

# U.S. DEPARTMENT OF THE TREASURY

## Remarks by Secretary of the Treasury Janet L. Yellen at Independent Community Bankers of America (ICBA) 2023 Capital Summit

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### *As Prepared for Delivery*

Good morning, everyone. It's great to be back at ICBA. And it's wonderful to see so many familiar faces. I'd like to first thank Derek and Rebeca for their leadership of this important organization.

As some of you know, this is not my first time speaking at ICBA. One of my first major speeches as Chair of the Federal Reserve was at your 2014 Washington Policy Summit. Our nation has seen significant economic and technological change since then. But my conviction remains as firm as it was nearly a decade ago: that a broad and diverse banking system is at the core of a strong U.S. financial system. Our community banks are vital to the health of the American economy and the financial wellbeing of American families and businesses.

Today, I'd like to share my views about the strength of our community banks, the recent developments in the regional banking system, and the debt limit situation.

## **COMMUNITY BANKS IN OUR ECONOMY**

America's community banks have always served as a cornerstone of many cities and towns across our country. But your role has proved even more important in recent years.

Over the past two years, the United States has mounted a historic economic recovery from the pandemic. Take the labor market. The data is clear: our country is back to work. Over 12 million jobs have been created since President Biden took office. In 2020, our unemployment rate surged to nearly 15 percent as the world economy came to a standstill. It has now dropped to a historic 3.4 percent. That's a more than 50-year low. This resurgence has been inclusive and broad-based. The Hispanic unemployment rate hit a record low last September. And the Black unemployment rate did the same earlier this year.

But this historic economic progress was not preordained. It was made possible by the partnership between the federal government and many institutions in this room.

Community banks served as a pillar of economic stability for their local communities during the pandemic. Large banks hold most of the assets in the banking sector. But smaller banks like yours have long played an outsized role in the provision of traditional financial services. As an example, community banks provide around 40 percent of small business loans. And they provide over 60 percent of farm loans. Strong client relationships and specialized knowledge of your communities enabled you to extend loans to American businesses under trying circumstances. These actions helped them stay open and expand. And your work helped us achieve a remarkable feat: many American households emerged from the pandemic in a stronger financial position than they were going into it.

You take your responsibility to your communities very seriously. According to one survey, over a third of community banks reduced or eliminated late-payment penalties on loans or credit cards during the pandemic. And a similar percentage did the same for fees on deposit accounts.

I've felt your impact firsthand through our relief efforts. In the middle of the pandemic, Treasury collaborated with banks across the country to deliver economic impact payments to millions of families. Our support helped Americans put food on the table and keep a roof over their heads. With your help, we deployed assistance to hundreds of thousands of homeowners facing foreclosure. And we worked together to deliver enhanced Child Tax Credit payments that helped cut child poverty nearly in half in 2021. We are continuing to partner to inject much-needed capital into underserved communities through programs like the State Small Business Credit Initiative and the Emergency Capital Investment Program. In the prior iteration of the Initiative, lenders with less than \$10 billion in assets accounted for 95 percent of all program-supported loans. Your banks are playing an equally important role in our current program.

As our nation has recovered, I'm pleased to say that the health and financial performance of our community banks have gotten stronger as well. In 2020, community banks – like all banks – reported pressures from the pandemic. Those pressures have largely been addressed over the past two years. Earnings have improved: community banks reported higher net income in 2022 than before the pandemic began. Loan growth has been strong and broad-based. And according to the latest reports from regulators, capital ratios remain robust. Asset quality is favorable. And community banks have ample liquidity to serve their customers. Their performance is a testament to the good management of many community banks across the country.

## **RECENT DEVELOPMENTS IN THE REGIONAL BANKING SYSTEM**

Let me turn to a topic that is on the minds of everyone in this room: the recent developments in the regional banking system.

In March, the federal government took forceful actions to strengthen public confidence in the banking system – following the failures of two large regional banks. The situation has stabilized since then. Aggregate deposit outflows have steadied. And the Fed’s Bank Term Funding Program and discount window are working as intended. Like our community banks, the U.S. banking system remains sound. There is strong liquidity and capital in the system.

I believe that the decisive actions that we took in March to protect depositors and provide additional liquidity to the system mitigated the very serious risk of broader financial contagion in the banking system. Let me be clear: we did not take these steps to aid specific institutions or classes of institutions. These actions were necessary to prevent the difficulties facing two specific banks from spilling over to other banks – including banks on Main Streets across the country.

Our actions in March were narrowly targeted. Management, shareholders, and debtholders were not protected by the government. Taxpayers did not bear any costs in the resolution of the two failed banks. And I believe that our actions reduced the risk of further bank failures that would have imposed losses on the Deposit Insurance Fund, which is paid for through fees on insured banks. To be sure, there have been some aftershocks of the March developments, including the resolution of First Republic. But I do not believe that these developments are a sign of any shift in the fundamental health of the banking system.

We remain vigilant and continue to closely monitor conditions. As I’ve said, we have a set of effective tools at our disposal. We are prepared to take further actions if needed – including if smaller institutions suffer deposit runs that pose the risk of contagion. Americans should rest assured that their deposits are safe. Their deposits will be there when they need them.

Looking forward, President Biden has said that we must make sure “we are not in this position again.” He has urged the federal banking agencies to consider a set of common-sense reforms that would strengthen the oversight of regional banks. President Biden and I are committed to do so while minimizing regulatory burden particularly on our nation’s smallest banks, which we know face unique challenges. Indeed, the President’s proposals would impose no additional regulations on traditional community banks.

For example, the President has suggested exempting community banks from the costs of replenishing the Deposit Insurance Fund resulting from the two bank failures in March. Last week, the FDIC issued its proposal for a special assessment as required by law. I was encouraged that the proposed assessment would not apply to any banking organizations with \$5 billion or less in

uninsured deposits. In practice, this means that nearly all of the assessment would be paid by large banks.

## **DEBT LIMIT**

It's important for me to use our remaining time to speak about one specific decision in front of Congress that will have significant implications for your businesses – and for the broader domestic and global economy.

That's the debt limit.

Yesterday, I told Congress that we still estimate that Treasury will likely no longer be able to satisfy all of the government's obligations if Congress has not acted to address the debt limit by early June – and potentially as early as June 1. It is impossible to predict with certainty the exact date when Treasury will be unable to pay all of the government's bills. And I will provide an additional update to Congress next week as more information becomes available.

Nonetheless, our current best estimate underscores the urgency of this moment: it is essential that Congress act as soon as possible.

In my assessment – and that of economists across the board – a U.S. default would generate an economic and financial catastrophe. Over the past few years, American families and businesses – including many of yours – have worked hard to mount a historic economic recovery. A default would reverse all of the hard-earned progress that we've made. And it would set us back even further.

Our economy would suddenly find itself in an unprecedented economic and financial storm. Millions of American families that rely on payments from the federal government would likely go unpaid. This ranges from 66 million Social Security beneficiaries to millions of veterans and military families who have served our country honorably. A default could cause widespread suffering as Americans lose the income that they need to get by. And the resulting income shock could lead to a recession that destroys many American jobs and businesses.

The economic crisis would be exacerbated by possible disruptions to the federal government's operations. Essential services that enable global commerce rely on the work of federal employees and contractors. That includes air traffic control and law enforcement, border security and national defense, and food safety and our telecommunications systems. But federal agencies would be unable to pay all of their bills. It is unclear if, and how, critical government services would continue to function.

And of course, the financial crisis that accompanies a default on our debt could multiply the severity of the downturn. The U.S. Treasury market serves as the very bedrock of the global financial system. There's a reason for that: the world has never doubted that America will pay the principal and interest on its bonds – in full and on time. That's a fundamental principle of modern finance. A default would crack open the foundations upon which our financial system is built. It is very conceivable that we'd see a number of financial markets break – with worldwide panic triggering margin calls, runs, and fire sales.

What could all of this add up to?

The White House Council of Economic Advisers has simulated the impact of a protracted default. It finds that it could lead to a downturn as severe as the Great Recession. In its simulation, over 8 million Americans lose their jobs. Business and consumer confidence take a substantial hit. The value of the stock market is slashed by about 45 percent – wiping out years of retirement and other household savings. Moody's Analytics used a different model to project the effects of a default. But it reached a similar conclusion. In its study, more than 7 million Americans lose their jobs. The unemployment rate surges to over 8 percent. And \$10 trillion in household wealth is wiped out.

If that sounds catastrophic – that's because it is.

Now, this crisis is entirely preventable. The solution is simple. Since 1960, Congress has raised or suspended the debt limit about 80 times – under both Republican and Democratic administrations. Congress should simply do so again. Raising or suspending the debt limit does not authorize new federal spending. It simply allows the government to make good on its existing commitments. Let me be clear: if Congress does not address the debt limit, there are no good options that Treasury or the government can use to save us from catastrophe.

We are a country that keeps its word. Generations of Americans have protected the full faith and credit of the United States. That has been a bedrock of our global economic leadership. There is no good reason to squander that reputation now – and to trigger a manufactured crisis of our own creation.

Time is running out. Every single day that Congress does not act, we are experiencing increased economic costs that could slow down the U.S. economy. In 2011, we resolved the debt ceiling crisis right before the government had to stop making payments. But that eleventh-hour brinksmanship led to the first-ever downgrade of our credit rating in history. Consumer confidence fell by over 20 percent. The S&P 500 plummeted by about 17 percent. Spreads for mortgages and auto loans widened, which generally makes it harder for households to afford houses and cars.

We are already seeing the impacts of brinksmanship: investors have become more reluctant to hold government debt that matures in early June. And the impasse has already increased the debt burden to American taxpayers – as the leaders of the Treasury Borrowing Advisory Committee said last week.

Too many businesses – including yours – are having to spend your time planning around the potential risk of U.S. default, instead of thinking about longer-term investments that will grow your enterprises and boost the economy. And too many households are having to worry about how they will get by without the payments that the government has promised them – and that these American families have earned.

The U.S. economy hangs in the balance. The livelihoods of millions of Americans do too. There is no time to waste. Congress should address the debt limit as soon as possible.

## **CLOSING**

To close, I'd like to return to where I began. The economic progress that we have made over the past two years has been premised on the fact that communities are able to access the credit they need. Community banks have been at the forefront of this effort – as they have been for decades.

I look forward to working with you to promote a strong banking system and advance the economic wellbeing of the communities we serve.

Thank you.

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