

The 2023 U.S. Banking Crises

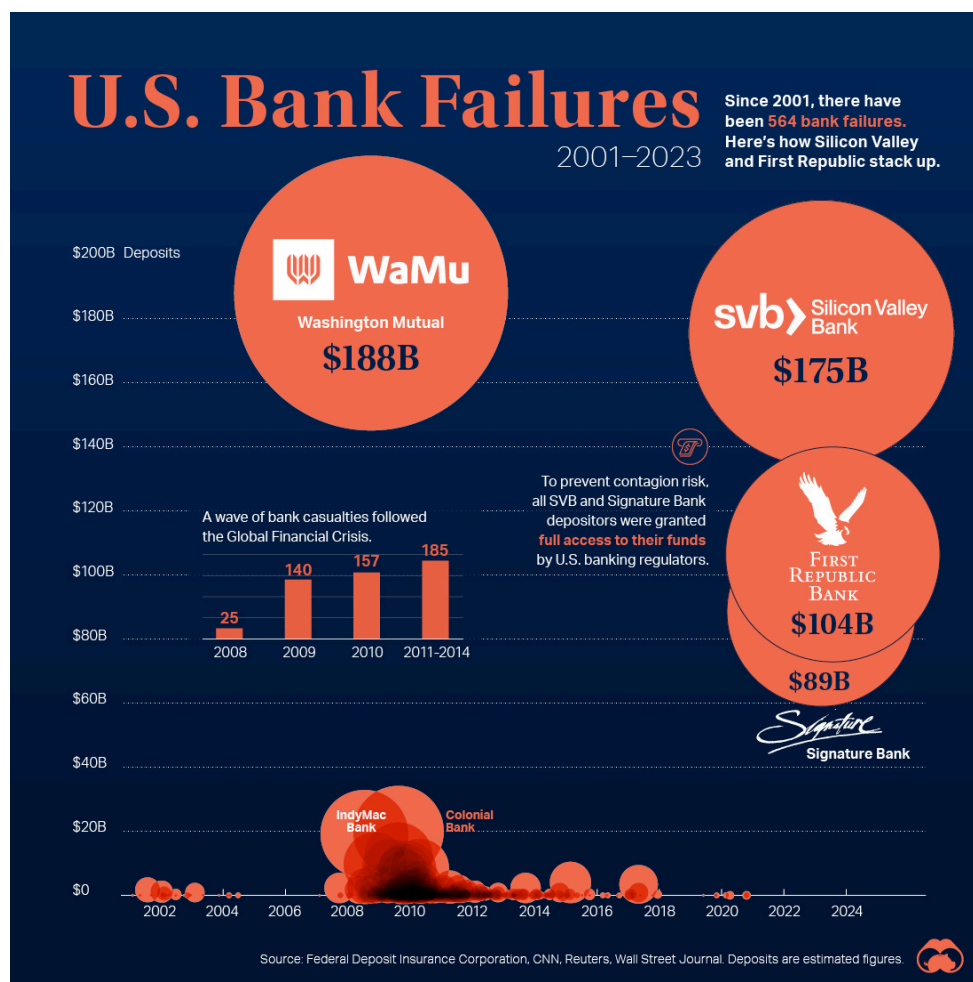
Salma Rashwan

CASE STUDY

MARCH 8, 2023 — MAY 1, 2023

Overview

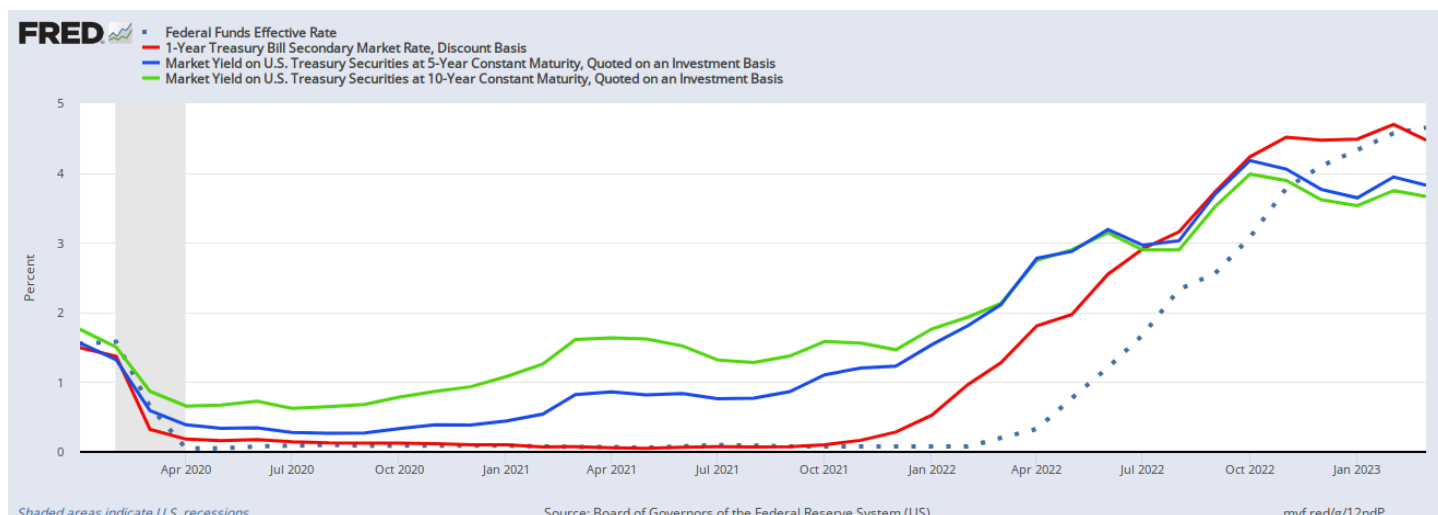
The 2023 banking crisis in the United States saw the collapse of several regional banks, notably **Silicon Valley Bank (SVB)**, **Signature Bank**, and **First Republic Bank**. Rising interest rates, poor risk management, and overexposure to uninsured deposits triggered these failures. The crisis shook investor confidence, led to emergency government intervention, and prompted global liquidity support measures.



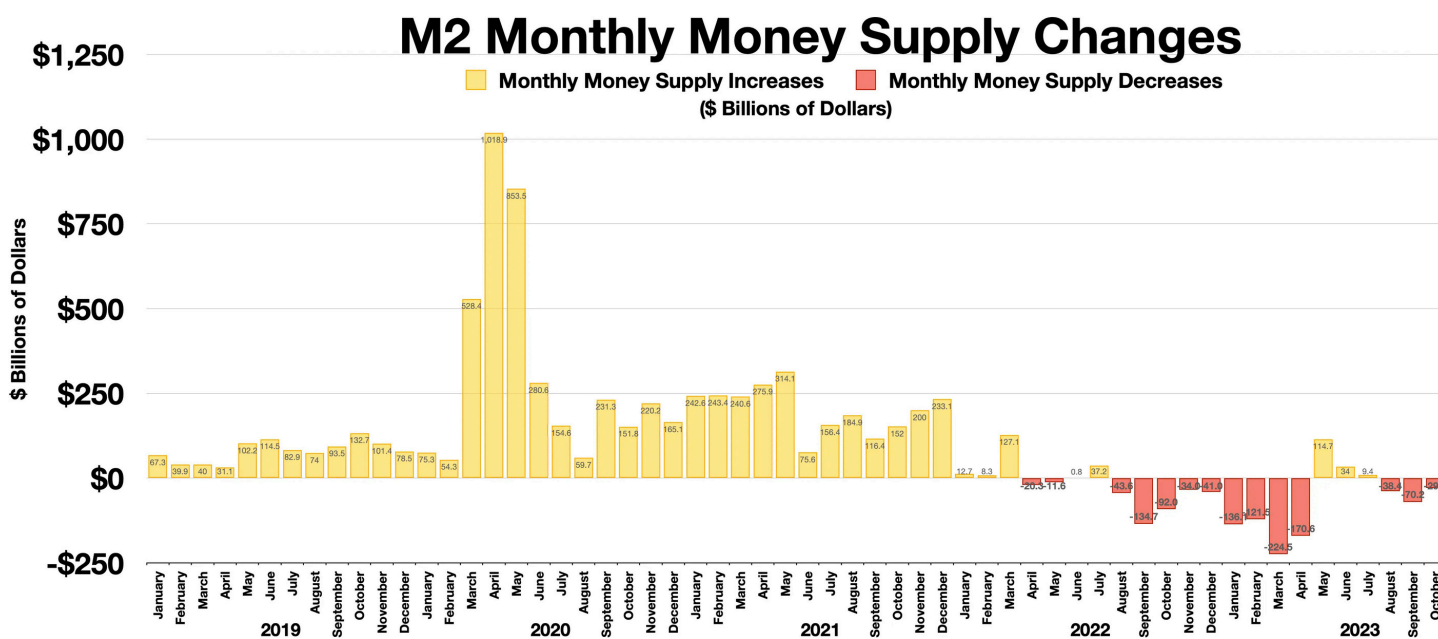
Step 1: Interest Rate Pressure Builds (2022–Early 2023)

- **Trigger:** The Federal Reserve increased interest rates sharply to combat inflation.
- **Impact:** Bond values dropped. Banks like SVB, heavily invested in long-term securities, faced huge unrealized losses.

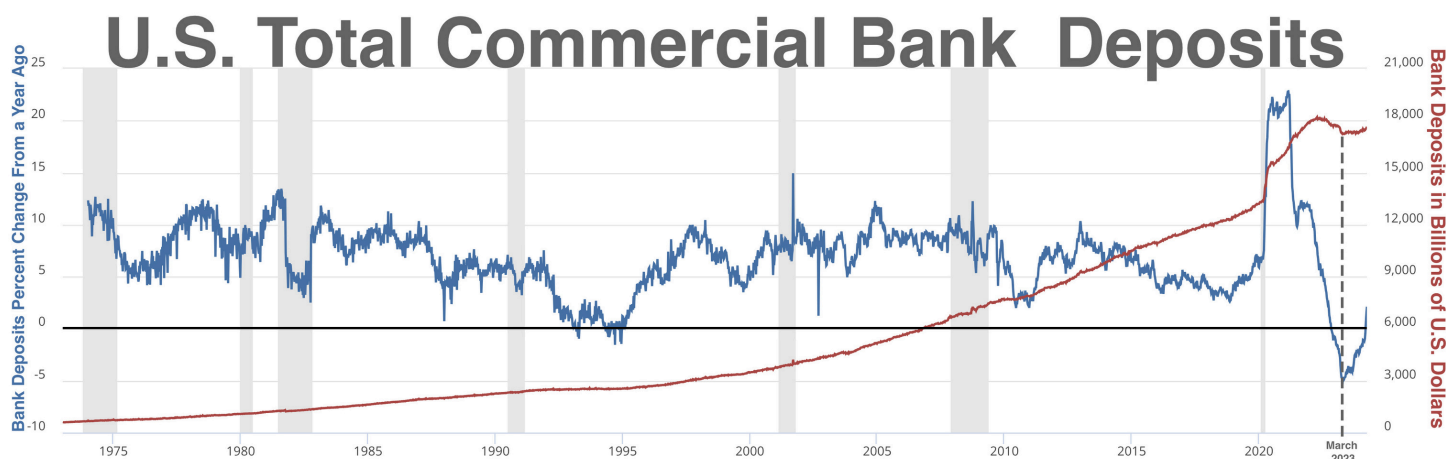
- **Key Issue:** SVB's assets lost value while liabilities (deposits) remained constant, causing an asset-liability mismatch.
- **Source:** [Financial Times](#)



The normal **yield curve** began inverting in July 2022, causing short-term Treasury rates to exceed long-term rates



M2 monthly money supply changes. Money supply dropped by \$-224.5 billion in March 2023. The largest drop on record since 1959.



Step 2: SVB's Misstep Reveals Trouble (March 8, 2023)

- **Announcement:** SVB disclosed a \$1.8B loss from selling \$21B in securities and its need to raise \$2.25B in capital.
- **Market Reaction:** Venture capital firms urged startups to withdraw funds, sparking fear.
- **Deposit Structure:** 89% of SVB's deposits exceeded the FDIC insured limit.
- **Source:** [Wall Street Journal](#)

🌐 Collapse of Silicon Valley Bank (SIVB) - The Timeline — Inceptone

Nikkei index closes low for second day

Historical close prices, March 14, 2022 to March 14, 2023.

— Close Price



Chart: Jenna Moon/Semafor • Source: Yahoo Finance



Hang Seng reacts to tech turmoil

Historical close prices, March 15, 2022 to March 14, 2023.

— Close Price



Chart: Jenna Moon/Semafor • Source: Yahoo Finance



STOXX roiled by US bank runs

Historical close price data, March 14, 2022 to March 13, 2023.

— Close Price



Chart: Jenna Moon/Semafor • Source: Yahoo Finance

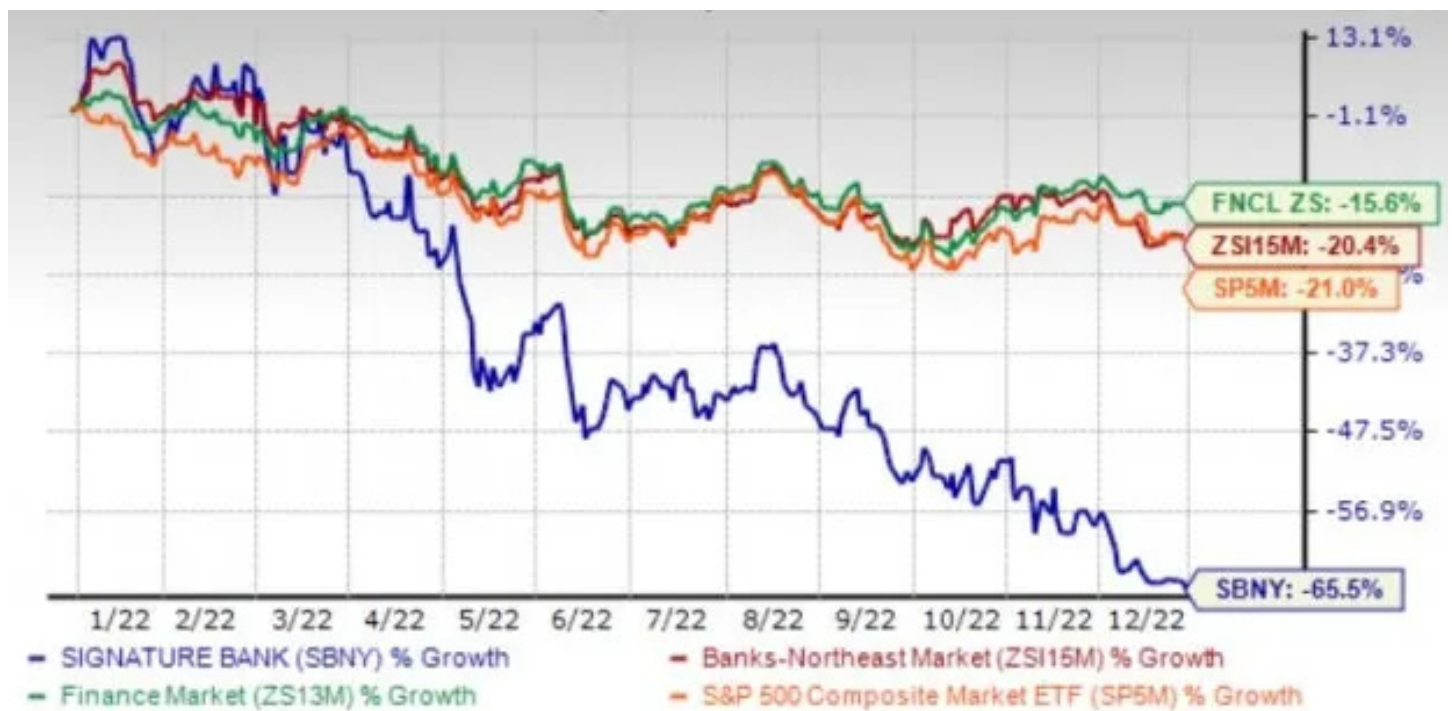


Step 3: Historic Bank Run and Collapse (March 9–10, 2023)

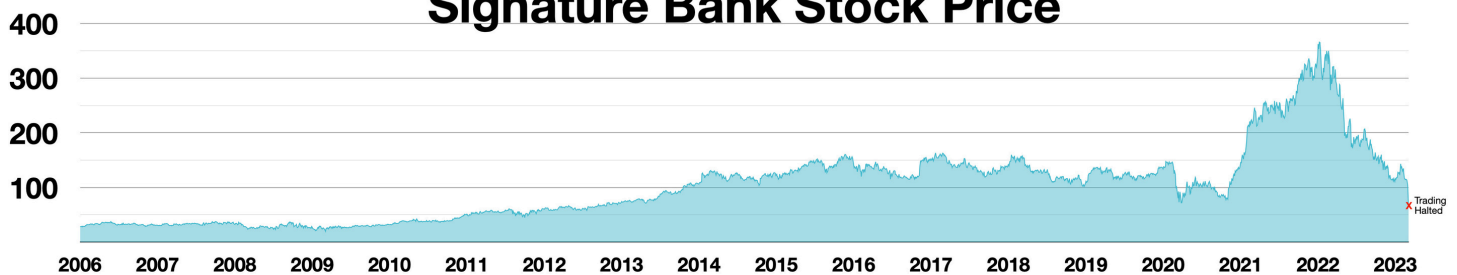
- **Withdrawals:** \$42B was withdrawn in one day—the largest bank run in U.S. history.
- **Outcome:** California regulators seized SVB; FDIC took control.
- **Context:** This was the second-largest bank failure in U.S. history.
- **Source:** [Wikipedia](#)

Step 4: Signature Bank Closure (March 12, 2023)

- **Profile:** Heavy involvement with crypto and commercial real estate.
- **Action:** New York regulators closed the bank to prevent further contagion.
- **Concerns:** Signature was under investigation for AML violations.
- **Source:** [Returns](#) What Killed Signature Bank?



Signature Bank Stock Price

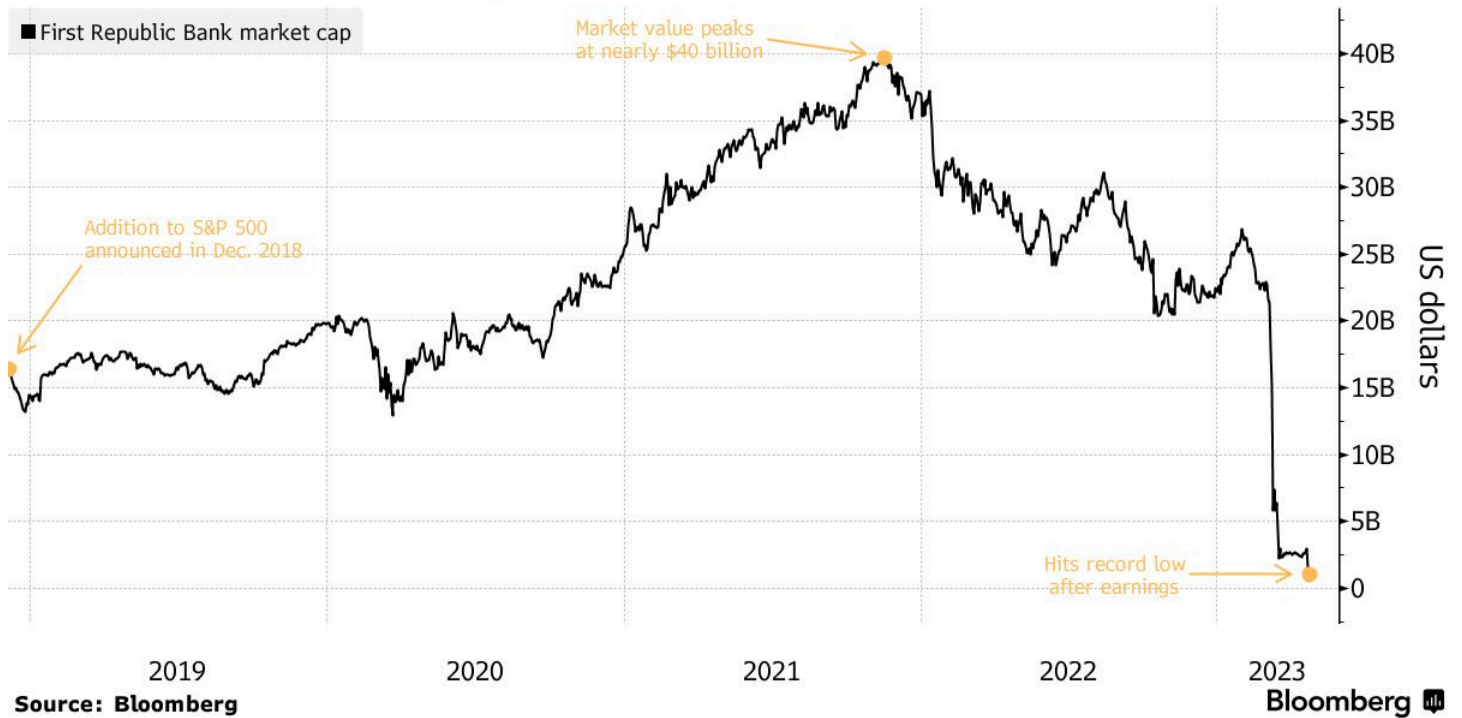


Step 5: First Republic Under Siege (March–May 2023)

- **Panic:** Over \$100B in deposits left the bank.
- **Attempted Rescue:** \$30B deposit infusion by major banks.
- **Outcome:** Stock plummeted; regulators seized and sold it to JPMorgan Chase on May 1.
- **Note:** Third-largest U.S. bank failure in history.
- **Source:** [Reuters](#) 🌐 First Republic (FRC) Becomes Second-Largest Ever US Bank Failure

First Republic's Market Cap Plunged

The value had risen since it joined the S&P 500



Government & Fed Response

Emergency Measures

- Bank Term Funding Program (BTFP): Loans against securities valued at par to support liquidity.
- Full Deposit Protection: Even for deposits exceeding \$250,000 at SVB and Signature Bank.
- Global Central Bank Coordination: Fed, ECB, Bank of England, and others offered dollar liquidity via swap lines.
- Source: [Federal Reserve](#)

Root Causes Summary

Cause	Explanation
Interest Rate Risk	Rate hikes devalued long-term assets held by banks.
Asset-Liability Mismatch	Banks held long-term bonds, but liabilities (deposits) were short-term.
Uninsured Depositor Base	High % of deposits exceeded FDIC insurance limits—triggered panic.
Poor Risk Management	Lack of hedging, inadequate stress testing, and vacant risk leadership roles.
Tech/Crypto Exposure	Banks tied to fast-moving sectors with volatile funding (VC, crypto).

Economic Impact of the 2023 Banking Crisis

1. Mass Withdrawal & Market Panic

- **March 13, 2023:** Regional bank stocks plummeted as depositors moved funds to large banks.
- Sharp drops included:
 - **Western Alliance:** -47%
 - **PacWest Bancorp:** -21%
- Moody's downgraded the **entire U.S. banking system** to negative.

2. Stock Market Volatility

- Trading halted for several regional banks.
- The share prices of **First Horizon**, **Metropolitan Bank**, and **Valley Bank** dropped.
- Panic rippled into **crypto markets** and **Bitcoin**.

3. Government Response & Emergency Measures

- President **Joe Biden** assured depositors and declared the intervention "**not a bailout.**"
- Fed created the **Bank Term Funding Program (BTFP)** to stabilize markets.
- **\$150B+** borrowed from the Fed's discount window by March 16.

4. Interest Rate Expectations Shift

- Markets speculated that the Fed would **pause or slow rate hikes**.
- Traders adjusted strategies, expecting **fewer hikes**.
- Debate emerged around **FDIC's \$250K deposit cap** being effectively bypassed.

5. Tightening Credit & Lending

- Commercial real estate financing contracted.
- Regional banks reduced lending to **small businesses** and **property developers**.
- Banks with large holdings in **long-term bonds** suffered losses as interest rates rose.

6. Global Liquidity & Dollar Swap Lines

- March 19: The Fed and other global central banks (BoJ, ECB, SNB, BoC) launched **daily USD swap operations**.
- Purpose: Maintain global liquidity and stabilize markets.

7. International Ripple Effects

Europe:

- **UBS acquired Credit Suisse** after a historic collapse.
- Deutsche Bank CDS surged 70%, and its stock fell 14% on March 24.
- European bank stocks dropped: Barclays, NatWest, Société Générale, Commerzbank.

China:

- Chinese banks remained mostly unaffected.
- Highlighted the **stability** of China's slower interest rate adjustment.

Japan:

- Top banks (MUFG, SMFG, Mizuho) dropped 10–12% in value.
- Japan's Topix Bank Index fell 17%.

India & Others:

- India's central bank paused rate hikes on April 6.
- Central banks in **Australia, Canada, and Indonesia** also paused hikes.

8. Broader Market Impact

- **S&P 500 Bank Index** fell 14% YTD (as of April).
- Drop in equity funding and tighter credit expected to hurt Q2 earnings.

9. GDP Downgrade

- **April 11:** IMF downgraded the 2023 global GDP forecast from 2.9% → **2.8%**.
- Warning: "Uncertainty is high... risks have shifted to the downside."