U.S. House Committee on Financial Services
– Ranking Member Maxine Waters –
Background on Failure of Silicon Valley Bank

On Friday, March 10, 2023, Silicon Valley Bank (SVB) was closed by the California Department of Financial Protection and Innovation (DFPI), and the Federal Deposit Insurance Corporation (FDIC) was named as receiver. The FDIC also created the Deposit Insurance National Bank of Santa Clara (DINB) as a short-term vehicle to facilitate SVB's resolution. SVB was a state-chartered bank that was a member of the Federal Reserve System, therefore its primary federal regulator was the Board of Governors of the Federal Reserve System (Fed). SVB was the 16th largest bank in the U.S., and its failure is the second largest U.S. history, behind only the 2008 failure of Washington Mutual with roughly $300 billion in total assets. As of December 31, 2022, SVB had about $209 billion in total assets and about $175 billion in total deposits. Roughly $151 billion of those deposits were uninsured.[1]

While causes of the SVB failure will likely become clearer in the weeks and months ahead, there have been various reports laying out several factors that may have contributed to the bank's failure.[2] SVB predominantly served companies in the tech industry, along with venture capital investors. SVB's deposits rose quickly in recent years, from $57 billion in 2018 to a peak of nearly $200 billion in early 2022. The bank invested large amounts of these funds in U.S. Treasurys and government-sponsored debt securities, like mortgage-backed securities issued by Fannie Mae and Freddie Mac, when interest rates were low. As the Federal Reserve quickly increased interest rates over the past year to address inflation, the market value of these securities declined compared to similar securities issued today. When SVB had to sell these securities to meet the demand for deposit withdrawals, it did so at a loss, likely raising concerns with investors and depositors. SVB's parent company planned a $2.25 billion share sale to raise more funds, but it was unsuccessful and had to cancel the sale likely adding to concerns about the viability of the bank. SVB also appeared to rely on a significantly high percentage (approximately 95%) of deposits that were uninsured (deposits over $250,000), which historically tend to be less stable and more flighty than insured deposits. Reportedly, customers withdrew about $42 billion of deposits on

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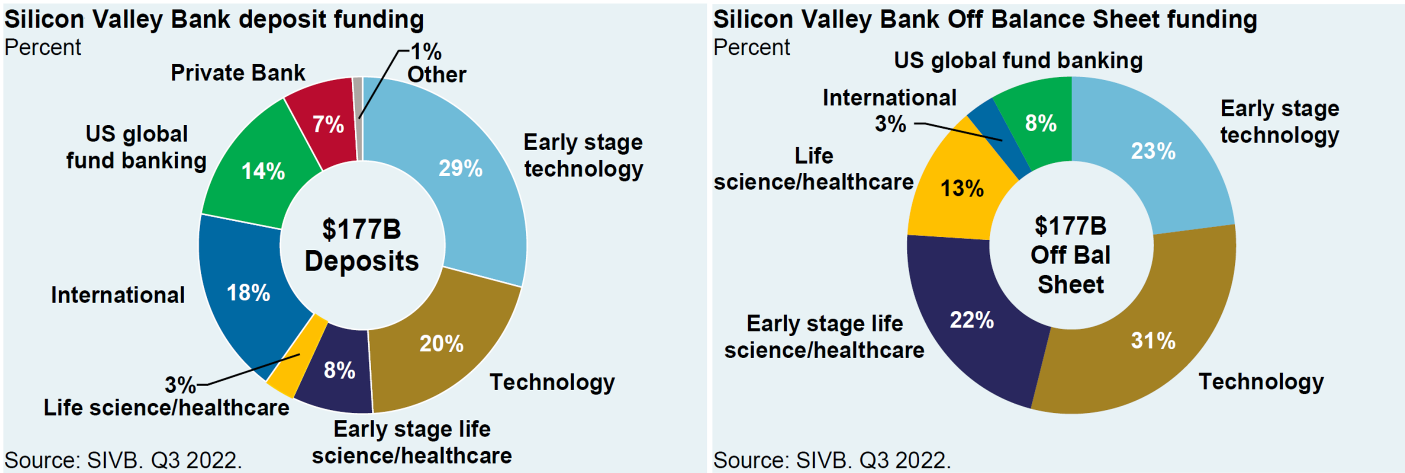
[1] It has been reported that deposits dropped significantly since the end of last year, especially in recent days, as customers withdrew money before the bank closed. For example, see New York Times, "Silicon Valley Bank Fails After Run on Deposits," (Mar. 10, 2023). The balance sheet of SVB at the time of FDIC's takeover is unclear.

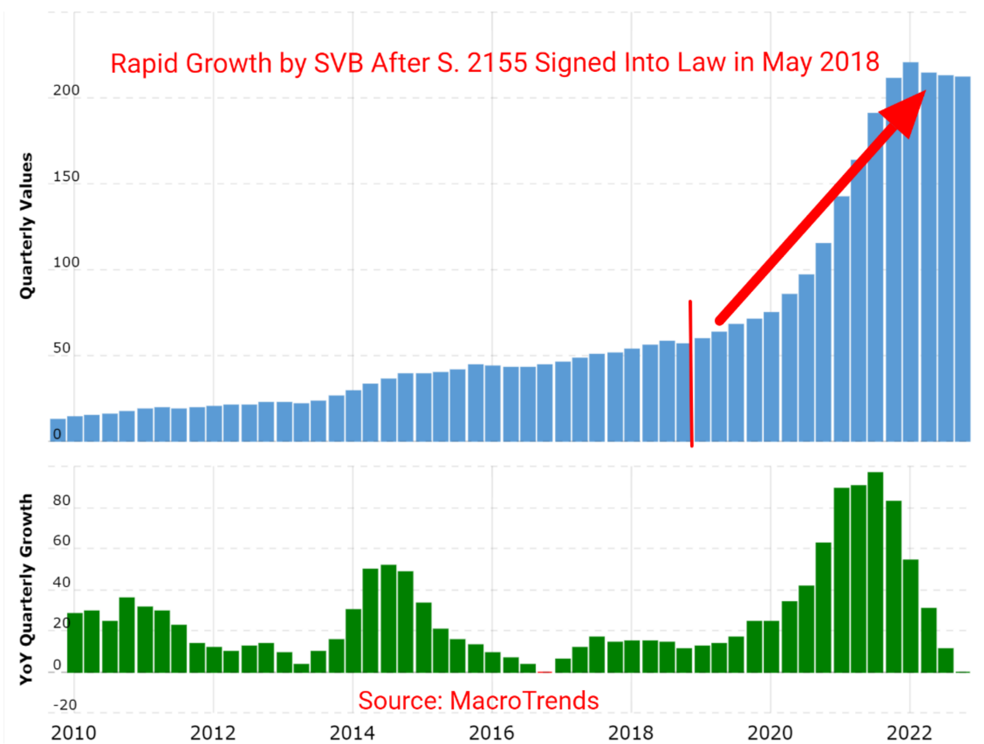
[2] This paragraph is drawn from various sources, including: Wall Street Journal, *Silicon Valley Bank Closed by Regulators, FDIC Takes Control* (Mar. 10, 2023); New York Times, *Silicon Valley Bank Fails After Run on Deposits* (Mar. 10, 2023); Financial Times, *Silicon Valley Bank shut down by US banking regulators* (Mar. 10, 2023); Washington Post, *Silicon Valley Bank failure raises fear of broader financial contagion* (Mar. 10, 2023); and USA Today, *What Silicon Valley Bank collapse means – and why it's not 2008 again* (Mar. 10, 2023).

Thursday, March 9th, leaving the bank with a negative cash balance of nearly $1 billion by the end of the day Thursday. This is reported to be the largest run on a bank in history, and these dynamics likely contributed to the decision to close the insolvent bank in the middle, instead of the end, of the following day.



Source: JP Morgan Analysis (March 10, 2023)

After the 2008 global financial crisis, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act into law. One of the key reforms was a requirement that large banks with more than $50 billion in total assets were subject to enhanced prudential standards. This meant they were subject to more stringent capital and other requirements to ensure they were safe and sound as a means of promoting financial stability. In 2015, Congress considered a measure to relax this requirement for banks with more than $50 billion in total assets and less than $250 billion in total assets. Greg Becker, CEO of SVB, submitted a statement for the record urging support for this effort, arguing that SVB had a “low risk profile” and a “traditional banking business model.” In 2018, Congress ultimately enacted these reforms into law.[3] At that point, SVB had $51 billion in total assets, but then rapidly grew to have more than $200 billion in total assets before collapsing in failure, which raises questions how the 2018 law may have contributed to the bank’s failure.



In addition to other reforms that improved oversight and regulation of the financial system, Dodd-Frank established the Financial Stability Oversight Council (FSOC) to ensure that all financial regulators were working

[3] P.L. 115-174, S. 2155 (115th Congress), the Economic Growth, Regulatory Relief, and Consumer Protection Act (Crapo).

together to monitor and take steps to mitigate any threats to U.S. financial stability. Moreover, financial regulators have a number of authorities at their disposal to promote financial stability that were used in the 2008 financial crisis and the more recent COVID-19 pandemic. For example, the Federal Reserve (Fed) has the discount window to provide liquidity to banks in the form of short-term loans in exchange for collateral, like Treasurys and other securities, that banks pledge. The Fed may also utilize its authorities under Section 13(3) of the Federal Reserve Act, under "unusual and exigent circumstances" to set up emergency lending facilities with broad-based eligibility (available to more than five banks), providing collateralized loans to private companies and other eligible entities, though this authority may not be used to support insolvent companies. In addition, when managing the resolution of any failed bank, the FDIC is generally required to do so in a manner that is least costly to the Deposit Insurance Fund (DIF), which is referred to as the "Least Cost Test." The FDIC has some discretion in how they fulfill these requirements. Federal Home Loan Banks (FHLBs) also offer another source of liquidity for banks in the form of advances, which are cash loans made to member banks that are collateralized in a similar fashion as the Fed's discount window loans.

Resolution Process for SVB

With respect to the resolution of SVB, the FDIC provides up to $250,000 in insurance per depositor.[4] For customers with large account balances, any portion of their balance above $250,000 is considered to be "uninsured deposits" and there is no guarantee customers will receive all of their uninsured deposit balances back. In some situations when banks fail, the FDIC may find a buyer of a failed bank that may wish to purchase the entire bank, or a portion of the bank's business. If no buyer is found, then the FDIC would sell what assets it can and pay what it can to the bank's creditors, including uninsured depositors. According to FDIC press release on the matter, "*The FDIC will pay uninsured depositors an advance dividend within the next week. Uninsured depositors will receive a receivership certificate for the remaining amount of their uninsured funds. As the FDIC sells the assets of Silicon Valley Bank, future dividend payments may be made to uninsured depositors*."

According to FDIC staff, the agency is working on providing a further update for the public soon, including how customers can access their insured deposits in full on Monday, and how much the FDIC may be able to provide to customers with uninsured in the form of an "advanced dividend," which will likely be some percentage of the total. Furthermore, the FDIC indicated that **loan customers should continue to make their payments as usual**. In the meantime, **customers with accounts in excess of $250,000 can contact the FDIC toll–free at 1-866-799-0959 for more information.** The main office and all branches of SVB will reopen on Monday, March 13, and the DINB will maintain SVB's normal business hours. For more information, see the links below.

Additional Information on SVB's Failure and Bank Failures in General

- FDIC Press Release, 3/10/23: FDIC Creates a Deposit Insurance National Bank of Santa Clara to Protect Insured Depositors of Silicon Valley Bank, Santa Clara, California
- FDIC: Failed Bank Information for Silicon Valley Bank, Santa Clara, CA
- FDIC: When a Bank Fails - Facts for Depositors, Creditors, and Borrowers
- Fed: Discount Window Lending
- Congressional Research Service (CRS): Bank Failures and the FDIC
- CRS: Federal Deposit Insurance for Banks and Credit Unions
- CRS: Federal Reserve: Emergency Lending
- CRS: The Federal Home Loan Bank (FHLB) System and Selected Policy Issues

[4] For more information about how FDIC insurance applies to joint accounts, see FDIC, Joint Accounts.