SVB: What happened?

Silicon Valley Bank was closed by regulators on March 10, 2023. Why?

With a client base that is highly concentrated among startup, venture capital-backed companies, Silicon Valley Bank (SVB) prospered over the last several years alongside the startup tech sector.

Many of these tech companies deposited their cash at SVB and, as is typical with banks, SVB invested the money. These investments included billions in long-dated U.S. government bonds, including mortgage-backed securities.[1]

Banks are historically long-term investors, and the investments SVB made are not atypical, but two factors came into play that accelerated their situation:

1. A downturn in the technology sector over the last year
2. The decision by the Federal Reserve to increase interest rates in 2022 (to help slow down the rate of inflation)

As interest rates rose, the value of SVB's investments—specifically the mortgage-backed securities—decreased because bond prices tends to move inversely with interest rates. Further, as the startup technology companies that made up a significant portion of SVB's client base continued to struggle, these customers increasingly withdrew money from their deposit accounts with SVB.[1]

The bank, which was growing concerned about its ability to satisfy withdrawals by customers, sold a significant portion of its bonds to ensure it had adequate cash, realizing losses totaling $1.75 billion. On March 8, 2023, SVB publicly announced these losses as well as a plan to raise additional capital by selling more stock in the bank. This announcement heightened concern about the bank's ability to continue to operate, which created panic among the bank's customers, resulting in further acceleration of withdrawals from deposit accounts held at the bank. This was essentially a classic "bank run." Within 48 hours, the federal government stepped in and the Federal Reserve Board put a new Bank Term Funding Program (BTFP) in place to ensure that banks can meet the needs of all their depositors and offers loans with maturities of up to a year to banks, savings associations, credit unions, and other eligible depository institutions.

Timeline

Friday, March 10, 2023

Silicon Valley Bank (SVB) was closed by regulators after losing $9.4 billion in market value the day before (Thursday, March 9, 2023), representing the second-largest bank failure in U.S history.[2]

Friday, March 10, 2023

Shares of several regional banks were halted from trading due to increased volatility.[2]

Sunday, March 12, 2023
New York-based Signature Bank was shuttered by U.S. regulators, representing the third-largest bank failure in U.S. history.[3]

Sunday, March 12, 2023
The Treasury Department, Federal Reserve, and FDIC announce that SVB depositors will be protected. Under the plan, depositors at SVB and Signature bank, including those whose deposit account exceed the $250,000 FDIC insurance limit, were able to access their money on Monday, March 13, 2023.[3]

Monday, March 13, 2023
Silicon Valley Bank UK Ltd, the British arm of SVB, was sold to HSBC.[4]

Investing involves risk including possible loss of principal. Information as of March 14, 2023.

[1] Source: "What happened to SVB in simple terms," Newsweek, March 13, 2023.
[2] Source: SEI's Investment Management Unit (IMU), SEI Investments Company (SEI).
[3] "U.S. government moves to stop potential banking crisis," Associated Press, March 13, 2023.
[4] "SVB, Signature Bank depositors will be able to access funds beyond $250.000 limit," Associated Press, March 13, 2023.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice and is intended for educational purposes only.

Document provided by SEI Private Trust Company