Too-Big-To-Fail Banks Flooded With Deposits As Bank Run Drains Small Bank Of Cash

Description

Over the weekend, amid populist howls of outrage that a bailout of SVB would promote moral hazard (in the end depositors did get bailed out with a full recovery, but ***other unsecured creditors*** oddly enough would get nothing, while the common stock is a doughnut), we said that while technically true, the events that toppled SVB and now SBNY as well, are really a subsidy for the big banks.

> Many view what's happening as a question of moral hazard and a bailout of small banks. It's really a subsidy of big banks: JPM was solidly green in Friday's rout https://t.co/GAlJJ2iSLI
>
> — zerohedge (@zerohedge) March 12, 2023

Today, one day after many small banks nearly failed amid a surge in deposit outflows, we read that "after the back-to-back collapse of three smaller banks, their biggest US counterparts are seeing a rush of depositors fearful the crisis will spread."

According to Bloomberg, JPMorgan – or as we now call it *JPMega* – the largest US bank and about to become much, much bigger, **alone received billions of dollars in recent days, and Bank of America, Citigroup and Wells Fargo & Co. are also seeing higher-than-usual volume.**

"The top six banks in the US are and have been too big to fail, the financial crisis over 10 years ago demonstrated that," Michael Imerman, an assistant professor at the University of California Irvine's business school, told Bloomberg. "So it's safer to go with a name with higher degree of certainty."

Other banks are seeing increased deposit inflows as well. Citizens Financial Group Inc. announced Monday that it "has seen higher than normal interest from prospective new customers over the past few days," and that it would temporarily extend branch hours to accommodate.

Confirming BBG reporting, the FT writes that "Large US banks are inundated with new depositors as smaller lenders face turmoil", which of course means that small bank deposits are getting drained.

> so… small financial institutions are losing deposits quickly https://t.co/suZVs39Rkm
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> — zerohedge (@zerohedge) March 14, 2023

According to the FT report, "large US banks are being inundated with requests from customers trying to transfer funds from smaller lenders, as the failure of Silicon Valley Bank results in what executives say is the biggest movement of deposits in more than a decade."

> "JPMorgan Chase, Citigroup and other large financial institutions are trying to accommodate customers wanting to move deposits quickly, taking extra steps to speed up the normal sign-up or "onboarding" process, according to several people familiar with the matter."

As we speculated over the weekend, the bailout plan revealed by the Fed, TSY and FDIC was insufficient to stabilize depositor confidence, and even though it staved off the failure of a third bank following the implosion of SVB and Signature Bank, **depositors were still attempting to move balances into larger banks such as JPMorgan, Citi and Bank of America, as well as money market funds**. That is especially the case when balances exceed the $250,000 threshold that is guaranteed by federal insurance.

Deposit transfers from SVB and other regional lenders to large banks picked up steam last week and continued on Monday, the people said. **“The calls have been coming in today like airplanes stacked on a snowy day at O’Hare airport,”** said one senior banker, referring to Chicago’s busy aviation hub.

JPMorgan, which we explicitly said will be the biggest beneficiary of small bank bank run, has shortened the waiting time for opening an account and is expediting the speed at which new corporate customers can access funds to ensure they can pay staff at the end of this week, the FT reports adding that several banks have reassigned employees to jobs connected to account openings.

> Citi’s private bank, which caters to wealthy individuals, is trying to open accounts within a day of application compared with the typical timeline of one to two weeks, some of the people said. The lender has also started to open accounts and initiate money transfer procedures while the new client is still undergoing compliance checks.
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> Executives say they are walking a fine line because they do not want to be accused of exploiting the situation. JPMorgan has told bankers they should not make active attempts to poach clients from smaller rivals, according to people briefed on the discussions.

“Goliath is winning,” Wells Fargo banking analyst Mike Mayo said in a research note on Monday as he singled out JPMorgan as a beneficiary “in these less certain times”.

None of that should be a surprise, and the real story behind the SIVB collapse emerged late last week when we reported that **JPMorgan was seeking to convince some SVB customers to move their funds, in the process making the devastating and terminal SIVB bank run worse.** Here is what we said:

> *Let us get this straight*: the largest US commercial bank was actively soliciting the clients of one of its biggest competitors, and the 16th largest US bank, knowing full well deposit flight would almost certainly lead to the collapse of a bank which courtesy of fractional reserve banking, had only modest cash to satisfy deposit demands: certainly not enough to meet $42 billion in deposit outflows.
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> Of course, Jamie, who has suddenly emerged as a key figure in the Jeff Epstein scandal alongside Jes Staley, knows this, and would be delighted with an outcome that kills two birds with one stone: take his name off the front pages and also make JPMorgan even bigger. Actually three birds: remember it was JPM that started that “Not QE” Fed liquidity injection in Sept 2019 when the bank “suddenly” found itself reserve constrained. We doubt that JPM would mind greatly if Powell ended his rate hikes and eased/launched QE as a result of a bank crisis, a bank crisis that Jamie helped precipitate.
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> And while we wait to see if Dimon’s participation in the Epstein scandal will now fade from media coverage, and whether Powell will launch QE, we know one thing for sure: JPM was a clear and immediate benefactor of SIVB’s collapse because in a day when everything

crashed, JPM stock was one of the handful that were up.

And so, just like the Lehman collapse made the remaining bailed out banks stronger, so the failure of a handful of regional banks not only allowed mega banks such as JPM and BofA – which have tens of billions in net unrealized losses on their HTM books to take advantage of the Fed's new bailout facility, the BTFP, but to also beef up their depositor bases while assuring that their profits rise too .

Almost as if it was all planned from the start…

by Tyler Durden

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Date Created
03/15/2023