# Why Banks Are Failing, Especially The Global 'Too Big Banks To Fail' Banks?

**By Matthias Chang – FutureFast-Forward.com**

Where do we start as we are inundated with minefields of scandals in regard to the global banking system – the lies, corruption and the deliberate cover-ups!

Maybe its best that I quote from a distinguished professor with impeccable integrity, Professor Amit Seru, the Professor of Finance at Stanford University's Graduate School of Business, a Senior Fellow at the Hoover Institution and Research Associate at National Bureau of Economic Research (NBER).

He summarised the current crisis as follows:

***The U.S. banking system's market value of assets is <u>$2.2 trillion lower</u> than suggested by their book value of assets accounting for loan portfolios held to maturity.*** *Marked-to-market bank assets have declined by an average of 10% across all the banks, with the bottom 5th percentile experiencing a decline of 20%.*

***Most of these asset declines were not hedged by banks with use of interest rate derivatives…. uninsured leverage (i.e. uninsured Debt/Assets) is the key to understanding whether these losses would lead to some banks in the U.S. becoming insolvent.***

***A bank's survival depends on the <u>market beliefs</u> about the share of uninsured depositors who will withdraw money following a decline in the market value of bank assets****. If interest rate increases are small such that the bank's decline in asset values is relatively small, there is no risk of a run equilibrium. However, for sufficiently high increases in interest rates, we have multiple equilibria in which uninsured depositor run making banks insolvent (i.e., a "bad" run equilibrium) becomes a possibility.*

***Banks with smaller initial capitalization and higher uninsured leverage have a smaller range of beliefs supporting a "good" no run equilibrium, <u>increasing their fragility</u> to uninsured depositor runs.***

*A case study of the recently failed Silicon Valley Bank (SVB) is illustrative. 10 per cent of banks have larger unrecognized losses than those at SVB. Nor was SVB the worst capitalized bank, with 10 per cent of banks having lower capitalization than SVB. On the other hand, <u>SVB had a disproportional share of uninsured funding</u>: only 1 per cent of banks had higher uninsured leverage. Combined, losses and uninsured leverage provide incentives for an SVB uninsured depositor run.*

***We compute similar incentives for the sample of all U.S. banks. Even if only half of uninsured depositors decide to withdraw, <u>almost 190 banks with assets of $300 billion are at a potential risk of impairment,</u> meaning***

***that the mark-to-market value of their remaining assets after these withdrawals will be insufficient to repay all insured deposits.***

*If uninsured deposit withdrawals cause even small fire sales, substantially more banks are at risk. Regions with lower household incomes and large shares of minorities are more exposed to the bank risk.*

***… Decline in banks' asset values eroded the ability of banks to withstand adverse credit events. Overall, these calculations suggest that recent declines in bank asset values very significantly increased the fragility of the US banking system to uninsured depositor runs.***

The said professor is part of the team that wrote*, "Monetary Tightening and U.S. Bank Fragility in 2023: Mark-to-Market Losses and Uninsured Depositor Runs?"* that was published on 5th April, 2023.

The team consists of Erica Jiang**,** Assistant Professor of Finance and Business Economics at USC Marshall School of Business; Gregor Matvos, Chair in Finance at the Kellogg School of Management, Northwestern University, and Research Associate in the Corporate Finance group at the National Bureau of Economic Research (NBER); Tomasz Piskorski**,** Professor of Real Estate in the Finance Division at Columbia Business School and Research Associate at NBER.

Pam Martens and Russ Martens, in an article dated 9th May, 2023 highlighted the "disturbing scenario" and I quote:

*… banks with "assets above $1 trillion" potentially experiencing a bank run. There are only four U.S. chartered banks that have assets above $1 trillion. According to the December 31, 2022 data from the Office of the Comptroller of the Currency, those are:* ***JPMorgan Chase Bank N.A****. with assets of $3.2 trillion;* ***Bank of America N.A****. with $2.4 trillion in assets;* ***Citigroup's Citibank N.A****. with assets of $1.77 trillion; and* ***Wells Fargo Bank N.A.*** *with $1.71 trillion in assets.*

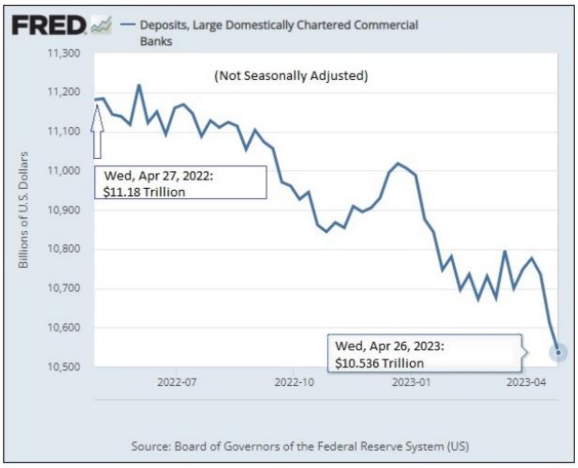
Pam and Russ Martens drew our attention, and we quote:

***Out of the 10 largest insolvent banks,*** *1 has assets above $1 Trillion, 3 have assets between $200 Billion and $1 Trillion, 3 have assets between $100 Billion and $200 Billion and the remaining 3 have assets between $50 Billion and $100 Billion."*

We may want to recall that the global big banks received $trillions in bail-outs from the FED in the 2008 financial crisis and Citibank received the largest bail-out in US banking history and its stock traded at 99 cents in 2009.

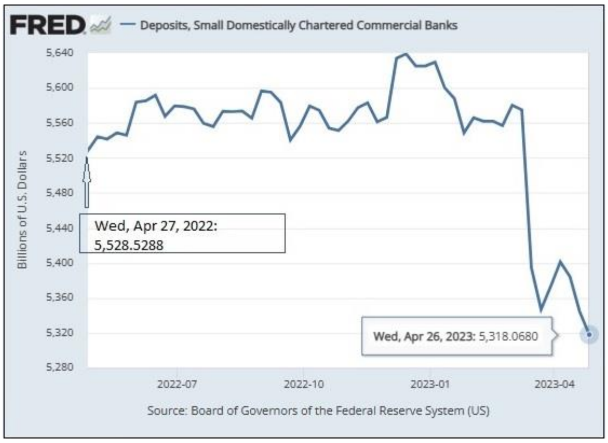
To round up the discussion on why banks fail, it is also useful to dispel the myth that bank-runs and the massive withdrawals of deposits are mainly confined to smaller banks and the big banks are benefitting from the transfer to such funds from smaller banks. This is a lie and a false narrative!

We need only to refer to two FED graphs (a picture paints more than a thousand words). Compare and contrast:




*Deposits at 25 Largest U.S. Commercial Banks*

**The above graph shows clearly that deposits of the 25 largest US commercial banks plunged from April 27, 2022 to April 26, 2023.** The 25 largest banks in the U.S. **lost a total of $644 billion in deposits** between April 27, 2022 and April 26, 2023.




**The above graph shows the decline in deposits of small domestic US Commercial banks as compared to the first graph of the big banks! The combined loss in deposits of THE SMALL BANKS was just $210 billion.**

We quote from Pam and Russ Martens again:

*The deposit losses at JPMorgan Chase, Bank of America and Wells Fargo are **more than** **twice what the 4,000 small banks lost in total** during the same period. **The combined loss in deposits of THE SMALL BANKS was just $210 billion.***

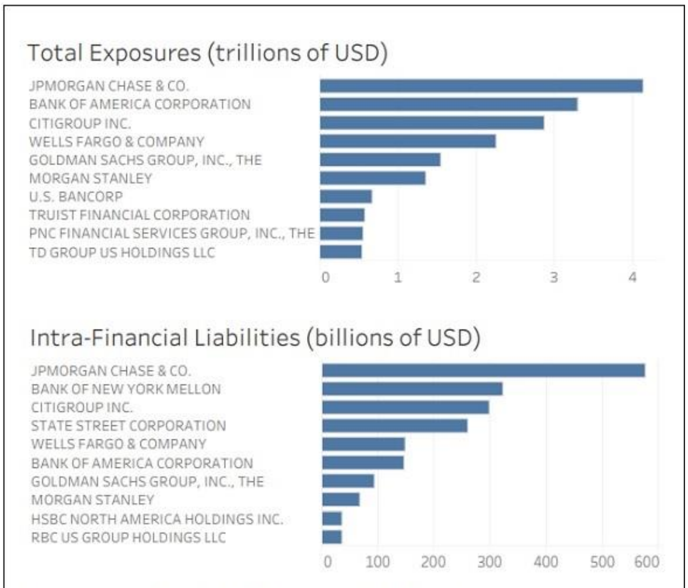
*The **three largest banks** in the U.S., as measured by deposits, are JPMorgan Chase, Bank of America and Wells Fargo. Between April 27, 2022 and April 26, 2023, JPMorgan Chase lost $184 billion in deposits; Bank of America lost $162 billion; and Wells Fargo lost $118.7 billion, for a **combined loss in deposits of***

***$464.7 billion - representing 72 per cent of the decline in deposits at the 25 largest banks.***

*Bank of America and Wells Fargo not only lost those large deposit sums on a year-over-year basis, but both banks saw deposits fall during the past five quarters, including the quarter ending March 31, 2023 when headlines were declaring that they were seeing big inflows of deposits as a result of the banking crisis. JPMorgan Chase lost deposits in each of the quarters in 2022 and then saw a small increase in deposits in the first quarter of this year – likely from all of those misleading headlines.*

The data can be obtained from the Federal Reserve (FED) H.8 Report on each Friday at 4.15 pm by using FRED Charting tools.

Finally, to drive the nail into the coffin, the below graph says it all!



Source: Federal Reserve Y-15 Reports, Compiled by FFIEC.

JP Morgan is at the top of the list!  JP Morgan is the riskiest bank in USA

Need we say more!