

# As US debt ceiling deadline day looms, here's how banks are preparing

Article

**Debt ceiling deadline looms:** We look at the possible ramifications of a default on US debt and how Wall Street banks are preparing.

## Catch up quick:

- Earlier this month, US Treasury Secretary Janet Yellen sent a [letter](#) to Congress urging it to raise the \$34 trillion debt ceiling as quickly as possible. The letter stated the **US may not be able to pay its bills as early as June 1.**
- There's **still no plan to avoid a default on debt** despite [talks last week](#) between President Biden and House Speaker Kevin McCarthy.

**The worst-case scenario:** Despite its limited progress on negotiations at this writing, the US government isn't expected to default on debt. But if the unthinkable happens, the consequences for the banking sector and the economy would be far-reaching.

- **Financial markets would be rattled** by shaky consumer and investor confidence.
- The **pressure on banks** would likely cause a credit crunch as the cost of borrowing jumps, which in turn, would put pressure on companies and consumers.
- On the global stage, it would **tarnish the US' reputation for financial stability** and dent confidence in the system.

## What are banks doing?

- Several Wall Street banks have reportedly created "war rooms" to plan how to minimize the fallout if a default takes place, [according](#) to the Times of London.
- Contingency plans could include analyzing how the funding climate will change and ensuring banks have enough cash to deal with high trading volumes.
- Banks are cutting exposure to Treasury securities, which would plummet in value should a default happen.
- Banks can also build up cash reserves to cushion against expected volatility.

**Our take:** Given the economic damage a default could cause, the US is likely to find a resolution before hitting its debt ceiling. But if it doesn't, most banks are far better prepared for financial turmoil than in 2008, as shown by their relative stability this year despite the collapses of some regional lenders. And crisis planning now for a default seems wise, given the unpredictability of the US banking sector this year.

## US Banks' Technology Priorities, Dec 2021

% of respondents

	2020	2021	2022
Improve customer experience/service delivery	67%	67%	61%
Get more value from tech and vendor relationships	53%	53%	43%
Improve efficiency	36%	41%	41%
Invest in new systems	29%	30%	28%
Better address fraud and risk management	15%	13%	23%
Increase revenue generation opportunities	17%	25%	23%
Invest in infrastructure upgrades	21%	17%	19%
Pursue partnerships with fintech startups	-	5%	15%
Evaluate and possibly replace critical systems	12%	17%	14%
Internal system development and integration	12%	14%	14%
Migrate applications and systems to the cloud	10%	7%	12%

Note: 2020 n=300; 2021 n=260; 2022 n=300

Source: Cornerstone Advisors, "What's Going On in Banking 2022," Jan 25, 2022

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