Following the Bank Failure Money

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The failures of three large banks earlier this year brought the FDIC and its Deposit Insurance Fund (DIF) back into the spotlight, renewing questions about how the DIF comes up with the money to resolve failed banks. This paper reviews the sources of funds used to resolve these failures. In its public statements, the FDIC noted the estimated resolution costs; however, the cash needs for a failed bank resolution differ, and sometimes, quite significantly from the cost of the failure.

Policy players know that major legislation in Washington is crafted with an eye to the impact on the federal deficit, but this paper shows that the FDIC must also keep an eye on budget dynamics. This is particularly relevant when failures erupt as Treasury nears the debt limit or is implementing extraordinary measures to stay within the debt limit.

- From a federal budgetary perspective, the FDIC and the DIF are on-budget with transactions reported annually in the Office of Management and Budget's Budget Appendix.[1] The accounting is done on a cash basis; that is, any dollar received by the DIF counts as a Federal receipt, while any dollar going out of the DIF is a Federal outlay. As of May 31, 2023, FDIC's DIF had net withdrawals (i.e., increased the Federal deficit) from U.S. Treasury of $48.7 billion.[2]

- In addition to the funds in the DIF, The FDIC has borrowing authority of $100 billion from the Treasury and a Note Purchase Agreement with the Federal Financing Bank (FFB), not to exceed $100 billion, to fund implementation of the deposit insurance commitment. Using the DIF, Treasury or the FFB results in a hit against the federal deficit.

- In managing and resolving the recent failures, the FDIC turned to the Federal Reserve which provided over $200 billion in funding to FDIC bridge banks and receiverships. These transactions do not impact the Federal budget as only the net receipts of the Federal Reserve flow into federal budget totals.

- The FDIC estimated that approximately $15.8 billion of the total failure cost for Silicon Valley Bank and Signature Bank was attributable to the cost of covering uninsured deposits as a result of the systemic risk determination made on March 12, 2023. By statute, the FDIC is required to recover this $15.8 billion estimated loss through one or more special assessments. On Thursday, May 11, 2023, FDIC moved forward with a notice of proposed rulemaking, which would implement such a special assessment.[3]

[1] https://www.whitehouse.gov/wp-content/uploads/2023/03/oia_fy2024.pdf, p. 42.
[2] https://fsapps.fiscal.treasury.gov/dts/files/23053100.pdf
[3] https://www.fdic.gov/news/press-releases/2023/pr23037.html

- Accounting for the special assessment permits FDIC to recognize the funds for that assessment as a receivable; thus, the DIF reserve balance will not be hit for the portion of the loss attributable to invoking system risk. FDIC noted this treatment when it released its semiannual update on the DIF Restoration Plan.[4]

- The Deposit Insurance Fund does take a hit for the estimated $13 billion loss associated with First Republic Bank. This loss directly impacts the FDIC's restoration plan and its ability to hit the Designated Reserve Ratio for DIF.

The following chart provides a timeline for the outflow of monies associated with three bank failures. Blue text denotes transactions which impact the federal budget Green text denotes transactions by the Federal Reserve which are off-budget.

Date	Significant Actions related to Major Bank Failures
March 10	FDIC appointed as receiver for Silicon Valley Bank. FDIC creates the Deposit Insurance National Bank of Santa Clara (DINB). FDIC as receiver immediately transferred to the DINB all insured deposits of Silicon Valley Bank. FDIC withdraws $40 billion from U.S. Treasury
March 12	Systemic risk exception declared for Silicon Valley Bank and Signature Bank. FDIC appointed as receiver for the failed Signature Bank. FDIC transferred all the deposits and substantially all of the assets to Signature Bridge Bank, N.A.
March 13	FDIC transfers all deposits—both insured and uninsured—and substantially all assets of the Silicon Valley Bank to an FDIC-operated bridge bank.
March 14	FDIC returns $40 billion to U.S. Treasury.
March 15	Federal Reserve reports $142.8 billion in outstanding "other credit extensions"; loans that were extended to depository institutions established by the FDIC; i.e., Silicon Valley Bank Bridge Bank and Signature Bridge Bank.

[4] https://www.fdic.gov/news/press-releases/2023/pr23030.html

	The Federal Reserve Banks' loans to these depository institutions are secured by collateral and the FDIC provides repayment guarantees.[5]
March 16	Eleven banks announce $30 billion in deposits into First Republic Bank.
March 19	FDIC enters into a purchase and assumption agreement with Flagstar Bank (a wholly owned subsidiary of New York Community Bancorp, Inc.) to assume substantially all deposits and certain loan portfolios of Signature Bridge Bank.
March 20	FDIC withdraws $25 billion from U.S. Treasury.
March 22	Federal Reserve reports increased lending of $35 billion, for a total $179.8 billion in "other credit extensions"; loans that were extended to depository institutions established by the FDIC. The Federal Reserve Banks' loans to these depository institutions are secured by collateral and the FDIC provides repayment guarantees.
March 26	FDIC entered into a purchase and assumption agreement with First Citizens Bank & Trust Company for all deposits and loans of Silicon Valley Bridge Bank. The acquirer purchased about $72 billion of Silicon Valley Bridge Bank assets at a discount of $16.5 billion. Approximately $90 billion in securities and other assets remain in the FDIC receivership.
March 29	Federal Reserve lending increases $300 million to $180.1 billion in outstanding "other credit extensions"; loans that were extended to depository institutions established by the FDIC. The Federal Reserve Banks' loans to these depository institutions are secured by collateral and the FDIC provides repayment guarantees.
April 3	FDIC withdraws $5 billion from U.S. Treasury.
April 5	Federal Reserve reports $174.6 billion in "other credit extensions".
April 7	FDIC withdraws $2 billion from U.S. Treasury.
April 12	Federal Reserve reports $172.6 billion in outstanding "other credit extensions".
April 19	Federal Reserve reports $172.6 billion in outstanding "other credit extensions".

[5] https://www.federalreserve.gov/releases/h41/20230316/h41.pdf

April 26	Federal Reserve reports $170.4 billion in outstanding "other credit extensions".
April 28	FDIC withdraws $5 billion from U.S. Treasury.
May 1	FDIC enters into a purchase and assumption agreement with JPMorgan Chase Bank to assume all of the deposits and substantially all of the assets of First Republic Bank.
May 3	FDIC withdraws $2 billion from U.S. Treasury. Federal Reserve reports an increase of $57.8 billion to $228.2 billion in outstanding "other credit extensions" which now includes loans that were extended to depository institutions that were subsequently placed into Federal Deposit Insurance Corporation (FDIC) receivership, including depository institutions established by the FDIC. The Federal Reserve Banks' loans to these depository institutions are secured by pledged collateral and the FDIC provides repayment guarantees.[6]
May 4	FDIC withdraws $10 billion from U.S. Treasury.
May 10	Federal Reserve reports $212.5 billion in outstanding "other credit extensions".

[6]On May 1, 2023, the California Department of Financial Protection and Innovation closed First Republic Bank and appointed the FDIC as receiver. In its H.4.1 release, the Federal Reserve's outstanding lending to First Republic Bank at the Discount Window and through the Bank Term Funding Program are now reported as "Other credit extensions". The outstanding loans are being repaid from assets left behind in the receivership, proceeds of the purchase and assumption agreement between the FDIC and JPMorgan Chase Bank, National Association, and pursuant to an FDIC guarantee. https://www.federalreserve.gov/releases/h41/20230504/