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What Happened With Silicon Valley Bank?

Some questions and answers to explain what is happening after the government took action

By Telis Demos Follow

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A share-sale announcement from SVB Financial led the stock to crater. PHOTO: MICHAEL NAGLE/BLOOMBERG NEWS

Last week, Silicon Valley Bank failed and was taken over by regulators. On Sunday, another bank, Signature Bank, was also closed. That day, the government stepped in to protect all of those banks' deposits and create a way for other banks to get access to more cash.

Why did all that happen, and what could happen next? Here are some questions and answers to help guide readers.

Why did SVB fail?

Since the pandemic began, Silicon Valley Bank had been buying lots of what are often considered "safe" assets like U.S. Treasurys and government-backed mortgage bonds. But when interest rates start to rise quickly, as they did last year, their fixed interest payments don't keep up with rising rates. Those assets were no longer worth what the bank paid for them, and the bank was sitting on more than $17 billion in potential losses on those assets as of the end of last year.

Then last week, the bank faced a tidal wave of $42 billion of deposit withdrawal requests. It wasn't able to raise the cash it needed to cover the outflows, which prompted regulators to step in and close the bank.

Why was there a run on the bank?

It is hard to say what specifically causes a run; it is a matter of crowd psychology. But fears may have emerged after the bank announced a capital raise and the sale of a large amount of securities at a loss. The bank catered to venture capitalists and technology startups. Because these were corporate deposits, they were often larger than the Federal Deposit Insurance Corp.'s $250,000 insurance limit. SVB had over $150 billion in uninsured deposits as of the end of last year.

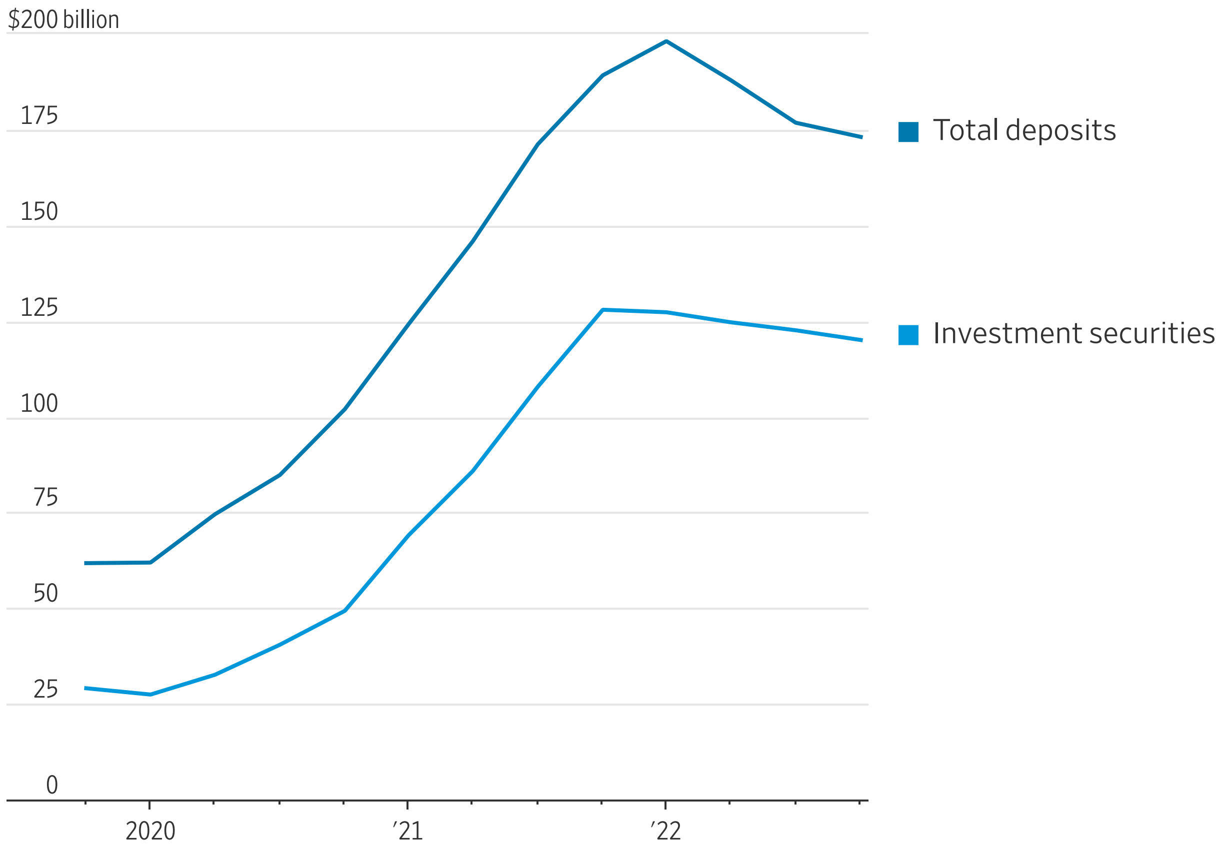
Could SVB have sat on paper losses until rates declined?

In theory the bank could have muddled through, letting securities mature and getting back its money. This might have covered a relatively steady outflow of deposits until conditions changed. But it didn't have that time after deposit withdrawals surged.

What happened to Signature Bank?

SVB's problems appeared to spill over to Signature Bank, sparking its own depositors to make big withdrawal requests. Like SVB, Signature had a relatively large amount of uninsured deposits because of its business model catering to private companies. It probably didn't help that the bank was one of the largest serving cryptocurrency firms. Another crypto-focused bank, Silvergate Capital SI **4.18%** ▲, close down on March 8.

SVB Financial Group selected assets and liabilities



Note: End-of-period figures
Source: S&P Capital IQ

What happened to those uninsured deposits?

The FDIC on Friday said that insured depositors of SVB would have access to their money no later than Monday morning. Initially, it said that uninsured depositors would receive a dividend, and then receivership certificates for the remaining balances that could be paid out over time, meaning repayment wasn't certain.

But then on Sunday, the FDIC, along with the Treasury Department and Secretary Janet Yellen, the Federal Reserve, and President Biden, said that they would use a "systemic risk exception" to cover the uninsured deposits of SVB and Signature. Customers could then also access these deposits on Monday morning.

Was that a bailout of SVB and Signature?

It is the case that the two banks' uninsured depositors are receiving special government assurances. But the regulators stipulated that in the event that proceeds from the sale of the bank or its assets aren't sufficient to cover the uninsured deposits, any losses to the Deposit Insurance Fund to cover them would be recovered by a special assessment charged to banks.

The banks' shareholders and unsecured bondholders—meaning those creditors to the bank who didn't have explicit collateral backing their debts—weren't given any support by regulators.

What happens to SVB employees? Can SVB recover?

Senior managers, including the CEO, Greg Becker, were removed. For now, many other employees are being asked by regulators to do their same jobs as the bank is unwound by regulators.

The bank could possibly be sold by regulators as they try to recoup money used to cover deposits. There were also other parts of SVB Financial Group's broader business, such as an investment bank, that could also be sold off.

Silicon Valley Bank counts many startups and venture-capital firms as clients. PHOTO: DAVID PAUL MORRIS/BLOOMBERG NEWS

Are other banks at risk?

While there are anecdotes of people pulling deposits from other banks, no other failures have yet emerged. At least one bank has said it has secured additional access to cash. The Federal Reserve also created a new lending facility, called the Bank Term Funding Program, which banks can use to borrow cash in exchange for posting certain assets as collateral. In theory, banks could use that cash to cover deposit requests.

Could SVB's collapse cause a recession?

The guarantee of the unsecured deposits may help to contain immediate fallout, like companies that had money at SVB and Signature not being able to make payroll. But if other banks are worried about their deposits or capital, it could constrain lending that would tie up their resources. A big question is whether the events change the Federal Reserve's pace of interest-rate increases.

What can we expect next?

The process of attempting to sell off SVB will be closely watched. Attention will also turn to longer-term questions about banks' health, which investors are already asking. The Fed's borrowing facility may solve acute cash problems, but it won't do anything to rebuild the value of banks' securities portfolios, assuming interest rates stay around where they are. Banks in many ways had fallen off Washington's radar in the years since the financial crisis. That has all changed now.

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