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Failing Banks and the Need to Protect the Public's Cash.

Letting all depositors off the hook creates a moral hazard, but taxpayer money should be protected. If Congress won't extend full insurance to states and localities, banks should be required to protect those deposits with their own collateral.

The Bank Panic of 2023 started three weeks ago and ran like wildfire through the high-tech business community and the regional bank industry as Silicon Valley Bank, a national leader in lending to startup businesses and venture capitalists, suffered a two-day run on its deposits after announcing megabillion-dollar losses in its bond portfolios. Big depositors yanked $42 billion from the bank in just one day before it was shut down.

Fortunately for SVB's uninsured depositors, federal agencies stepped in over the following weekend to prevent contagion by promising full recovery to that bank's depositors and extending lifelines to others, at the expense of the entire banking industry, whose investors will foot the bill through special assessments to the Federal Deposit Insurance Corp. fund that are allowed in special cases of "systemic risk" to the U.S. economy. Treasury Secretary Janet Yellen is considering possible emergency measures for smaller banks.

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