

Biden to save people from effects of Bank-failures

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May 2, 2023: New York: JPMorgan Chase is to buy most of the assets of the First Republic Bank, in a deal announced early Monday. It **protects the deposits, both insured and uninsured, of First Republic's customers**. President Biden said that he would make sure that the US banking system remains safe and sound.



*May 1: Washington, DC: White House: Rose Garden: **President Joe Biden** Speaks on the **regulatory action** on the First Republican Bank*

THE DEAL: Under the deal, the Federal Deposit Insurance Corporation (FDIC) will cover 80% of any losses incurred on First Republic's portfolio of single-family residential mortgage loans and commercial loans over the next five to seven years. JPMorgan Chase will not assume First Republic's corporate debt, and it will receive \$50 billion in financing from the FDIC to complete the deal.

As a part of the transaction, First Republic Bank's 84 offices in eight states will reopen as branches of JPMorgan Chase Bank.

Besides being good news for JPMorgan Chase and First Republic's worried customers, it was also cheered by Treasury Department officials, who are worried about a loss of confidence in the banking system causing damage to the US economy.

"Treasury is encouraged that this issue was resolved with the least cost to the Deposit Insurance Fund, and in a manner that protects all depositors," said a Treasury Department spokesperson. "**The banking system remains sound and**

resilient, and Americans should feel confident in the safety of their deposits and the ability of the banking system to fulfil its essential function of providing credit to businesses and families.”

The FDIC took control of the embattled First Republic and then immediately announced the sale. The failure will cost the FDIC about \$13 billion. That money will be paid by the nation’s banks, which pay premiums to support the agency. It is less than the \$20 billion cost of the failure in March at Silicon Valley Bank, which was a bit smaller than First Republic.

HISTORY: First Republic, which started operations in 1985 with a single San Francisco branch, is known for catering to wealthy clients in coastal states. It had assets of \$229.1 billion as of April 13. As of the end of last year, it was the nation’s 14th-largest bank, according to a ranking by the Federal Reserve. JPMorgan Chase is the largest bank in the United States with total global assets of nearly \$4 trillion as of March 31.

The bank’s failure came after its stock plunged more than 97% since the problems at Silicon Valley Bank surfaced in mid-March. worrying investors about the state of the banking sector.

Many of the bank’s customers who withdrew money during the last month were likely above that \$250,000 threshold. Uninsured deposits at the bank fell by \$100 billion during the course of the first quarter, a period in which total net deposits fell by \$102 billion, not including the infusion of \$30 billion in deposits from other banks. The uninsured deposits stood at 68% of its total deposits as of December 31, but only accounted for 27% of its non-bank deposits as of March 31.

First Republic’s latest earnings report showed it was profitable in the first quarter: Its net income was \$269 million, down 33% from a year earlier. But it was the news about the loss of deposits that worried investors and, eventually, regulators.

Over the past decade, roughly 70 banks have failed, according to FDIC data, though most of those have been smaller regional lenders. But there were no failures in either 2021 or 2022. The three failures since March 10 matches the total number of bank failures in the previous 36 months from March 2020 through February 2023.

By--- **Dr K N Mistry**