Key Updates Regarding Silicon Valley Bank and Signature Bank

By: Mehanna C. Borostyan

03.14.2023

New York state?s Department of Financial Services took control of Signature Bank (SBNY.O) on Sunday, just two days after authorities closed Silicon Valley Bank (SIVB.O) following a collapse that stranded billions in deposits.

The fall of Silicon Valley Bank on Friday is being called a Lehman-sized event for Silicon Valley. Billions of dollars of assets have been frozen resulting in unavailable credit lines, frozen accounts, and unmet payroll obligations. The collapse was triggered by a run on the bank resulting in more than a $100 billion loss in market value from U.S. banks. The Silicon Valley Bank collapse is the second largest bank failure in U.S. history, second only to the fall of Washington Mutual in 2008. The Signature Bank failure now ranks third.

Following the seizure of Silicon Valley Bank, Signature Bank business customers, most of whom have more than $250,000 in their accounts, feared their deposits were also at risk. The standard FDIC insurance amount is up to $250,000 per deposit, per insured bank.

The Federal Deposit Insurance Corporation (FDIC) was appointed as the receiver of both Silicon Valley Bank and Signature Bank. As the receiver, the FDIC has the authority under the Federal Deposit Insurance Act to take control of the banks? assets and liabilities and has decision-making capabilities with regard to unwinding and resolving the business of the failed banks.

The FDIC established a bridge successor bank (Signature Bridge Bank, N.A.), led by former Fifth Third Bancorp (FITB.O) Chief Executive Greg Carmichael, on Sunday to provide Signature Bank?s customers access to their funds. The FDIC transferred all deposits and substantially all of the assets of Signature Bank to Signature Bridge Bank, under the systemic risk exception. Depositors and borrowers will automatically become customers of the bridge bank, according to the FDIC. In line with the appointment of Greg Carmichael on Sunday, President Biden said that ?management of these banks will be fired? in a statement made from the Roosevelt Room on Monday morning.

When a bank fails, the FDIC steps in to protect depositors and preserve the value of the bank?s assets. A bridge bank is a chartered national bank that operates under a board of directors appointed by the FDIC. The bridge bank is designed to ?bridge? the gap between the bank?s failure and the time it takes for the FDIC to stabilize the institution and resume operations.

In a joint statement released on Sunday, the U.S. Treasury Department and other bank regulators said that all depositors of Signature Bank and Silicon Valley Bank will be made whole, and ?no losses will be borne by the taxpayer.? The Federal Reserve has also announced it will create a separate lending facility to backstop the assets of other banks, stem any liquidity issues, and prevent additional bank runs. The Bank Term Funding Program will offer loans for up to one year to eligible institutions that pledge certain qualifying assets as collateral at the one-year overnight index swap rate plus 10 basis points.

Most recently, stock exchanges have halted stock trading of several midsize and regional banks due to volatile trading conditions. These banks include PacWest Bancorp, First Republic Bank, Western Alliance Bancorporation, Customers Bancorp, Zions Bancorp, Comerica Incorporated Common Stock, Regions Financial, East West Bancorp, among others. First Republic Bank shares plummeted more than 60 percent in early trading on Monday, signaling investors? lack of confidence in regional banks. State and federal regulators hope their swift response and dramatic action taken over the weekend will starve concerns of a domino demise of the American banking system.

Signature Bank had nine national business lines including commercial real estate. The Bank, which had $110.36 billion in assets and $88.59 billion in deposits at the end of last year, was a key source of commercial real estate loans with a large presence in New York City. Signature Bank also had approximately $28 billion in loans to private equity businesses out of a $75 billion loan portfolio. The New York Times reported that the bank?s demise may have been fueled by its heavy exposure and investment in cryptocurrency, just before the cryptocurrency industry crumbled last year.

Commercial real estate companies that use Signature Bank lockbox accounts to receive rent and other payments from tenants face uncertainty as to whether they should request those payments be directed to a different bank. In the meantime, Signature Bridge Bank, N.A., has already opened its doors and is operating as a full-service commercial bank. Businesses banking with Signature Bank should advise their teams and clients of this shift.

More broadly, businesses with banking relationships with Signature Bank or Silicon Valley Bank should closely monitor the situation and follow guidance from government officials. While federal agencies and President Biden have assured customers that ?deposits will be there when you need them?, and ?the banking system is safe?, this is a rapidly evolving situation that may require businesses to reconsider their banking strategies.

Related People

- Mehanna C. Borostyan ? 804.420.6012 ? mborostyan@williamsmullen.com

Related Services

- Real Estate