



Memorandum

Date: March 20, 2023

To: Joe Rinaldi

From: Eoghan Fisher

Re: First Republic's \$30 Billion Cash Infusion

In light of recent financial troubles facing First Republic, 11 major banks have decided to pool together a \$30 billion relief fund to aid First Republic's liquidity issues. The \$30 billion dollar rescue fund, which analysts are describing as a large uninsured deposit, has the difficult role of easing First Republic depositors from withdrawing their assets and causing a more severe bank run that could cause a complete failure¹.

The breakdown of the fund consists of independent contributions from 11 banks. In the first tier, JPMorgan Chase, Bank of America, Citibank, and Wells Fargo committed \$5 billion. The second tier consists of Morgan Stanley and Goldman Sachs, both of whom contributed \$2.5 billion. Lastly, the final tier of \$1 billion dollar contributions includes BNY Mellon, State Street, PNC, Truist and US Bancorp².

Regarding the term structure, the fund is a cash deposit that each bank has agreed to let First Republic keep for 120 days, though many have said that this time length is likely to be extended³. The 11 banks will also receive the federal funds rate plus/minus a few basis points for their deposits to First Republic⁴. The table below highlights the term structure:

Bank Name	Deposit Amount	Type of Deposit	Term Rate ⁵	Term Length
(1) JPMorgan Chase	\$5 Billion	Cash Deposit	~4.58% +/- a few bp	At least 120 days
(2) Bank of America	\$5 Billion	Cash Deposit	~4.58% +/- a few bp	At least 120 days
(3) Citibank	\$5 Billion	Cash Deposit	~4.58% +/- a few bp	At least 120 days
(4) Wells Fargo	\$5 Billion	Cash Deposit	~4.58% +/- a few bp	At least 120 days
(5) Morgan Stanley	\$2.5 Billion	Cash Deposit	~4.58% +/- a few bp	At least 120 days
(6) Goldman Sachs	\$2.5 Billion	Cash Deposit	~4.58% +/- a few bp	At least 120 days

¹ Retrieved from <https://apnews.com/article/first-republic-bank-deposits-rescue-9daaea0e7133007d5e7f8257030d1b1c>

² Retrieved from <https://apnews.com/article/first-republic-bank-deposits-rescue-9daaea0e7133007d5e7f8257030d1b1c>

³ Retrieved from <https://www.latimes.com/business/story/2023-03-16/first-republic-gets-30-billion-of-bank-deposits-in-rescue>

⁴ Information on the Term Rate, Term Length and Type of Deposit was confirmed by Erin Isler, Investor Relations Director at PNC

⁵ Term Rate is based on the Federal Reserve Bank of New York's Federal Funds Data

(7) BNY Mellon	\$1 Billion	Cash Deposit	~4.58% +/- a few bp	At least 120 days
(8) State Street	\$1 Billion	Cash Deposit	~4.58% +/- a few bp	At least 120 days
(9) PNC	\$1 Billion	Cash Deposit	~4.58% +/- a few bp	At least 120 days
(10) Truist	\$1 Billion	Cash Deposit	~4.58% +/- a few bp	At least 120 days
(11) US Bancorp	\$1 Billion	Cash Deposit	~4.58% +/- a few bp	At least 120 days

While the cash infusion will help with First Republic's short term liquidity issues, many analysts believe that it will not be enough to solve the bank's business, funding, and profitability challenges it may now be facing. First Republic has also seen massive downgrades in its credit ratings, with the S&P dropping it from an A- to a B+ over the past 4 days and warning another downgrade is possible. Moody's Investors Services also dropped its rating to junk status last Friday⁶.

It is our belief that because of the asset-liability mismatch of First Republic, the Federal Reserve should stop increasing interest rates and pause. If they continue raising short term rates, it will push more banks into a similar position as First Republic where their GAP is flat to negative. Furthermore, because of the inverted yield curve, this problem is temporary, and we need time to restore calm and confidence among the regional banks.

⁶ Retrieved from <https://www.cnbc.com/2023/03/19/sp-cuts-first-republic-deeper-into-junk-says-30-billion-infusion-may-not-solve-problems.html>