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

On Friday, March 10th, Silicon Valley Bank failed, and on Sunday, March 12th, Signature Bank failed as well. These bank failures are the second and third largest in U.S. history, respectively, behind only the 2008 failure of Washington Mutual. On Sunday, March 12th, the U.S. Department of the Treasury (Treasury), Federal Deposit Insurance Corporation (FDIC), and the Board of Governors of the Federal Reserve System (Fed) announced a plan to fully protect depositors of those two banks, as well as to create a new liquidity facility to support solvent banks and credit unions.[1] Below is a fact sheet describing the banks that failed and related developments, as well as a summary of the actions taken by Treasury, FDIC, and the Fed in response.

Silicon Valley Bank (SVB) Failure

On Friday, March 10, 2023, Silicon Valley Bank (SVB) was closed by the California Department of Financial Protection and Innovation (DFPI), and the FDIC was named as receiver. The FDIC 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 Fed.[2] SVB was the 16th largest bank in the U.S. 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.[3]

While causes of the SVB failure will likely become clearer over time, there have been various reports laying out several contributing factors to the bank's failure.[4] 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. As the Federal Reserve increased interest rates over the past year to address inflation, the market value of SVB's investments in Treasurys and government-sponsored debt securities, like mortgage-backed securities issued by Fannie Mae, which were purchased when rates were low, declined compared to similar securities issued today. When SVB had to sell $20 billion of these securities to meet the demand for deposit withdrawals, it did so at a $2 billion loss. SVB's parent company planned a $2.25 billion share sale to raise more funds, but it was unsuccessful, leading to broad concerns about the viability of the bank. SVB also appeared to rely on a 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 Thursday, March 9th, leaving the bank with a negative cash

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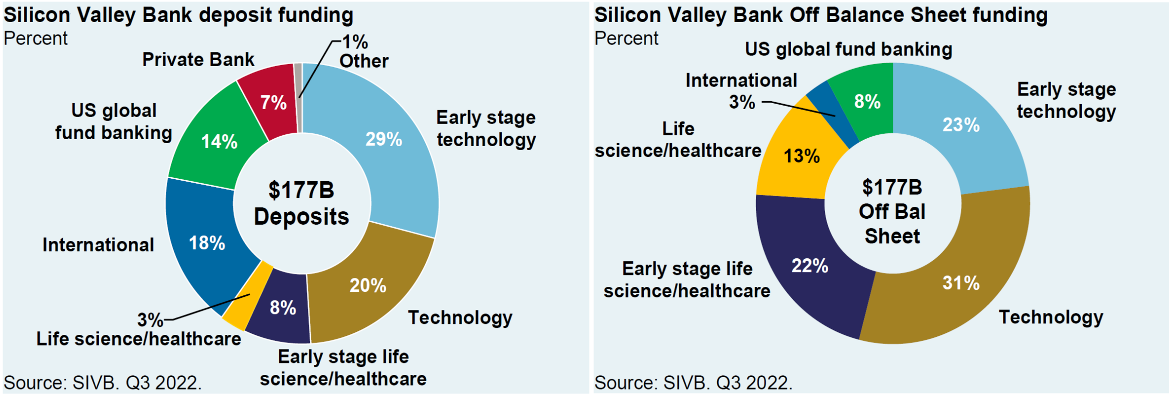
[1] See Treasury, *Joint Statement by the Department of the Treasury, Federal Reserve, and FDIC* (Mar. 12, 2023); and Fed, *Federal Reserve Board announces it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors* (Mar. 12, 2023). Also see FSC, *Waters, Brown Commend Federal Regulators for Protecting Banking System* (Mar. 12, 2023).

[2] For more on how banks are regulated, see CRS, *Who Regulates Whom? An Overview of the U.S. Financial Regulatory Framework* (Mar. 10, 2020).

[3] 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.

[4] 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).

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.

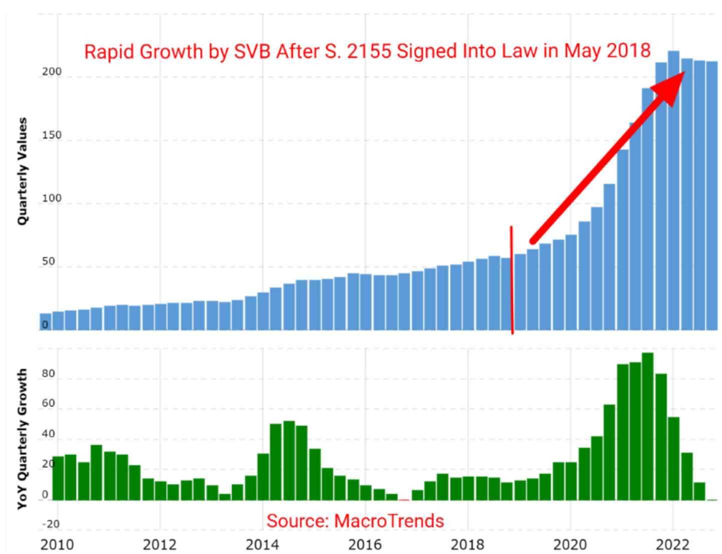


Source: JP Morgan Analysis (March 10, 2023)

Signature Bank Failure

On Sunday, March 12th, Signature Bank was closed by the New York Department of Financial Services (NYDFS) and the FDIC was appointed as receiver of the bank. The FDIC transferred all the deposits and substantially all of the assets of Signature Bank to Signature Bridge Bank, N.A., a full-service bank that will be operated by the FDIC as it markets the institution to potential bidders. Signature Bank was a state-chartered bank that was not a member of the Federal Reserve System; therefore, its primary federal regulator was the FDIC. The bank was the 29th largest U.S. bank with total assets of approximately $110 billion and total deposits of approximately $89 billion as of December 31, 2022. Signature Bank is the second bank closely associated with the cryptocurrency and digital assets industry to fail in the past week,[5] the first being Silvergate Bank – a bank previously associated with Facebook's Libra – which announced that it would voluntarily wind down operations and liquidate the bank on Wednesday, March 8th.[6]

Changes in Oversight of SVB and Signature Bank



After the 2008 global financial crisis, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank 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.[7] 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,

[5] The Verge, *Signature Bank is closed by regulators, the third US bank failure in a week* (Mar. 12, 2023); Wall Street Journal, *SVB, Signature Bank Depositors to Get All Their Money as Fed Moves to Stem Crisis* (Mar. 12, 2023); and New York Times, *Regulators Close Another Bank and Move to Protect Deposits* (Mar. 12, 2023).
[6] Silvergate, *Silvergate Capital Corporation Announces Intent to Wind Down Operations and Voluntarily Liquidate Silvergate Bank* (Mar. 8, 2023). *Also see* Wall Street Journal, *Crypto Bank Silvergate to Shut Down, Repay Deposits* (Mar. 8, 2023); and Financial Times, *Facebook Libra: the inside story of how the company's cryptocurrency dream died* (Mar. 10, 2022).
[7] See CRS, *Enhanced Prudential Regulation of Large Banks* (May 6, 2019).

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."[8] In 2018, Congress ultimately enacted these reforms into law.[9] At that point, SVB had $53 billion in total assets, but then rapidly grew to have more than $200 billion in total assets before collapsing in failure. Similarly, Signature Bank had $44 billion in total assets as of March 31, 2018,[10] then quickly grew to have more than $110 billion in total assets before failing. These developments raise questions how the 2018 law may have contributed to the banks' failures.

Emergency Liquidity and Systemic Risk Exception

Dodd Frank and Other Tools to Mitigate Contagion. In addition to other reforms that improved oversight and regulation of the financial system, the Dodd-Frank Act established the Financial Stability Oversight Council (FSOC) to ensure that all financial regulators were working together to monitor and take steps to mitigate any threats to U.S. financial stability. Moreover, financial regulators have several authorities at their disposal to promote financial stability that were used in the 2008 financial crisis and more recently during the COVID-19 pandemic. For example, the 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 at least five entities), 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), referred to as the "least cost test." However, there is a systemic risk exception (SRE) to the least cost test that allows the FDIC to use the DIF to support uninsured depositors. The Treasury Secretary, after consulting with the President and receiving a recommendation supported by at least two-thirds of the FDIC Board of Directors and at least two-thirds of the Fed Board of Governors, may authorize a SRE if they determine that otherwise complying with the least cost test "would have serious adverse effects on economic conditions or financial stability." If there are any losses to the DIF, the FDIC would charge a special assessment of banks to cover the losses, meaning there would be no cost to the taxpayer. Dodd-Frank required any broad-based debt guarantee program authorized using an SRE to require approval by Congress; however such a step is not necessary if an SRE is authorized on a narrower basis.[11]

Actions by Biden Administration and Financial Regulators to Address Contagion. In response to the failure of SVB and Signature Bank, the Treasury Department, FDIC, and Fed announced a plan on Sunday, March 12th, to fully protect depositors of those two banks as well as a new liquidity facility to support depository institutions.[12] Specifically, the Treasury Secretary authorized – with the support of the FDIC and Fed – an SRE for the resolution of both SVB and Signature Bank. Since the SREs apply narrowly to each bank, Congressional approval was not required. **The SREs will allow the FDIC to complete its resolution of the two banks in a manner that ensures that <u>all</u> depositors, whether their deposits are insured or not, will have access to <u>all</u> of**

[8] *See* Senate Committee on Banking, Housing, and Urban Affairs hearings entitled, "Examining the Regulatory Regime for Regional Banks," held on March 19, 2015, and March 24, 2015.
[9] P.L. 115-174, S. 2155 (115th Congress), the Economic Growth, Regulatory Relief, and Consumer Protection Act (Crapo).
[10] Fed, *Large Commercial Banks – Statistical Release* (Mar. 30, 2018).
[11] See 12 USC §1823 and 12 USC §5613.
[12] See Treasury, *Joint Statement by the Department of the Treasury, Federal Reserve, and FDIC* (Mar. 12, 2023); and Fed, *Federal Reserve Board announces it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors* (Mar. 12, 2023).

their funds starting on Monday, March 13. Shareholders and certain unsecured debtholders will not be protected and senior bank management has been removed as the FDIC winds down both banks.

Additionally, the Fed utilized its authorities under Section 13(3) of the Federal Reserve Act to establish the Bank Term Funding Program (BTFP). This new program will provide a new source of liquidity for banks and credit unions by offering loans of up to one year, so long as the financial institutions pledge U.S. Treasuries, agency debt, mortgage-based securities, and other qualifying assets as collateral. This program will supplement liquidity available to depository institutions through the Fed's discount window, which has a 90-day limitation on its loans compared to a much longer one-year loan available through BTFP. Importantly, securities pledged to the BTFP will be valued at par value, rather than the market value that is used for discount window collateral, which will help avoid fire sales of otherwise safe assets held by banks during times of stress, at no cost to the taxpayer.

Additional Information on SVB's and Signature Bank's Failures and Resolutions, and Bank Failures in General

- Treasury, FDIC and Fed: Joint statement on the approval of actions to complete resolutions of Silicon Valley Bank and Signature Bank
- Fed: Federal Reserve Board announces it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors
- FDIC: Failed Bank Information for Silicon Valley Bank, Santa Clara, CA
- FDIC: FDIC Establishes Signature Bridge Bank, N.A., as Successor to Signature Bank, New York, NY
- FDIC: When a Bank Fails - Facts for Depositors, Creditors, and Borrowers
- Fed: Discount Window Lending
- 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