

More Banks Are Borrowing from The Fed - Monetary Policy Update

Widespread uncertainty and difficulties remain persistent for numerous banks, especially smaller regional banks. As investors' trust in banks has recently fallen, depositors have withdrawn funds nationwide. The broad level of withdrawals has led many banks to tap the Federal Reserve for assistance, through the Fed Discount Window and the Fed's new Bank Term Funding Program.

Recently released data is showing that banks have increased their access to the Federal Reserve for assistance, primarily from the Fed's Discount Window. Requests for funds from The Federal Reserve's discount window are widely regarded as a last-resort backstop for banks experiencing liquidity issues. To receive short-term, in some cases even overnight, cash loans through the discount window, banks pledge assets such as loans or securities. This allows banks to process a greater level of withdrawals than they normally would, yet is also a signal to investors and the market that some banks may be struggling. However, with the risks of contagion amidst high-interest rates, banks are turning to the discount window and the Fed's new Bank Term Funding Program at levels that far eclipse the heights of the 2008 banking crisis. While just \$4.5 billion was loaned out from the Discount Window in the week of March 8th, the week of March 15th saw a record-high \$152.8 billion in loans. Historically, the highest level of Discount Window loans ever previously recorded was \$110 billion in late 2008.

While the names of borrowers from the discount window are not disclosed until two years after the loan was administered, many banks are self-reporting that they borrowed from the backstop to show depositors that they are proactively addressing their liquidity issues. The historic level of loans through these crisis facilities has highlighted the importance of increasing public trust in banks, while also ensuring that customer withdrawals are minimized.



Sources: Bloomberg, Wall Street Journal, Federal Reserve Bank of New York, Board of Governors of the Federal Reserve System.

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