HEARING BEFORE
THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND MONETARY POLICY AND
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

Testimony of Michael J. Roffler
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Chairman McHenry, Ranking Member Waters, Chairman Barr, Chairman Huizenga, Ranking Member Foster, Ranking Member Green, and Members of the Subcommittees: Good morning, and thank you for allowing me to speak with you today. Since 2009, I have had the privilege of serving First Republic Bank, and its employees, clients, and communities—first as deputy chief financial officer, then as chief financial officer, and most recently as chief executive officer. I look forward to sharing with you a little about First Republic, our reputation for risk management and integrity, as well as our understanding of the unprecedented banking crisis that affected First Republic beginning on March 10 of this year.

I would like to start by thanking my incredible colleagues at First Republic, who have worked tirelessly since March 10 continuing to serve our clients and delivering outstanding service in the face of unprecedented challenges.

For the past 37 years, First Republic has built a reputation for its commitment to extraordinary client service, which set it apart from its competitors. Our focus on client service, careful risk management, robust internal controls, and transparency with our regulators and the public served First Republic well for nearly four decades. At First Republic, we prioritized conservative lending standards, which led to pristine credit.

First Republic's financial position and strategy were regularly reviewed by our regulators, the California Department of Financial Protection and Innovation (our primary regulator as a California state-chartered bank) and the FDIC (our primary federal prudential regulator). First Republic's management and Board of Directors took regulatory feedback extremely seriously and worked to address any matters raised in a timely manner, never ignoring recommendations from its regulators. Neither regulator expressed concern regarding First Republic's strategy, liquidity, or management performance—just the opposite. The success of these efforts is demonstrated by the historical lack of regulatory issues or litigation against First Republic.

It is important for our clients, our communities, and the members of this Committee to understand that, up until the cataclysmic events of March 10 and the ensuing days—which were triggered by the collapses of Silicon Valley Bank and Signature Bank—First Republic was in a strong financial position with strong investment grade ratings aligned with the Nation's largest banks. In fact, thanks to our employees' extraordinary efforts, First Republic had its most profitable year ever in 2022.

Starting in the fall of 2022, First Republic believed that the Federal Reserve's campaign to fight inflation by repeatedly and significantly raising interest rates would make 2023 a more challenging year from an earnings perspective. To be clear, no one at First Republic could have predicted the collapse of Silicon Valley Bank and Signature Bank, the speed at which it happened, or the catastrophic effects these events had on the banking industry and consumer confidence. Instead, First Republic was preparing for reduced profits in 2023 as compared to our record profits in 2022.

First Republic was transparent and specifically disclosed the challenges posed by the higher interest rate environment. In November 2022, First Republic hosted an Investor Day for both investors and analysts. At that event, we communicated that the interest rate environment was unprecedented, and that the bank was countering the risks posed by the interest rate environment through expense management, including "moderating head count growth."[1]

In our Form 10-K for the year ending December 2022, we disclosed risks related to "interest rates and inflation, which may affect our net interest margin," "volatility in the financial and securities markets, which may negatively impact the valuation of our investment securities portfolio, credit losses on our loans and debt securities, and the performance of our wealth management business," and "interest rate and credit risk."[2]

These same earnings issues were highlighted during our January 2023 earnings call, when the bank messaged decreased earnings, "a more challenging year ahead," "margin pressure," and moderated growth for 2023.[3]

We also took several steps to mitigate the impact of rising interest rates, including offering clients attractive CDs and money market opportunities,[4] maintaining very strong credit quality,[5] raising equity periodically to maintain strong capital levels,[6] and deferring expenses that were set to be incurred in 2023, including by slowing headcount growth.[7]

While First Republic understood and disclosed the earnings risks we were facing in 2023, we could not have anticipated that Silicon Valley Bank and Signature Bank would fail, or that the failure of those banks would trigger substantial deposit outflows at our bank. Instead of dealing with temporary decreased earnings due to interest rate pressures, First Republic was contaminated overnight by the contagion that spread from the unprecedented failures of two regional banks.

[1] *See* Form 8-K, Investor Day 2022 Presentation (Nov. 9, 2022) at 29, 33.
[2] *See* Form 10-K, 2022 Annual Report (Feb. 28, 2023) at 7, 8.
[3] *See* Form 8-K, Q4 and Full Year 2022 Earnings Presentation (Jan. 13, 2023) at 1 (reporting "[d]iluted earnings per share +7.4%"); First Republic Bank Q4 2022 Earnings Call Transcript (Jan. 13, 2023).
[4] *See* Form 10-K, 2022 Annual Report (Feb. 28, 2023) at 84.
[5] *See* Form 10-K, 2022 Annual Report (Feb. 28, 2023) at 145.
[6] *See* Form 8-K, Common Stock Offering (Aug. 1, 2022) at 2; Form 8-K, Common Stock Offering (Aug. 3, 2022) at 2; Form 8-K, Common Stock Offering (Feb. 7, 2023) at 2; Form 8-K, Common Stock Offering (Feb. 9, 2023) at 2.
[7] *See* Form 8-K (Nov. 9, 2022) at 33.

Before March 10, First Republic was conducting business as usual. Indeed, during the day on March 9, as uncertainty surrounding Silicon Valley Bank grew, we experienced a significant *inflow* of deposits at First Republic from clients who had withdrawn their money from Silicon Valley Bank. Everything changed overnight.

Bank runs are catalyzed by a critical level of depositors no longer having faith in the security of their deposits, panicking, and engaging in widespread withdrawals. The run on First Republic was undoubtedly catalyzed by the widespread panic that was inspired by the abrupt failure of Silicon Valley Bank, and then Signature Bank, and exacerbated by traditional media and social media, as well as recent technological advancements that allow depositors to withdraw their money almost immediately. As FDIC Chairman Martin J. Gruenberg has noted, "Contagion effects from SVB's failure began to spread through traditional media, social media, and short sellers to other banks with perceived similar risk characteristics."[8]

As identified by Chairman Gruenberg, on the morning of March 10, when Silicon Valley Bank collapsed, First Republic began experiencing significant deposit outflows due to contagion effects from SVB. A run on First Republic began. On Monday, March 13, after the subsequent failure of Signature Bank on March 12, negative short seller and social media attention continued and accelerated, ultimately resulting in approximately $40 billion in deposit outflows on March 13.

In response to unprecedented industry-wide panic about the soundness of regional banks, over the course of the ensuing weeks, a total of over $100 billion in deposits were withdrawn from the bank. We worked around the clock for the next two months—including seeking assistance from the highest levels of the federal government—to find the best outcome for all of our stakeholders and for the clients and communities we proudly serve.

Despite herculean efforts by my incredible colleagues at First Republic to continue providing exceptional client service, management's tireless efforts to save the bank, and the support of a group of eleven of the Nation's largest banks that deposited $30 billion at First Republic, investor and depositor confidence never recovered. Throughout this period, I encouraged colleagues to be there for and to serve the needs of our clients. This included buying treasuries, buying money-market mutual funds, or transferring their funds to another bank. Our commitment to client service led to the retention through the end of April of over 97% of clients who banked with First Republic during the first quarter of 2023, even as average account sizes continued to fall.

However, clients continued to withdraw their funds, and on May 1, 2023, to protect our clients and depositors, the FDIC reached a purchase and assumption agreement with JPMorgan Chase Bank to assume all of the deposits and substantially all of the assets of First Republic Bank. We continue to work hard every day to ensure our clients continue receiving the service they deserve during this transition period.

I look forward to working with the Committee to restore confidence in the banking industry, and I would be pleased to answer your questions.

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[8] *See* Remarks by Chairman Martin J. Gruenberg on "Oversight of Prudential Regulators" before the Committee on Financial Services, United States House of Representatives (May 15, 2023).