

## United States Senate

January 18, 2024

The Honorable Jerome Powell  
Chair  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

Dear Chair Powell:

In March 2023, amid the failure of Silicon Valley Bank, the Federal Reserve created the Bank Term Funding Program (BTFP or “the program”). This program is yet another new emergency lending program allowing banks to take advances from the Federal Reserve for up to a year to help combat the interest rate risk plaguing some banks at the time. According to the Federal Reserve, “the Bank Term Funding Program (BTFP) was created to support American businesses and households by making additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors.”<sup>1</sup>

Recently, borrowing at the BTFP has risen to record highs, but not because of market factors. According to the Wall Street Journal, “the increases [in BTFP lending] don’t seem to be a sign of new stress on banks, especially since deposits have ticked up at banks over the same period. It appears more likely the banks are just taking the easy money.”<sup>2</sup> This is happening because banks are now gaming your system. Today, financial institutions can borrow from the BTFP at a lower-than-market rate, below 5 percent, and then invest those borrowed funds overnight in reserves at the Federal Reserve. These reserves are paying a higher interest rate of 5.40 percent, allowing financial institutions to profit on the difference. Your flawed design of this program has allowed this to happen. Surely, the Federal Reserve should not be providing credit at more favorable rates than the market.

As both the creator of this program and arbiter of the federal funds target rate, the Federal Reserve should have foreseen the intrinsic flaws in this program’s design and taken steps to avoid them before its launch. Yet today, financial institutions with

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<sup>1</sup> <https://www.federalreserve.gov/financial-stability/bank-term-funding-program.htm>

<sup>2</sup> <https://www.wsj.com/finance/banking/the-fed-launched-a-bank-rescue-program-last-year-now-banks-are-gaming-it-43e9cee3>

access to the BTFP have reportedly borrowed over \$140 billion<sup>3</sup> in program funds, reaping arbitrated profits from the interplay of the Federal Reserve's unnecessary programs and its ample reserves regime.

The American public deserves more from the Federal Reserve than to read reports of how it is lining the pockets of Wall Street while it fails to effectively combat inflation that hurts families every day. It is astonishing that the Federal Reserve failed to take steps to shut down this program at the first signs of these trends.

Unfortunately, this experience only builds on the Federal Reserve's historically poor financial performance, with over \$1.3 trillion in unrealized losses in 2022. This month, the Federal Reserve reported another historic loss - a \$114.3 billion operating loss in 2023, up from \$16.6 billion the year prior, which was the first time the Federal Reserve has ever lost money.<sup>4</sup>

Clearly, this situation is unsustainable. Therefore, I write to you today to ask the following questions:

1. Why weren't steps taken to avoid the inherent conflict of interest between the BTFP and the Federal Reserve's interest payments on reserves before the BTFP was launched?
2. Is the Federal Reserve considering changing the terms and conditions of the program to stop this arbitrage before its expiration in March 2024?
3. Is the BTFP still needed, considering we are no longer in exigent circumstances?
4. Will the Federal Reserve continue this program through its one-year authorization?
5. Should the BTFP be shut down immediately? If not, why not?

It is unfortunate that the Federal Reserve, which is intended to be the lender of absolute last resort, would continue willingly to be both a generous lender and buyer of these bank funds without any public policy or market benefit. I urge your immediate consideration that the BTFP be terminated before its lapse in authorization and without further delay.

Sincerely,



Rick Scott  
United States Senator

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<sup>3</sup> <https://fred.stlouisfed.org/series/H41RESPPALDKNWW>

<sup>4</sup> <https://www.federalreserve.gov/newsevents/pressreleases/other20240112a.htm>;