

# 48 Hours After CEO Discloses \$2.25B Shortage, Silicon Valley Bank Collapses



*Posted by Karen Heumann, March 14, 2023*

[Silicon Valley Bank \(SVB\)](#) surprised investors with news that the bank needed \$2.25B to correct its financial deficiencies. The news caused panic and a massive sell-off resulting in the [second-biggest bank collapse in US history](#). [Customers withdrew \\$42B](#) by the end of the next day, according to a California regulatory filing, decimating the remains of the 40-year-old investment bank, and leaving SVB with a negative cash balance of \$958M. The California Department of Financial Protection and Innovation closed SVB, [seized remaining cash deposits](#), and named the FDIC as receiver. The FDIC created the Deposit Insurance National Bank of Santa Clara to hold insured deposits from SVB.

[Ryan Falvey](#), Managing Partner at Restive Ventures and a former SVB employee, pointed to the highly interconnected nature of the tech investing community as a key reason for the bank's sudden demise. "This was a hysteria-induced bank run caused by VCs," He explained. "This is going to go down as one of the ultimate cases of an industry cutting its nose off to spite its face."

[Prominent funds](#) including Union Square Ventures, Founders Fund, and Coatue advised their entire rosters of startups to pull funds out of SVB on concerns of a bank run. [Anna Nitschke](#), Chief Financial Officer at [Pear VC](#), an early-stage VC firm based in San Francisco, [urged its portfolio network to withdraw money](#). "In light of the situation with Silicon Valley Bank that we are sure all of you are watching unfold, we wanted to reach out and recommend that you move any cash deposits you may have with SVB to another banking platform."

London-based VC firm, [Hoxton Ventures](#), advised founders to withdraw two months' worth of "burn," or venture capital they'd use to finance overhead. [Hussein Kanji](#), Hoxton's founding partner said, "We have seen some funds passing on a view that they remain confident in SVB. We are seeing other funds encouraging companies to withdraw their funds from SVB. It remains to be seen how this will all play out. "If the self-fulfilling prophecy occurs, the risks to you are asymmetric." Kanji said: "The big danger for startups is that their accounts will be frozen while the mess is being sorted."

Falvey noted. "When you say, 'Hey, get your deposits out, this thing is gonna fail,' that's like yelling fire in a crowded theater," Falvey said. "It's a self-fulfilling prophecy." Falvey said that his analysis of [SVB's](#)

[mid-quarter update](#) gave him confidence. The bank was well capitalized and could make all depositors whole, he said. He counseled his portfolio companies to keep their funds at SVB.



**Ryan Falvey**  
@Ryan\_Falvey



What we sent our founders this morning. We're standing by to help.

 **Restive Ventures** @restivevc · 22m

How we're advising our founders today.

Dear Founders,

As you know, SVB failed [this morning](#). A lightly redacted version of the note that we sent our LPs is below. Please keep this in your confidence but we wanted you all to know how we have communicated to our investors, if that's helpful to you.

As you can see we were affected by this and no, we're not worried. We'll get the deposits back and, if you're a client of SVB, you will too.

This is our advice:

1. If you're frantically trying to get deposits out, stop. The FDIC is in charge now. You will have, at a minimum, access to \$250k [on Monday](#). We suspect it will actually be all of it, or the vast majority, then or shortly thereafter. There is, unfortunately, no way to get money out of SVB until then.
2. Try to calm your teams and customers. Banks fail. The goal of our regulatory framework is to prevent that failure from harming the broader economy. We are the broader economy.
3. If you have immediate ST liquidity needs, reach out to us. We have significant cash on hand outside of SVB and are prepared to help.
4. If you are an SVB borrower or use SVB for any service besides holding funds, reach out to us. The FDIC has one goal: to repay depositors. If you used SVB for payments, FBO services, lines of credit, warehouse lines, venture debt, card services, treasury services or anything else, please let us know so we can help get you set up on a more stable solution.
5. If you have major counterparties who may rely on SVB for liquidity, please let us know. Ironically, that's probably other venture funds.

We all got into fintech because we saw opportunities to improve the financial services industry. The failure of this institution shows, in many ways, how much opportunity exists. However, as we told our LPs and industry partners, the single great strength of the U.S. banking industry is its safety and soundness. The highest principle of that is maintaining deposits.

We're sorry this is happening but we'll all come out stronger.

Best,

Ryan, Ty, Cameron & Kate

Another venture investor, TSVC partner [Spencer Greene](#), also criticized investors who “were wrong on the facts” about SVB’s position. “It appears to me that there was no liquidity issue until a couple of VCs called it,” Greene said. “They were irresponsible, and then it became self-fulfilling.”

Some SVB customers received emails assuring them that it was “business as usual” at the bank. “I’m sure you’ve been hearing some buzz about SVB in the markets today so wanted to reach out to provide some context,” one SVB banker wrote to a client, according to a copy of the message obtained by CNBC. “It is business as usual at SVB,” the banker wrote. “Understandably there may be questions and I want to make myself available if you have any concerns.” SVB customers said [CEO Greg Becker](#) didn’t instill confidence when he urged them to “stay calm” during a call. The stock’s collapse reached 60% by the end of regular trading. Importantly, Becker couldn’t assure listeners that the capital raise would be the bank’s last, said a person on the call.

Customers still remaining with SVB have no idea if, when, and how they will get their money back. While insured deposits are expected to be available as early as Monday, the majority of deposits held by SVB were uninsured. A [recent 10-K filing](#) showed more than [90 percent of its deposits were uninsured](#), and the FDIC says today that “At the time of closing, the amount of deposits in excess of the insurance limits was undetermined.” “The precipitous deposit withdrawal has caused the Bank to be incapable of paying its obligations as they come due,” the California financial regulator stated. “The bank is now insolvent.” The FDIC [standard insurance](#) covers up to \$250k per depositor, per bank, for each account ownership category. The FDIC said uninsured depositors will get receivership certificates for their balances. The regulator said it will pay uninsured depositors an advanced dividend within the next week, with potential additional dividend payments as the regulator sells SVB’s assets.

As of the end of December, SVB had [\\$209B in total assets](#) and \$175.4B in total deposits. The FDIC is unclear what portion of those deposits were above the insurance limit. The last U.S. bank failure of this size was Washington Mutual in 2008, which had \$307B in assets. Whether depositors with more than \$250k ultimately get all their money back will be determined by the amount of money the regulator gets as it sells Silicon Valley Bank assets or if another bank takes ownership of the remaining assets.

There are concerns in the tech community that until that process unfolds, some companies may have issues making payroll. Many CEOs are trying to transfer their funds out of SVB and set up corporate accounts at other banks. [Avni Patel Thompson](#), Founder and CEO of Milo, [said](#) she was [“shaking with relief”](#) after she was able to move her company’s funds. [Nearly half](#) of the U.S. technology and health care companies that went public last year after getting their early funding from venture capital firms were Silicon Valley Bank customers.