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Silicon Valley Bank collapse puts lenders on edge and startups at risk

Article

The news: Silicon Valley Bank became the largest US bank to fail since the 2008 crisis when California's Department of Financial Protection and Innovation shut it down on Friday and placed it under the control of the Federal Deposit Insurance Corporation.

The FDIC created a new bank, **the National Bank of Santa Clara**, to hold the deposits and other assets of the failed SVB. In a news release, the agency said that **the new entity would be operating by the morning of March 13th,** and that checks issued by the old bank would continue to clear.

How SVB's collapse unfolded: For 40 years, SVB was the favored lender of some of the biggest tech companies in the world. But late last week, the bank's shares nosedived and **it fell victim to a bank run as venture capitalists worried it was running out of cash and advised their startup clients to pull their funds from the bank.**

What spooked investors? Three surprise SVB disclosures caused its shares to plummet.

1. The Santa Clara-based bank first announced it had **sold $21 billion of Treasury bonds, in which it was heavily invested.**
2. SVB then said it was holding a **$2.25 billion** **share sale** to shore up its balance sheet.
3. The startup-focused bank later **downgraded its forecast** for net interest income to a steeper decline.

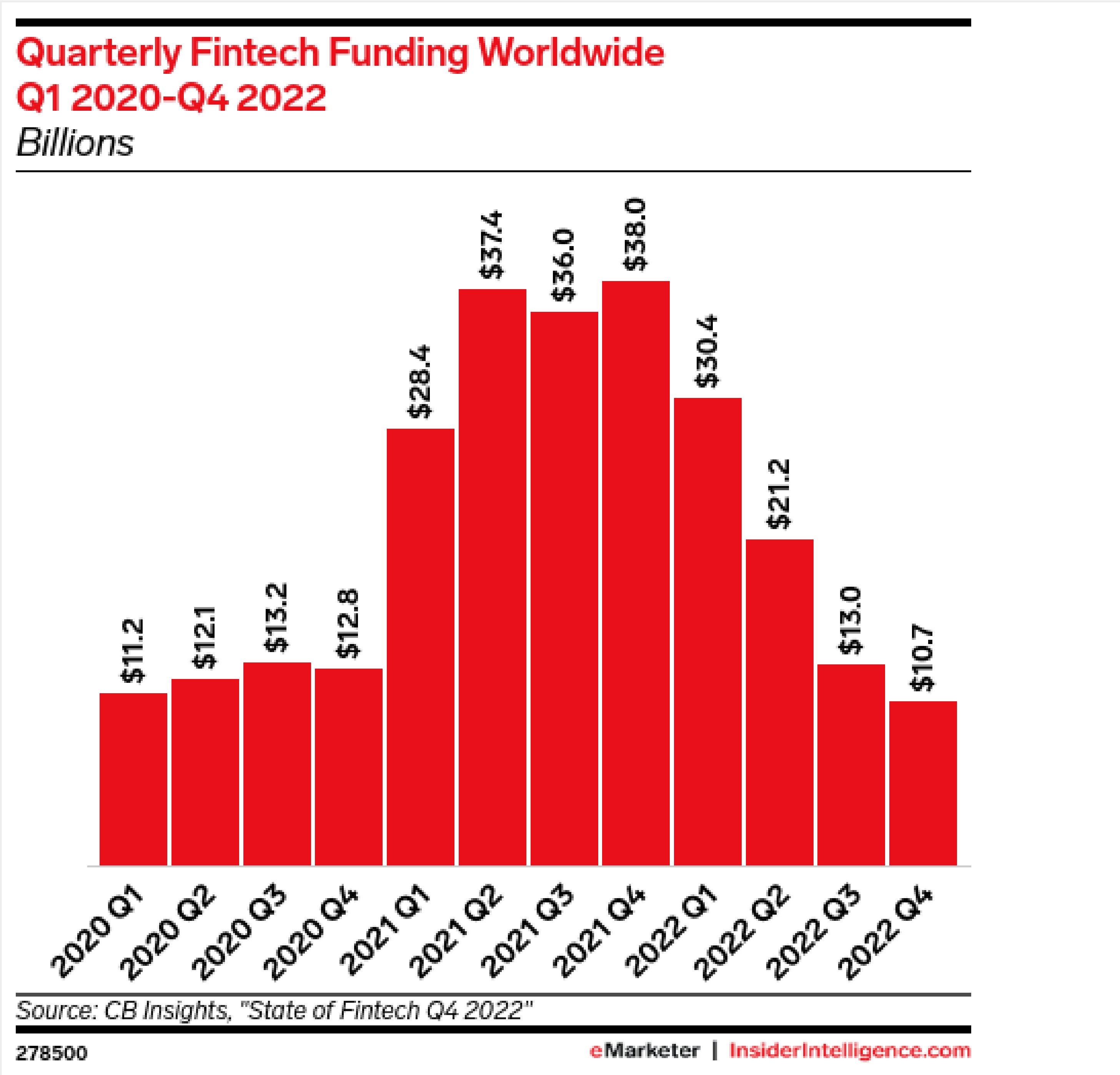
The news, close on the heels of the collapse of **Silvergate**, rocked investors and the four biggest US banks lost more than $50 billion in market value while shares in European lenders also dropped.

SVB's vulnerabilities exposed: The bank was a major lender to early-stage tech firms and fintechs, partnering with nearly half of all US venture-backed startups. That's made it more vulnerable than Wall Street banks to the challenging climate for early-stage business as picking up funding got tougher and startups began cashing out their reserves.

The announcement of SVB's share sale was also badly timed. Coinciding with crypto bank Silvergate folding, it spooked investors and some of its clients, causing a classic bank run.

Who's impacted: SVB's startup clients may have short-term issues making payroll and handling other immediate expenses. Other banks will now be acutely aware of how much exposure they have in lending to startups and whether contagion spreads to other small boutique lenders with strong ties to the tech sector. Bigger banks initially saw their stock prices hammered, but may likely benefit from being viewed as comparatively safer havens.

The crisis offers evidence of serious trouble in the US venture capital ecosystem and could hurt startups' chances of weathering the global economic downturn.



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