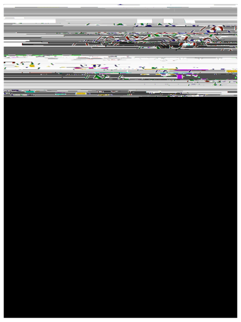

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Foreword

Only a few days after the publication of the first issue of 2023 of Brennan Barometer, we all felt a jolt when two U.S. banks failed and a third was on the verge of failing. A well-known international bank was also in trouble. Could it be the repeat of the financial crisis of 2008? We now have some answers. In our continuing effort to inform the members of our community, we have decided to publish this supplement on the recent banking crisis without waiting for our next regular issue. We also plan to update with the data on local banks as they become available from FDIC.

March Madness: the Banking Crisis

Satyajit Ghosh[1]

When the news of a bank run on a little-known California bank, the Silicon Valley Bank, broke on March 9, those who saw the news most likely were not thinking about Frank Capra's iconic film It's a Wonderful Life, where George Bailey (played by Jimmy Stewart) stepped in and save Bedford Falls. They were uncomfortable and worried; the memories of the financial crisis of 2008 and the largest bank failure in the U.S. banking history propelled by the collapse of the Washington Mutual Bank in September 2008 were all too fresh. The next few days added to the collective anxiety of the nation.

On March 10, the Federal Deposit Insurance Corporation (FDIC) took control of SVB. SVB's collapse was now the biggest banking failure in the U.S. since Washington Mutual's failure some fifteen years back. On March 12, the FDIC shut down Signature Bank of New York after its customers began to withdraw their deposits from the bank and started a bank run. To calm the nerves of a jittery nation, early Monday morning, March 13, President Biden addressed the nation to announce that the depositors of the California-based SVB and Signature Bank of New York would be able to access their money by Monday morning, even above the federally insured limit of $250,000. He emphasized that people "should feel confident that their deposits will be there, if and when they need them." While this unprecedented step by the Federal government helped, it still did not put an end to the troubles of the banking sector. On March 15, it became clear that the Credit Suisse, Switzerland's second largest bank, could be on the verge of a collapse—its stock price fell by 30 percent. On March 16, a group of American lenders provided the First Republic Bank 30 billion dollars so that it did not collapse after its customers started to withdraw their deposits.

How did we get here and what does the future hold for the banking sector?

The Anatomy of a Bank Failure: This Time It Was Different

During the financial crisis of 2008 that led to the Great Recession of 2007-2009, over 600 banks failed. But banks failed at the time mostly because they were exposed to enormous credit risk due to bad loans and poor credit underwriting. This was not the case with SVB– the 16th largest U.S. bank when it failed. SVB failed due to bad risk management that was caused by a risky concentrated customer segment and a rapidly changing interest rate environment. This was also true for the Signature Bank which was the 19th largest bank at the time of its failure.

Over the last two years, the deposits at SVB grew rapidly. But the depositors were not very diversified; most of SVB's customers were related to venture capital firms and companies

[1] I am thankful to Parantap Basu, Sarah Ghosh, Shomik Ghosh and students of my Intermediate Macroeconomics and Advanced Macroeconomics classes at the University of Scranton. However, I am responsible for any errors and omissions.

in the tech sector. SVB took great pride in its close association with the tech sector. At the end of 2022, the bank claimed “half of all US venture-backed startups and 44% of the US venture backed technology and health care companies that went public in 2022” were SVB's clients. But along with the new deposits came signi cant risks. By some had very large amount of uninsured deposits and both faced high level of liquidity risk. In addition, the failure of Signature Bank was in uenced by the collapse of SVB.

Signature Bank was the 19th largest bank in the United States with $110.36 billion in assets and $88.59 billion in deposits in December 2022. It was the third-largest commercial