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The Collapse of Silicon Valley Bank

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The Collapse of Silicon Valley Bank

The bank serving half of all VC-funded startups in the US and UK collapsed more or less overnight. How did it play out, and what is the impact of this event on the tech ecosystem?

GERGELY OROSZ
MAR 13 • PAID

SAVE ▷ LISTEN

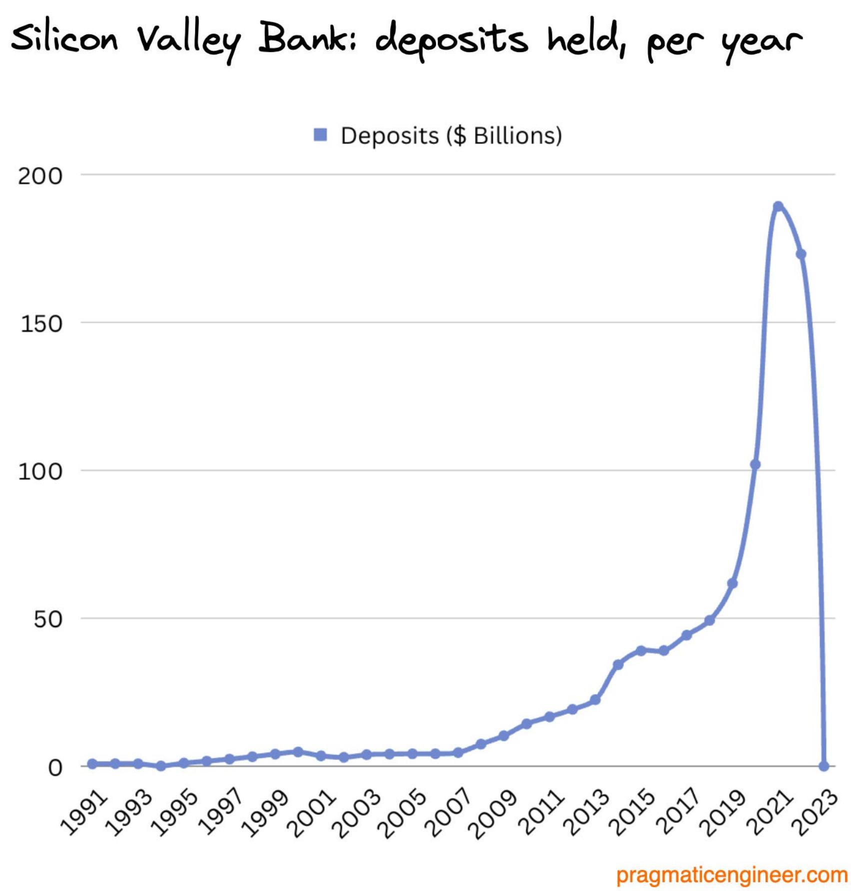
It's been a wild weekend, starting Friday. In case you somehow missed it: we went through the fastest bank run in history, in an event that impacted about half of all VC-funded startups in the US and UK. On Friday night, Silicon Valley Bank (SVB) was shut down by regulators, triggering a weekend of fear and uncertainty for many people and businesses with questions like: "can we make payroll next week?" There was no certainty for startups with money in Silicon Valley Bank.

As of today (Monday) things have calmed down, but it's not all over. In this special edition, I cover the events of this blow to the tech economy, and what we can expect:

1. Why did so many startups use Silicon Valley Bank?
2. Thursday: Bank run
3. Friday: Downfall of SVB

4. Saturday: Reactions and preparing for bad outcomes
5. Sunday: Containing the crisis
6. Monday (today): Next steps for startups
7. The longer-term impact on the tech ecosystem: startups, VCs, tech workers.

Founded 40 years ago in 1983, Silicon Valley Bank was the 16th largest bank in the US, and the largest by deposits in Silicon Valley. It had $212B in assets under management and more than 37,000 customers, most of them startups and scaleups. The average deposit was around $4.5M per customer. Until Friday, that is, when this number was reduced to zero:



Deposits in Silicon Valley Bank, 1991-2023. The bank was founded in 1983. Source of data: Silicon Valley Bank public filings.

Half of all venture-backed companies in the US used SVB, making the bank the most important financial institution in the US startup tech sector. It wasn't just startups, but also late-stage companies: 44% of venture-backed tech and healthcare companies which went public in 2022 were SVB customers, according to Bloomberg.

1. Why did so many startups use Silicon Valley Bank?

From a traditional bank's point of view, startups – especially early-stage startups – are untypical clients. Yesterday, company *X* did not exist, but today it has $3M and is at a traditional bank wanting to do a few things:

- Deposit $3M which they claim is "seed funding" from "investors"
- Get company credit cards for some employees
- Open a credit line, despite expecting to make zero money for the foreseeable future. In fact, they admit they expect the money to run out, but that they'll then raise even more, which they call "Series A"

In a traditional bank, this approach triggers all types of alarm bells. Banks need to do extensive know-your-customer (KYC) checks before accepting new clients, and are stringent about extending credit – even a single credit card – for any new business without a credit rating or credit history.

What made SVB stand out is that it understood startups like no traditional bank did. It was well aware a typical VC-funded startup lifecycle starts with a fundraise and a need for access to a bunch of financial services: bank account, additional security for large transfers, credit cards, etc. Later in the lifecycle, startups may need loans, too. An institution like SVB could evaluate credit risk not just on past history, but could decide to open a credit line mid-fundraise, based on term sheets signed. This is something traditional banks would not do.

To give an example of the difference between Silicon Valley Bank and a traditional bank, here's a comment from Hacker News:

> "We had Bank of America offer us a $10K credit card limit when we were discussing keeping over $1M on deposit at all times, simply because we're still running a loss. And they couldn't figure out how to implement two-party control for large transfers. [It] was a headache."

Can you imagine having raised millions of dollars, with all that money sitting in your account, but being unable to pay $20K/month AWS costs? SVB understood this problem and solved it.

SVB offered a variety of supporting services, including:

- Better rates and packages for the business banking needs of startups, from credit cards to more granular permissions for banking operations
- Cloud deals that could be worth hundreds of thousands of dollars: up to $100K in AWS credits via the AWS Activate program, and savings of $200K to $1M with Google Cloud via Google Cloud for Startups

- SaaS deals that could be worth tens of thousands of dollars: $10K in credits from Freshworks (accounting,) up to 90% off DocSend annual plans, $2,000 Airtable credits, $1,000 savings for a Notion team plan, 25% off Vanta (security,) 20% off Zoom, 65% off BlueJeans (video calling,) 3 months free with Gusto (payroll,) and dozens more offers
- Networking events with investors and founders. For example, SVB ran the Meet the Investor series for early-stage companies to get introduced to investors and also events like Series A Founder Masterclass for founders

Finally, one of the most important reasons why startups chose SVB: VCs recommended it. If you're a brand new startup and your investor hands you a bunch of money, and recommends a bank that's best for startups, with offers perks no other bank matches: then why wouldn't you?

2. Thursday: Bank run

On Thursday, 9 March, we witnessed the fastest bank run on record.

What is a bank run?

This is when customers show up at a bank to withdraw all their money, due to lack of confidence that their funds are safe. The issue is that banks (not only SVB) aren't designed to work like this: they cannot fulfil simultaneous requests for withdrawals by all (or even most) customers. Basically, a bank doesn't have everyone's money easily to hand, locked up in a vault. This is because when you make a deposit with a bank, it uses some of your money for a variety of purposes:

- Loans to other customers as credit
- Short-term and long-term investments
- Some is free-floating, available to customers

If a large percentage of customers suddenly want their money, a bank can do this to the extent that their free cash flow allows. Beyond that, longer-term investments need to be unwound: potentially breaking up long-term bonds that they bought, or their selling of debt they hold to other institutions. Breaking up or selling off any long-term investments may come at a loss, and there's a danger the bank may still not have clawed back all customer deposits, meaning some could lose money.

In a bank run, only those who act first secure their funds. Those moving later might not get all their funds and could even lose some of their holdings. This is why even talk about bank runs can be hazardous: if you hear a bank run is starting, the rational move is to minimize your losses by getting your money out, which helps make the run a reality.

Bank run at SVP

Thursday, 9 March, Around 9am in the morning (PST / California time), founders were tipped off by venture capitalists that SVB looked in trouble. The investors suggested companies immediately withdraw their funds for safekeeping, while still possible. From here, things accelerated.

11am: Bloomberg reported that Founders Fund, a VC fund co-founded by Peter Thiel, advised all its portfolio companies “to pull money from Silicon Valley Bank.” This news is widely shared on social media and in private messages.

11:30am: SVB CEO, Gregory Becker, holds a 10-minute conference call with top VCs, saying the bank has “ample liquidity to support our clients with one exception: If everyone is telling each other SVB is in trouble, that would be a challenge.” According to The Information, the CEO said:

> “I would ask everyone to stay calm and to support us, just like we supported you during the challenging times”

12am: Details of the call leak, and focus shifts onto the CEO’s quote: “If everyone is telling each other SVB is in trouble, that would be a challenge.” On social media, founders share that they are observing a bank run to be unfolding. This news naturally fuels the run.

Howard Lerman
@howard

OK i am hearing from dozens of founders about what to do at SVB.
It's an all out bank run.

7:10 PM · Mar 9, 2023

224 Likes **36** Retweets

From 12am: VCs tell portfolio companies to pull money they have in Silicon Valley Bank. The bank’s systems start to be overloaded to the point of customers not being able to log on and transfer.

We were witnessing a full-on bank run unfold in a matter of hours, bank customers transferring out all their holdings.

In the aftermath, we would learn that Silicon Valley Bank processed $42B in deposit outflows on Thursday: which is nearly a quarter of all deposits they held!

Here’s a first-hand account of how things went for one customer, Alexander

Torrenegra, founder of Torre.co, a platform to find work or be found.

> "Thursday, 9 AM: in one chat with 200+ tech founders (most in the Bay Area,) questions about SVB start to show up.
>
> 10 AM: some suggest getting the money out of SVB for safety. Only upside. No downside.
>
> 10:50 AM: I read the messages in a bathroom break. Immediately cancel the meeting I had. Ask my wife, Tania, to wire all of our personal money out to other banks. Call my teams. Ask them to do the same. One of them, at the dentist, has to stop the procedure and run home. (...)
>
> ~12:00 PM: All of my chats with tech founders in the US light on fire with what's happening. Obviously, we have a bank runoff. Surreal.
>
> 12:30 AM: We request two wires for all the money from the 2nd company to Mercury.
>
> 12:38 PM: Wires to Ameritrade clear. The 1st company is safe. (...)
>
> ~3:00 PM: My chats with tech founders from Latin America start to catch up.
>
> 4:05 PM: SVB calls us. Tells us that our savings will be wired the same day, as requested."

3. Friday: Downfall of SVB

On Thursday afternoon, several startup founders I know got the memo to move their money, but they couldn't log into SVB and do transfers. Most planned to transfer funds out the first thing Monday morning. Some founders even showed up at the offices of Silicon Valley Bank in San Francisco. As fellow Substack author **Eric Newcomer** reported:

> "Founder Dor Levi, a former Lyft executive, first texted me at 8:16 a.m. from outside Silicon Valley Bank's New York offices.
>
> He said he'd been instructed by a banker at Silicon Valley Bank to go and get a cashier's check from the New York office if he wanted to move his funds.
>
> Levi wasn't the only founder who showed up at SVB's offices looking to pull his money from the bank. "There's more founders coming every minute," Levi texted. He said about a dozen founders showed up at the bank this morning."

The founders showing up at the bank in person couldn't withdraw their money. In fact, no one could.

On Friday morning, the Federal Deposit Insurance Corporation (FDIC,) announced it was closing the bank. The FDIC is a government agency whose goal is to maintain stability and public confidence in the US financial system.

The FDIC stated "all insured depositors will have full access to their insured deposits no later than Monday morning, March 13, 2023." This meant companies had guaranteed access to $250K on their account, but everything else was uncertain.

This was bad news and the implications were just starting to become clear.

4. Saturday: Reactions and preparing for bad outcomes

By Friday midday, it was less than 24 hours since SVB was the largest startup bank, to a state of collapse. Customers not quick or lucky enough to transfer their money out had their accounts frozen for all of Friday, and could only hope to access $250K in deposits. This may sound like a lot for a personal account, but for a company with 30 employees on $150K each and monthly AWS costs of $100K, it would barely cover 2 weeks of wages and infra costs.

As a result, making payroll was looking like a huge problem for many companies. For tech startups, the biggest expenses tend to be:

1. Staff payroll
2. Infrastructure and vendor costs

There's a good reason why these same tech companies have been doing layoffs and aggressively cutting back on vendor spend: it's because staff payroll and infra vendor costs are the bulk of their expenses. In the US, payroll is every two weeks and most startups had a payroll cycle starting this week (the week of 13th March) In contrast, in the EU payroll is typically monthly.

I talked with a well-connected founder, who said::

> "My WhatsApp is insane with SVB. 4 founders I know won't make payroll unless they can bridge somehow. They are literally asking me for personal loans.
>
> My inbox is a bloodbath."

Garry Tan, CEO of Y Combinator stated how "30% of YC companies exposed through SVB can't make payroll in the next 30 days."

Given payroll was the immediate priority, founders for whom $250K wouldn't cover the payroll jumped into action, reaching out to VCs for bridge loans, and asking friends and family to loan enough so they could pay staff.

Employee-of-record (EOR) payroll companies such as Remote, Deel, Rippling found themselves in a challenging situation. These companies are hired by startups to manage payroll in countries where a startup is not a legal entity.

Rippling, a popular payroll provider which also provides payroll, was immediately impacted because it used SVB to transfer salaries. When SVB went down, Rippling could no longer make these payments, so it rapidly switched over to JPMorgan Chase to make payroll, but warned customers that payroll might be late as a result.

Meanwhile, other EOR providers have assured customers that their staff will get paid, even if customers won't be able to transfer payroll the next week. On Saturday, Remote confirmed it was still making payroll - even if customers cannot transfer funds - and on Sunday Deel announced it will support impacted customers.

EOR providers are in a tight spot themselves, as legally they cannot fail to pay employees in some countries, due to employment law. At the same time, with so many customers having had their accounts frozen, these providers could potentially have liquidity issues, meaning EORs could have had problems making payroll.)

Vendor payments for the coming week were looking to be at risk by Friday. For any startup with funds stuck in SVB, they had to budget the $250K they could access, and do so wisely.

Other vendor expenses were arguably secondary until startups could access their full account, so founders were debating asking vendors to defer payments, given the unprecedented situation.

Several vendors were proactive, offering payment support. On Friday, project management app Linear announced it would grant payment delays. On Saturday, error logging service Sentry followed suit, and PaaS Vercel did the same.

For some startups, losing access to their bank account prompted drastic action. While startups with relatively small expenses hoped to ride out the coming weeks on the insured $250K: for larger companies with all their funds tied up, this wasn't an option.

One example of this is Camp.com, a company selling themed toys for all ages. Responding to its bank account being frozen, the startup launched a site-wide 40% off sale, with this popup displaying to all visitors:

The landing page for Camp.com on Saturday, 10 March. The company needed to urgently generate cash to continue operations, with its bank having gone under the previous day.

A 40% discount is *huge* for a store like Camp, which sells physical goods. A site-wide 40% most likely means the company was selling everything at a loss, in a desperate bid to generate cash flow and continue operations while the bank account was inaccessible.

The campaign and the cheesy graphic worked: Camp saw 35x the normal traffic, and – presumably – several times the sales.

Founders were fearful of a liquidity crunch and the effects it could have. By Saturday, it was understood the FDIC would move swiftly in selling SVB's assets and aim to return deposits as fast as possible. The question really was: how fast? Was it possible by Monday?

In the early hours of Saturday, a message circulated in VC circles, claiming the FDIC had already sold about half of SVB's assets, and planned to make 50% of deposits available by Monday, with the other 50% likely to be recovered in 3-6 months.

While this was better news than having access to only $250K, it still forecasted grim news and a liquidity crunch. After all, if 50% of a company's reserves disappear, it will need to do drastic cost-cutting measures like refusing to pay non-essential vendors, laying off staff, and cutting down on expenses for up to 6 months until the deposits are returned.

5. Sunday: Containing the crisis

On Sunday afternoon, at around 5pm PST, the US Department of Treasury, the Federal Reserve and FDIC issued a joint statement, stating all depositors were fully protected, and Silicon Valley Bank customers will have access to all of their money starting Monday.

The statement went on to state that no losses associated with the sale of SVB assets would be borne by taxpayers. Only shareholders and certain unsecured debt holders were not protected from this.

In the UK, Silicon Valley Bank's bankruptcy also caused a similar stir, because its UK entity was also a favored bank among UK startups. UK SVB held deposits of £6.7B ($8B) and served 3,300 clients, likely around half of VC-backed startups in the country, according to Sifted. The UK entity collapsed on Friday as well.

In another positive outcome, HSBC bank announced acquiring SVB UK for the symbolic sum of £1. The acquisition means customers of SVB UK have access to all of their deposits as of Monday.

Both in the US and in the UK, a crisis has been averted by ensuring depositors have access to all their money, which is the outcome financial analysts expected since Friday. On Friday, former Bloomberg columnist **Noah Smith** wrote:

> "Let's talk about the big risk: financial contagion. Many people will undoubtedly have traumatic memories of 2008, when Lehman's collapse

> triggered a systemic meltdown. That is a real possibility, and it's why the FDIC and other government agencies are probably going to work very hard to make sure SVB's depositors don't have to take haircuts.
>
> But there are reasons this is not like the Lehman shock. (...) SVB didn't have enough links to the rest of the financial system to cause a 2008-style cascade, but there could still be a wave of runs from plain old panic. Panic doesn't need a rational reason, and in a bank run, panic becomes a self-fulfilling prophecy. (...)
>
> In general, I'm optimistic about the system's ability to contain the fallout from SVB. So far the U.S. economy has powered along with record employment and strong growth, even as the tech sector has gone into a slump. There's not a lot of reason to think this basic pattern will change after this bank run, and the government has every reason to make sure it doesn't change."

6. Monday (today): Next steps for startups

With the crisis averted, what's the immediate priority for startups?

Startups are setting up multiple bank accounts. Startups have had a wake-up call about just how risky it is to have all their capital in one bank. Going forward, for startups with sizeable funding – above $1M – it will be a sensible hedge to use at least three bank accounts:

- One main account for expenses, with about 3 months' of funds.
- One account for emergency funds of ~3 months runway.
- One account to store the majority of funding, with an institution that is diversified: meaning most customers are not startups, in order to avoid the risk of a bank run. Some startups are setting up multiple money market funds to spread their investments.

Every startup I'm in touch with has put together a banking strategy, are busy opening new accounts, and re-distributing funds.

Startups are moving deposits from "startup-first" banks and neobanks. Given no bank can be assumed to be safe from a bank run, startups which previously held most of their deposits in other startup-friendly banks or neobanks are also moving them by opening up secondary or tertiary accounts with some of the largest banks: JPMorgan, UBS, Goldman Sachs in the US and Barclays and HSBC – now the owner of SVB UK.

Startup-friendly banks include Mercury, First Republic, Brex, and Jiko in the US. In Europe, such banks include Mozo, Revolut, Starling and Wise.

7. The longer-term impact on the tech ecosystem

With the immediate crisis averted – and all startups now with access to their money – what are the longer term effects of the SVB saga? There's quite a few.

VC-funded startups rethink their approach to banking. The 37,000 US and 3,300 UK Silicon Valley Bank customers have had a wake up call like no other: bank accounts gone and 48 hours during which they had no idea if and when they would return.

Every founder living through this experience has learned a lesson for life: do not trust any single bank. Going forward, these founders are likely to look through the "nice to have" things banks offer, like user experience, perks, and even costs, and will be willing to pay more for banking, compromise on functionality, and spread their finances across multiple banks.

Startups who banked with SVB represented about half of all US and UK VC-funded startups. But what about the VC-funded companies in the US and UK who didn't not bank here? Well, they would be wise to draw the same conclusion.

And what about companies outside the US and the UK? If this happened to the largest bank for startups in the US, it could happen elsewhere. Any tech company that is a serious business should bank with at least two institutions – ideally, three – to spread the risk of accounts being frozen.

And it's not just VC-funded startups, frankly. This event is what has made me finally diversify my personal banking, opening up a second bank account, and placing a few months of emergency funds there. It's not just companies which can have their accounts frozen overnight, and it's not just business banks that are prey to bank runs. High street customers are too.

Startups building up buffers are likely to proceed with more cost-cutting. Until now, many smaller startups kept all their funding in one account. Applying the lesson learnt from SVB, this is unwise and companies should have backup accounts as a buffer.

So how can you build up a buffer? There are a few approaches:

1. Already have the funds for a buffer? No action needed!
2. Raise more funding and use part of it as the buffer.
3. Cut costs to build up a buffer.

The #2 approach is more difficult to do in the current economy. For startups unhappy with the buffer they have, the rational option is #3. And what will cost-cutting mean? It's likely to be more vendor costs and possibly further reducing personnel costs.

More startups are likely to start fundraising earlier. One company I invested in had 10 months of runway left before SVB froze its account. Last Friday, they expected to only have $250, enough for 2 months, and decided to start fundraising earlier than planned, as a result of this event.

I expect to see many more startups try and fundraise months sooner than planned and building up a buffer will surely be a driver for many.

Distrust in VCs amongst founders and employees could grow. As more people analyze the reason Silicon Valley Bank collapsed, there are voices pointing out venture capitalists' role in triggering the SVB bank run. Here's a take from Matt Levine, columnist at Bloomberg, which includes some valid mockery of VCs who strive to "Add Value":

> "Also, I am sorry to be rude, but there is another reason that it is maybe not great to be the Bank of Startups, which is that nobody on Earth is more of a herd animal than Silicon Valley venture capitalists. What you want, as a bank, is a certain amount of diversity among your depositors. If some depositors get spooked and take their money out, and other depositors evaluate your balance sheet and decide things are fine and keep their money in, and lots more depositors keep their money in because they simply don't pay attention to banking news, then you have a shot at muddling through your problems.
>
> But if all of your depositors are startups with the same handful of venture capitalists on their boards, and all those venture capitalists are competing with each other to Add Value and Be Influencers and Do The Current Thing by calling all their portfolio companies to say "hey, did you hear, everyone's taking money out of Silicon Valley Bank, you should too," then all of your depositors will take their money out at the same time."

While Matt Levine's opinion comes from outside of tech community and is more representative of finance circles, here's an opinion from Ben Thompson, author of Stratechery on the situation:

> "I think this was right in 2012; I'm not sure it's right now. It seems to me my top-line error about Silicon Valley Bank being fine was undergirded by two more fundamental errors:
>
> - First, I assumed that the venture capitalist set knew about Silicon Valley Bank's situation.
>
> - Second, I assumed that Silicon Valley broadly was in the business of taking care of their own.

> Last week showed that both were totally wrong: the panicked reaction to Thursday's failed capital raise made it clear that nearly everyone in tech was blindsided by Silicon Valley Bank's situation — which again, absent a bank run, was an issue of profitability, not viability — and the bank run that resulted made it clear that everyone, from venture capitalists to the startups they advised, were solely concerned about their own welfare, not about the ecosystem as a whole."

My view of who's to blame is similarly focused on VCs and their influence in the very sudden bank run:

Gergely Orosz
@GergelyOrosz

One thing that makes this situation escalate much faster is what made SVB successful so far: the influence of VCs.
VCs advised investments to bank with SVB. So these startups did.
Now VCs are telling their investments to get out, ASAP. So they do...

> **Eric Newcomer** @EricNewcomer
> wide range of opinions about how dire the situation is but many investors agree that startups are trying to pull money from SVB https://t.co/jgJjGrqMRF

9:34 AM · Mar 10, 2023

89 Likes **12** Retweets

We can rationalize why VCs acted the way they did: clearly, to protect their own interests. However, this rationalization does not give more reasons to trust venture capitalists - if anything, it's a reason to be a bit more skeptical taking VC recommendations at face value.

Going forward, how much trust have founders lost in investors who recommended they open accounts with SVB. Could founders perceive the bank's collapse as having been quickened by the VCs telling their portfolio companies to pull out funds?

Tech workers got a taste of how risky working at startups is. For a weekend, employees at startups banking with SVB were unsure if they would get paid on time. This risk was unique to startups as Big Tech was never at risk. Roblox and Roku were the biggest impacted tech companies: Roku had 26% of its savings – $487M – with SVB and Roblox had about $60M at the bank – about 5% of cash and securities. For these larger companies, the

SVB affair was inconvenient but never threatened payroll or day-to-day operations.

Startups are much more risky than established companies, and this is even more true if the startup has not achieved product-market-fit and profitability, as it cannot self-sustain itself upon revenue.

Over the past decade when venture capital was plentiful, startups could raise new rounds of funding, and their deposits were always guaranteed. Working at a startup felt like mostly only upside, especially if those companies paid comparably to larger tech companies. However, startups are inherently risky, as evidenced by recent layoffs, and the realization that a startup probably depended on a single bank.

Banking will likely become more expensive and more difficult for startups. Traditional banks have little incentive to “understand” how startups work, or to offer them more sophisticated services. At the same time, startups learned the hard way that it’s unwise to rely on a “startup-first” bank; what happened to SVB could happen to any bank with mostly startups for customers.

For example, in Stripe Atlas – a platform to quickly launch a new startup with a US entity – the two supported banks have been SVB and Mercury. With this closure, the only option left is Mercury. (Stripe Atlas does also support Novo Bank, but this option is recommended only for small businesses and solo entrepreneurs).

Many startups went with SVB because other banks didn’t offer credit cards with generous limits. Those other banks tend to not have services for founders - like mortgages when traditional banks would reject them.

The fallout is that many startups will certainly find banking costs more and their needs are less met. And with the biggest startup bank gone, competition in this sector has greatly reduced.

On the flip side, many banks will likely step up and create startup-specific packages, trying to capitalize on the influx of former SVB startups. After all, we’re talking about close to 40,000 companies and total deposits of nearly $200B.

Takeaways

The collapse of Lehman Brothers was a moment that is often cited as the start of the 2008/09 global financial crisis. To me, the collapse of Silicon Valley Bank feels like a similarly important moment; one that could have started a global ‘tech recession’ had the US and UK governments not decisively stepped in to contain the crisis and secure deposits.

However, while founders are relieved about the outcome, I don't think we can declare it's over. What if the collapse of the biggest startup bank is a canary in the coal mine – a sign of what's to come?

The rapid transition from zero interest rates to low interest rates will have a longer-lasting impact on startups, and it will be negative. Why did SVB collapse? Omitting the role of VCs, there's an underlying issue that put the bank in a very bad position: the sudden rise in interest rates.

As Matt Levine summarized it in his Money Stuff newsletter:

> "As the Bank of Startups [SVB], you were unusually exposed to interest-rate risk. Most banks, when interest rates go up, have to pay more interest on deposits, but get paid more interest on their loans, and end up profiting from rising interest rates. But you, as the Bank of Startups, own a lot of long-duration bonds, and their market value goes down as rates go up. Every bank has some mix of this — every bank borrows short to lend long; that's what banking is — but many banks end up a bit more balanced than the Bank of Startups.
>
> But there is another, subtler, more dangerous exposure to interest rates: You are the Bank of Startups, and startups are a low-interest-rate phenomenon. When interest rates are low everywhere, a dollar in 20 years is about as good as a dollar today, so a startup whose business model is "we will lose money for a decade building artificial intelligence, and then rake in lots of money in the far future" sounds pretty good.
>
> When interest rates are higher, a dollar today is better than a dollar tomorrow, so investors want cash flows. When interest rates were low for a long time, and suddenly become high, all the money that was rushing to your customers is suddenly cut off. Your clients who were "obtaining liquidity through liquidity events, such as IPOs, secondary offerings, SPAC fundraising, venture capital investments, acquisitions and other fundraising activities" stop doing that. Your customers keep taking money out of the bank to pay rent and salaries, but they stop depositing new money."

The collapse of Silicon Valley Bank was likely caused by a phenomenon that spells doom for more startups: the interest rate hikes. Over the past several months, we all grew tired of CEOs blaming redundancies on "macroeconomic conditions." Turns out, this was not an empty phrase: rising interest rates really do help "set the weather" for startups.

In a low interest world, investors have a hard time putting their money to work, so they gladly invest in risky startups that might only make money in 5-10 years. But when rates go up, the same investors can now get an annual guaranteed 5% per year return just by buying US government bonds. They are still okay investing some of their cash into startups: but only if those startups can offer similar returns. They want cash generating startups *today,* not ones that might *one day* generate returns.

I'm happy the SVB crisis is over almost as quickly as it began, but I don't think troubles for startups are done yet. It's a lot more challenging to run a startup and work at one in 2023, than in previous years. More companies are likely to be put to the test by the new economic reality, while rising interest rates will take their toll.

Further reading

Since SVB's collapse unfolded, there's been plenty of analysis. Here are some articles I found insightful:

- Why was there a run on Silicon Valley Bank? by **Noah Smith** in **Noahpinion**
- The demise of Silicon Valley Bank by **Marc Rubinstein** in **Net Interest**
- The end of Silicon Valley (Bank) by Ben Thompson in Stratechery
- Startup bank had a startup bank run by Matt Levine in Money Stuff (Paid)
