Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Executive Summary, 2023-SR-B-013, September 25, 2023

Material Loss Review of Silicon Valley Bank

Findings

Silicon Valley Bank (SVB) failed because of several factors. SVB's business model contributed to concentrations in its customer base and in uninsured deposits. Its management emphasized growth and failed to implement the controls necessary to effectively mitigate the risks associated with significant growth and concentrations. During a period of low interest rates, the bank invested a large portion of the influx of deposits in securities with long-term maturities, creating another concentration risk. When interest rates started to rise, SVB did not heed the early signs of market risk, removed its hedges, and had significant unrealized losses on its held-to-maturity investment securities. Further, the bank exhibited weaknesses in corporate governance and risk management. SVB's board of directors and senior management failed to appreciate the significance of the multiple layers of risks or recognize the vulnerabilities inherent in the bank's condition. Ultimately, management's ineffective public communications of its plan to raise additional capital coupled with other market events resulted in significant deposit outflows and a liquidity crisis that contributed to the bank's failure.

The Federal Reserve Bank of San Francisco (FRB San Francisco) and the Board of Governors of the Federal Reserve System conducted several examinations of SVB and identified various issues while it was under the Regional Banking Organization (RBO) and Large and Foreign Banking Organization (LFBO) Supervision sections. Despite these identified weaknesses, the Board and FRB San Francisco did not downgrade the bank's CAMELS composite and certain component ratings until August 2022.

Our review resulted in three findings. First, the RBO supervisory approach for SVB did not evolve with SVB's growth and increased complexity. Second, the Board and FRB San Francisco did not effectively transition SVB from the RBO portfolio to the LFBO portfolio. Third, examiners should have closely scrutinized the risks from rising interest rates on SVB's investment securities portfolio.

Recommendations

Our report contains recommendations designed to improve supervisory processes related to RBO and LFBO supervision and transitioning banks from the RBO to the LFBO portfolio. In its response to our draft report, the Board concurs with our recommendations and outlines actions to address them. We will follow up to ensure that the recommendations are fully addressed.

Purpose

In accordance with the requirements of section 38(k) of the Federal Deposit Insurance Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, we conducted a material loss review of SVB to determine why SVB's failure resulted in a material loss to the Deposit Insurance Fund (DIF); to assess the Board's and FRB San Francisco's supervision of SVB during our period of review, January 2018 through March 2023; and to make recommendations, as appropriate.

Background

Silicon Valley Bank Financial Group (SVBFG) began operations in 1983 and was headquartered in Santa Clara, California. SVB was a state member bank and SVBFG's principal subsidiary. It specialized in providing services to technology and venture capital–backed start-ups. FRB San Francisco, under delegated authority from the Board, and the California Department of Financial Protection and Innovation (CDFPI) supervised SVB. On March 10, 2023, the CDFPI took possession of SVB and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. On May 12, 2023, the FDIC's Office of Inspector General formally notified us that SVB's failure would result in a material loss to the DIF.