Understanding Bank Failures in 2023

by Earl P. Holt III

Beginning with the Obama Administration, leftist appointees to the ***Federal Reserve*** -- like former Fed Chairman Janet Yellen -- pumped trillions of dollars into the economy to maintain low interest rates and artificially prop-up equities markets to make Obama look good. (This Fed policy was termed "*Quantitative Easing*" or ***QE3***.)

The Fed achieved this policy by purchasing $11 Trillion in *Electronically Traded Funds*, introducing 11 Trillion newly-created dollars into U.S. spending and investment streams. This unprecedented liquidity kept interest rates low -- between zero and two percent -- for about 12 years, and throughout the four years of the Trump Administration.

Then, along came the Biden Administration, whose ignorance of economics is staggering and unprecedented. By spending $10 Trillion in only two years -- on top of the Fed's earlier policy of QE3 -- Biden and the "*Democrat's*" profligate spending and massive Budget Deficits generated the highest U.S. inflation rate in 40 years. As a result, the Fed was obliged to begin the process of hiking interest rates in March of 2022 to help dampen inflation.

During 12 years of low interest rates, banks were encouraged by the Fed to buy low-risk U.S. Government Securities, particularly 10-Year Treasury Notes. These offered low interest rates, but were recommended by the Fed because each dollar of T-Note purchases meant one less dollar the Fed was forced to "*monetize*" (or create from thin air) to fund Biden's enormous budget deficits of $2.8 Trillion in Fiscal 2021, and $1.4 Trillion in Fiscal 2022.

Monopoly Money, Courtesy of the Fed

The Fed's commitment to dampening inflation by raising interest rates soon created liquidity problems for those banks holding large portfolios of Government Securities such as T-Notes. That's because bond prices and their interest rates are ***inversely related***, so that any increase in interest rates means a decline in the price of a bond if it should become necessary to sell it prior to its date of maturity.

A bond can always be redeemed for its face value at maturity, but if its purchaser is forced to sell it early, it may be subject to a capital loss when competing bonds happen to be offering higher interest rates. For example, a 30-Year bond with a face value of $10,000 at 5 percent interest is worth only about $5,000 if interest rates rise to 10 percent.

As liquidity began to tighten this spring, banks such as *Silicon Valley Bank* (SVB) and *Signature Bank (SB)* became squeezed when they were obliged to sell their T-Notes early. Since the market prices of T-Notes had declined in the wake of rising interest rates, these banks experienced significant capital losses. This phenomenon of low-

interest T-Notes and climbing interest rates created a liquidity crisis throughout the banking industry, and prompted the second and third largest bank failures in U.S. history at SVB and SB. More will follow.

Naturally, the Treasury Department immediately announced that it will honor the claims of their depositors, even those with account balances exceeding the $250,000 maximum balance insured by the ***Federal Deposit Insurance Corporation*** (FDIC.) There are two very good reasons for Treasury Secretary Janet Yellen's spectacular generosity with other people's money, that of U.S. taxpayers.

First, Silicon Valley's pimpled and leftist entrepreneurs and employees were many of the largest depositors at SVB, and several carelessly maintained balances **one thousand times** the FDIC's maximum insurable balance. Biden or any "*Democrat*" candidate must eventually come begging hat-in-hand for the support and campaign contributions of Silicon Valley's denizens when he or some other "*Democrat*" candidate runs for president in 2024.

Second, if the Biden Administration were to refuse to bail out these banks, the banks might very well embarrass Biden and his party by going public and exposing the administration's treacherously bad economic policies that have damaged the banking industry and created the current crisis in the first place. That could prove fateful for the most incompetent administration in American history, one that appears intent on running for a second term.

God Bless Laura Ingraham for pointing out the following hypocrisy during ***"The Ingraham Angle"*** on March 13th of 2023 (paraphrase): "**The same political elite that never hesitate to bail out the poor decisions of wealthy supporters -- like *Silicon Valley Bank* and *Signature Bank* -- never gave a thought to working class Americans when *their* jobs were being "*outsourced*" to communist China."**

As always, *Biden & Company* will continue to lie their way through this latest crisis and blame President Trump for their own failings, just as they've routinely done with every disaster they've created thus far. It's no coincidence that Treasury Secretary Janet Yellen spent 17 years at the Fed, and four as its Chairman where she was a leading proponent of QE3.

Unfortunately, the Marxist imbeciles who make up the Jews' Media will continue to cover for Biden and all "*Democrats*," just as they've always done. For example, one of them -- Jim Cramer at ***CNBC*** -- was pitching ***Silicon Valley Bank*** as a great investment just one month before it closed its doors forever...