AN UPDATE ON BANK FAILURES

Following the closure of Silicon Valley Bank on Friday, March 10, 2023, New York Signature Bank also closed. The Federal Deposit Insurance Corporation (FDIC) has taken control of both banks.

Problems began to arise for Silicon Valley Bank when its customers, the majority of which were technology venture companies, were struggling to obtain financing. As customers then started withdrawing deposits to cover their capital needs, the bank experienced a liquidity crunch and was forced to sell bonds from its portfolio to cover the withdrawals. Given the current higher interest rate environment, many of these bonds were sold at a loss. Ultimately, this led to the bank failure and forced closure by the FDIC.

The circumstances at Signature Bank were similar in that a substantial percentage of their customer base was in the cryptocurrency market and the majority of deposit balances exceeded the FDIC insured limit of $250,000, which meant the funds were 'at risk' in the event of a bank failure. Following the collapse of crypto exchange FTX and lawsuits filed against the bank with accusations that the bank had been connected to and/or facilitated FTX fraud, the bank began to see deposits flow out until, ultimately, they also experienced a liquidity crisis.

The Aftermath

Over the weekend, leaders of the Treasury Department, Federal Reserve Board and the FDIC met to develop a plan of action. In a joint statement, it was communicated that the FDIC approved the full protection of all depositors of both banks providing "access to their money Monday, March 13. No losses … will be borne by the taxpayer." The protection extends to all deposits beyond the $250,000 limit.

The group also affirmed that the "U.S. banking system remains resilient and on a solid foundation, in large part due to reforms that were made after the financial crisis that ensured better safeguards for the banking industry."

In a separate statement, the Federal Reserve Board announced "it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors." To provide the funding, the Federal Reserve created a new Bank Term Funding Program (BTFP), which will offer "loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral." "The BTFP will be an additional source of liquidity…eliminating an institution's need to quickly sell those securities in times of stress."

Impact to BFG Payroll Structure:

At this time, we want to reassure our clients that there are no funds related to BFG, our payroll processors, Kotopay, or the payroll system that funnel through either of the affected banks. In addition, BFG never takes possession of client funds in the payroll process. We take the responsibility of securing your assets very seriously and we will continue to be vigilant as events unfold.

Our Payroll processor, Kotopay, is a division of First International Bank & Trust (FIBT).

FIBT is a main-street, independent community bank that has been around for over 112 years with relationships built within the community. Community banks like this are significantly different from a bank like Silicon Valley Bank, whose business model works primarily with venture capital firms and is involved heavily with cryptocurrency.

Throughout FIBT's history, they have weathered the Great Depression, technological revolutions, and catastrophic world events. They have learned how to navigate challenging times and take great pride in their sound business practices remaining a strong financial partner for their customers.

FIBT is a member of the FDIC, which provides deposit insurance while examining and supervising financial institutions for safety, soundness, and consumer protection.

Impact to BFG Investment Accounts:

Mutual fund and other investment managers could have had some impact if they specifically owned shares in either Silicon Valley Bank and/or Signature Bank. However, according to Todd Rosenbluth, head of research at data analysts firm VettaFi, few funds held positions that alone appeared large enough to badly damage them. He said mutual fund investors got the benefits of portfolio diversification.

Rosenbluth continued that "financials in general and regional banks more specifically are being hurt by the uncertainty and risks that they could face a similar challenge." The financial industry is a typical sub asset class that is represented in many value oriented investment portfolios.

In a BFG typical "balanced equity" portfolio, 60/40, the current weighting for the large cap value sub asset class is 14% of the total portfolio. A typical weighting of the financial sector by the large cap investment manager is approximately 19.5% of total holdings. This would make the total weighting of the financial sector for the overall balanced equity portfolio equal to approximately 2.7% (14% X 19.5%). The majority of financial holdings by the investment manager will tend to be represented by the largest financial institutions in the sector, which are national in scope, i.e. Chase, Bank of America, Wells Fargo, etc.

Resources:

FDIC – Deposit Insurance FAQs:
https://www.fdic.gov/resources/deposit-insurance/faq/index.html

FDIC – Electronic Deposit Insurance Estimator (EDIE) – a tool to help calculate coverage
https://edie.fdic.gov/

For More Information

If you have any questions, please don't hesitate to reach out to us. For more information or assistance, please contact our Individual Financial Consulting team at **210-538-2500**, toll-free at **888-757-2104 x 210**.

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