OnCourse Learning

The Failure of Silicon Valley Bank **FAQs**

The failure of Silicon Valley Bank (SVB) could bring grim reminders of the 2008 Great Recession and the failures of financial institutions at that time. This will naturally cause clients to become concerned that their financial institution and their money may be at risk. It's important to remember and reiterate that while financial institutions can fail, the likelihood of such failures is rare.

Here are some FAQs and talking to share with your frontline employees to help assuage any fears clients may have. We encourage you to customize these responses in partnership with your leadership.

What happened to cause the collapse of SVB?

Tech companies used SVB for holding cash, leading to an influx of deposits. SVB invested these deposits in government bonds. However, rising interest rates caused bond prices to fall, leading to a significant loss in SVB's bond portfolio. As a result, SVB faced a cash shortage when tech companies needed to draw on their deposits. SVB announced a $1.75 billion capital raising, making investors and clients aware of its capital shortage.

Is my institution at risk?

It's important to note that SVB is not a typical retail-based bank. Retail banks focus on businesses and consumer households. SVB's clients have much larger accounts, which is why the collapse was so swift. Additionally, SVB was heavily focused on the technology sector. Different institutions have different characteristics and no one institution is the same in their investments. (Here is where you should look to insert strengths and risk mitigating characteristics of your institution. For example, being well capitalized, strong financial risk mitigation, etc.)

Is my money safe?

Yes. The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the federal government that provides deposit insurance to protect depositors in the event of a bank failure. FDIC-insured deposits are backed by the full faith and credit of the U.S. government and insured up to $250,000 per depositor per insured institution.

Is this the beginning of a new banking crisis?

After 2008, regulators put more constraints on how to deal with these types of threats to financial institutions. These constraints and regulations helped to better prepare institutions for these risks. Additionally, the Federal Reserve unveiled a new program to allow institutions to borrow funds backed by government securities to meet demands from deposit clients. This will prevent institutions from being forced to sell government securities that have been losing value due to rising rates.