StrategicInsights
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Q&Adrianne: Silicon Valley Bank & Schwab

QUESTION

"Adrianne, what happened at Silicon Valley Bank? Should I worry about something similar happening to our assets with you at Schwab or other banks?"

ANSWER

SILICON VALLEY BANK

Federal regulators shut down Silicon Valley Bank (SVB) on Friday due to balance sheet losses and inability to meet financial obligations to creditors and depositors. The insolvency of SVB is significant because it is the largest bank failure since the 2008 crisis. SVB was the 16th largest bank in the U.S.

- **SVB had an unusual and higher risk profile than many banks,** due to its smaller size, business model, and specific risks it took with its investments.
- Reflecting its customer base of many VC firms, **SVB was a regional institution with a relatively low $200 billion in assets and high percentage of corporate accounts** (i.e., larger but fewer customers more highly sensitive to bank yields.)
- **SVB also had a small loan book relative to deposits,** which limited its interest income.
- To increase revenue **the bank invested in fixed income** (mortgage bonds and Treasuries) of long duration which are **sensitive to interest rate movements.**
- **These investments declined substantially in price when interest rates increased;**
- **Concurrently VC customers spent down deposits as fundraising slowed. To meet withdrawals, SVB was forced to liquidate bonds at a loss.**
- SVB declared a need to raise capital last week, which encouraged customers to withdraw cash, precipitating the failure.
- **U.S. government regulators (U.S. Treasury Department, Federal Reserve, and FDIC) took emergency steps over the weekend to support SVB and ensure depositors will receive funds.** The government's stance also intends to signal its support of the banking system, to avert similar mass withdrawals from other banks.

CHARLES SCHWAB CORPORATION

- **In short, no, it is not likely that Schwab will encounter the same insolvency issues.**
- (The question arose because our firm, Strategic Wealth Capital, custodies assets at Schwab on the institutional side.)
- **First, the size, business model and customer base of Schwab are quite different from SVB.** Total client assets at Schwab are $7.38 trillion, and unlike SVB which was heavily dependent on client firms in the technology sector, Schwab benefits from a large retail and institutional customer base across many sectors and industries.
- **Schwab holds capital in excess of**

regulatory requirements and maintains supplementary insurance coverage.

- **More than 80% of Schwab's total bank deposits fall within the FDIC insurance limits** and are insured by the U.S. government. (Conversely, at SVB over 90% of deposits were uninsured.)
- Schwab Bank is insured by the FDIC for $250k per depositor ($500k for joint account owners. Other accounts such as UTMAs and IRAs are likewise covered). Schwab is also an SIPC-member firm and maintains coverage per depositor of $250k (again, $500k for joint owners) plus excess insurance coverage through Lloyd's of London of client assets up to $150 million in value and $1.15 million cash.
- **Additionally, Schwab and other brokerage firms are prevented by the SEC from mingling customer assets with bank assets;** therefore your securities remain separated and cannot be liquidated in case of company insolvency.

All good questions. Keep them coming, and please drop me a note if you'd like to discuss any of the above.

—Adrianne
March 13, 2023

[1] Schwab Press Release 3/13/2023
[2] The Economist: Finance and Economics: "What does Silicon Valley Bank's collapse mean for the financial system?", 3/10/2023

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