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The Collapse of Silicon Valley Bank

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ABSTRACT

The collapse of any bank in any country will bring several ramifications to a country's banking services and economy. Because of the global connectedness of financial services, risk can become contagious. The collapse of three small-to-mid-size banks in the U.S. during March 2023 has lessons for the global banking industry and regulators to learn. The case examines the series of happenings that led to the collapse of the Silicon Valley Bank (SVB), the moves made by the management to prevent a bank run situation, the interference of banking insurance, take over by First Citizens BancShares, and developments around it. Important lessons learned by different stakeholders are reported. This study employs a case study approach in qualitative research. The evaluation has considered the developments around the collapsed bank and its aftermath. Media sources are used to track the developments and are supported by academic references whenever possible. The research has taken note of the happenings between March and July of 2023. The study finds that while global stock markets are turbulent because of the banking crisis, they subsided in due course. The acquisition of SVB by First Citizens has reduced the panic situation. Customers in other countries, including the U.K., had to seek governmental and legal interventions. The collapse of SVB impacted the cryptocurrency segment in the U.S. Competitor banks appear to have taken advantage of the situation. The study will be amongst the first to examine the collapse of the SVB from multiple dimensions of running a bank. It contributes to the academic research on banking crisis and contingency risk studies.

INTRODUCTION

Silicon Valley Bank (SVB) is a U.S,-based commercial bank with clients ranging from financial services to technology and life science companies, venture capital, and private equity firms. SVB collapsed in March 2023, barely 48 hours after the collapse of another U.S. commercial bank collapsed – the Silvergate Bank. Banking stocks on stock exchanges worldwide crashed, triggering panic amongst traders and investors. The collapse of some major U.S. banking institutions (three banks in five days!) reminded the world of the risks and vulnerabilities in the banking system, marking the return of financial stress to the banking system.

Though, fortunately, there is no contagion risk, early studies showed that after SVB collapsed, as many as 186 more U.S. banks were on the edge of a collapse (Dixit, 2023). All the financial stress appears to have roots for three significant reasons. Firstly, the FTX cryptocurrency exchange collapse in November 2022 led to the subsequent tightening of cryptocurrencies in the U.S., leading to many bank customers remaining on a shaky wicket. Signature Bank and Silvergate Capital Corp have close links to the cryptocurrency world.

Secondly, the quick and aggressive interest rate hikes by the U.S. Fed to combat inflation have surprised many banks. Many banks had substantial investments in the form of bonds, and because of interest rate hikes, they were forced to accept mark-to-market losses. Generally, this is not an issue, and banks often hold the bonds longer, except when there is a bank-run situation.

Thirdly, the banks' business model made them build innovative products with specifically targeted customers leading to the concentration of their deposits. When depositors pull out their funds, the bank is forced to enter a bank-run situation.

METHOD

The study followed qualitative research and used the case study approach to discuss the happenings that led to the collapse of the bank and the effects thereupon. Because the events evolved, reputed media sources were taken, despite being a weak source in academic research. The study period is taken from March to July 2023.

RESULT AND DISCUSSION

Silicon Valley Bank is one of the oldest and the 16th largest bank in the U.S. It is the largest bank based out of Santa Clara, California. Unfortunately, it also became the largest U.S. bank to collapse after the collapse of Washington Mutual during the 2008 financial crisis. Some experts even drew parallels to the Bank of the United States' collapse in the 1930s, which was a catalyst for the 1929 recession to become a more serious Great Depression (Abby, 2023).

SVB is unique because of its capabilities and products (such as its venture debt program, for example) that are customized for V.C.s and start-ups making it their favorite bank. It works with nearly half of all start-ups with venture capital funding. In 2022, it did business with 44% of US-backed venture-backed companies that got listed.

The collapse and the subsequent bailout will mean that depositor funds are safe. However, it meant a dark period for the investments needed for the information technology, healthcare, and biotechnology industries (Nature Biotechnology, 2023), small tech start-ups (Sanderson, 2023), and entrepreneurs (Eckhardt, 2023). While exposure to these sectors gave the bank a unique opportunity in the past, the bank collapse reminds us that these sectors often see boom and bust cycles.

The Trouble

During 2021-2022, SVB was sitting on a pile of increasing bank deposits with fewer loans than it could lend. The bank was forced to put the customer deposits into long-term securities, mainly in the form of bonds. Most banks who take these books typically hold them to maturity to maximize their returns. The U.S. Government backs U.S. Treasury bonds and has minimalistic default risk. Unfortunately, SVB had poor risk management practices and could not sense the U.S. Fed raising rates from what used to be less than 1% to 4.75% in less than a year. The sudden rise of interest rates leads to the collapse of bond prices, reminding the inverse relationship between interest rates and bonds. The rate hikes exposed asset-liability mismatches at several regional banks in the U.S.

The collapse of bond prices meant SVB was now sitting on substantial mark-to-market losses. The problem with marking these losses on balance sheets is that it would suggest a significant hit to the capitalization of the American banking system. For example, a 10% hit on the bond portfolios would wipe out more than a quarter of banks' equity. If other assets are adjusted for higher rates, bank assets would be worth $2 trillion less than reported - enough to wipe out all equity in the American banking system. Although some risks could be hedged, it is expensive, and banks may not have done much of it.

The value of banks' long-term bond portfolios fell when interest rates leaped to 4.5%, resulting in $620 billion in unrealized mark-to-market losses across America's financial institutions.

The CEO has reportedly talked carelessly about the bank's liquidity problems arising from the asset-liability mismatches. The comment led depositors to withdraw $40 billion in two hours, electronically fueling the bank-run situation that led to the collapse.

SVB had a mix of various deposits, including non-interest-bearing liabilities. SVB liquidated $21 billion of its security investment portfolio at a colossal loss of $1.8 billion. Moody's immediately downgraded the bank's credit rating from A3 to Baa1 negative outlook. The crisis cascaded and triggered a contagion at other troubled U.S. banks. It became apparent that SVB was not alone in the crisis. SVB even announced plans to raise $2.25 billion by offering shares. It intended to give investors $1.25 billion in common stock and an additional $500 billion in obligatory convertible preferred shares, which are slightly less dilutionary to current shareholders. Private equity firm General Atlantic has also agreed to buy $500mn of the bank's common stock in a separate private transaction.

Depositors who got a hint that the bank was sitting on M2M losses began to start withdrawing. Not just that. Other parts of the financial system, such as Money markets and treasuries, began attracting money flows triggering the sudden withdrawal of funds. Experts say that depositors seeking higher returns have pulled almost $100 billion in aggregate from JPMorgan, Bank of America, Citigroup, and Wells Fargo in the first quarter of 2023.

Another noticeable trend is that depositors began to have a sense of distrust of small regional banks and began moving their funds to bigger banks. Because U.S. banks are typically either reluctant or late in passing on the U.S. Fed rate hikes to their customers, there was a flight of funds to other alternative investing products. Customers have pulled around $800 billion in deposits from U.S. commercial banks since March 2022, when the Fed first started to lift rates after lenders kept deposit rates relatively low while charging more for loans.

Tech giant Apple and Goldman Sachs have announced the launch of a new savings account in the U.S. that will pay a market-leading 4.15% interest a year. It also outstrips rivals such as American Express, which offers 3.75%. The bond market and U.S. treasuries are offering way too higher rates, luring depositors.

The bank was in trouble after its parent SVB Financial Group announced selling $21 billion in securities to improve its financial situation. The move became inevitable as the bank failed to raise capital from other sources. SVB took a significant loss on sales of its securities amid rising interest rates, unnerving investors, and depositors who rapidly began pulling their money.

Key reasons for the collapse

During his testimony, former CEO Greg Becker provided vital information earlier not considered in the Federal Reserve's examination that hinted at the reasons for the bank's collapse (WSJ, 2023). Some reasons that led to the collapse can be attributed to the following reasons:

1. **Rapid growth**: The bank grew too big and too fast. Growth was given priority over risk management, often disregarding warnings from examiners. Research showed that a higher saving glut was a reason for financial instability because of increased savings since 2000 and higher levels of deposit-to-GDP ratio (Vuillemey, 2023).
2. **Interest rate regime**: The Federal Reserve's communication about interest rates and its sudden changes to curb inflation in the U.S. during 2022 have caught SVB and many banks off guard. Deposits flew more rapidly than expected into the bank. The bank had to divert the deposits into long-term government-backed securities considering the liquidity and capital rules. Heavy investments were made in debt securities during the low-interest rate period. Subsequently, the interest rate surge of 2022 exposed the risk. Research suggests that the mistakes of SVB are idiosyncratic, not systematic (Kim, 2023). Despite widespread messaging by the Federal Reserve Bank, SVB did not pay heed to hedge itself. An emergency lending program was brought in on March 12, 2023, under the Bank Term Funding Program (BTFP). This briefly led to a statistically significant increase in the risk-premium on Fed funds loans relative to the shortest-term T-bills (Wilson, 2023).

3. **New regulations**: The bank had to deal with new laws focusing on huge financial organizations. Bank executives were also influenced by the Federal Reserve's monetary policies and regulatory priorities. Becker faced consequences for the bank's failure, but there are concerns about the accountability of regulators at the San Francisco Fed.
4. **Deposit concentration**: Most bank deposits are from a small group of V.C.s and businesses from the tech sector. Any quick withdrawal of deposits by them will drift the bank into a quick bank run situation. On March 9, 2023, investors and depositors tried to withdraw about $42 billion. After all, withdrawal of funds from Banks is now a mouse click away. The panic accelerated because much of the deposits had belonged to one class of depositors – start-ups. Start-ups were already experiencing funding from V.C.s getting dry, and their bank deposits were vital for their day-to-day survival. The research community explored the bank-run situation from regulatory and media failures (Baker, 2023). Additionally, the bank has less equity capital than its peers.
5. **Asset-Liability Mismanagement**: Mismanagement of assets and liabilities led to the collapse (Vo & Le, 2023). The extent of uninsured deposits was an extraordinary share of liabilities. These accounted for 90% of bank liabilities against the industry average of 20% to 30%, as seen in other typical banks.

Mismanagement

On March 9, 2023, the bank CEO Greg Becker made desperate calls to his friends, hoping his goodwill could bring some capital but within 48 hours from that, the bank went into the FDIC fold, putting an end to a 30-year saga he had with the bank (Bloomberg, 2023). Silicon Valley's money man for 30 years suddenly was not! Top leadership (CEO, CFO, CMO, and others) of SVB sold $3.57 million of stock within the last two weeks under a pre-arranged, regulated plan. Doubts about the top management came up if they knew about the collapse beforehand. Some question why this should not come under insider writing and wrongful gains. (Twitter, 2023a) CEO Greg, who joined SVB in 1993, was reportedly calling clients about 24 hours before the collapse and assuring them that their money was safe, but 48 hours leading to the collapse, he emailed employees saying it was "incredibly difficult." Becker incidentally was a member of the Board of Directors at the Federal Reserve Bank of San Francisco (Twitter, 2023b). Some questions about mismanagement that led to a dilemma include:

1. Is the shutdown of large institutions the beginning of a banking institution crisis in the U.S.?
2. Just before the collapse, SVB was rated as one of the best banks in the U.S. SVB was named America's Best Bank by Forbes in its 2023 listing a few days ago. This is the fifth time in a row that the bank has been named so. It is also in Forbes's inaugural Financial All-Stars list. How have the rating agencies and analysis gone so grossly wrong?
3. The first of securities class action suits against SVB was filed on behalf of Chandra Vanipenta, in which it is alleged that 'understated the risks posed to the company by not disclosing that likely interest rate hikes, as outlined by the Fed, had the potential to cause irrevocable damage to the company' (Joel, 2023). This question is about potential disclosure lapses by banks.

No bailout

"*Taxpayers should absolutely not bail out SVB. Private investors can purchase the bank and its assets. It is not the responsibility of the American taxpayer to step in. The era of corporate bailouts must end.*"
- Nikki Haley, Republican Presidential Candidate

United States Secretary of the Treasury Janet Yellen said that regulators are working on resolving the collapse of SVB with a focus on depositors more than bailing out investors. Many depositors are small businesses and start-ups with employees across the country. Failure to make cash available on time will mean they could not pay their employees, delay projects, do layoffs, or furlong employees. A few investment firms, such as HPS Investment Partners and Oaktree Capital Management, came forward to offer financing to companies whose cash got strapped with SVB. While some offered to buy the deposits, others offered liquidity solutions. Before the fallout, the Federal Reserve officials plan to raise interest rates by 50 basis points considering strong economic data. However, the quick successive fallout of banks made the regulators rethink their stand on interest rates – to keep interest rates rising to control inflation or to pause considering the crisis in the banking sector and the stock markets.

Enter FDIC

The bank run situation and the massive pile of losses it absorbed made the bank effectively become insolvent. The collapse of SVB was confirmed with the Federal Deposit Insurance Corporation (FDIC) appointment as the receiver on March 10, 2023 (FDIC, 2023). FDIC insures bank deposits up to $250,000. However, most SVB deposits are far above that. The agency said it will make up 100 percent of protected deposits available.

Regulators raced to lock down a deal for all or parts of the bank in a bid to cover the uninsured deposits, but there were no interested buyers. Large lenders like JPMorgan Chase and Bank of America stayed out of the race. FDIC attempted to extend the bidding process after receiving "substantial interest" from multiple potential acquirers. The first attempt to auction and raise funds to make it suitable for the uninsured deposition by FDIC failed, but "substantial interest" was seen from multiple potential bidders in its second attempt. To simplify the process and expand the pool of bidders, the FDIC allowed parties to submit separate offers for the Silicon Valley Private Bank subsidiary and Silicon Valley Bridge Bank NA - the firm created by the FDIC after SVB went into receivership (Bloomberg, 2023b). In total, the failure of SVB has cost the FDIC $16.1 billion of deposit insurance funds.

At the start of 2022, American banks held $24 trillion in assets, including cash on hand to repay depositors, securities such as Treasuries or mortgage-backed bonds, and loans. These assets were funded by a deposit base of $19 trillion, of which roughly half was insured by the FDIC and half was not. If half of the uninsured cash deposits were to be withdrawn, the remaining assets and equity of 190 American banks would not be enough to cover the rest of their deposits. At that time, these banks held $300 billion in insured deposits.

The government-backed fund in the U.S. that protects depositors in banks is facing a financial crisis. The Federal Deposit Insurance Fund, which had $116 billion in assets at the end of the first quarter, has experienced a decrease from $128 billion in 2022. The ratio of assets to insured deposits has fallen to 1.1 percent, the lowest in almost a decade and below the legal requirement of 1.35 percent. The fund's financial troubles result from the recent failures of banks like Silicon Valley Bank and Signature Bank, costing the fund $20 billion. SVB was the costliest failure in the history of the U.S. insurance deposit fund. The number of problem banks has also increased. Despite this, the FDIC remains confident in the banking industry's resilience (Stephen, 2023).

U.S. regulators chose Tim Mayopoulos, a lawyer who steered several banking and fintech companies during their tough times, to keep the remains of SVB in good shape and make it appealing to potential buyers. He had a reputation for bringing the three worlds together – the political, financial, and venture capital ecosystems (The New York Times, 2023).

The Biden Administration received several requests to increase the deposit guarantee limit and consider additional measures to protect the banks. In a letter to regulators, the Mid-size Bank Coalition of America said the deposit flight would accelerate if another bank failed. They asked FDIC to insure all deposits for two years.

Global contagion risk?

While it is impossible to predict the future with certainty, it is unlikely that the current banking crisis in the U.S. will lead to global contagion. Notably, the GFC of 2008 started with the fall of two Bear Stearns hedge funds in July '07 and became full-blown only after a year when Lehman Brothers collapsed in September '08.

The banking crisis in the U.S. is not over, warned 'Nouriel Roubini, who had predicted the 2008 crisis, saying that more banks and financial institutions are expected to go bankrupt in the current condition, leading to a recession-like situation.

The global markets have corrected as a result of the contagion effect. Fears of more suffering clouded if there are any additional falls. Rich Dad Poor Dad author Robert Kiyosaki warned of a 2008 Lehman Crisis and suggested going overweight on gold and silver coins (and not ETFs) (Justinas, 2023). Media speculation and experts viewed that it could be a crypto-friendly investment bank, Credit Suisse, which indeed got vulnerable and acquired by UBS.

U.K. Prime Minister Rishi Sunak said that there is no contagion risk since the government has worked at pace to ring-fence its technology and life sciences industries.

Investigation on Goldman Sachs

Goldman Sachs was scrutinized by multiple governmental entities concerning its involvement in the downfall of SVB. The financial institution has faced criticism for its dual role as a purchaser of $21 billion worth of securities issued by SVB and as an advisor during the unsuccessful equity capital raising effort for the bank. Subsequently, leading Democratic members of Congress demanded a federal investigation into Goldman's participation in the affair. To strengthen its capital standing and generate new capital, SVB engaged Goldman's services. Nevertheless, as SVB's stock value plummeted and the bank run on its deposits escalated, Goldman ultimately withdrew from the capital raising endeavor.

Acquisition by First Citizens BancShares

On March 26, 2023, there was an announcement by First Citizens BancShares Inc. (F.C.) - a Raleigh, North Carolina-based bank that ranks at #30 in the list of largest banks of America, has agreed to buy SVB. F.C. calls itself the nation's largest family-controlled bank. The deal includes purchasing about $72 billion in SVB assets at a discount of $16.5 billion. A hefty discount to the acquiring bank is indeed an irresistible proposition for F.C. Both the FC-SVB and NYCB-Signature Bank are reportedly sweetened so that the acquisition happens.

About $90 billion in securities and other assets will remain in the receivership for disposition by the FDIC. In comparison, the Federal institution also got equity appreciation rights in First Citizens worth as much as $500 million (FCB, 2023). According to the statement, the estimated cost of the failure to the Deposit Insurance Fund is about $20 billion, though the exact extent will be determined when receivership is terminated (Daniel, 2023). There is a $70 billion credit line and a promise to cover losses more than $5 billion on commercial loans for the next five years and extend $35 billion of borrowings to the bank as a note (Bloomberg, 2023c).

Frank Holding Jr., CEO of First Citizens, felt that the move was remarkable and that it would instill confidence in the banking system. Parts of the media said the First Citizens had submitted a bid to acquire SVB immediately after the collapse. First Citizens took over $110 billion in assets, $56 billion in deposits, and $72 billion in loans and got all set to operate all 17 branches of SVB (Scott, 2023). With the buy, SVB began operating as a First Citizens division.

Many questioned if First Citizens has the muscle to acquire SVB. First Citizens was started in 1898, but the bank recently expanded by buying broken banks. Statistics show that it has acquired as many as 20 FDIC-assisted banks since 2009! It has acquired as many as 35 banks since 1971. The

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latest of these deals is the acquisition of CIT Group Inc (Money Control, 2023). Only a year ago, the deal was valued at more than $2 billion in 2022. The bank has more than 500 branches in 22 U.S. states.

In an April 23, 2023, interview, First Citizens reported that SVB customers were still seen withdrawing their deposits and called for their patience. First Citizens also assured SVB customers that the bank will be run on the same model. However, there will be a bit of thinking on lending to V.C.s, which creates deposit lumpiness (Low, 2023). The market capitalization of First Citizens jumped from $7 billion to $19 billion after the merger.

SVB UK

With the parent bank – SVB of U.S. collapsing, the Board of SVB UK approached several parties, including Barclays PLC and Lloyds Banking Group, to consider an emergency takeover. SVB UK has deposits of $8.5 billion as of March 10, 2023. Thanks to the quick interference of the U.K. Government, SVB UK was eventually taken over by HSBC for £1 and was renamed HSBC Innovation Banking. The move gave full coverage to deposits of U.K. tech companies and other groups dependent on the SVB UK. Hong Kong investors of HSBC grilled the top management for the rushed and risky buy, for which due diligence was done only for five hours (Kaye, 2023)!

The Bank of England began considering asking international banks to set up subsidiaries with their own capital and liquidity, replacing foreign banks' branches as part of contentious plans. This way, when the parent bank fails, the local regulations can seize control of the failing bank (subsidiary) instead of waiting for the foreign bank supervisors to interfere. However, foreign banks would be less interested in such moves because of the costs involved (Laura, 2023).

SVB in other countries

SVB has banking business interests in several countries. A quick court interference allowed the depositors at the Cayman Islands branch to become eligible to get back their deposits. Similarly, those who took loans were asked to make payments to the new owner, First Citizen BancShares. Cayman Islands does not have an FDIC equivalent of the U.S. SVB has branches in Germany and Canada, but these branches only gave loans but did not accept any deposits (Frances, 2023).

Stress in markets

On March 9, 2023, Thursday, the share price dropped 60%, and trading was halted on Friday. Figure 1 shows that social media catalyzes the bank run situation. Banks with high balance sheet risks were the most affected.

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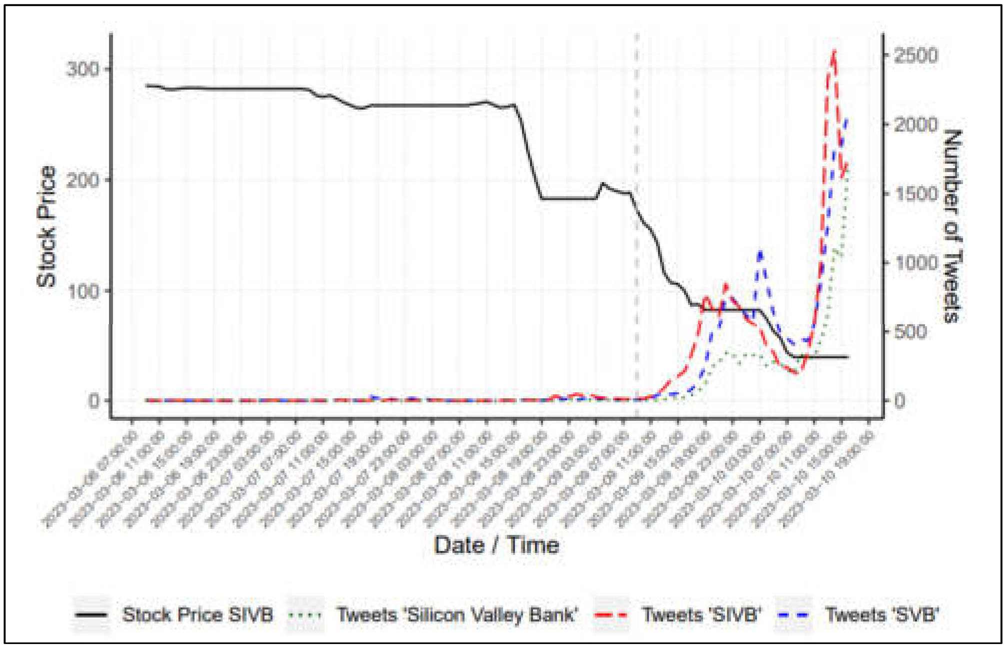

Figure 1. Stock price and number of tweets on SVB at the time of its collapse
Data Source: (Cookson et al., 2023)

SVB failed because of a mismatch between its short-term depositors, who were withdrawing assets, and its longer-term assets, mainly U.S. Treasuries, which had dropped in value as interest rates increased. It is a clear case of improper risk management practices at the bank.

The collapse of SVB had an immediate negative impact for almost t+4 days on the global stock markets, with developed countries appearing more vulnerable to emerging markets (Pandey et al., 2023). The impact on the European markets lasted longer, while the impact was the least on the Chinese markets (Yadav et al., 2023).

The failure of the banks was reflected in the equity shares prices of the banks, with their share prices collapsing on the stock exchanges. So, in a way, the stress in the bank system showed its tremors in the stock markets. The buzz on Wall Street is that financial conditions have become tighter.

Contagion fears spread like wildfire in the global stock markets as sell-off sentiments were witnessed in Japan, Australia, India, and Europe. Sentiment analysis on Twitter messages showed that associating the word "collapse" possibly led to more profound and factual comments from investors about SVB's bankruptcy (Khan & Anupam, 2023). Indian Banking Mutual Funds reportedly lost 6% in the week of the collapse of the two U.S. banks though the direct impact on the Indian banking sector was negligible to low (PTI, 2023).

The collapse of SVB on the stock markets also impacted other banks, with trading in First Republic Bank and Signature Bank being halted too. The three banks combined have nearly $500 billion in deposits. Trading in another bank, Holding PacWest Bancorp, too, got halted.

Because of the SVB banking crisis, the already difficult task of selling risky buyout debt became even more difficult for Wall Street firms. Bank of America, Barclays, and Morgan Stanley were believed to be holding $25 billion to $30 billion "hung debt" on their balance sheets. This debt is linked to leveraged buyouts that banks agreed to finance before worsening credit conditions. Another big chunk of debt paper is the $13 billion in loans backing Elon Musk's takeover of Twitter (Alexander & Laura, 2023). U.S. small businesses reported that getting credit became difficult as lenders began to tighten standards for granting business loans forcing firms to cut back on their capital spending plans (Bloomberg, 2023d).

Stand on Crypto assets.

The attitude of U.S. banks towards cryptos has changed after the collapse of the FTX Cryptocurrency Exchange at the end of 2022. Regulatory hostility has been seen since then. Reports say that First Citizens that agreed to buy SVB went out of their way to exclude cryptocurrencies and loans backed by cryptocurrencies. Similarly, the NYCB-Signature Bank deal too showed hesitation to touch the digital assets banking arm of Signature Bank.

Bankruptcy SVB Financial

SVB's parent company – SVB Financial Group, filed its Chapter 11 petition in New York about a week after FDIC took over the banking operations (Bloomberg, 2023a). SVB Securities and SVB Capital were not included in the filing. Centerview Partners was engaged in evaluating strategic alternatives. SVB could not file for bankruptcy because it is a chartered commercial bank and is part of the Federal Reserve System and hence eventually fell into the receivership of FDIC.

Parent company SVB Financial sued FDIC asking for returning the $1.93 billion it deposited at the bank, but FDIC rejected its attempts to collect the deposit(Alexander, 2023). The group said that the inability to recover the funds made the reorganization difficult and that the money would have generated an annual interest income of $100 million. The Chapter 11 filing of SVB Financial is the most prominent bankruptcy stemming from a bank since the 2008 Washington Mutual failure.

Competition capitalizes on the situation.

Monopolistic players rarely go away overnight; rivals will seize the opportunity when that happens. JPMorgan hired bankers, including former SVB executive John China to co-head its innovation economy in the U.S. The top U.S. bank also strengthened its U.K. presence in its commercial banking business to work closely with start-ups and cater to their banking needs. The onboarding team at JPMorgan has maxed out welcoming and onboarding clients during the week of the collapse of SVB. However, customers in the U.K. were not that lucky because rival banks in the U.K. rejected applications from start-ups who wished to migrate from SVB UK. Customers learned the importance of diversifying their deposits with multiple banks (Ivan et al., 2023).

Not just customers but bankers from the fallen bank were reportedly improperly poached by rivals. In May 2023, First Citizens BancShares filed a lawsuit against HSBC Holdings for making bankers of SVB go for a mass resignation and join it. The rival is blamed for having reportedly "engineered a scheme to plunder" bankers, especially from the life sciences and technology banking teams, as a part of "Project Colony" (Josh, 2023). Evidence reportedly showed that the new team with 40-odd members thus attracted could generate a profit of $66 million in the first year, and the profits can rise to $1.3 billion in year five (George, 2023).

Key Lessons

1. New lessons emerged from the SVB crisis. The 2008-era assumption that investors believed that deposits were safe while market funding was risky and that Treasuries were safe while loans were risky no longer holds good. Further, it became apparent that risks in the financial system can come from any corner and unpredictably. Unlike in 2008, money and liquidity in the system are available at ample levels.
2. Post-collapse, the Federal Reserve signaled revamping rules of midsized banks, especially those with more than $100 billion in assets. They cited that SVB grew quickly and had more complexity making it difficult for the bank to quickly take corrective steps despite Federal

Reserve supervisors and FDIC pointing out. Some pointed out banking regulatory easing done for mid-size banks during the Trump era. Overall, officials fed that reducing standards, increasing complexity, and promoting of less assertive supervisory approach impeded adequate supervision. SVB had 31 open supervisory findings or warnings when it failed. The number is three times that of its peers (Andrew & Ben, 2023). Three lessons for banks and supervisors that emanated from the failure of SVB and Signature Bank include contingency liquidity preparedness, follow-up on supervisory findings, and practical challenge in corporate governance (Richard, 2023).

3. Risk management functions are not commensurate with the increasing size of the bank. SVB, a few months before its collapse, removed some of its hedges against rising interest rates as a step towards preparing its balance sheet for falling rates. BlackRock's Financial Markets Advisory group is reported to have warned that SVB's risk controls were "substantially below" its peers in early 2022. Its report said SVB lagged 11 out of 11 parameters compared to other banks. Consultants reviewing the bank found that SVB could not generate real-time or even weekly reports as to what is going on with its securities portfolio (Antoine & Brooke, 2023).

CONCLUSION

The case examined the collapse of the U.S. bank - Silicon Valley Bank (SVB), the interference of FDIC, and the subsequence takeover by First Citizens BancShares. The study finds that though it immediately impacted global markets, it soon soothed out. Competitive banks took advantage of the situation by attracting customers and bankers earlier with SVB. The interference of Governments and law enforcement made an easy transition and came to the rescue of customers of SVB in other countries. The reasons and lessons emerging from this case help stakeholders, including banks, banking regulators, and governments, draw out essential policy implications.

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