Silicon Valley Bank and Signature Bank Failures

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This Insight discusses the sudden failure of two large banks—Silicon Valley Bank (SVB) and Signature Bank—and the policy issues raised by their failure. Although the available information is preliminary, some policy insights can be gleaned from what is known so far. For background on banking regulation, see CRS In Focus IF10035, *Introduction to Financial Services: Banking*.

Failures and Resolution

On March 10, 2023, the California Department of Financial Protection and Innovation closed SVB. The state agency appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. Failing insured depositories are subject to FDIC resolution instead of the bankruptcy process. At the time of closure, SVB was the 16th largest U.S. bank, with 17 branches in California and Massachusetts and around $209 billion in assets and $175 billion in deposits as of year-end 2022. The FDIC established a bridge bank, Silicon Valley Bridge Bank, N.A., to which it transferred all SVB's insured and uninsured deposits. SVB was reportedly the second largest bank failure ever if measured in nominal dollars.

On March 12, the New York State Department of Financial Services closed Signature Bank and appointed the FDIC as receiver. Signature Bank was the 29th largest bank, with total assets of $110.4 billion and total deposits of $88.6 billion as of December 31, 2022, and had 40 branches in New York, California, Connecticut, North Carolina, and Nevada. The FDIC formed a second bridge bank, Signature Bridge Bank, N.A., and similarly transferred Signature's deposits and assets to it.

In these resolutions, the FDIC is not using its typical purchase and assumption method, where the failed bank (or at least its desirable parts) is immediately sold to a competitor. The FDIC uses a bridge bank when there is insufficient time to market the institution for sale before closing. The bridge bank can maintain normal operations until a resolution is found—typically, a sale of the bank to another bank.

The FDIC invoked, subject to the approval of the Treasury Secretary and the Fed, a systemic risk exception to least-cost resolution (12 U.S.C. §1823(c)(4)(G)) that enabled it to guarantee all uninsured deposits. (Deposits are insured up to a legal limit, typically $250,000.) Both SVB ($151.6 billion) and Signature ($79.5 billion) reported large estimated uninsured deposits on their last call reports. Typically, uninsured deposits are not guaranteed (although they may ultimately be made whole) to ensure least-cost

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resolution (i.e., the statutory requirement that the bank be resolved in the manner that is least costly to the FDIC and, ultimately, taxpayers).

The statutory systemic risk exception states that least-cost resolution can be waived when necessary to avoid “serious adverse effects on economic conditions or financial stability.” (The FDIC did not use its Orderly Liquidation Authority under the Dodd-Frank Act [P.L. 111-203], which is intended to address systemic risk of large failures, to resolve SVB’s holding company, however.) In these cases, uninsured deposits were guaranteed to prevent bank runs spreading more widely throughout the banking system, which could have resulted in a broader financial crisis. Uninsured depositors have an incentive to pull their money out of a failing bank (“run”) to avoid losses by withdrawing first. However, by invoking the systemic risk exception and guaranteeing uninsured deposits, this action may significantly reduce the FDIC’s Deposit Insurance Fund and lead to future assessments on banks to replenish it.

The Fed also announced a new Bank Term Funding Program to provide any bank with loans of up to one-year maturity backed by collateral pledged at par value—more favorable terms than the Fed offers banks through the discount window.

Regulation

These actions have rekindled concerns about which large banks are “too big to fail,” requiring government “bailouts” (in this case, of uninsured depositors but not other creditors or stockholders) to avoid financial instability. Since the 2008 financial crisis, policymakers have debated which large banks should be subject to which enhanced prudential regulatory requirements (EPR)—additional safety and soundness requirements—because they are too big to fail.

SVB was a state-chartered bank, and its primary federal regulator was the Federal Reserve (Fed). Its parent company was SVB Financial Group, a bank holding company (BHC) that was regulated by the Fed and subject to EPR under the Dodd-Frank Act, as amended (P.L. 111-203). Originally, all BHCs with over $50 billion in assets were subject to EPR to address too big to fail concerns. In 2018, P.L. 115-174 raised this asset threshold to $250 billion and provided the Fed with discretion to apply tailored regulation to banks with between $100 billion and 250 billion in assets. As a result of the Fed’s implementing regulation, the Fed created four categories of tiered regulation for banks with over $100 billion in assets. The Fed reports that SVB was a Category IV bank, exempt from or subject to the least stringent EPR requirements. The Fed has initiated a review of its regulation in light of the failure. Signature was a state-chartered bank, and its primary federal regulator was the FDIC. It was not structured as a BHC, so it was generally not subject to EPR.

Some of the risks that were central to these failures appear to be long-standing risks that all banks face—liquidity risk, concentration risk, and interest rate risk—and are not specific to large banks. The run by uninsured depositors is emblematic of liquidity risk. Interest rate risk refers to the fact that as interest rates have risen, many securities held by banks have fallen in value because they were bought when interest rates were lower. Concentration risk refers to the potential for an institution to be overly exposed to a singular outcome in the economy, such as a downturn in the tech industry in the case of SVB. Regulatory information is private, and regulators have not publicly detailed what steps they took to address the risks that these banks faced before their failure. However, based on reported assets, neither bank could have been on the FDIC’s Problem Bank List at the end of 2022.

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