The tech industry moved fast and broke its most prestigious bank

On the last night of its existence, Silicon Valley Bank was hosting VC Bill Reichert of Pegasus Tech Ventures, who was giving a presentation on “How to Pitch Your WOW! to Investors” to about 45 or 50 people. Mike McEvoy, the CEO of OmniLayers, recounted the scene for me. “It was eerie over there,” he said. He saw a number of people exiting the building during the event, looking subdued.

Roger Sanford, the CEO of Hcare Health and a self-described “professional Silicon Valley gadfly,” was also there. “Everyone was in denial,” he told me. “The band played on.”

The next day, *the* emblematic bank of the tech industry was shut down by regulators — the second-biggest bank failure in US history, after Washington Mutual in 2008.

What happened is a little complicated — and I’ll explain farther down — but it’s also simple. A bank run occurs when depositors try to pull out all their money at once, like in *It’s a Wonderful Life*. And as *It’s a Wonderful Life* explains, sometimes the actual cash isn’t immediately there because the bank used it for other things. That was the immediate cause of death for the most systemically and symbolically important bank in the tech industry, but to get to that point, a lot of other things had to happen first.

a:hover]:shadow-highlight-franklin dark:[&>a:hover]:shadow-highlight-franklin [&>a]:shadow-underline-black dark:[&>a]:shadow-underline-white”>What happens to Silicon Valley Bank’s customers?

Most banks are insured by the Federal Deposit Insurance Corporation (FDIC), a government agency that’s been around since the Great Depression. So of course, the accounts at Silicon Valley Bank were insured by the FDIC — but only up to $250,000. That’s how FDIC deposit insurance works.

That might be a lot of money for an individual, but we’re talking about companies here. Many have burn rates of *millions* of dollars a month. A recent regulatory filing reveals that about 90 percent of deposits were uninsured as of December 2022. The FDIC says it’s “undetermined” how many deposits were uninsured when the bank closed.

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SVB’s failure didn’t have anything directly to do with the ongoing crypto meltdown, but it could potentially worsen *that* crisis, too. Crypto firm Circle operates a stablecoin, USDC, that’s backed with cash reserves — $3.3 billion of which are stuck at Silicon Valley Bank. That stablecoin should always be worth $1, but it broke its peg after SVB failed, dropping as low as 87 cents. Coinbase stopped conversions between USDC and the dollar.

On March 11th, Circle said that it “will stand behind USDC and cover any shortfall using corporate resources, involving external capital if necessary.” The stablecoin’s value mostly recovered.

Oh, and bankrupt crypto lender BlockFi also has $227 million in funds stuck, too.

a:hover]:shadow-highlight-franklin dark:[&>a:hover]:shadow-highlight-franklin [&>a]:shadow-underline-black dark:[&>a]:shadow-underline-white”>How did we get here?

So this is actually bigger than startups and Silicon Valley VCs. To understand how this happened, we’ve gotta talk about interest rates. Since 2008, they’ve been pretty low, sparking a venture capital boom and some real silliness (see: WeWork, Theranos, Juicero). There’s been a lot of froth for a long time, and it got worse during the pandemic, when the money printer went *brrr*. Meme stocks? Crypto boom? SPACs? Thank Federal Reserve chair Jerome Powell, who settled on zero percent interest rate policy (ZIRP).

So if you are, let’s say, a bank specializing in startups, do you know what ZIRP world does to you? Well, my children, according to the most recent annual filing from SVB, bank deposits grew as IPOs, SPACs, VC investment and so on went on at a frenetic pace.

And because of all these liquidity events — congrats, btw — no one needed a loan because they had all this cash. This is sort of a problem for a bank. Loans are an important way to make money! So, as explained in more detail by *Bloomberg*’s Matt Levine, Silicon Valley Bank bought government securities. This was a fine and steady way for SVB to make money, but it also

meant it was vulnerable if interest rates rose.

A good old-fashioned bank run tipped SVB over, and there was no George Bailey to stop it

Which they did! Powell started cranking up rates to slow inflation, and told Congress this week that he expects to let them get as high as 5.75 percent, which is a lot higher than zero.

Here's the problem for Silicon Valley Bank. It's got a bunch of assets that are worth less money if interest rates go up. And it also banks startups, which are more plentiful when interest rates are low. Essentially, these bankers managed to put themselves in double trouble, something a few short-sellers noticed (Pity the shorts! Despite being right, they're also fucked because it'll be hard to collect their winnings).

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Until shortly after the failure of Silicon Valley Bank, its (now-former) CEO Greg Becker was a director of the Federal Reserve Bank of San Francisco. That's one of the 12 banks overseen by the Washington Fed.

While the bank run was ongoing, Becker told VCs, "I would ask everyone to stay calm and to support us just like we supported you during the challenging times." As anyone who has ever been in a long-term relationship knows, telling someone else to calm down is a way to ensure they *lose their entire goddamn mind.* I think it might have been possible to staunch the bleeding if Becker had been even halfway good at PR.

Obviously, he’s not.

But separately from Becker’s ill communication, he was the leader behind the spooky asset sale/share offering combo punch. In fact, Silicon Valley Bank had other options: it could have borrowed funds or tried to offer sweet deals to depositors who stayed.

That’s not all.

It turns out Becker also sold $3.6 million of shares in Silicon Valley Bank’s parent company on February 27th. This was a pre-arranged sale – he filed the paperwork on January 26th – but it does seem like curious timing! Becker was presumably aware of his own balance sheet, and a director of a regional Fed bank. He had to know the Fed was going to keep raising interest rates – I mean, if I knew it, he’d *better* have known it – and he had to know that would be bad news for Silicon Valley Bank.