Silicon Valley Bank and its Progeny

Banking Brief: Financial Services Insights

By John Tanselle on March 17, 2023

With the take-over of Silicon Valley Bank and the bankruptcy filing of its parent, the closing of Signature Bank, and the $30 billion rescue package for First Republic Bank from eleven of the largest banks in the U.S. on March 16, the banking industry has entered into a new world.

To date, there have been many accusations thrown in every direction on who is to blame for the current state of the banking industry. As is true for any allegation, there is always more than one side to consider. The Federal Reserve, for its part, has announced that it will review the supervision and regulation of Silicon Valley Bank following its failure and make the review public in early May.

Given the hearings in Congress and the dialogue between the regulators and members of the Congressional committees, it appears that for the next several years we are facing, at a minimum:

- Increased regulatory scrutiny on ALCO and risk management; and
- Increased regulatory scrutiny on liquidity management.

There have also been statements made about revising the calculation of capital ratios, given that if the losses in Silicon Valley Bank's AOCI were included in its capital ratios, the capital dropped to nearly zero.

To help shore up liquidity for financial institutions, the Federal Reserve has established a new program known as the Bank Term Funding Program ("BTFP"). The BTFP has been put forth as a program to make available funding to an eligible institution (such as a bank, saving association, or credit union), with eligible collateral consisting of U.S. Treasury securities, mortgage-backed securities, agency debt, and certain other assets. Borrowers under the BTFP can borrow at the face value of the eligible collateral without "marking to market" (*i. e.*, the securities will be valued at par).

At this time all financial institutions should review their contingency liquidity funding sources and review existing and future capital needs. They should also analyze their concentrations of depositors in excess of $250,000. For institutions wanting to further soothe concerned customers, it may now (with the increase in interest rates) make sense to utilize a "reciprocal deposits" program. While waiting for the waters to calm, remember to be careful out there and buckle up!