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First Republic Bank stays afloat as digitally fueled fear rocks the banking industry

Article

The news: Stocks of midsize banks in the US continued on a roller coaster ride this week despite the “non-bailout” bailouts of **SVB** and **Signature Bank**. With all eyes now on **First**

Republic Bank, we dive into what's going on there, what's driving the panic, and how US consumers are feeling.

Fears at First Republic: Even after customers of the affected banks were guaranteed their deposits, and the Federal Reserve enacted an extraordinary lending facility, the Bank Term Funding Program (BTFP), **shares of midsize US banks still see-sawed.** First Republic Bank is taking the brunt of the turbulence.

- Though more diversified than SVC and Signature, First Republic caters largely to wealthy clients and businesses. Consequently, it holds the third-highest rate of uninsured deposits in the US, after SVB and Signature.
- The bank attempted to quell customers' fears over the weekend, explaining it had $70 billion in liquidity after receiving aid from **JPMorgan** and the Fed—but that wasn't enough.
- Early Thursday morning, the bank was reported to be considering a potential sale or a fresh capital raise.
- By the end of Thursday, the bank finalized a deal with 11 major US banks—among them JPMorgan, **Bank of America**, and **Wells Fargo**—each of which would make uninsured deposits that would in total amount to $30 billion with First Republic.

Not a bank run—a bank sprint: The past week has seen the dissolution of two banks and a volatile market, in which regional bank stocks hit all-time lows. What's going on, and how did this happen so quickly?

- SVB's collapse was kicked off by the bank announcing it had sold a portfolio of long-term bonds at a big loss and would raise additional capital.
- Customers of the bank—largely tech-savvy startup founders—concerned over liquidity began to withdraw their deposits and park them in larger banks.
- Once news reached social media, all hell broke loose. A few Twitter users with large follower bases shared messages of panic in the banking system.
- The result was hysteria. The digital nature of banking today allows users to go online and withdraw their deposits at any time, which is exactly what customers did. **This immediate access means bank runs occur quicker than ever, and banks have little to no warning.**

The event is **a clear example of an affinity-type banking network gone wrong.** Instead of startup founders supporting each other, they created panic and caused a run on SVB.

How are you feeling? A quickly executed poll by Reuters and Ipsos of 1,004 US consumers provides a bit of insight on how Americans are feeling about the chaos in the banking system, the government's response, and if they feel their deposits are in danger.

- **84% of respondents believe taxpayers shouldn't have to bear the burden of irresponsible bank management via a bailout.**
- **77% said depositors should understand the risks in using a bank for deposits over FDIC limits.**
- **68% of those surveyed said they had a fair amount of confidence in the stability of their own bank, as well as in banks overall.**

The bottom line: Despite assurances from First Republic that deposits are safe, social media appears to be getting the better of peoples' rational judgment. This likely stems from a lack of financial literacy and understanding how the banking system works. And sensationalism in social media further exacerbates the misunderstanding.

The Reuters poll shows some hope that some consumers understand the implications of a bank run and want to avoid any taxpayer bailouts. But spreading awareness is a challenge. It's obvious that messages to remain calm can't come from banks—the source of the chaos—and it doesn't appear effective coming from the government either. It begs a hard-to-answer question: Where does financial education start, and who's responsible for it?

Leading Methods Used by US Digital Banking Users to Research Before Opening Their Most Recent Financial Account, 2021 & 2022

% of respondents

	2022	2021
Bank's website	37.5%	43.4%
Word of mouth	27.2%	20.4%
Search engine	26.8%	26.8%
Mobile app	23.3%	23.0%
Visiting a branch	20.4%	15.3%
YouTube	16.9%	12.7%
Calling a bank	13.5%	11.4%
Facebook	11.9%	11.4%
Instagram	11.7%	7.4%
Other websites	11.2%	12.5%
App store reviews	10.1%	9.0%
TV commercials	9.8%	6.4%
Direct mail	8.9%	7.7%
LinkedIn	6.4%	4.8%
TV (channel)	6.0%	5.7%
News sites	4.8%	7.5%
Banner ads	4.4%	4.0%
Other	3.2%	4.2%

Source: Insider Intelligence, "US Banking Digital Trust Benchmark 2022," Aug 2022

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