April 2023

THE CAPSTONE QUARTERLY

Spring is finally in the air after all the rain we've had in southern California. We are spoiled with our sunshine and are thankful to have it back. In this newsletter, Bryce and Casey both discuss topics closely relating to current events in the banking world.

BRYCE'S POINT OF VIEW

Bryce Pease, CFP®

Bank Term Funding Program

As you have probably heard by now, early in March we saw the collapse of Silicon Valley Bank (SVB) and Signature Bank of New York (SBNY), among others. SVB and SBNY held hundreds of billions of dollars in uninsured deposits when they went under. The Federal Reserve and the Federal Deposit Insurance Corporation (FDIC) created a backstop in an attempt to protect consumer confidence and ward off a crisis. This backstop is the Bank Term Funding Program.

Rather than allowing the banks to fail completely and not be able to repay their depositors, the Bank Term Funding Program will make additional funding available so that they can meet the needs of their depositors.

In simple terms, the Bank Funding Program is offering loans of up to one year in length to banks, credit unions, and savings associations. Banks pledge some of their collateral (assets) to receive these loans, giving them an additional source of cash in times of stress.

In the wake of the SVB and SBNY collapses, First Republic Bank (FRB) looked like the next institution likely to fail. Several large banks in our country deposited $30 million at First Republic Banks as a confidence in our banking system. It is not likely that the $5 million from JPMorgan Chase came out of the CEO's pocket directly. In fact, if you are a JPMorgan client, the funds likely came out of *your* account.

JPMorgan, and the other banks that deposited into First Republic Bank, didn't buy FRB stock or make a loan; they just moved large chunks of their clients' deposits from their books over to FRB. This move gave FRB more cash to meet withdrawal requests, but it still leaves FRB on the hook to send the deposits back…if it can.

On Thursday, March 16th Treasury Secretary Janet Yellen testified to the Senate Finance Committee that our financial system is sound. If you call banks switching deposits from one hand to another to hide their losses "sound", then yes, it is.

In our opinion, the bank failures will likely self-adjust. A lot of the bank investments that are causing problems are interest-rate sensitive. When interest rates move up, investments such as long-term treasury bonds will get hurt. We've written about this in previous letters, and saw it play out in 2022. As interest rates kept moving up, things like long-term bonds lost money.

If and when interest rates stabilize, or even move back down again, those same long-term treasuries will begin to recover their losses. This is what we mean by self-adjust. As banks are able to regain some of their assets, their liquidity will follow suit, and they will be more likely to be able to meet withdrawal requests.

CASEY'S CORNER

Casey Morris, CFP®

What's insured by the FDIC?

A few weeks ago, we saw the collapse of Silicon Valley Bank (SVB), among others, race through the news headlines. President Biden tried to reassure the public by saying, "All customers who had deposits in these banks can rest assured.. they'll be protected and they'll have access to their money as of today."

What happens if your bank shuts down? Are you protected? The Federal Deposit Insurance Corporation (FDIC) insures many bank accounts and protects your money in the event of a bank failure. You don't have to purchase this insurance; you are covered just by having a deposit account at an FDIC-insured bank. What is a deposit account? Your typical checking, savings, money market, and certificates of deposit (CDs).

The standard insurance amount is $250,000 per depositor, per insured bank, for each account ownership category. The amount of FDIC insurance coverage you may be entitled to depends on the ownership category. This generally means the manner in which you hold your funds at the bank.

For example, a single account owned by one person is insured up to $250,000. All single accounts owned by the same person at the same bank are added together and insured up to $250,000. Joint accounts are owned by two or more people, without named beneficiaries. To qualify for coverage, all owners must be living people, have equal rights to make withdrawals, and sign the deposit account signature card. Each co-owner's shares of every joint account at the same bank are added together to be insured up to $250,000. If a husband and wife own one joint account at the bank for $200,000, the entire account would be covered under FDIC.

What happens in the event of a bank failure? The FDIC will respond in two capacities. First, as the insurer of the bank's deposits, the FDIC will pay the depositor. Historically, the FDIC pays insurance within a few days after a bank closing. They usually do this by either providing a new account at another bank with an amount equal to the insured balance, or issuing a check to each depositor. Secondly, the FDIC becomes the receiver of the failed bank and will sell its assets and settle any debts.

Investment products held at the bank that are not deposits, like mutual funds, annuities, life insurance, crypto assets, stocks, and bonds, are not covered by FDIC.

For our advisory clients, there is another form of insurance that protects against the loss of cash and securities – such as stocks and bonds – held at a SIPC-member brokerage firm. The Securities Investor Protection Corporation (SIPC) protects brokerage accounts up to $500,000, including up to $250,000 in cash. SIPC protects customers when a brokerage firm fails financially and works to restore the securities and cash when liquidation begins. SIPC does not protect against market loss, promises of investment performance, or futures contracts. For more information, visit sipc.org or fdic.gov.

Did you know?

For our California residents, all babies born on or after July 1, 2022 will receive up to $100 in a college savings account to be used for qualified higher education expenses. CalKIDS is a program that was created by the State of California to help more children have an opportunity to save for higher education.

Additionally, eligible low-income public school students may qualify to receive even more money. Visit calkids.org for more information.

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With the evolving situation in our economy regarding the bank failures, we thought it would be helpful to explain the nature of the insurance protections. Both TD Ameritrade and Schwab are SIPC-member firms. We have intentionally chosen to work with a large brokerage firm for this reason, among others.

FINALLY…

As many of you have read in our past communications, Charles Schwab has acquired TD Ameritrade. This transaction has taken place over a couple of years and will be finalizing towards the end of the year. Over Labor Day weekend in September, our advisory clients at TD Ameritrade will have their accounts transitioned over to Schwab. This will mean new account numbers and a new login portal to view accounts online. We've been assured that our clients won't have to sign any paperwork to complete the transition. In our world, that is rarely the case, so we will keep you all updated if things should change. From the investment management standpoint, nothing will be different with the accounts, and we will continue to manage them as we have always done.

Sincerely,

The Team at Capstone Pacific

P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser's performance, we always appreciate it when you pass on our name.