

MARCH 13, 2023

New Fed Loan Facility & FDIC Full Deposit Insurance

The Fed's Bank Term Funding Program (BTFP)

In response to bank funding stress, on Sunday, March 12th, the Federal Reserve (Fed) created the “Bank Term Funding Program (BTFP), offering 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. 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.”

What this means is that banks can better utilize their available-for-sale (AFS) and held-to-maturity (HTM) securities portfolios for funding needs, including meeting depositor claims. The challenge that many banks face is that rapidly rising interest rates stemming from the Fed's tightening have caused their high-quality securities holdings to fall in market value. Thus, if they choose to sell such securities, they would crystallize a loss that would affect their earnings and capital. If the sale is from their HTM portfolio, under accounting rules the entire HTM portfolio would need to be marked to market, potentially incurring much larger losses. Now, banks can pledge qualifying securities in these portfolios and obtain a one-year loan from the Fed, the loan principal being the face – not market – value of the pledged securities. **Spectrum believes this new Fed loan facility provides key support to banks' liquidity.**

FDIC Extends Insurance to All Depositors of Two Failed Banks

On Sunday, March 12th, the Secretary of the Treasury, on the recommendation of the Boards of the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve, invoked the Systemic Risk Exception, thereby allowing the FDIC, as receiver for failed banks Silicon Valley Bank and Signature Bank, to not adhere to the ‘least cost’ rule in failed bank resolutions. Given this decision by the Treasury Secretary, the FDIC has decided to cover all deposits at these two banks. **Spectrum views this action by the FDIC positively, and believes it will assist in supporting banks' funding and operations.**

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