



## 2023 Regional Bank Collapses

### Key Takeaways

- In the spring of 2023, three regional banks in the US collapsed causing many to have concerns about the potential for a banking crisis.
- There is concern the bank failures will lead to making it harder to borrow capital, which can curb spending and weigh on economic activity. Borrowed capital is a primary production tool in modern farming.
- Some believe there is a need for more regulatory oversight of the banks, while others believe the Federal Reserve already has the needed regulatory oversight but failed to properly use its authority.

### Questions

1. **Do farmers in your county use small or regional banks for their deposits and access to borrowed capital?**
2. **Have farmers in your county been limited in their ability to access borrowed capital following the bank collapse in the spring of 2023?**
3. **What is your opinion of the government's response to the bank collapses?**
4. **Is more regulatory oversight needed by the Federal Reserve to prevent bank collapses?**

### Background

In the spring of 2023, three regional banks in the United States collapsed in a short time period from March to May causing many to have concerns about the potential for a banking crisis similar to what happened in 2008, which was a part of a global recession cycle. By summer 2023, indications are we are passed the critical phase of a further banking crisis, but there are long term concerns for small and regional banks. In the collapse of the three regional banks, the Federal Deposit Insurance Corporation (FDIC) took steps to protect depositors at these banks to transfer their assets to other larger banks around the country.

There is concern the bank failures will lead to making it harder to borrow capital, which can curb spending and weigh on economic activity. Borrowed capital is a primary production tool in modern farming. Locally owned independent community banks and regional banks are an important source of credit to farmers. Current Tennessee Farm Bureau policy supports every effort to keep locally owned banks a competitive source of agricultural credit.

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Federal Reserve Chair Jerome Powell indicated in June the potential need for further oversight of the American financial system, while not providing details as to what this could look like. Reporting by the Associated Press express there are some officials within the Federal Reserve who believe banks should be required to hold more capital in reserve to protect against potential loan losses. What response the banking industry would have to this potential new regulatory oversight would depend on the details of the proposal. Reporting indicates there are many in the financial sector who believe the Federal Reserve already has the needed regulatory oversight but failed to properly use its authority prior to the banks' collapse.

## **Policy**

### *Tennessee Farm Bureau Agricultural Credit (Partial)*

Locally owned independent, Tennessee community banks continue to be an important source of credit to farmers. Every effort should be made to keep locally owned banks a competitive source of agricultural credit. We urge these banks to have loan officers who are familiar with the agricultural industry.

### *American Farm Bureau 415 / Agricultural Credit*

2.7. (We support the following principles) Federal banking regulators should establish sound risk-based capital requirements that continue in times of economic downturns;

2.8. (We support the following principles) Prospective borrowers should be protected from undue pressure to purchase insurance from institutions lending them money;

*(continued)*

#### 4 Commercial Banks

4.1.1. (We support) Regulators striking a balance between banking capital requirements which preclude lending to qualified farmers and making sure that financing for agriculture does not repeat mistakes on credit worthiness;

4.3.1. (We oppose) Regulations that are restrictive, inflexible and damage farmers' and ranchers' ability to obtain and keep adequate financing;

4.3.2 (We oppose) Financially responsible institutions should not be penalized for the excessive risk taken by other institutions;