

# Yellen, US Regulators Say Some Banks Under Stress But Financial System Sound

- Regulators coming under pressure from markets, politicians
- Policymakers around the world assert banks well capitalized

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Top US regulators said Friday that while some banks are coming under stress the overall financial system is still sound, seeking to reassure depositors and investors rattled by recent bank failures.

The statement came after Treasury Secretary Janet Yellen convened the Financial Stability Oversight Council on Friday morning, a panel that includes the head of the Federal Reserve and the Federal Deposit Insurance Corp.

“The Council discussed current conditions in the banking sector and noted that while some institutions have come under stress, the US banking system remains sound and resilient,” the Treasury Department said in a statement after the meeting, which was held by video. “The Council also discussed ongoing efforts at member agencies to monitor financial developments.”

Separate weekly data released around the same time Friday afternoon showed that bank deposits dropped by the most in almost a year, an indication of the concerns Yellen and her colleagues are seeking to stave off.

While policymakers from Washington to Frankfurt to Zurich have asserted that banks are well capitalized, investor confidence in a number of lenders has been waning. California-based First Republic Bank has lost practically half its market capitalization this week, while Germany’s Deutsche Bank AG at one point Friday tumbled 15%, the most since the pandemic shock of March 2020.

The data released Friday covered the week to March 15, when two mid-sized US banks collapsed as depositors rushed to secure their funds, including Silicon Valley Bank. US regulators have since come under particular pressure to offer greater clarity about their readiness to guarantee uninsured bank deposits.

## **Mixed Messages**

Over the past week, investors have struggled to interpret messages on the issue. While Yellen and Federal Reserve Chair Jerome Powell have repeatedly stated that US bank deposits are safe, Yellen triggered a selloff in stocks earlier this week when she said regulators weren’t unilaterally prepared to offer a blanket guarantee.

Meantime, politicians are demanding more information on what regulators are discussing. Senior Republicans on the House Financial Services Committee on Thursday requested details on the FSOC's March 12 meeting, when Yellen and her counterparts gathered to discuss a bevy of measures following the collapse of Silicon Valley Bank.

## **Seeking More**

The statement from the FSOC, which has little legal authority but serves as a coordinating forum, fell short of what some have called for.

Former Treasury Secretary Lawrence Summers, a paid contributor to Bloomberg Television, earlier on Friday had urged the FSOC to pledge the backing of uninsured deposits in any banks that fail over the next year.

"It is better to err on the side of overdoing it when you're talking about protecting against bank runs than it is to err on the side of underdoing," Summers said on Bloomberg Television's "Wall Street Week" with David Westin.

Former Fed Governor Dan Tarullo said on Thursday that his interpretation of recent remarks by Yellen and Powell was that "what we are basically telling you is, if a bank fails, we will ensure the uninsured deposits." He added, "If that's what you mean, why don't you say it more clearly — so that you will maximize the calming effect of whatever tool it is that you're prepared to use?"

Analysts at Evercore ISI said in a note published before the statement that the FSOC signaling its intent to guarantee deposits up to two years for failed banks would be legally feasible and would help "clarify and sharpen" their message. However, that move carries political risks.

"It is challenging to deliver strong-form forward guidance because to do so in a fully credible way would require supermajorities at both the FDIC and Fed Boards — including at least one of the two Republican members of the FDIC board," they wrote. "Policymakers would also need to consider the risk of a further backlash from Republicans in Congress."

— With assistance by Katanga Johnson

(Updates with deposit data from fourth paragraph.)