FRB Response to the Recent Bank Failures: Bank Term Funding Program*

In response to the failures of Silicon Valley Bank (SVB) and Signature Bank, on March 13, 2023, the FRB announced the establishment of the Bank Term Funding Program (BTFP). The purpose of the program is to provide an additional source of liquidity against high-quality securities, and to eliminate the need for an institution to quickly sell those securities in times of stress. In the FRB's press release dated March 12, 2023, under the BTFP, loans of up to one year in length would be made available 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, regardless of the current market value of the collateral. The Department of the Treasury has pledged $25 billion as credit protection to the Federal Reserve Banks in connection to this program.

The BTFP is available to any U.S. federally insured depository institution (including a bank, savings association, or credit union) or U.S. branch or agency of a foreign bank that is eligible for primary credit under the Federal Reserve discount window. The FRB has indicated that the BTFP will be in effect until at least March 11, 2024.

Notably, during the first week the program was operational, eligible financial institutions borrowed over $11.9 billion allocated from the BTFP. Data published by the FRB showed that during that same week, banks borrowed over $153 billion at the Federal Reserve discount window (the traditional liquidity backstop for banks), a surge of 3,000 percent when compared to the week before. During the 2008 financial crisis, the all-time high at the discount window reached $111 billion.

Additionally, in response to the question of whether a financial institution's use of the BTFP raises bank supervisory concerns, the FRB indicated that it will not criticize eligible depository institutions for participating in the BFTP, as the purpose of the program is to provide an additional source of liquidity against high-quality securities, which eliminates an institution's need to quickly sell those securities in times of stress.

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In support of the program, the FRB stated that the BTFP will work to "bolster the capacity of the banking system to safeguard deposits and ensure the ongoing provision of money and credit to the economy." That is, to essentially restore confidence in the banking system and protect the economy.

The FRB also announced that it will make available additional funding to eligible depository institutions to help ensure banks have the ability to meet the needs of all their depositors. While all depositors will be made whole, shareholders, certain unsecured debtholders, and senior management will not be protected. Any losses to the Deposit Insurance Fund to support uninsured depositors will be recovered by a special assessment on banks, as required by law.

The FRB has published a FAQs guide regarding the BTFP. The press release and FAQs can be accessed through the following link:**https://www.federalreserve.gov/monetarypolicy/bank-term-funding-program.htm**.

For questions regarding the BTFP, please contact Joel Cook at **JCook@ABLawyers.com**.