US banks

US regulators open to sharing losses to smooth sale of SVB and Signature

Refusal by FDIC to shoulder burden has been stumbling block in auction process

The Federal Deposit Insurance Corporation's willingness to discussing loss-sharing marks a significant shift in position for the agency © AP

Stephen Gandel, **James Fontanella-Khan** and **Ortenca Aliaj** in New York MARCH 17 2023

US regulators are willing to entertain the prospect of backstopping losses at Silicon Valley Bank and Signature Bank if it helps push through a sale of the failed lenders, according to people briefed on the matter.

The Federal Deposit Insurance Corporation's willingness to discussing loss-sharing marks a significant shift in position for the agency, which had explicitly ruled out any such arrangement when it tried and failed to auction off SVB last weekend.

However, the FDIC has not given bidders any indication of the size of losses it would be willing to backstop or any sense of how the arrangement would be structured, the people said.

A sale of either SVB or Signature could trigger immediate losses because the new buyer would have to mark down the price of some assets to reflect their current market value.

After seizing control of SVB and Signature last week, the FDIC attempted to auction the banks off to a buyer but failed to drum up much interest, receiving just one offer from a bidder outside the banking sector that was rejected.

The lack of interest was in part because the agency was unwilling to discuss the possibility of shouldering any losses on the lenders' assets, one of the people said.

Buyout titans such as Blackstone Group and Apollo Global Management have expressed interest in buying parts of SVB's loan book. However, the FDIC is only willing to take bids from banks for the whole SVB commercial bank, including loans and deposits, according to people involved in the process.

On Friday, SVB's holding company filed for bankruptcy protection. The move was taken as part of an attempt to salvage value from two divisions — a broker-dealer and technology investment business — that are separate from the deposit-taking bank.

The FDIC declined to comment on any specifics of the SVB and Signature sales process, which is being run by bankers at Piper Sandler. A banker at Piper Sandler who is involved in the sales process declined to comment.

"We are actively marketing both institutions," said a spokesman for the FDIC. "We haven't set a deadline for bids, but we hope to have them resolved within a week."

Loss-sharing agreements are common in FDIC sales. The FDIC offered generous loss-sharing agreements to get a number of deals done during the 2008 financial crisis, but later came under criticism when some of the deals proved lucrative for the buyer.

Agreeing to a loss-sharing arrangement could also open the government up to accusations that its attempts to rescue some banks are in effect a bailout.

Most loss-sharing agreements are set up as a type of insurance that will cap the overall potential losses a buyer could incur from a deal, with the government covering anything above that amount. But the FDIC has at times agreed to take a so-called first loss position, covering any initial losses that are recognised at the time of the transaction.

Additional reporting by Eric Platt in New York

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