The Fallout from the Failure of Silicon Valley Bank

March 11, 2023 - There is a very good chance that you had never heard about Silicon Valley Bank (SVB) until yesterday. After all, they only had 18 branches in the United States and most of their business was in the tech industry. But a series of events that began early this week resulted in a run on what was the 16th largest bank in the country based on value. Depositors withdrew roughly $42 Billion in funds over a two-day time frame, leaving the bank insolvent. And on Friday morning the federal government was forced to take the bank over and close its doors. It is the 2nd largest bank failure in US history. It's created a financial mess for companies here in the United States and abroad, and it could lead to some significant layoffs in the next few days.

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As with any bank failure, deposits of $250,000 or less are fully insured by the FDIC. SVB customers who had insured accounts will have access to their money by Monday of this coming week according to a government announcement. But most of the deposits at SVB were in accounts with significantly more money than that. Estimates are that only 7% of the funds held by SVB were insured. As of last Monday, the bank held deposits of around $209 Billion. That would mean that only mean that more than $190 Billion is at risk.

The failure has already caused some real problems for companies. One of the largest payroll companies for the movie industry had to announce yesterday that payrolls would be delayed due to SVB's failure. Although we don't know how many other companies face a similar issue, there is no doubt that many will.

For start-up companies - meaning companies that are newer and which don't typically have a lot of diversified assets - a failure like SVB's will likely put many of them out of business. But even larger companies could be hit very hard. Roku had nearly $500 million on deposit with SVB. At present, the company has no idea if it will be able to recover any of that money. And that money represents more than 25% of the company's cash on hand.

To make matters even worse, many of the executive employees of the tech companies impacted also did their personal banking with SVB. This means that not only do these people have their jobs as risk, their personal savings are at risk too.

There is some talk that the federal government or the State of California may bail out the bank in order to avoid wider economic problems that could be caused by its failure. But that idea is already generating some significant opposition because it would put taxpayers on the hook for SVB's losses.

We're not likely to know the full impact of this for a week or two, but there is real fear of this failure leading to a domino effect as other lending institutions are impacted and as companies that rely on them find it difficult or impossible to pay their bills. Both the White House and the FED are currently trying to downplay this prospect, but they don't know what the fallout from SVB's failure is going to be either. We could be on the precipice of another 2008 downturn. Let's hope not.
by Jim Malmberg
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