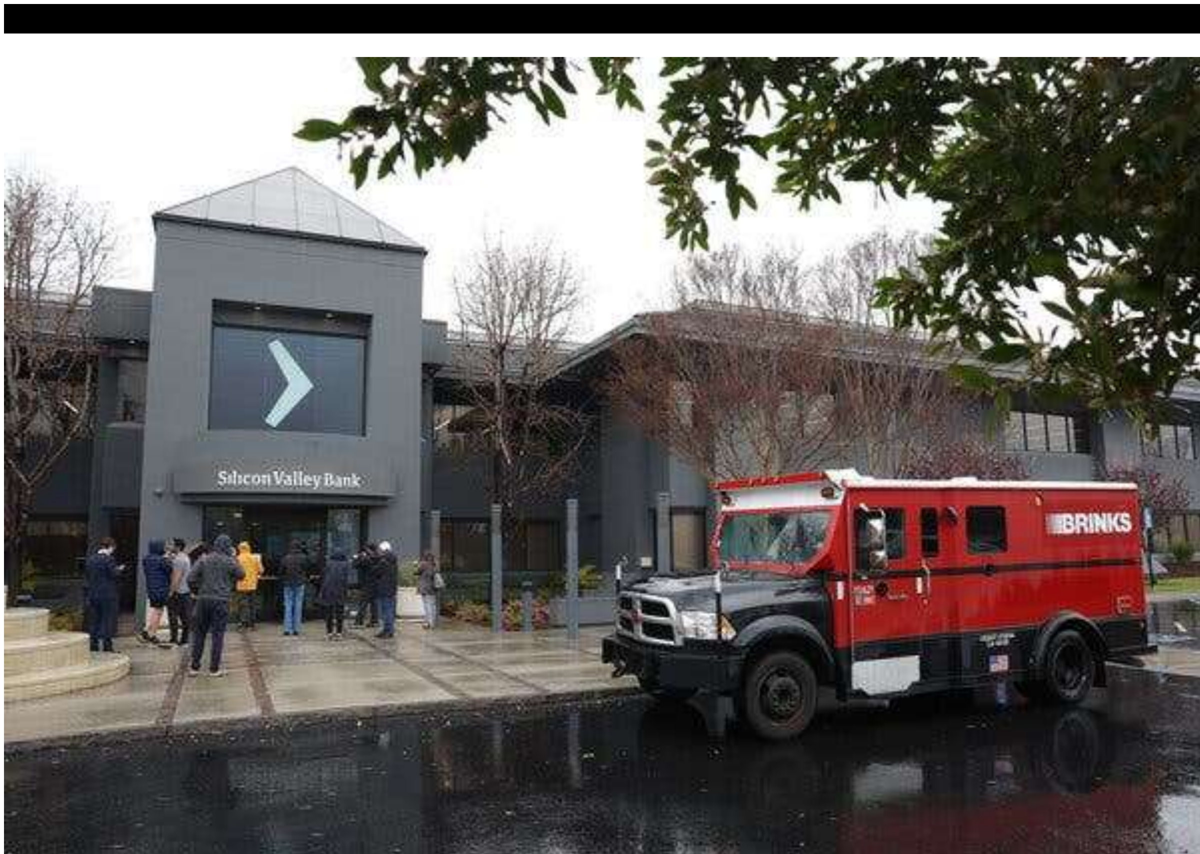
The New York Times
DealBook/
Business & Policy
With Andrew Ross Sorkin

Why Did Silicon Valley Bank Collapse?

DealBook unpacks what caused the biggest U.S. bank failure since the 2008 financial crisis — and what might come next.

By Andrew Ross Sorkin, Ravi Mattu, Bernhard Warner, Sarah Kessler, Michael J. de la Merced, Lauren Hirsch and Ephrat Livni

March 11, 2023



The scene outside Silicon Valley Bank yesterday morning.

Credit...Justin Sullivan/Getty Images

A bid to reassure investors goes awry

The failure of Silicon Valley Bank was caused by a run on the bank. The company was not, at least until clients started rushing for the exits, insolvent or even close to insolvent. But banking is an enterprise that relies as much on confidence as on cash — and if that runs out, the game is over.

The collapse may have been an unforced, self-inflicted error: The bank's management chose to sell $21 billion of bonds at a $1.8 billion loss, in large part, it appears, because many of those bonds were yielding an average of only 1.79 percent at a time when interest rates had risen drastically and the bank was starting to look like an underperformer relative to its peers. Moody's was considering downgrading its rating. The bank's management — with the help of Goldman Sachs, its adviser — chose to raise new equity from the venture capital firm General Atlantic and also to sell a convertible bond to the public.

It isn't clear if the bond sale or the fund-raising, at least initially, had been made under duress. It was meant to reassure investors. But it had the opposite effect: It so surprised the market that it led the bank's very smart client base of venture capitalists to direct their portfolio clients to withdraw their deposits en masse.

The bank and its advisers may have also made a tactical mistake: The General Atlantic equity investment could have been completed overnight, but the bank's management also chose to sell convertible preferred stock, which couldn't be sold until the next day. That left time for investors — and, more important, clients — to start scratching their heads and sow doubt about the firm, leading to an exodus of deposits.

There will be a detailed post-mortem of the bank's failure in the coming weeks and months. For now, it looks like the collapse could have been avoided — it happened because management bungled how it communicated to its customers and the public, and created a vacuum of confidence.

But underlying the failure was a demonstrable problem, one to keep an eye on for other banks: The company had invested its deposits in low-interest rate bonds that it held on its books on a long-term "hold-to-maturity" basis. That means that it did not have to mark-to-market those bonds until they were sold, leaving investors with a somewhat distorted view of its balance sheet. So long as a bank doesn't need to sell "hold-to-maturity" assets to meet withdrawal requests, there is no problem. But if a bank has to sell at a loss, that's when things get complicated.

We're also likely to hear more from Washington about bank regulation. It appears that the bank's management successfully lobbied regulators in 2015 to loosen rules that might have prevented it from taking some of the risks it did. The Lever news organization reported about testimony that the company's president made to the Senate at the time seeking to weaken some rules.

So far, Silicon Valley Bank seems like an outlier, given its unique circumstances and unusual client base — it had very few typical retail customers, as JPMorgan's Michael Cembalest wrote in a note to investors on Friday. But there is already nervousness about some other small and regional banks.

In the immediate term, the most pressing problem this presents is for Silicon Valley itself: Venture capital firms that used the bank may struggle to gain access to their money — and possibly that of their limited partners, including pension funds, that had forwarded money intended for investments. This, in turn, may make it hard to fund current and new investments — or to rescue other companies inside and outside their portfolios. DealBook is already hearing about secondary sales of private shares to fund both businesses and individuals.

Silicon Valley Bank may be finished but the fallout from its collapse is only just beginning to be felt. ***— Andrew Ross Sorkin***

[Return to head of page]