PIIE Webinar on Emergency Liquidity

Andrew Metrick, Yale

The Problem

- The regional banking panic of 2023 demonstrated that the emergency liquidity infrastructure in the United States is not fit for the purpose of handling 21st-century runs. The reasons for this are interrelated:
  - Outdated operational capabilities by both Fed and banks.
  - Banks think of the FHLBs as their “lender-of-all-resorts”.
  - Fed does not give banks any “credit” for being prepared to use the window.
  - For all these reasons (and more!), “stigma” for discount-window borrowing is still strong.
- It is a multifaceted problem, and it will require a multifaceted solution.

(Rumored!) Elements of the Solution

- The New York Times recently reported that the Fed is considering a new rule with three elements:
  - Requiring banks “pre-position” some collateral;
  - Emphasizing preparation for runs of uninsured deposits; and
  - Preventing banks from counting “hold-to-maturity” bonds as part of their liquidity requirements.

- This seems like a good start, but the details matter a lot here. And it will not be the whole solution.

What else should be done?

- Banks need to get some “credit” for pre-positioning.

- We need to consider a broader set of runnable liabilities (not just uninsured deposits).

- The FHLB-Fed nexus must be **MUCH** better coordinated.