WESTERN PACIFIC
WEALTH MANAGEMENT

Client Note--Silicon Valley Bank
March 22, 2023

Last week saw the largest bank failure since the 2008 financial crisis. Silicon Valley Bank, which had just over $200 billion in assets, was the victim of a bank run, and was unable to meet the demands of its depositors. SVB was rescued by the FDIC, which committed to insure all the bank's deposits. In the wake of the crisis, several banks with similar profiles to SVB also came under pressure.

Unlike the banking crisis in 2008, which resulted from poor lending policies, the crisis at SVB resulted from poor management of its balance sheet. In essence, the bank made the error of borrowing short-term (mostly in the form of taking in deposits) and lending long-term (by purchasing long-term US debt). When interest rates rose rapidly last year, the value of the bank's long-term loans fell rapidly while the value of the bank deposits stayed the same. This created a large loss for the bank. When SVB tried to raise additional capital, many depositors attempted to withdraw their funds, which set off the crisis.

SVB was unusual in the sense that it had a very high level of uninsured deposits, which made it vulnerable to a bank run. Over 90% of SVB's deposits were uninsured (i.e., over $250,000 in a single account). First Republic and Signature Bank also had high levels of uninsured deposits (although not as high), which is why they also had to seek assistance.

It is possible that the banking crisis may have some negative impact on the economy. This was noted by Fed Chair Jay Powell in his press conference today. Powell noted that the Fed may need to raise interest rates less than originally planned because the financial crisis has in effect done some of the Fed's work for it.

Clients of Western Pacific have no direct exposure to SVB, or other banks directly involved in the crisis. Furthermore, clients of Western Pacific have no uninsured bank balances at any bank. As we highlighted in our email in early February, we have invested almost all client short-term balances in US Treasury bills or in money market funds which hold US government obligations. Client balances in the bank of our primary custodian (Charles Schwab) are all below $250,000 and so are fully insured.

While our long-term goal is to grow your capital, we know that this can't happen if your balances aren't safe. By taking the steps we have in advance of the current crisis, we have sought to keep client capital as safe as possible.

Please feel free to call us if you would like to discuss this topic in more detail. Thank you as always for being a client.

Best Regards,

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