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The Banking Crisis Gets Worse! $1.7 Trillion in Unrealized Losses Loom as U.S. Banks Rapidly Bleed Deposits

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Global Research, April 04, 2023
The Economic Collapse Blog 3 April 2023

Region: USA
Theme: Global Economy

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If our banking system can't find a way to turn things around, our entire economy will soon be in a world of hurt. When banks get into trouble, they start getting really tight with their money. That means fewer mortgages, fewer commercial real estate loans, fewer auto loans and fewer credit cards being issued. So it should greatly concern all of us that U.S. banks are bleeding deposits at an absolutely staggering pace right now. During the week ending March 15th, 98.4 billion dollars was pulled out of U.S. banks. That was really bad, but we just learned that things got even worse the next week. During the week ending March 22nd, 126 billion dollars was pulled out of U.S. banks…

> Depositors drained another $126 billion from U.S. banks during the week ending March 22, according to new Federal Reserve data. This time the outflow came from the nation's largest institutions.

But this banking crisis did not begin in March as many have been led to believe.

Over the past year, well over a trillion dollars has been pulled out of U.S. banks, and this has created a tremendous amount of financial stress…

> The challenge the deposit outflows create for all banks is that if they raise rates on their deposits to keep customers, that could make them less profitable. But if they lose too many customers, as Silicon Valley Bank did, they give up critical funding and may have to sell assets at a loss to cover withdrawals.
>
> Silicon Valley Bank customers withdrew $42 billion in one day, leaving the bank with a negative cash balance of $958 million.

When lots of depositors start pulling their money out, banks can be forced to sell assets in order to have enough cash.

Unfortunately, U.S. banks are sitting on a giant mountain of unrealized losses right now.

Previously, it was being reported that U.S. banks are facing unrealized losses of 620 billion dollars on the bonds that they are holding due to rapidly rising interest rates, but now we are being told that it is actually 780 billion dollars.

And when you throw in unrealized losses on their loan portfolios, the unrealized losses that our banks are facing come to a grand total of somewhere around 1.7 trillion dollars…

> A study released on March 13th took a deeper look at the unrealized losses banks were likely holding. The study found that actual losses to banks' security holdings were $780 billion, not $620 billion as estimated by the FDIC.
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> But the authors went deeper, rightly noting, "Loans, like securities, also lose value when interest rates go up."
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> They found that total unrealized losses as of December 2022 were $1.7 trillion. In a chilling warning, the authors noted that "the losses from the interest rate increase are comparable to the total equity in the entire banking system." We're not out of this banking crisis. In fact, it may be just the beginning.

Ouch.

The Federal Reserve was warned not to raise interest rates so quickly.

But they did, and now they have broken our entire banking system.

In fact, Nouriel Roubini is warning that "most U.S. banks are technically near insolvency" at this stage…

> Roubini also points out that the rise in interest rates has led to a decrease in the market value of banks' other assets, and when accounting for these factors, U.S. banks' unrealized losses actually amount to $1.75 trillion, or 80% of their capital.
>
> According to Roubini, the "unrealized" nature of these losses stems from the current regulatory regime, which allows banks to value securities and loans at their face value rather than their true market value.
>
> He asserts that most U.S. banks are technically near insolvency

We are in far more trouble than most people realize.

The truth is that we are not just heading into a "recession".

What we are potentially facing is a meltdown of the entire system, and it is going to take quite a while for this crisis to fully play out.

But even now, symptoms are starting to erupt all around us.

For example, McDonald's just decided to close all of their U.S. offices while they decide which of their employees still get to work for them…

> McDonald's is closing its U.S. offices for a few days this week as the company prepares to inform employees about layoffs as part of a broader restructuring, according to a report.
>
> The Chicago-based burger chain said in an internal email that U.S. corporate employees and some staff abroad should work from home while the company notifies people of their job status virtually, The Wall Street Journal reported Sunday.

Like so many other big companies are doing these days, McDonald's is going to be laying off people by email.

What a horrible thing to do.

Of course when people get laid off they can respond very emotionally, and confrontations between management and those that have been fired can get pretty intense.

So informing people that they are terminated when they are out of the office is a way to avoid messy situations. But I still think that it is a really heartless thing to do.

There is so little loyalty in the corporate world today. You can pour your heart and soul into a company for decades, and then one day some numbers cruncher comes along and suddenly decides that you have become expendable.

We have seen so many layoffs in recent months, and many more are on the way.

And at this point a whopping 72 percent of all Americans believe that the economy is getting worse…

> A new survey shows that 83% of American adults view current economic conditions as "only fair" or "poor," reported Gallup. In addition, 72% think economic conditions are getting "worse."

Unfortunately, what most people don't realize is that what we have been through so far is just the tip of the iceberg.

All of the bubbles have started to burst, and our entire system is beginning to tremble violently.

So I would encourage you to hold on tight, because we have got a very bumpy ride ahead of us.

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