Four US banks and one Swiss giant—expect more bank runs

By Elisa Barwick

22 Mar.—Swiss, British and US central banks and their respective financial regulators, worked frantically over the weekend to prevent a collapse of financial giant Credit Suisse (CS) from triggering global financial contagion when Asian markets opened Monday morning. They scraped in with a Union Bank of Switzerland (UBS) buy-up of the failing bank for just over $2 billion[1], facilitated by a $54 billion loan, in addition to a $162 billion loan injected into CS at the same time. This was on top of $54 billion burned through the previous week which was already reported as the biggest bailout in Swiss history.

Add to those figures, the $454 billion required to guarantee all deposits in three failed US banks, Silicon Valley Bank, Signature Bank and Silvergate and a possible fourth (below), and you exceed $720 billion—equivalent to the GDP of the world's 30 poorest nations—but a new report is now foreshadowing more bank runs, with 186 US banks in a similar boat as the shuttered Silicon Valley Bank.

Also on Monday morning 20 March, the Bank of England, Bank of Canada, Bank of Japan, ECB, Swiss National Bank and US Federal Reserve, fearing a US dollar shortage, announced coordinated daily (rather than weekly) repo market operations to funnel liquidity to banks that need to pony up more collateral against their speculative positions, utilising new US dollar swap lines.

Credit Suisse is a Global Systemically Important Financial Institution (GSIFI), meaning it is acknowledged by the Bank for International Settlements' Financial Stability Board as having the capacity to bring down the global financial system. The bank had been in a death spiral for some time, having suffered significant losses and customer withdrawals from the collapse of Archegos Capital Management hedge fund in March 2021 and the 2019 Greensill Capital collapse. CS assets had fallen 38 per cent in the last two years. As at October 2022 it held $16.1 trillion in derivatives, giving it an exposure to asset ratio of 28:1, worse than the top four American derivatives-trading banks, many of which are counterparties to CS contracts.

Along with other banks, Credit Suisse had seen losses mount with the falling value of US Treasuries (government bonds). Following the three US bank failures, CS stocks began to plunge and its cost of insurance soared, but initial bailout efforts and a debt buyback plan failed, sparking concern. Shares continued to fall and the run on deposits continued. A takeover deal was fast-tracked. Instead of taking the mandated six weeks to consult with shareholders, only bankers, including UK and US regulators, were consulted. The takeover would create one of the biggest GSIFIs in Europe. Bail-in provisions (p. 3) were used, with a full write down of bail-inable (CoCo) bonds, worth $17 billion, announced by the Swiss regulator.

The US banks were crushed by the declining value of US Treasury bonds, as their market value moved in the opposite direction to US interest rates, raised by the Fed to address inflation and wind back quantitative easing. As their business customers were squeezed by high rates, the banks that invested in long-term Treasuries that mature after 30 years, saw their profitability squeezed. Banks like SVB which saw increasing depositor withdrawals, had no choice but to sell their Treasuries at a huge loss, putting their balance sheets drastically into the red. As word got around among large high-tech companies banking with SVB and similar banks, withdrawals increased.

In addition to assisting banks with its regular discount window, the Fed announced a new Bank Term Funding Program (BTFP) on 12 March. Loans of up to one year are offered in exchange for US Treasuries or similar securities such as mortgage-backed securities. Those assets will, however, not be valued at their actual, low market value, but at their face value as shown on the banks' books. The Treasury is backing the program with $25 billion from the Exchange Stabilisation Fund.

In the week following the collapse of Silicon Valley Bank the two Fed backstop facilities were drawn down by nearly $165 billion. The previous record was $111 billion, at the peak of the 2008 financial crisis, according to US Federal Reserve data reported by Bloomberg. The Fed has swiftly undone around half of the balance-sheet shrinkage it had achieved through its reversal of quantitative easing.

The Fed and Treasury worked with the Federal Deposit Insurance Corporation (FDIC) to complete resolutions of the banks to guarantee all deposits, whether covered by deposit insurance or not. Between the three collapsed banks they are up for $278 billion; a fourth, First Republic, with $176 billion in deposits, has been held back from toppling for now, with a 30 billion cash injection from JPM Chase, Goldman Sachs and others.

A report by economics and finance professors published 13 March by Social Science Research Network, "Monetary Tightening and US Bank Fragility in 2023: Mark-to-Market Losses and Uninsured Depositor Runs?" sounded a dire warning. Assets of the US banking system are $2 trillion lower than their book value; most bank assets are worth 10-20 per cent less than their present valuation. Ten per cent of banks have worse unrealised losses than did SVB and 10 per cent have a lower capitalisation. The report states: "Even if only half of uninsured depositors decide to withdraw, almost 190 banks are at a potential risk of impairment to insured depositors, with potentially $300 billion of insured deposits at risk. If uninsured deposit withdrawals cause even small fire sales, substantially more banks are at risk." This jeopardises the ability of the FDIC to protect deposits.

Discussion in both Switzerland and the USA is converging on the solution which would have prevented this situation: Glass-Steagall banking separation. Swiss MP Benjamin Fischer has called for Glass-Steagall legislation to separate investment banking from commercial banking, insulating deposits, with attention from other MPs, academics, and attention in the media. Treasury Secretary Janet Yellen didn't shoot the idea down when it was raised by Democratic Senator Maria Cantwell 16 March at a Senate committee hearing. Republican Senator Josh Hawley told HuffPost, "I think we need to bring that rule back." Former US Secretary of Labour, Robert Reich and former Treasury assistant Paul Craig Roberts, both demanded its return as the law of the land.

1. All figures in US dollars.