ICBA

INDEPENDENT COMMUNITY BANKERS of AMERICA®

Recent Bank Failures Explored

Bank Failures Are Not New

-Last financial crisis was mired in bank failures

-25 failures in 2008; 140 failures in 2009; 157 failures in 2010; 92 in 2011

-Failures generally caused by improper assessment of credit risk, lending out of one's comfort zone, insufficient levels of loss-absorbing capital

-Securitization of less-than-ideal financial products produced a false sense of security

-Losses followed an expected and predictable pattern of underwriting

-End result was a sweeping change in regulatory capital requirements on an international level (Basel III Capital Accords)

-US regulators instituted new capital requirements on all banks regardless of size

-Loan loss measurement reintroduced forecasting and modeling of expected losses

Why could banks fail in 2023?

-3 failures in 2023 with total assets of almost $550 billion

-Interest rates at historical lows even with recent increase in long-term rates

-Book of business is strong on all fronts, little to no credit losses, rising wages, low unemployment

-Banks flush with deposits amid unprecedented stimulus

-Demand for core bank products strong

-Inflation generally seen as a positive for banks that rely on a positive sloping yield curve to realize profitability

Asset-Liability Management Is Critical

-Regulators place blame at the feet of management

-Inability to prudently manage interest rate and liquidity risk

-Boards of directors were unable or unwilling to hold management accountable for their actions

-Rapid growth in assets and deposits amid changing interest rate landscape

-Insufficient reaction to shifting balance sheet metrics when assessing risk management

-Supervisors too slow in addressing vulnerabilities

-Uninsured deposits matter even where loyalty is assumed

New World of Banking Includes Social Media

-fears of bank failures easily communicated over popular apps

-partnerships with emerging financial companies and new asset class participants (cryptocurrencies) can lead to a misunderstanding of risks

-sufficient levels of high-quality regulatory capital are not enough

-banks must be prepared to model risks of insolvency and lack of liquidity

-consumers and small businesses have unprecedented mobility in moving funds when risk profiles become elevated

Unrealized Losses are at the Center of Liquidity Risk

-Accounting standards provide for rigid rules for the classification of investment securities

-Securities classified as “available-for-sale” require fair value reporting on the balance sheet

-Bank purchases of high-quality investment securities at ultra low interest rates have depleted capital positions

-Liquidity could be compromised if capital positions reach levels where Federal Home Loan Bank borrowing is unavailable

-Future of long-term interest rates is key to determining health of banks moving forward