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Yellen and the Fed check in after the banking sector's rough week

Article

The news: As the banking sector entered into a brief lull, **Treasury Secretary Janet Yellen** praised financial regulators and discussed what's in store for the future. The Fed also gave **a first look at emergency borrowing stats**.

All's not equal: Last week, Yellen addressed the Senate Finance Committee in her first public comments since the collapse of **SVB** and the various "non-bailout" bailout actions taken by US financial regulators.

- She reiterated that the moves were meant to shore up confidence in the safety and soundness of the US banking system, and to prevent the issues at SVB and **Signature Bank** from turning into a contagion that could potentially affect all banks.
- When questioned if other community banks that faced similar liquidity issues would receive the same rescue treatment, Yellen said that happens only if "**a majority of the FDIC board, a supermajority of the Fed board and I, in consultation with the president, determine that the failure to protect uninsured depositors would create systemic risk and significant economic and financial consequences."**
- That response was quickly criticized. Senators suggested the unequal treatment would motivate consumers to move their deposits from smaller banks to larger banks, where uninsured deposits were more likely to be guaranteed. Yellen said that wasn't the intention behind the selective process.
- Yellen also disputed claims that the government intervention was an attempt to nationalize the banking system.

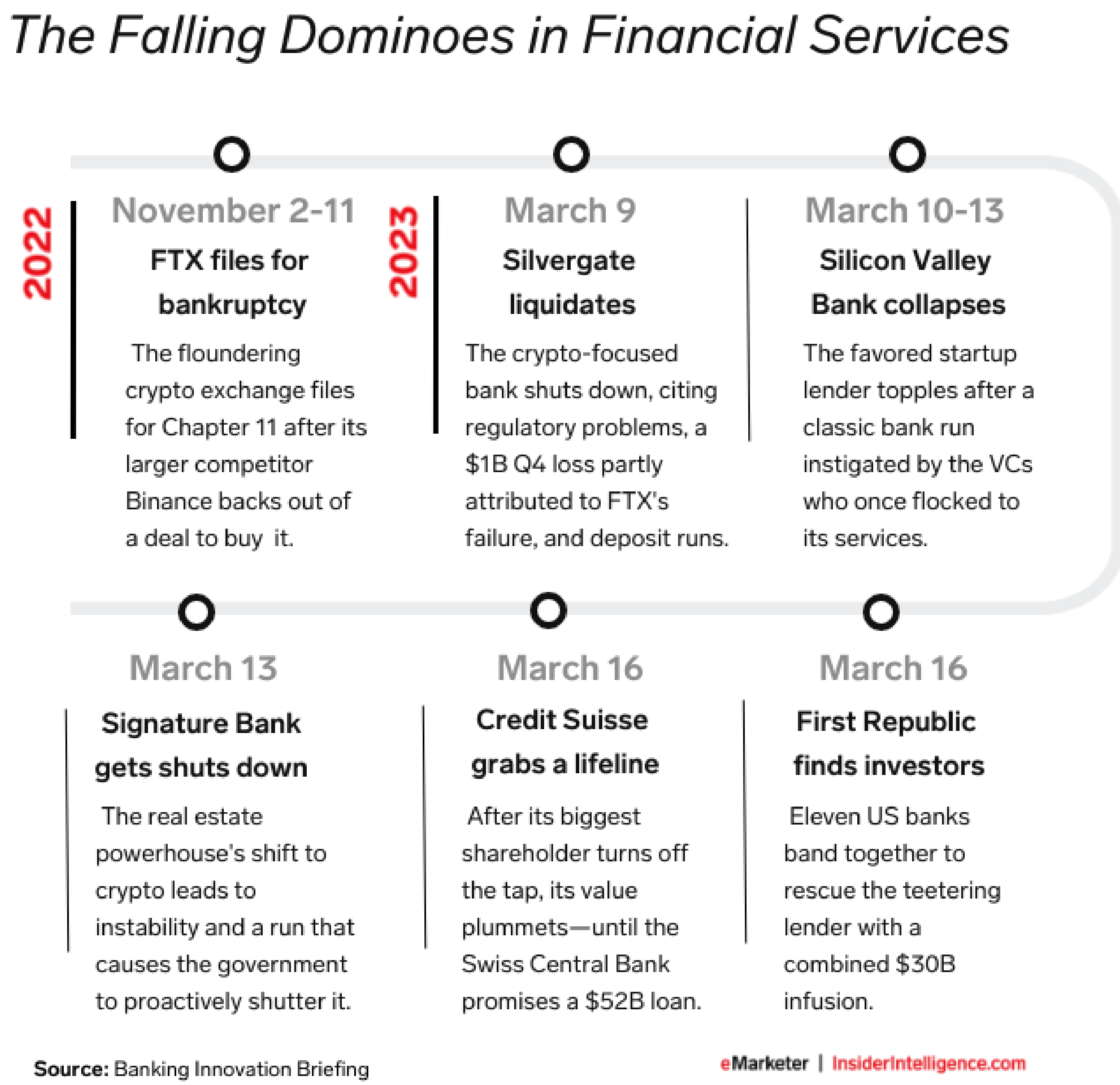
Record-breaking borrowing: The Fed last week also shared some figures on emergency funding requests from banks amid the SVB and Signature Bank fallout.

- **As of Thursday, the Fed's newly established Bank Term Fund Program provided banks $12 billion in advances** after banks pledged close to $16 billion worth of government backed bonds, including Treasury securities, US agency mortgage-backed securities and US agency debt securities. The $4 billion difference in pledged versus borrowed funds means banks have additional credit they can tap into in the future, if needed.
- **The Federal Home Loan Bank system extended $250 billion of advances through Wednesday, which included a record $111.8 billion in just one day.** Most of those advances went to regional and community banks.
- And the Fed's discount window—its standing liquidity mechanism—lent a record $153 billion last week through Wednesday.

This extensive borrowing signals that many banks are reeling from deposit withdrawal requests. When considering the full amount of lending, including the bridge loans made to SVB and Signature Banks, **the loans erased about half of the balance-sheet reduction that the Fed achieved since it began its course of quantitative tightening last June,** per Capital Economics.

The big takeaway: Yellen's comments on future potential bailouts have undoubtedly left small and midsize banks feeling slighted and on edge. **The sector is still fragile, as demonstrated by the still-turbulent stock market.** Many banks are turning to one or more of the lending facilities to shore up their balance sheets, but the effects of such programs are unclear. If the Fed continues to hike interest rates, the lending mechanisms could put banks in an even more vulnerable position. All eyes will be on the Fed's meeting next week to learn what the plan will be moving forward.

How the Banking Crisis Unfolded



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