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Fast-Moving $209 Billion Bank Collapse Rattles Tech, Finance Communities

What We Know About Silicon Valley Bank's Takeover by Regulators

Bank regulators are taking steps to protect customer accounts at failed Silicon Valley Bank. (Getty Images)

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Banking regulators stepped in late last week to take over Silicon Valley Bank, the 17th-largest bank in the country by asset size with $209 billion, after depositors withdrew $42 billion from their accounts in one day.

The California Department of Financial Protection and Innovation said Friday it had taken possession of the Santa Clara-headquartered bank and appointed the Federal

Deposit Insurance Corp. as receiver. A precipitous drop in deposits had left the bank incapable of paying its obligations and it had become insolvent, the state regulator said.

The repercussions of the events spread rapidly throughout the financing world, and the tech- and biotech-heavy industries to which the bank catered. More than 100 firms released statements or filed notices with the Securities and Exchange Commission summarizing their relationship with the bank. Many reported the impact would be minimal. But several also reported millions of dollars in uninsured deposits that were at risk.

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On Sunday, federal regulators said even deposits exceeding the insurance cap would be protected and the Federal Reserve would take emergency action to provide funds to other institutions that needed cash in exchange for collateral.

The actions were intended to prevent the turmoil from cascading. Still there are likely to be reverberations, even to commercial real estate.

Silicon Valley Bank and its subsidiaries alone leased nearly 1 million square feet of space in more than 50 offices across the countries, most of it in the United States, according to CoStar data. And SVB Financial Group, parent of Silicon Valley Bank, operated securities and capital venture arms that supported capital raisings for tech and biotech startups throughout the United States, Canada and the United Kingdom.

Silicon Valley Bank's collapse was the second-largest banking collapse in history behind Washington Mutual in 2008. Silicon Valley Bank's end followed a similar liquidation of crypto-lender Silvergate Capital, owner of Silvergate Bank in La Jolla, California, earlier last week.

Together, news of the closure of two financial institutions serving the tech community raised questions over the health of lenders and office landlords, according to Alex Pettee, president and director of research at Hoya Capital Real Estate.

“Real estate equities were slammed particularly hard as investors drew parallels to the early stages of the 2008 financial crisis when locked-up credit markets created a cascade of distress,” Pettee wrote in a note to clients. “The Equity REIT Index dipped 7% [last] week. Sixteen office REITs plunged over 10% on concerns that the SVB fallout could intensify headwinds on both the demand and financing side.”

Even before last week’s actions, Silicon Valley Bank forecasted a continued challenging market and interest rate environment. The bank reported that it expected continued slow public markets, further declines in venture capital deployment, and a sustained elevated cash burn in the first half of 2023, with modest declines in the second half.

“Client cash burn has remained elevated and increased further in February, resulting in lower deposits than forecasted,” Greg Becker, president and CEO of Silicon Valley Bank, said in a statement last week before its closure by regulators. “Our conversations with clients give us confidence that activity will accelerate when entrepreneurs reset expectations on valuations, cash burn normalizes, and the public markets and interest rates both stabilize.

What Happened

Silicon Valley Bank is yet another example that markets can expect disruptions as central banks raise rates and shrink their balance sheets, Megan Greene, global chief economist at Kroll, a corporate investigation and risk consulting firm, said in a statement. It’s more likely to be disruptive to smaller banks than to the largest banks. Regulators announced Sunday they had also closed Signature Bank, a bank that served cryptocurrency companies.

“It has been a long time since we’ve had to face a bank run, but in many ways, Silicon Valley Bank was a special case,” Greene said. “SVB’s client base and funding structure both suggest that it is unlikely to trigger a systemic crisis. There may be some contagion to other small, community banks in the U.S. — particularly if depositors aren't all made whole — but the larger banks are unlikely to follow in SVB's footsteps."

For years, as interest rates were at or near zero, tech startups had cash coming in from initial public and secondary stock offerings, special-purpose acquisition company fundraisings, venture capital investments and acquisitions, Greene explained. Many of them deposited their cash at Silicon Valley Bank.

Most commercial banks operate by taking deposits and extending loans, she said. Silicon Valley Bank was taking in deposits, but it didn't extend many loans. Instead, the bank bought longer-dated, typically safe fixed-rate assets such as Treasury bonds and mortgage-backed securities.

However, as interest rates were increased last year, the value of those fixed-rate investments declined, Greene said. To redeem client's deposits, Silicon Valley Bank had to sell assets at a big loss.

Silicon Valley Bank reported last week selling substantially all of its available for sale securities portfolio at a loss of $1.8 billion. It intended to reinvest the proceeds. It never got the chance. The announcement of the loss prompted a bank run.

Outside of what banking regulators are doing to restore confidence, private investment firms have already begun stepping in, according to a news report from Bloomberg.

HPS Investment Partners and Oaktree Capital Management are among investment firms that are offering to provide financing to companies with cash trapped at Silicon Valley Bank, Bloomberg reported. Some are offering to buy the deposits of Silicon Valley Bank clients, including startups and publicly traded companies, at discounts of between 60 cents to 75 cents on the dollar.

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