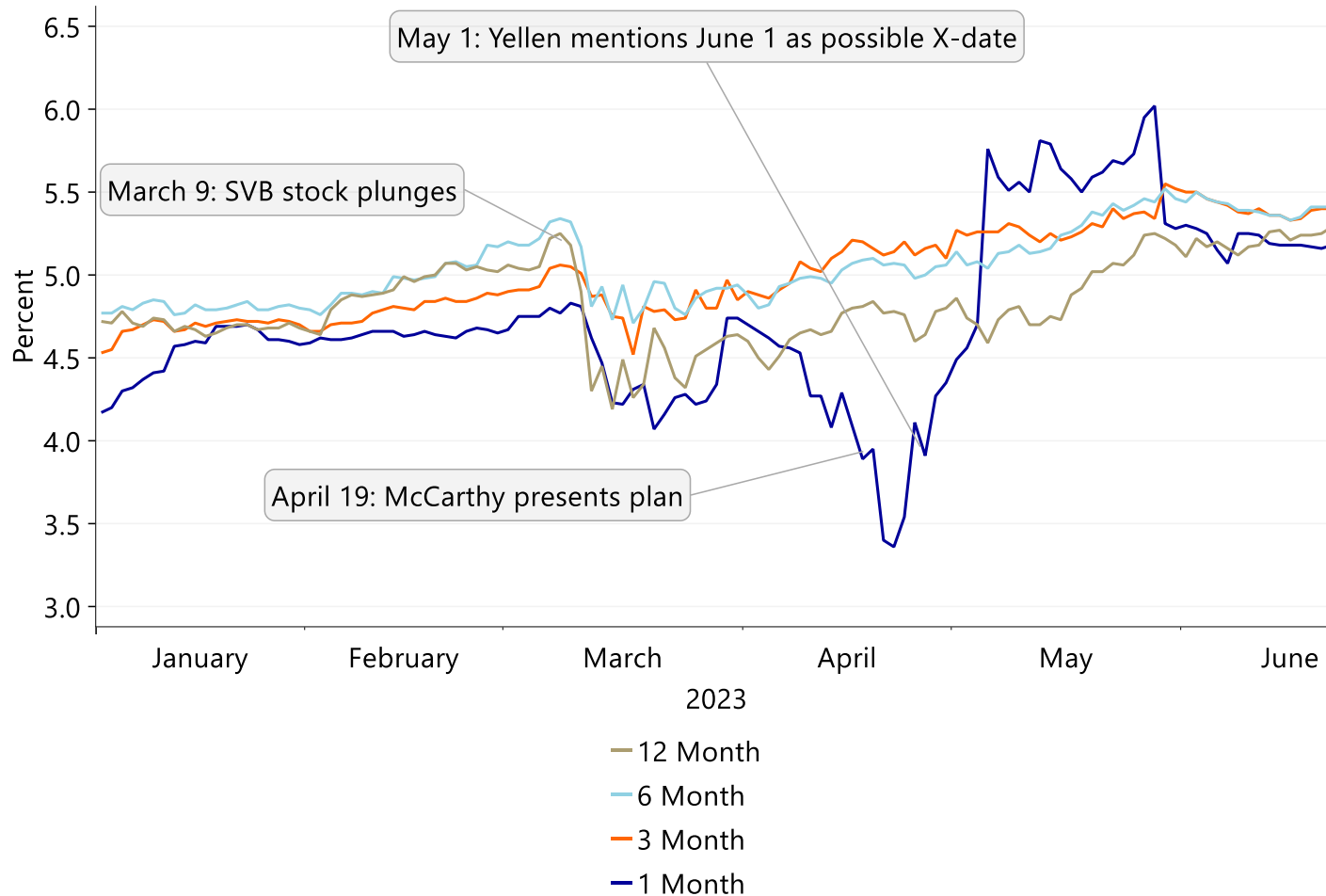
Overnight markets unaffected



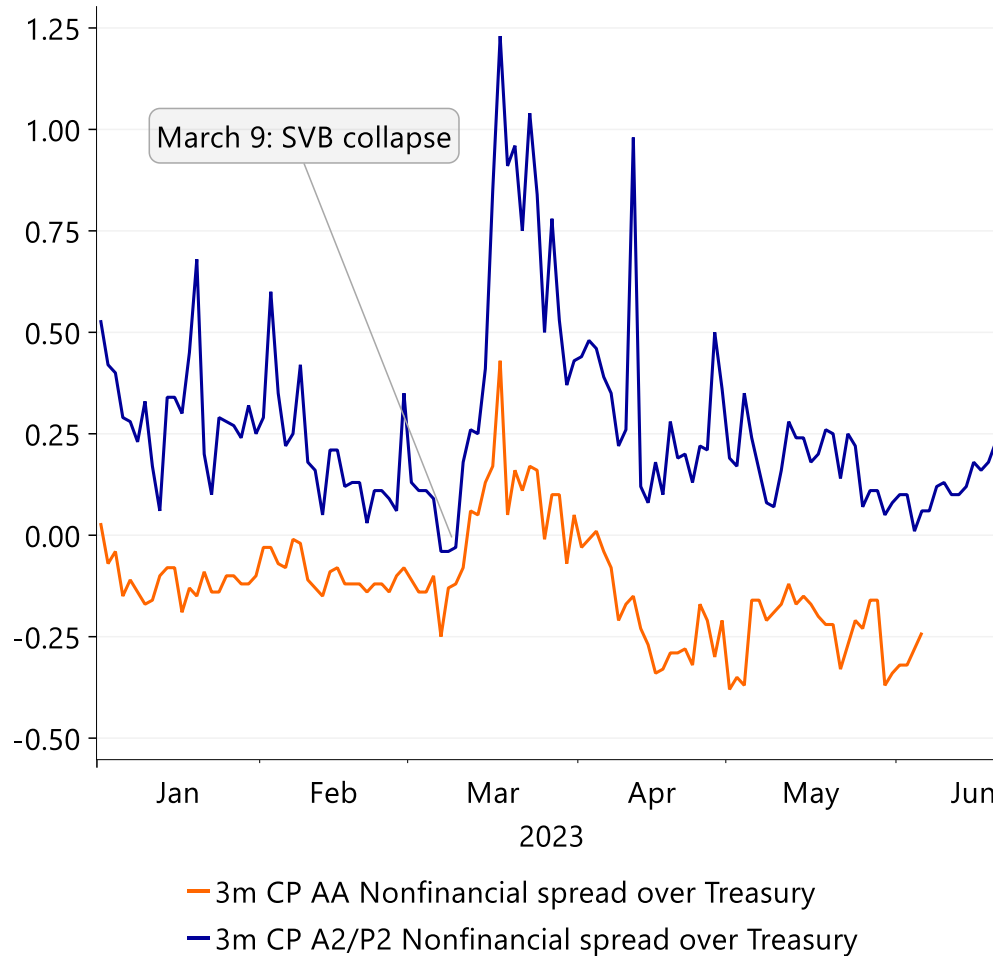
Flight to safety in T-bills...



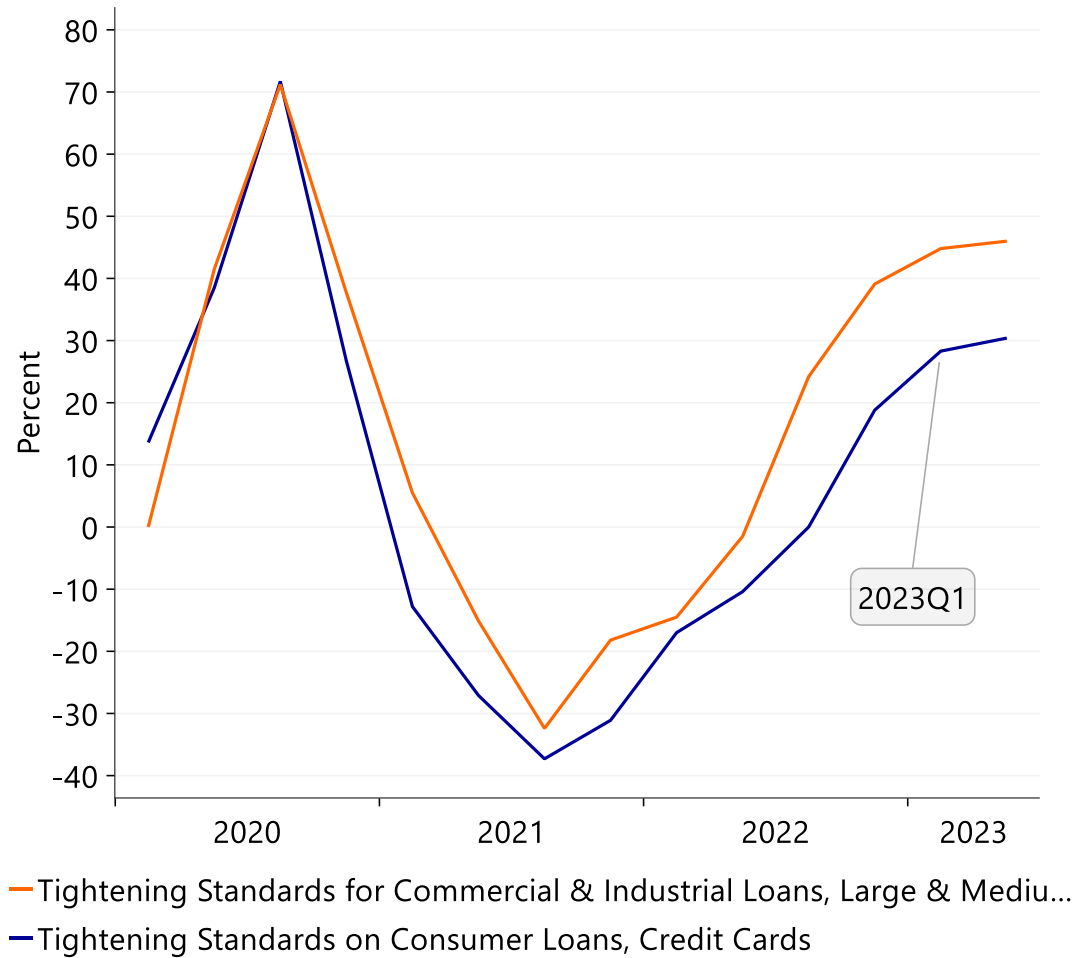
... while avoiding the X-date



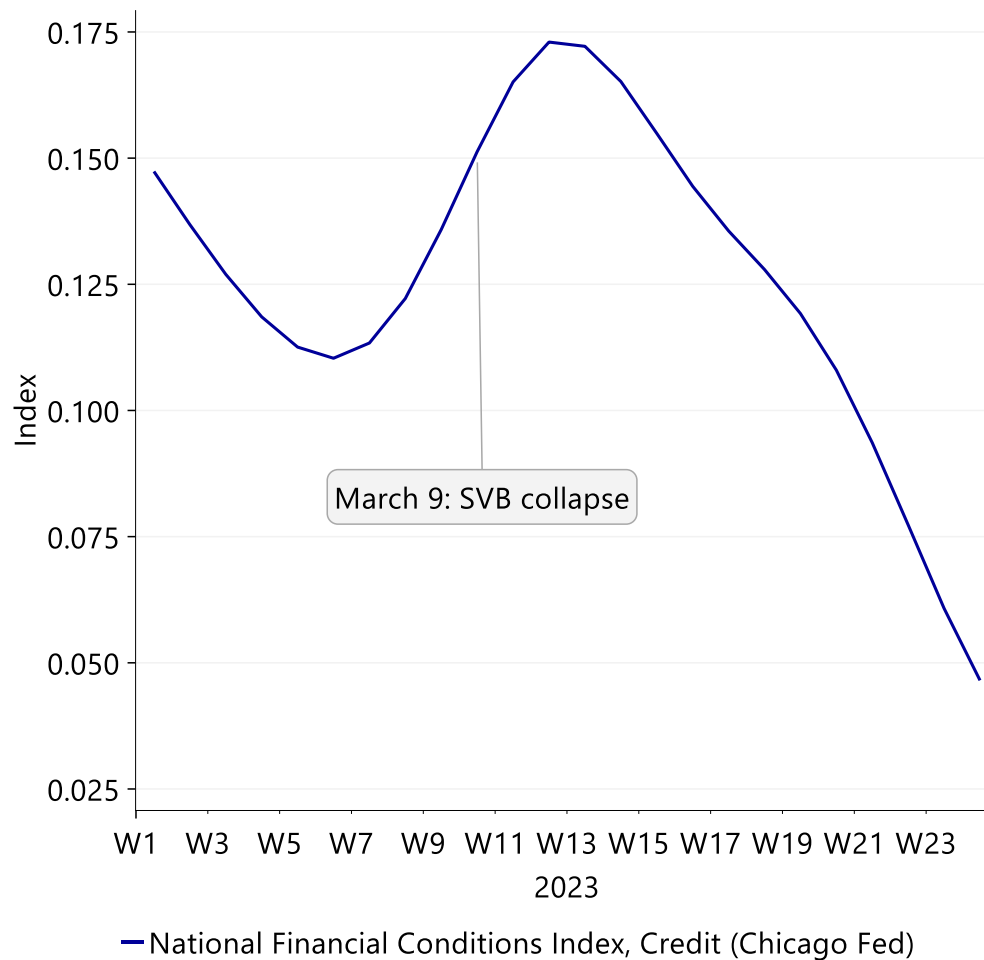
CP spreads jumped temporarily



Tightening loan standards



Credit conditions did not tighten overall...

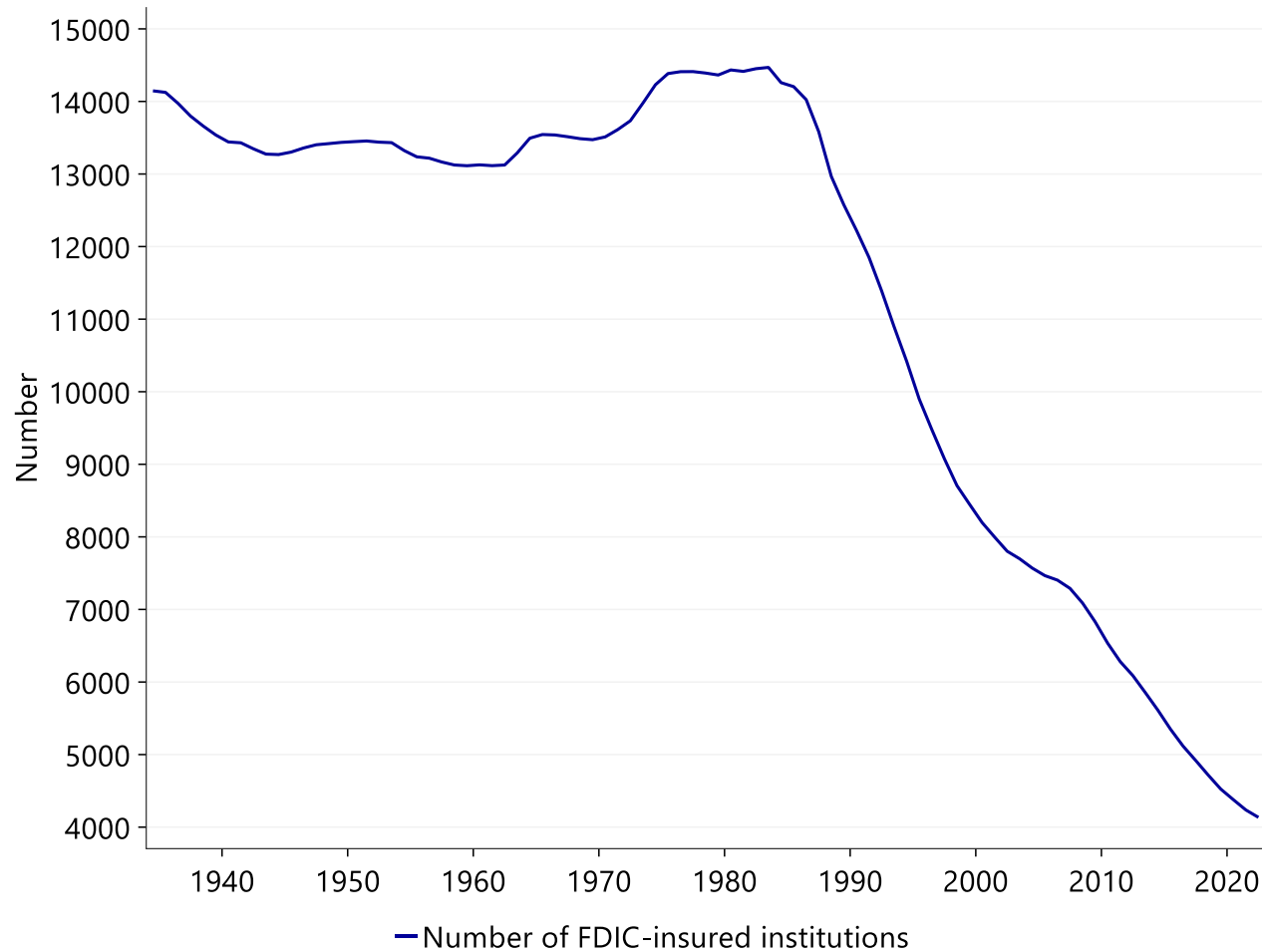


More bank mergers in US?



- Treasury Secretary Janet Yellen (June 23): *more banks would probably seek to merge this year as higher interest rates and the recent banking turmoil are making it more expensive to hang on to depositors*
- Sharp contrast to Biden policy against concentration in other industries
- US has more banks than other countries (both in absolute and relative terms)
- Two historical impediments to financial services consolidation in US:
 - Regulation against cross-state branching of banks
 - Regulation against combining banking with other financial services (securities, insurance, real estate)

Declining number of US banks



Distribution of bank size in US



Assets	Number of banks	Share of banks (%)	Share of assets held (%)
< \$100 million	1124	22.0	0.5
\$100 million- \$1 billion	3168	61.9	6.7
\$1 billion- \$10 billion	680	13.3	10.0
\$10 billion- \$250 billion	131	2.6	32.3
> \$250 billion	13	0.3	50.4
Total	5116	100	100

The Fed's SVB Review takeaways



- SVB failed to manage their risks
- Fed supervisors did not fully appreciate the extent of the vulnerabilities as SVB grew in size and complexity
- Fed supervisors did not take sufficient steps
- The tailoring approach in response to legislation taken by the Fed's Board of Governors impeded effective supervision

Barr's lessons learned from SVB



- The importance of strong **levels of bank capital**
- **Broader consequences** for the banking system despite SVB not being extremely large, highly connected or involved in critical financial services
- Evaluate supervision/regulation of **interest rate risk**
- Evaluate supervision/regulation of **liquidity risk**, starting with **uninsured deposits**
- Improve oversight of **incentive compensation** for bank managers
- Improve the speed, force and agility of **supervision**

Changes to regulation



- Higher capital requirements
- Improved banking supervision
- Expansion of deposit insurance?
- The speed of deposit flight?

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