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The Blaze with Glenn Beck

Silicon Valley Bank Newsflash – Economic pro Carol Roth explains.

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Silicon Valley Bank Newsflash
March 13, 2023

Given the news of Silicon Valley Bank becoming what was reported to be the second largest bank failure in history, and the quick unraveling of their story, we wanted to have economic pro Carol Roth break down some information for you in this newsflash, outside of her typical economic commentary.

What happened?

Silicon Valley Bank, reportedly among the top 20 largest commercial banks in the country, and a great partner to many founders and startups in Silicon Valley, as well as trusted advisors, got caught in the upside and the downside by the Fed's policy.

During the Fed's latest easy money push, Silicon Valley Bank saw its deposits basically triple between 2019 and 2021.

Normally, banks put that money to work, primarily through activities like making loans. Because they had so many more deposits than customers looking for loans, they decided to put their money into what they thought were safe securities, like Treasurys and mortgage-backed securities (MBSs).

They didn't anticipate the change in Fed policy.

So, when the Fed raised interest rates, the current market value of these securities went down (as bonds trade inversely to their yields).

This wouldn't have been a problem if they held those securities to maturity- they still would have gotten what they had expected. The *Wall Street Journal* said, "Banks don't incur losses on their bond portfolios if they are able to hold on to them until maturity. But if they suddenly have to sell the bonds at a loss to raise cash, that is when accounting rules require them to show the realized losses in their earnings."

However, the Fed policy caused another issue.

Customers starting pulling their deposits from Silicon Valley Bank, for reasons that perhaps included being able to get a higher interest rate elsewhere or because they needed more of their funds given the shifting economic backdrop. Ultimately, deposits shrank at a level that was faster than anticipated by the bank.

To explain this without all the wonky details of accounting and reporting for securities, basically the bank had a liquidity issue, which was compounded by the fact that to meet liquidity, Silicon Valley Bank would have to sell their Treasurys and MBSs at a loss. This created a further liquidity issue.

Bloomberg reported that more than 93% of the bank's deposits were **not** FDIC insured. So, that increased the panic to pull more deposits and increase the bank's liquidity issues until the California Department of Financial Protection and Innovation stepped in to close the bank and appoint FDIC as the receiver.

According to an FDIC press release Friday, "All insured depositors will have full access to their insured deposits no later than Monday morning, March 13, 2023. The FDIC will pay uninsured depositors an advance dividend within the next week. Uninsured depositors will receive a receivership certificate for the remaining amount of their uninsured funds. As the FDIC sells the assets of Silicon Valley Bank, future dividend payments may be made to uninsured depositors."

However, the situation shifted over the weekend. Read below for more on that.

What about other banks?

The Fed's policy may create issues for other banks as well, particularly those that are smaller, rely on deposits and potentially have large holdings of Treasurys, MBSs or other securities that they need to liquidate to meet their operating obligations.

Note that while some of the bigger banks also have stashed money into these securities, they have a bigger platform and more diversified business base, so even if they incur some losses, it doesn't impact them in the same way it did Silicon Valley Bank. The *Wall Street Journal* reported that Silicon Valley Bank had 89% of its liabilities as deposits (vs. 69% for Bank of America, for example).

As I have talked about in previous economic commentary, the Fed's decisions in terms of raising rates was going to have ripple effects through the domestic and global financial systems. I don't have a crystal ball, so I can't tell you exactly the scope of what will happen. It is most likely that the bigger banks will be able to withstand these pressures, but it does up the overall level of systemic risk which has a higher probability today of having a major issue than it already did a few days ago.

It also means more consolidation. The Fed's policies have led to the "Great Consolidation" of wealth and resources in the hands of the biggest and wealthiest. The likelihood is the biggest will be left standing at the expense of some of the smaller players, not unlike the aftermath of the Great Recession Financial Crisis.

It also means that investors will be looking at the Fed meeting with even more scrutiny. Do they abandon their plans to try to shut down inflation or do they risk more carnage (the dangerous game of "chicken" I have referenced in previous pieces)?

On Sunday evening, the Treasury and the Fed put out a joint press release to announce that another bank, Signature Bank, had been closed. In that release, they also announced that they would be taking steps to protect all depositors of both closed banks (although not bank shareholders).

They further noted that, "the Federal Reserve Board on Sunday announced it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors."

These steps are meant to provide confidence in the banking system and quash panic that could lead to additional bank runs and more damage. Whether that works will be borne out in the days, weeks and months ahead.

What does that mean for me?

In the short term, this is a big lesson in terms of making sure that any bank deposits are insured fully and appropriately, either through FDIC or for Credit Unions, through NCUA. If you are not fully protected, make changes immediately to do so.

This also means that the Fed and US government have a catalyst story to push their CBDC (central bank digital currency) agenda. You can't have a bank run if there are no banks! The government is here to help (as usual)! This is a truly frightening thought-- but remember that the government never lets a crisis go to waste in terms of pushing nefarious policy.

Both related to the short-term issues and the longer-term threats, this situation underscores the urgency for you to hedge your portfolio with hard assets- a form factor that you can control. If you have not yet done so, do not delay in hedging part of your portfolio with physical precious metals, including gold. As always, I recommend giving Goldline a call (they are the only company from which I get my precious metals) and don't procrastinate, as you can see how quickly things can move, as illustrated by the Silicon Valley Bank undoing.

This piece was meant to be a quick, timely update. If you have other questions on this or other topics that you would like Carol to answer, please let us at Goldline know at 800-319-9533. And, look out for Carol's take on the economy this Wednesday.