Silicon Valley Bank – Crisis averted, but how did we get here, and are there further risks?

Tourmaline Group

Some important things to keep in mind

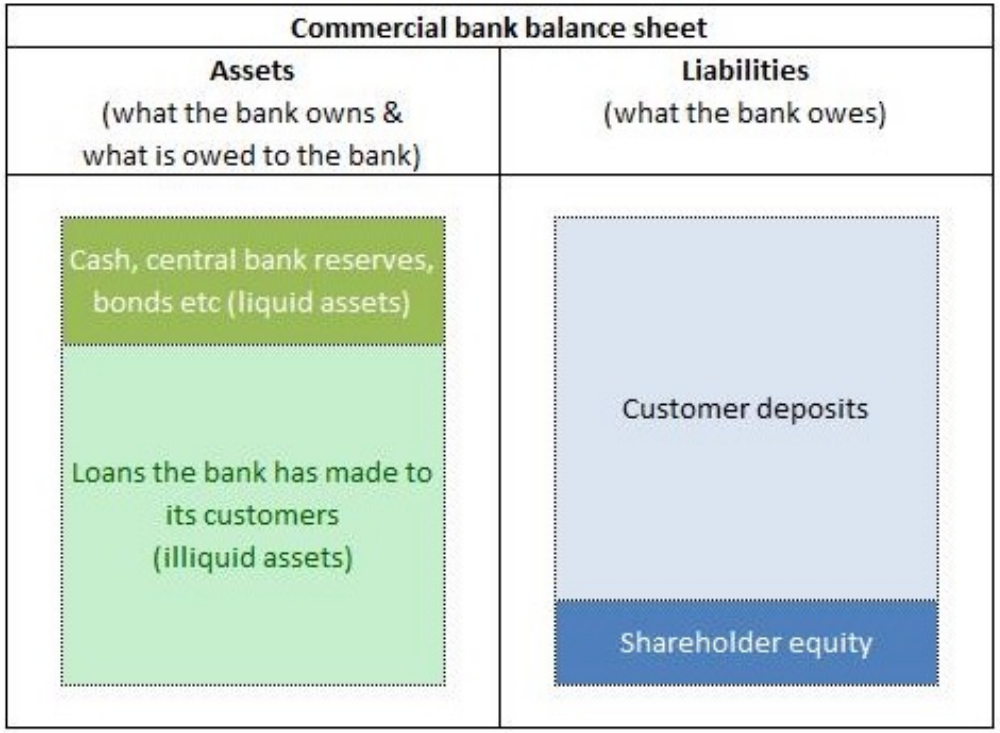
- **A company definition of insolvency is if you cannot pay your debt when it is due**
  - Banks by virtue of their existence cannot pay all of their depositors all at once, despite the fact that checking deposits are supposedly available at any time

- **Insolvency of a bank can be caused/triggered by a confidence shock.**
  - Something happens, depositors want their $$
  - Bank dips into reserves, once those are exhausted the bank will sell liquid assets until all they have left are illiquid bank loans
  - Once they have sold all liquid assets, and if deposit demand continues, the bank is insolvent

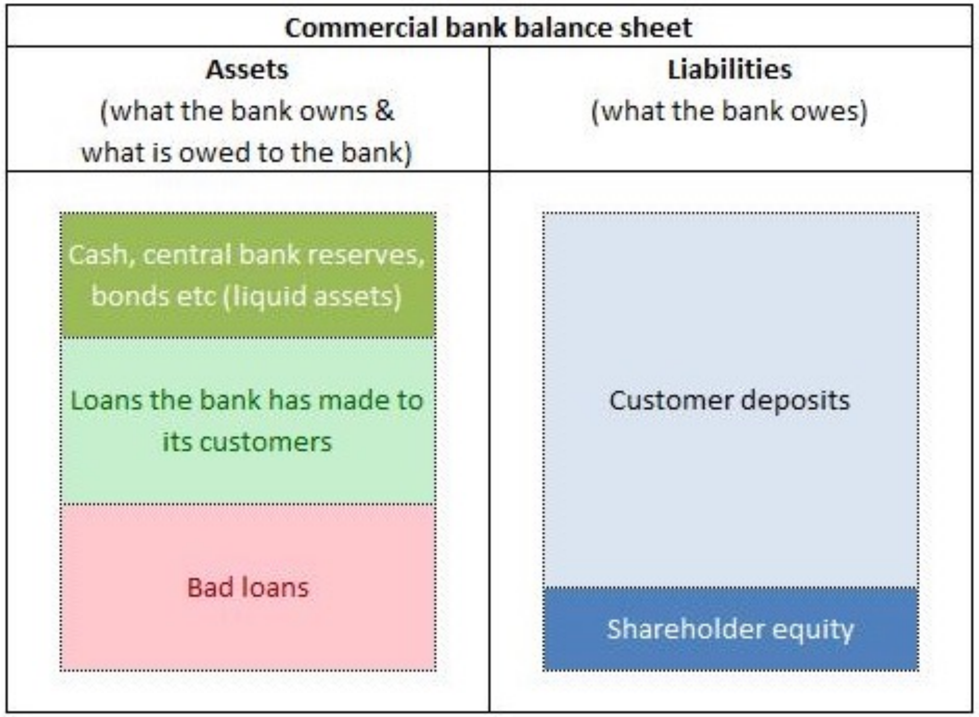
Normal Bank vs. a Bad Bank – This was *not* SVB

Assets – Liabilities = Shareholder Equity.

Step 1: A normal bank balance sheet



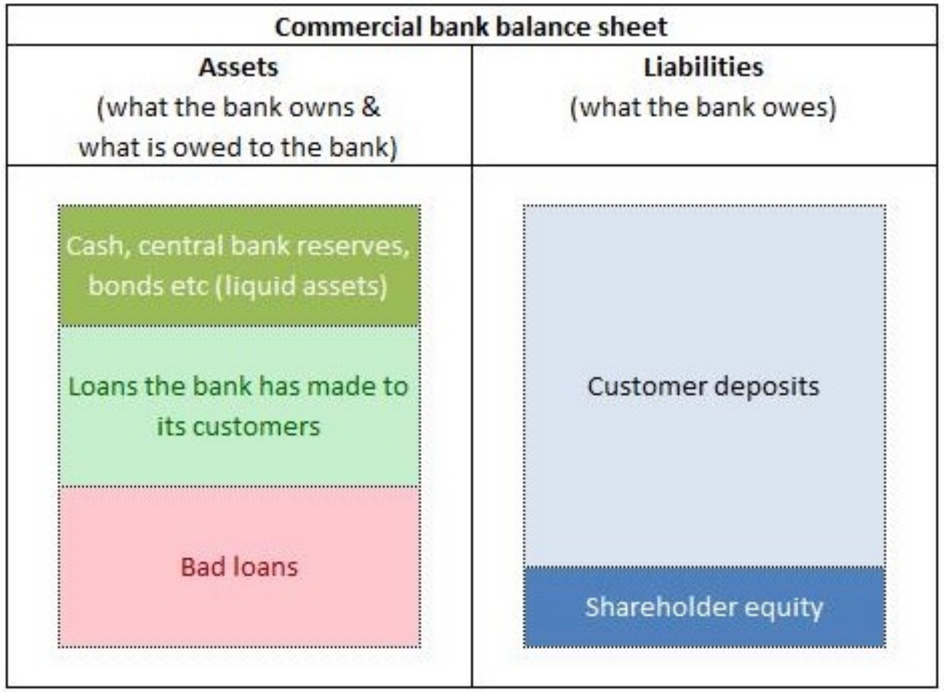
Step 2: Defaults on loans occur



Bad Loan Insolvency vs. Bank Run Insolvency

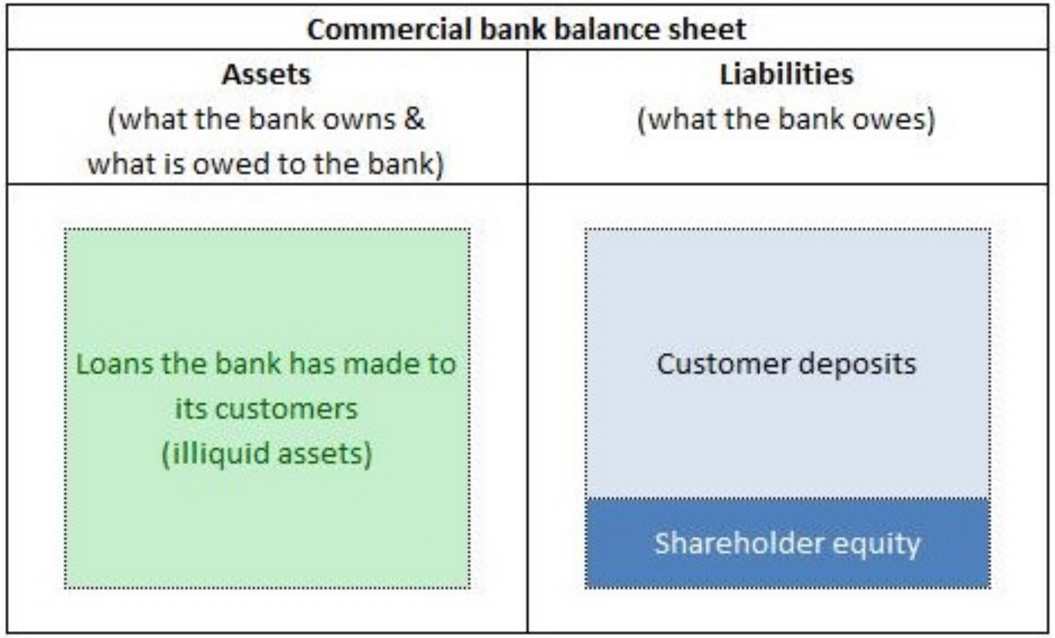
Often banks with bad loan books carry-on without any consequence for years as long as it is kept secret….

Step 2: Defaults on loans occur



… but no matter how clean/good assets are, banks can never survive a confidence crisis

Step 2: A bank run starts



After a bank run there are two options

- **1 – The bank is liquidated by regulators. FDIC reimburses depositors up to $250,000**
  - Whatever is recovered from sale of bank assets is distributed back to depositors
  - The latest reports from Bloomberg speculated that SVB's uninsured deposits could receive 30-50 cents on the dollar – over several months

- **2 – The bank is purchased by another bank, who takes on both the liabilities and assets**
  - Since SVB does not have a bad loan book (so far as we know today) it is viable that another bank may take on their liabilities (deposits)
  - VC firms are in discussion to recapitalize SVB, according to WSJ and Bloomberg

Useful Links

- Very Basic -- IMF quick view – "What is a bank?"
- More Advanced -- Brookings – "A Primer on Bank Capital" for non-experts

Speaker Bio

Barbara Matthews is Founder of BCM Strategies a data company that helps portfolio managers and advocates make faster data-driven decisions regarding public policy trajectories. The company uses award-winning, patented technology to measure public policy risks by converting official sector words into objective momentum measurements. Ms. Matthews is the author of the patent.

In government, Ms. Matthews had the honor to serve as the first US Treasury Attaché to the EU (Senate-confirmed diplomatic rank: Minister-Counselor; TS clearance). She also serve as Senior Counsel to the House Financial Services Committee under the leadership of Chairman Michael G. Oxley..

She holds one political science degree (B.Sc.F.S., Georgetown University) and two law degrees (J.D. and LL.M. in Comparative and International Law, Duke Law School). She has published law review articles, book chapters, and essays on derivatives regulation, bank capital requirements, international law, international trade, and climate finance.

A member of the Bretton Woods Committee Leadership Council and the Council on Foreign Relations, she is also non-resident senior fellow at the Atlantic Council.

Speaker Bio

Bianca Taylor is Partner at Tourmaline Group, a consultancy working at the nexus of climate, policy, and finance. Prior to starting Tourmaline, Ms. Taylor spent 18 years as a sovereign credit analyst to large institutional investment management companies. In this role she assessed Latin American countries' debt servicing capacity, and the risk of top banks to the macroeconomic stability of the country. Bianca has a BA in economics from UC Santa Barbara, and an MPP focused on energy and the environment from UC Berkeley. She is a member of the Bretton Woods Committee.