SILICON VALLEY BANK COLLAPSE | CASE STUDY

Since 1950 the Fed has embarked on hiking interest rates **13 times**, on **11 of those occasions**, the rate hikes resulted in a **recession**. The other time brought a slowdown.

Official Recession Period:

From 2 months (2020 Pandemic) - 1 Year

On the basis of Economy Retract:

19.2% (2020 Pandemic) – highest

0.3% (dot.com) – lowest

- The worst stock market decline was the Great Recession, when S&P fell by 56.8%

After Recession → Interest Rates went nearly zero → Quantitative Easing (Rising Money Supply) → Extended Period of speculation in Stock market & Housing market

- Low Interest Rates increase massive Borrowings → and this leads to increase in debt around the world from Great Recession to till now.

USA: \$54 Trillion → \$94 Trillion

Globally: \$140 Trillion → \$300 Trillion

(not counting trillions more in debt hidden amongst derivatives)

US Fed Debt: \$9.9 Trillion → \$31.6 Trillion

Canada: \$500 Million → \$1.1 Trillion

Hiking Interest Rates (Pulling Money out of financial system) → Negative Effect → Assets prices are falling (Stocks, Houses, Cryptos, Memes)

Monetary base decreased by \$1 Trillion

Fed assets fallen by \$700 billion

Money Supply decreased by \$1.6 Trillion

Monetary base topped in Dec'21

Other two peaked in Apr'22

THE COLLAPSE:

SVB was founded in 1983 and in the course of 40 years, it become the largest bank on Silicon Valley on the basis of local deposits and the 16th largest bank of America.

- → This banking collapse is the largest bank failure since 2008.

What Reasons Led to The Failure of Silicon Valley Bank:

- ➔ Hike of Interest rates by Federal Bank from last 1-year by **425 basis points**.
- ➔ Deposits in SVB grew by **3 times** in just gap of **2 years** from 2019 to 2021.
- ➔ The **money deployment strategy** of SVB bank become the main cause behind its failure.

Deposits In SVB

$61.76 billion (end of 2019)
$189.20 billion (end of 2021)

Interest Rate Paid-on-Deposits

0.96% → Bank of America

1.17% → Industry Average

2.33% → Silicon Valley Bank

SVB Assets	**Liabilities & Equity**
Net Loans: **$73.6 billion**	Shareholders' Equity: **$16.3 billion**
Held-to-Maturity Investments: **$91.3 billion**	Short-term borrowings: **$13.6 billion**
Available-for-Sale: **$26.1 billion**	Interest Bearing Deposits: **$92.4 billion**
Cash: **$13.8 billion**	Non-Interest-Bearing Deposit: **$80.8 billion**

Source: SVB Financial

PHASE 1: Dogy Investments began to lose money market found out.

PHASE 2: Customer panicked and rushed to withdraw, resulting in a liquidity crunch

- ➔ Bank bought over **$80 billion** in Mortgage-backed securities (MBS) – from hold to maturity portfolio with an average yield of **1.56%**
- ➔ The value of these MBS fell as the US central Bank kept Increasing interest rates (**9 times** in 2022)
- ➔ Due to this Investors being able to buy long-term bonds from fed at a yield of **4.5%**.

As Interest rates increases demand for loans & Mortgage-backed Securities decreases

SVB (Held-to-Maturity Portfolio Value): **$91 billion** → **$76 billion** (loss of **$15 billion**)
→ on calculating the cost of bonds with the yield of **1.6%** to the current yield of **5%**.

- As the funding winter started SVB deposits just dropped by **$20 billion** in just 3 Quarters.
- To fund the redemptions, SVB sold a **$21 billion** bond portfolio consisting mostly of US treasuries.
- The portfolio was yielding it an average of **1.71%** far below the current 10-year treasury yield of around **3.9%**.

  Total loss was around: **$1.8 billion**