Silicon Valley Bank Failure

pfm asset management

No Holdings in PFM Asset Management (PFMAM) Fixed-Income Separate Accounts or Managed Local Government Investment Pools

On Friday, March 10, California-based Silicon Valley Bank (SVB) failed, and the Federal Deposit Insurance Corporation (FDIC) was named as receiver. Similarly, Signature Bank, New York, was closed by regulators on March 12. SVB had approximately $175 billion in deposits and $209 billion in total assets and was the sixteenth largest bank in the U.S. by assets. It was the first bank failure since 2020 and the second largest bank failure in U.S. history.

SVB, as well as Signature Bank, New York, were not on PFMAM's approved list of issuers, and there are no holdings or exposure to SVB or its parent company, SVB Financial Group (SIVB), or Signature Bank, New York in any PFMAM-managed fixed-income separate account or local government investment pool client portfolio.

Although SVB was considered to be "well capitalized" by regulatory standards, the bank had unique risks that included: (1) a very large growth rate over the past few years, (2) a client base concentrated in technology and venture capital, (3) a very large percentage of uninsured deposits, reportedly 93% at the end of 2022, and (4) a high percentage of assets in investment securities. It has been reported that as deposits grew, SVB purchased long duration investments which fell in value as interest rates rose. When their clients needed liquidity, the bank was forced to sell some of those assets at a loss, which put its credit rating in jeopardy and precipitated a classic "run on the bank."

While SVB had unique risks, the large bank failure caused significant turmoil in equity and fixed income markets, with the 2-year Treasury yield dropping nearly 100 basis points (1.00%) in three days, and the BKX Index (an index of national money center and leading regional bank stocks) falling by over 20%.

The concern now is whether the SVB failure triggers broader system-wide risks in the financial system. While other banks also carry unrealized losses on their securities portfolios, for most banks, and certainly for the larger national banks which are deemed systematically important, their more diversified funding sources and client base make them much less susceptible to a liquidity crisis. However, some smaller regional banks have already experienced outsized equity price declines. Market volatility is high, and the situation remains fluid.

Over the weekend, the FDIC, Treasury, and Federal Reserve announced plans to ease fears and avoid wider contagion in the banking sector. As announced, all depositors at SVB will be made whole and have access to all their money, including uninsured deposits over the FDIC $250,000 insurance limit. A similar plan was announced for Signature Bank, New York. The Fed also announced a new "Bank Term Funding Program" offering additional funding to eligible depository institutions in the form of short-term loans to banks that pledge certain collateral to help ensure banks have the ability to meet the needs of all their depositors.

PFMAM continues to closely monitor this developing situation and its market impact. Should you have any questions, please reach out to your PFMAM client service professional.