US banks

The weekend US officials hatched a plan to stave off a banking crisis

Collapse of Silicon Valley Bank prompted regulators to announce package to restore public confidence

From left: Federal Deposit Insurance Corporation head Martin Gruenberg, Treasury secretary Janet Yellen and Federal Reserve chair Jay Powell © FT montage/Bloomberg/Getty Images

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Just hours after Wall Street opened for trading on Friday morning, US regulators had seized control of Silicon Valley Bank, which had imploded under the strain of depositors pulling out their money en masse.

What at first seemed like the failure of a one-of-its-kind lender with deep ties to the technology industry quickly appeared as though it might spiral out of control.

Within 48 hours, regulators were preparing a package of emergency measures to quell panic among depositors and prevent contagion in the rest of the banking system. For some working on the effort, it evoked memories of the response to the coronavirus pandemic in 2020 and the great financial crisis of 2008.

By Sunday evening, the US government announced it would guarantee all deposits held at SVB and crypto lender Signature Bank, which was also shut down by regulators at the weekend. The Federal Reserve, meanwhile, launched a lending facility that would be available to lots of other banks in order to ensure depositors' demands could be met.

"The policy actions that were taken on Sunday were at the very aggressive end of the range of plausible options that the authorities had," said Krishna Guha, a former New York Fed staffer who is now vice-chair of Evercore ISI.

Initial relief at the US rescue plan soon gave way to fear that the government's actions would be insufficient to prevent further fallout. On Monday, shares of First Republic and several other US regional banks were still under heavy selling pressure.

Indeed, the measures announced on Sunday served as a stunning reminder of the fragility of pockets of the US financial system, even after regulators have spent 15 years implementing a vast new rule book in the wake of the 2008 crisis.

The need for bolder government action following the collapse of SVB became apparent to US regulators and lawmakers just hours after the Federal Deposit Insurance Corporation seized control of the bank.

"I understood that we had 72 hours to come up with a plan to address this catastrophe," said Anna Eshoo, a Democratic congresswoman whose district covers much of Silicon Valley. She likened the collapse of SVB to a financial "earthquake" measuring 7.9 on the Richter scale.

At 1pm on Friday, after appearing to testify before Congress, US Treasury secretary Janet Yellen held a call with the officials who would be tasked with formulating a response, according to one person briefed on the conversation. Fed chair Jay Powell was on the line, along with FDIC head Martin Gruenberg, acting comptroller of the currency Michael Hsu and San Francisco Fed president Mary Daly.

By Saturday, the discussion had become more intense. Yellen, Powell and Gruenberg spoke again, and brought Michael Barr, the Fed's vice-chair for supervision, into the conversation. The four officials discussed three options: finding a buyer for SVB, rolling out a new Fed facility for all banks, and invoking a "systemic risk" exception for SVB and Signature.

This last option would mean officials could treat the relatively small lenders as though they were systemically important, paving the way for them to offer a guarantee to all depositors — even those with balances above the $250,000 federal insurance limit.

To begin with, government officials and lawmakers were focused not on a rescue but rather a sale of SVB. “My top priority, and it was shared by the delegation, was a buyer — but we had a very, very limited window for that,” said Eshoo.

The FDIC’s attempt to auction off SVB was a damp squib. Rivals quickly realised they risked shouldering significant losses if they executed a deal. One banking lobbyist said the FDIC moved too slowly. “It wasn’t obvious to anyone that they were pulling together” the information potential buyers would need to make a considered bid, he added.

Potential buyers wanted the government to provide guarantees, but in an appearance on a Sunday news show, Yellen appeared to rule out direct aid for banks while hinting at a rescue for depositors.

The FDIC invited financial institutions to bid for the failed lender, including PNC Financial Services and Royal Bank of Canada, and extended its initial deadline to allow them to take a closer look at SVB’s books, according to people briefed on the negotiations. Both banks decided a deal did not make sense and dropped out.

As Sunday afternoon approached, it was becoming clear the FDIC was unlikely to find a buyer.

Stage 5: Monday

Shares in regional banks continue to fall. Of the 124 listed US banks with a market value of $5bn or less as of Friday, more than 100 were in the red.

Amid fears the government was prepared to let SVB and its uninsured depositors go to the wall, venture capitalists launched a concerted lobbying effort. They argued that it would not only have big economic repercussions, with companies struggling to write paycheques, but also that an outright failure would have geopolitical ramifications.

"The theme was: 'this is not a bank'," said one person involved in the lobbying campaign. "This is the innovation economy. This is the US versus China. You can't kill these innovative companies."

According to Brad Sherman, a Democratic congressman from California on the House financial services committee, the government became convinced that it had to take aggressive action to restore confidence after the failure of Signature. "One black swan is a black swan. Two black swans is a flock," he said. "Once a second regional [bank] was shut down, this was systemic."

US president Joe Biden spent the weekend at his home in Wilmington, Delaware. A White House official said that from Friday he received regular briefings on the unfolding situation from two top aides who had just taken on new roles at the White House: Lael Brainard, the former Fed vice-chair who recently became director of the National Economic Council, and Jeff Zients, the president's chief of staff.

Biden also spoke to Gavin Newsom, the California governor, on Saturday, the White House official said, "about efforts to address the situation".

The make-or-break meeting took place on Sunday afternoon, when Yellen updated Biden, Brainard and Zients, prompting the president to approve the plan to invoke emergency powers and implement the rescue. Yellen came to the gathering armed with recommendations from the Fed and FDIC. A few hours later, at just after 6pm, the measures were announced to the public in a joint statement from the regulators.

"Today we are taking decisive actions to protect the US economy by strengthening public confidence in our banking system," the regulators said.

Later that evening, a senior Treasury official insisted the rescue package did not amount to a bailout of the type seen during the 2008 crisis: shareholders and bondholders were not being helped. Depositors, even those with large balances, had been given guarantees because there had not been enough time to find a buyer. Most worryingly, some lenders had similar attributes to SVB. And runs on other banks had to be prevented.

Shoring up confidence in the banking industry was one thing, but protecting the Biden administration against accusations it had bailed out two banks was quite another. Crucially, the measures did not involve using taxpayer money to protect shareholders, bondholders, or wealthy depositors. Any losses to the deposit insurance fund would be "recovered by a special assessment on banks", the regulators said in the statement.

"We thought this was an effective way to stem the crisis without angering public opinion . . . nobody wants to be blamed for saving the bank accounts of rich people with taxpayers' money," said a person close to the Biden administration.

Rather, the basic principle was that the banking industry would de facto be cleaning up its own mess, said another person advising the government on how to structure the backstop.

After announcing the package, the Treasury hastily convened a Zoom call with hundreds of lawmakers, giving them just 15 minutes' notice before kicking off the virtual meeting, said Jeff Jackson, a Democratic congressman from North Carolina.

"No one expressed any disagreement with the fundamental decision by the Treasury Department to make the depositors whole," Jackson wrote on his Substack blog. "Republicans and Democrats . . . asked some version of the same question: 'Will this be enough?'"

The answer to that question remains unclear. Investors are still dumping banking shares and depositors are moving funds, but so far the emergency package appears to have passed the most important test: as of Monday evening, no more banks had failed.

The Biden administration will spend the coming days and weeks on high alert to make sure that remains the case. Speaking from the White House on Monday, the president hinted that there could be more government intervention if the situation deteriorates.

"The bottom line is this: Americans can rest assured that our banking system is safe. Your deposits are safe," he said. "We will not stop at this. We'll do whatever is needed."

Additional reporting by Lauren Fedor, Arash Massoudi and Courtney Weaver

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