



Economic Review

The Implications of Unrealized Losses for Banks

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Lower securities valuations have reduced banks' liquidity and capital, potentially dampening loan growth.

Interest rates have risen across the yield curve since the Federal Open Market Committee began tightening monetary policy in March 2022. After amassing securities during the pandemic, commercial banks saw rising interest rates erode the value of their securities portfolios by nearly \$600 billion, or about 30 percent of their capital holdings. In some cases, declines in valuation of securities holdings in response to interest rate changes—known as “unrealized losses”—can mechanically reduce key regulatory capital and liquidity ratios. Should banks need to sell the securities to generate income when their valuations are low, the realized losses could erode capital buffers and threaten the banks' solvency.

W. Blake Marsh and Brendan Laliberte investigate how recent interest rate changes and banks' associated unrealized losses have affected bank decision-making. They find four channels through which unrealized losses have reduced bank liquidity and capital, potentially dampening loan growth. These channels highlight that unrealized losses can affect all types of banks irrespective of size, regulatory treatment, or funding access.

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Blake Marsh is a senior economist at the Federal Reserve Bank of Kansas City. He joined the Banking Research department in July 2016. His research areas are commercial bank regulation and financial intermediation. His current research examines commercial real estate lending, syndicated corporate lending, and financial innovation. Mr. Marsh holds a B.A. in economics from The George Washington University and M.A. and Ph.D. degrees from American University. He previously held positions at the Board of Governors of the Federal Reserve System and in the mortgage industry.



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I joined the economic research group at the Federal Reserve Bank of Kansas City in 2022 after studying economics at Carleton College and finance at the University of Minnesota's Carlson School. I currently assist **Padma Sharma** and **Blake Marsh** as they research the macroeconomic implications of developments in financial markets. To better scrutinize future financial stability, I am interested in how and why financial intermediaries and their ancillary markets have made decisions under different circumstances. **This wonderful opportunity has improved the breadth and depth of my programming and econometric knowledge through frequent interaction with field experts.** Most notably, I have been empowered by the genuine consideration and care that Blake and Padma have devoted towards my graduate school preparation.