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Banks Promise Loans But Hoard Cash

Liz Moyer, 02.03.09, 05:05 PM EST

Data shows funds piling up in accounts at the Federal Reserve.

Bankers have done the equivalent of stuffing the mattress in the last few months, despite being prodded by the government to lend the hundreds of billions in cash being pumped into the banking system by the Federal Reserve and other regulators.

They've been hoarding cash at the Federal Reserve, some \$793 billion of excess reserves as of the end of January, which is more than double the amount of money doled out or pledged to financial companies through the Treasury Department's \$700 billion Troubled Asset Relief Program.

The data support the anecdotal evidence that lawmakers on Capitol Hill have railed against: Banks are hoarding the bailout money, even as they promise to make more loans.

It highlights one of the biggest problems facing the financial system right now: balancing the political need to loan out taxpayer funds and ignite the stalled economy with demands to shore up their balance sheets and insure survival during the riskiest lending environment in a generation. "They are nervous," says Mark Zandi of Moody's Economy.com.

Banks have to stash away a minimal level of reserves, but they can keep extra reserves. Last year at this time, excess reserves totaled \$1.7 billion, according to Fed data. Back then, excess reserves were considered uneconomical, since banks could make more profits off lending the money to fellow banks overnight or to clients. But that all changed in October, when the Fed started paying interest.

Excess reserves went from \$2 billion in August to \$267 billion in October. As of the middle of January, they had mushroomed to \$843 billion. Preliminary numbers for the end of January have them at \$793 billion, currently accruing interest at 0.25%, the Fed's benchmark short-term rate.

Fed Chairman Ben Bernanke acknowledged the challenges with mounting excess reserves during a [recent speech](#) in London. "In practice, the federal funds rate has fallen somewhat below the interest rate on reserves in recent months, reflecting the very high volume of excess reserves, the inexperience of banks with the new regime and other factors," he said.

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