

---

---

# LESSONS FROM SILICON VALLEY BANK AND THE 2023 BANKING CRISIS

Jeremy McClane\*

*The sudden collapse of Silicon Valley Bank (“SVB”) in March 2023 marked the second-largest bank failure in U.S. history and sent shockwaves through the financial and tech sectors. This Article offers an account of the crisis, tracing its origins to a confluence of structural weaknesses including sectoral overconcentration, poor liquidity management, deficient risk oversight, and misaligned executive incentives. SVB’s downfall—exacerbated by rapid depositor flight in a social media-fueled digital age—illustrates the fragility of modern financial institutions operating in niche markets with light regulatory oversight. Drawing on parallels with past financial crises and recent corporate governance lapses, this Article identifies key areas of regulatory and governance reform that could reduce systemic risk in the future. By situating SVB’s failure within a broader conversation on financial regulation and corporate governance, this Article aims to contribute to a forward-looking agenda for safeguarding financial stability in a rapidly evolving economic landscape.*

## TABLE OF CONTENTS

I.	INTRODUCTION .....	1780
II.	BACKGROUND.....	1781
	A. Collapse at SVB.....	1781
	B. The Contagion Spreads .....	1783
III.	DIAGNOSING THE PROBLEM.....	1784
	A. Problem 1: Over-Concentration and Rapid Growth .....	1785
	B. Problem 2: Liquidity Risk.....	1787
	C. Problem 3: Bad Risk Management.....	1789
	D. Problem 4: Lack of Regulation.....	1790
	E. Problem 5: Corporate Governance .....	1791
IV.	LOOKING AHEAD .....	1791
V.	CONCLUSION.....	1793

---

\* Professor of Law, University of Illinois College of Law. I would like to thank the participants of the 2024 Illinois Law Review Symposium on “Tech, Innovations, Banking, and the Future of Venture Capital in Silicon Valley” for helpful feedback, and Abby Milhiser and the Editors of the *University of Illinois Law Review* for excellent editorial assistance. All errors are my own.

## I. INTRODUCTION

In March 2023, Silicon Valley Bank (“SVB”)—once a bedrock of the startup world—collapsed almost overnight.<sup>1</sup> Up until that point, it had been a mainstay of startup culture and an institution that few guessed would ever be felled.<sup>2</sup> Not long afterward, Signature Bank followed suit.<sup>3</sup> These events seemed like déjà vu to those who remembered the global financial crises of 2008 and 2009.<sup>4</sup> Federal regulators promptly intervened to guarantee deposits and stabilize the banking system, but it did not take long before the finger-pointing began.<sup>5</sup> Some pointed fingers at excessive regulation,<sup>6</sup> others at deregulation,<sup>7</sup> and still others at “wokeness”<sup>8</sup> or the unchecked power of social media.<sup>9</sup>

SVB’s swift downfall shook the tech world and beyond. What had been a deeply trusted lender in the startup ecosystem suddenly became the poster child for how quickly bank runs can happen in the digital age.<sup>10</sup> Analysts and lawmakers were quick to offer explanations—ranging from poor risk management to a failure of oversight—and disagreement over root causes was immediate and intense.<sup>11</sup> Still, amidst the finger-pointing, it is critical to understand the specific weaknesses that contributed to SVB’s demise and to explore what can be done to prevent a similar crisis in the future.

This Article gives an overview of the crisis and takes stock of possible diagnoses. The last financial crisis and a string of corporate governance failures provide lessons that help us understand what went wrong. In doing so, this Article sets the stage for the work of the insightful scholars of financial regulation, technology, corporate governance, and venture capital, whose work points the way to preventing a much bigger crisis in the future. These scholars examined

---

1. Emily Flitter & Rob Copeland, *Silicon Valley Bank Fails After Run on Deposits*, N.Y. TIMES (Mar. 14, 2023), <https://www.nytimes.com/2023/03/10/business/silicon-valley-bank-stock.html> [<https://perma.cc/Q5F6-FZLF>].

2. *See id.* (discussing the sudden collapse of a long-standing financial institution central to the tech startup ecosystem); *see also* Jesse Pound, *Silicon Valley Bank Is Shut Down by Regulators in Biggest Bank Failure Since Global Financial Crisis*, CNBC (Mar. 10, 2023, 8:41 PM), <https://www.cnbc.com/2023/03/10/silicon-valley-bank-is-shut-down-by-regulators-fdic-to-protect-insured-deposits.html> [<https://perma.cc/K2HW-V5ES>] (describing the sudden failure of an institution central to tech startups).

3. *See* Jeanna Smialek & Alan Rappeport, *Regulators Close Another Bank and Move to Protect Deposits*, N.Y. TIMES (Mar. 12, 2023), <https://www.nytimes.com/2023/03/12/business/janet-yellen-silicon-valley-bank.html> [<https://perma.cc/C6EC-SWPU>] (noting that regulators shut down Signature Bank soon after Silicon Valley Bank’s collapse).

4. *See* Pound, *supra* note 2.

5. *See* Smialek & Rappeport, *supra* note 3.

6. *See id.*

7. David Yaffe-Bellany, Erin Griffith & Mike Isaac, *Silicon Valley Bank Collapse Sets Off Blame Game in Tech Industry*, N.Y. TIMES (Mar. 11, 2023), <https://www.nytimes.com/2023/03/11/technology/silicon-valley-bank-crypto-investing.html> [<https://perma.cc/GYY5-3EKK>].

8. Alex Seitz-Wald & Scott Wong, *Conservatives Blame Silicon Valley Bank Collapse on ‘Diversity’ and ‘Woke’ Issues*, NBC NEWS (Mar. 13, 2023, 5:16 PM), <https://www.nbcnews.com/politics/politics-news/go-woke-get-broke-even-financial-crisis-culture-wars-trump-economics-rcna74692> [<https://perma.cc/M92B-GE5B>].

9. *See* Yaffe-Bellany et al., *supra* note 7.

10. *See* Flitter & Copeland, *supra* note 1.

11. *See supra* notes 6–9 and accompanying text.

the role of cryptocurrency in amplifying panic, assessed the state of federal oversight, and discussed how startups should navigate uncertain economic conditions. The conversations also delved into the legal implications for corporate officers and directors who fail to manage risk effectively.

## II. BACKGROUND

What follows is a brief overview of what went wrong at SVB, how the panic spread, and what lessons we can draw. Even for those who lived through the collapse in real time, the speed and complexity of the crisis can make it confusing to piece together. Below is a chronological recounting of key events, followed by a deeper dive into what sparked the run on SVB—and how the panic spread almost overnight to Signature Bank and beyond.

### A. *Collapse at SVB*

In a single day—Friday, March 10, 2023—SVB depositors withdrew \$42 billion.<sup>12</sup> With astonishing speed, regulators stepped in to salvage what was left of the bank, marking the second-largest bank failure in U.S. history (after Washington Mutual in 2008).<sup>13</sup> The panic soon spread to Signature Bank, which had already been reeling from its exposure to cryptocurrency risks.<sup>14</sup> According to Signature Bank board member Barney Frank, depositors staged a multi-billion-dollar run within hours.<sup>15</sup>

A few days prior, on February 28, Moody's Investors Service told SVB that it was considering downgrading the bank's credit rating.<sup>16</sup> A bank's credit rating is the most salient indicator of its health.<sup>17</sup> A downgrade would send a negative signal to depositors and investors alike.<sup>18</sup> On hearing this news, SVB executives moved to improve the bank's finances by selling shares, but it was already too late.<sup>19</sup> Rumors had circulated about SVB's health, and the move to shore up

---

12. See Order Taking Possession of Property and Business at 2, *In re Silicon Valley Bank*, No. 23-10367-mg, (Cal. Dep't of Fin. Prot. & Innovation Mar. 10, 2023), <https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/03/DFPI-Orders-Silicon-Valley-Bank-03102023.pdf> [<https://perma.cc/TL4D-3QBH>] (“Despite the bank being in sound financial condition prior to March 9, 2023, investors and depositors reacted by initiating withdrawals of \$42 billion in deposits from the Bank on March 9, 2023, causing a run on the Bank.”).

13. Gerrit De Vynck, Rachel Lerman & Jeff Stein, *Silicon Valley Bank Closed in Second-Biggest Bank Failure in U.S. History*, WASH. POST (Mar. 10, 2023), <https://www.washingtonpost.com/technology/2023/03/09/silicon-valley-bank-shares/> [<https://perma.cc/P5ES-XURE>].

14. See Smialek & Rappeport, *supra* note 3.

15. Zachary Warmbrodt, *Barney Frank Blames Crypto Panic for His Bank's Collapse. Elizabeth Warren Blames Trump*, POLITICO (Mar. 13, 2023, 4:24 PM), <https://www.politico.com/news/2023/03/13/barney-frank-signature-bank-collapse-warren-trump-00086765> [<https://perma.cc/9KXX-YDLF>].

16. Echo Wang, *Silicon Valley Bank's Demise Began with Downgrade Threat*, REUTERS (Mar. 11, 2023, 4:26 PM), <https://www.reuters.com/markets/us/silicon-valley-banks-demise-began-with-downgrade-threat-sources-2023-03-11/> [<https://perma.cc/VRA9-MPS7>].

17. *See id.*

18. *See id.*

19. *Id.*

capital spooked investors and depositors even more, validating concerns about the bank's balance sheet.<sup>20</sup>

That staggering \$42 billion figure underscores how modern technology has changed the nature of bank runs. In earlier eras, depositors lined up in person, and banks might literally close their doors.<sup>21</sup> In this case, the outflow was mostly digital and occurred within hours.<sup>22</sup> Social media turbocharged the panic, exemplified by entrepreneur Kim Dotcom's March 12 tweet:

Run on the bank! . . . Get your money out. First thing on Monday. US banks are in trouble. FED emergency meeting. Deposits may get locked. Possible withdrawal limits. When markets collapse your bank deposits that US banks use to invest may be in danger. Cash is king. Get out now!<sup>23</sup>

That was viewed by 2.4 million people and retweeted nearly 3,500 times.<sup>24</sup>

Because banking today can be done with a few taps on a smartphone, depositors were able to move their money to perceived "safer" institutions almost instantly—no lines at teller windows necessary.<sup>25</sup> And this is exactly what they did, whenever and wherever they could.<sup>26</sup> Tech CEO Alexander Torrenegra recounted how he started seeing tweets questioning SVB's status during a meeting.<sup>27</sup>

I read the messages in a bathroom break. Immediately cancel the meeting I had. Ask my wife, Tania, to wire all of our personal money out to other banks. Call my teams. Ask them to do the same. One of them, at the dentist, has to stop the procedure and run home.<sup>28</sup>

With social media kindling, it did not take long before the fire spread.<sup>29</sup> Torrenegra's experience offers a window into how panic can proliferate—almost virally—in the age of smartphones and social media.<sup>30</sup> A single alarming tweet can prompt depositors to act almost instantly, and that snowball effect can become catastrophic for a bank already under pressure.<sup>31</sup>

Many people did just that, in a matter of minutes online. As Mr. Torrenegra recounted,

---

20. See De Vynck et al., *supra* note 13.

21. See Megan Cerullo, *How Twitter Helped Push Silicon Valley Bank over the Edge*, CBS NEWS (Mar. 16, 2023, 12:11 PM), <https://www.cbsnews.com/news/silicon-valley-bank-collapse-twitter-social-media-regulation/> [<https://perma.cc/4UW8-Z2GJ>].

22. See De Vynck et al., *supra* note 13.

23. Kim Dotcom (@KimDotcom), X (Mar. 12, 2023, 3:36 PM), <https://x.com/stillgray/status/1635017025268637696?mx=2> [<https://perma.cc/ZF94-MU8A>].

24. Georgia Wells & Alexa Corse, *Social-Media Postings Amplify Anxiety Over SVB Collapse*, WALL ST. J. (Mar. 14, 2023, 2:58 PM), <https://www.wsj.com/articles/social-media-postings-amplify-anxiety-over-svb-collapse-860d8f30> [<https://perma.cc/RRJ3-E6QS>].

25. *Id.*

26. *Id.*

27. Alexander Torrenegra (@torrenegra), X (Mar. 11, 2023, 9:13 AM), <https://x.com/torrenegra/status/1634573234187407369> [<https://perma.cc/DEG8-86NY>].

28. *Id.*

29. *Id.*

30. *Id.*

31. *Id.*

[Y]ou don't even need to walk to your bank's branch—you just press a few buttons on your smartphone and your money is moved from a bank you perceive as weak to a bank that's more safe . . . . And that carries with it the potential to do things that are potentially harmful, because if everyone does it at the same time, bad things happen.<sup>32</sup>

Within 24 hours, what seemed like a contained liquidity issue spiraled into a full-blown collapse, demonstrating how tightly linked market sentiment and banking stability can be.<sup>33</sup> The bank lost nearly \$2 billion selling assets following a steep decline in deposits.<sup>34</sup> By Friday morning, Nasdaq had halted trading in SVB shares.<sup>35</sup> The company's stock had lost more than half of its value.<sup>36</sup> Once the stock market lost faith, SVB's demise became all but inevitable.<sup>37</sup> It was officially the second-largest bank failure in U.S. history.<sup>38</sup>

### B. *The Contagion Spreads*

SVB's run spread in less than a day. New York-based Signature Bank was already struggling.<sup>39</sup> It was heavily exposed to cryptocurrency ventures including FTX, the cryptocurrency trading platform that had itself collapsed not long before.<sup>40</sup> Once SVB collapsed, depositors at Signature—fearing contagion—pulled out their funds in droves.<sup>41</sup> Signature Bank was hit with a multi-billion dollar bank run on Friday, March 10, with depositors expressing concern about cryptocurrency-related risks affecting the bank.<sup>42</sup> Three other banks soon followed suit.<sup>43</sup> All told, five banks failed, including SVB, Signature Bank, First Republic Bank, Heartland Tri-State Bank, and Citizens Bank of Sac City.<sup>44</sup> The Federal Reserve finally stepped in to guarantee deposits and give banks liquidity.<sup>45</sup> The

---

32. *Id.*

33. *See* Flitter & Copeland, *supra* note 1.

34. *See* Order Taking Possession of Property and Business, *supra* note 12, at 1.

35. *Nasdaq Halts SVB Financial Group*, NASDAQ (Mar. 10, 2023), <https://ir.nasdaq.com/news-releases/news-release-details/nasdaq-halts-svb-financial-group> [<https://perma.cc/Z2H3-XS9W>].

36. *See* De Vynck et al., *supra* note 13.

37. *Id.*

38. *Id.*

39. Matthew Goldstein & Emily Flitter, *Risky Bet on Crypto and a Run on Deposits Tank Signature Bank*, N.Y. TIMES (Mar. 12, 2023), <https://www.nytimes.com/2023/03/12/business/signature-bank-collapse.html> [<https://perma.cc/FM5L-PEJS>].

40. *Id.*

41. *See id.*

42. *See id.*

43. *See* Alex Graf & Zuhaib Gull, *Annual Failed Bank Total Climbs to 6-Year High With Fall of Iowa Community Bank*, S&P GLOB. (Nov. 8, 2023), <https://www.spglobal.com/market-intelligence/en/news-insights/articles/2023/11/annual-failed-bank-total-climbs-to-6-year-high-with-fall-of-iowa-community-bank-78276908> [<https://perma.cc/9WNS-JZAY>].

44. *See id.*

45. Travis Hill, Vice Chairman, FDIC, Speech for the American Enterprise Institute: “Reflections on Bank Regulatory and Resolution Issues” (July 24, 2024), (transcript available at <https://www.fdic.gov/news/speeches/2024/reflections-bank-regulatory-and-resolution-issues> [<https://perma.cc/E5NF-6DKW>]).

Fed's intervention prevented a wider panic,<sup>46</sup> but questions about how exactly this crisis started (and spiraled) linger.

SVB announced its fourth-quarter 2022 financial results on January 19, 2023, in a press release that said the company was “well positioned with a strong balance sheet and the resources and expertise to manage successfully through the current environment.”<sup>47</sup>

These positive assessments, issued just weeks before the collapse, highlight the bank's failure to foresee the rapid deterioration of its deposit base and the market's reaction. Indeed, banks often downplay vulnerabilities in public statements, either out of genuine belief in their resilience or to reassure depositors and investors.<sup>48</sup>

### III. DIAGNOSING THE PROBLEM

Aviation experts say that when a plane crashes, it is not ever because one thing went wrong, it is because a bunch of smaller things went wrong, at just the wrong time.<sup>49</sup> One seemingly small thing goes wrong, and it causes some other seemingly small thing to go wrong, and then another until they add up to a big thing going wrong in a cascade of events.<sup>50</sup>

This aviation analogy is especially apt for banking crises. Historically, bank failures often result from a confluence of factors—misjudged risk, unexpected interest-rate movements, and regulatory loopholes, among others.<sup>51</sup> These weaknesses, individually, might be manageable when the economy is strong and everything else is going right. But when there is an economic shock, it can strain the weakest points.<sup>52</sup> Those strains in turn put pressure on weaknesses elsewhere until they add up to a structural failure.<sup>53</sup>

We (re)learned this during the financial crisis.<sup>54</sup> SVB is a smaller-scale example. It had ongoing unaddressed liquidity issues for years.<sup>55</sup> Regulators had

---

46. *See id.*

47. Press Release, SVB, SVB Financial Group Announces 2022 Fourth Quarter Financial Results (Jan. 19, 2023), [https://www.sec.gov/Archives/edgar/data/719739/000071973923000009/q422earningsrelease\\_991.htm](https://www.sec.gov/Archives/edgar/data/719739/000071973923000009/q422earningsrelease_991.htm) [<https://perma.cc/7MP3-JKAP>].

48. Michael S. Barr, Vice Chairman for Supervision, Bd. of Governors of the Fed. Rsrv. Sys., Speech at Georgetown University Law Center: “Risks and Challenges for Bank Regulation and Supervision” (Feb. 20, 2025), <https://www.federalreserve.gov/newsevents/speech/barr20250220a.htm> [<https://perma.cc/L3CQ-NZSP>].

49. INDRANIL ROYCHOUDHURY ET AL., NASA, REAL-TIME MONITORING AND PREDICTION OF AIRSPACE SAFETY 124 (2015), <https://ntrs.nasa.gov/api/citations/20180006637/downloads/20180006637.pdf> [<https://perma.cc/T75G-87YC>]; *see also* PETER MERLIN, GREGG A. BENDRICK & DWIGHT A. HOLLAND, BREAKING THE MISHAP CHAIN 20 (1964), [https://www.nasa.gov/wp-content/uploads/2015/03/643903main\\_BreakingMishap-Chain-ebook.pdf?emrc=b6b80f](https://www.nasa.gov/wp-content/uploads/2015/03/643903main_BreakingMishap-Chain-ebook.pdf?emrc=b6b80f) [<https://perma.cc/L6NG-BCGM>].

50. MERLIN ET AL., *supra* note 49, at 20.

51. *See* BD. OF GOVERNORS FED. RSRV. SYS., MATERIAL LOSS REVIEW OF SILICON VALLEY BANK 11 (Sept. 25, 2023), <https://oig.federalreserve.gov/reports/board-material-loss-review-silicon-valley-bank-sep-2023.pdf> [<https://perma.cc/G2G4-XGSW>].

52. *See id.* at 42.

53. *See id.* at 43.

54. *See id.* at 18.

55. *Id.* at 9.

known about it but it was never a critical issue as long as deposits were surging in.<sup>56</sup> When the tech sector started pulling deposits to fund burn rates and new ventures, SVB's liquidity issues—previously masked—came into full view.<sup>57</sup> Market chatter quickly escalated into full-blown withdrawals.<sup>58</sup> Once the spark caught, the flames spread.

In hindsight, the problems at SVB can be viewed as stemming from several factors: Silicon Valley startup culture, high concentration of assets and industry, gaps in risk management and poor liquidity management, and deficient internal and external oversight.<sup>59</sup> These issues never caused problems in steady state, but when interest began to rise in 2022, for the first time in over a decade, it put strain on these weaknesses that the bank could not bear.<sup>60</sup>

#### A. *Problem 1: Over-Concentration and Rapid Growth*

At a very high level, one of SVB's biggest problems could be summed up succinctly: "It was geographically concentrated. It was industry-segment concentrated, and that industry segment was extremely sensitive to interest rates."<sup>61</sup> SVB's depositor base was predominantly in tech, which was reeling from rising rates and slower venture capital flows.<sup>62</sup> Tying the bank's fate to a single high-volatility sector turned out to be a critical weakness.<sup>63</sup> In hindsight, such high concentration seems problematic, but at the time appeared like a natural property of its core business.

The synergy between SVB and the tech world made sense when the economy was booming and venture capital money flowed freely.<sup>64</sup> But this synergy also meant any downturn in tech funding could drastically reduce deposits.<sup>65</sup>

From its founding, SVB was a creature of Silicon Valley. In 1983, SVB opened its first office, in San Jose.<sup>66</sup> The area was the birthplace of Apple Inc., Oracle Corporation, and Atari,<sup>67</sup> "but many established banks were wary of young companies with little operating history."<sup>68</sup> One of its founders was a

---

56. *Id.* at 23.

57. *See* De Vynck et al., *supra* note 13.

58. *See id.*

59. *See* Bd. of Governors Fed. Rsv. Sys., *supra* note 51, at 11.

60. *See id.* at 9.

61. Allison Morrow, *Why Almost Everyone Failed to Predict Silicon Valley Bank's Collapse*, CNN (Mar. 26, 2023, 8:35 AM), <https://www.cnn.com/2023/03/26/business/silicon-valley-bank-red-flags/index.html> [<https://perma.cc/4PDY-FPTX>].

62. *Id.*

63. *See id.*

64. *Id.*

65. *Id.*

66. *Silicon Valley Bank Celebrates 30 Years of Fueling Innovation Around the World*, SILICON VALLEY BANK (Oct. 16, 2013), <https://ir.svb.com/news-and-research/news/news-details/2013/Silicon-Valley-Bank-Celebrates-30-Years-of-Fueling-Innovation-Around-the-World/default.aspx> [<https://perma.cc/SFS4-N338>].

67. Gregory Zuckerman, Ben Eisen & Hannah Miao, 'We Never Thought a Bank So Successful Could Collapse So Fast', WALL ST. J. (Mar. 18, 2023, 12:00 AM), <https://www.wsj.com/articles/silicon-valley-bank-collapse-ceo-management-cb75f147> [<https://perma.cc/7WQG-26U3>].

68. *Id.*

Stanford professor who listened for ten years as his students complained that they could not get financing for their business ideas.<sup>69</sup> The idea was to create a bank for the startup world that would lend to them when no one else would.<sup>70</sup> Their willingness to bank new, unproven companies earned them loyalty from their customers.<sup>71</sup> They became known for working with young tech startups that other banks had shunned.<sup>72</sup> When those startups flourished, SVB grew alongside them.<sup>73</sup> As the founders of those startups grew wealthy, the bank also took on management of their personal wealth.<sup>74</sup> That wealth was often light on cash as the founders' fortunes were tied to equity in their companies.<sup>75</sup> As they grew, they were infused with the Silicon Valley culture of doing things differently and growing at all costs.<sup>76</sup>

To reward their clients and attract new business, SVB threw lavish parties and events.<sup>77</sup> As one client put it, “[t]hey were a mixture of a real bank that could handle transactions and lend money, but they also were fun people to hang out with at parties.”<sup>78</sup> They took pains to keep all their clients' banking business in-house in what was described as the “bear hug” model of banking.<sup>79</sup> “The bank billed itself as a one-stop shop for the tech community, offering wealth-management services to founders, banking for startups, and access to the venture-capital firms.”<sup>80</sup> Some tech-company founders received invitation-only mortgages at below-market interest rates.<sup>81</sup> Borrowers usually had to keep most of their money at the bank as a condition of their personal and business loans.<sup>82</sup> A person close to the bank said that gave SVB the ability to deal with defaults with money from the borrower's other accounts.<sup>83</sup>

This close-knit culture helped establish SVB as a cornerstone of Silicon Valley.<sup>84</sup> Offering such wide-ranging financial services strengthened SVB's hold on clients, and assets poured in.<sup>85</sup> Yet, in hindsight some thought the bear hug model blurred the boundaries between interpersonal relationships and wise banking practices,<sup>86</sup> in large part because it meant the bank was deeply intertwined

---

69. See Zuckerman et al., *supra* note 67.

70. *See id.*

71. *See id.*

72. *See id.*

73. *Id.*

74. Paresh Dave, *Wine, Skiing, and Loans: How Silicon Valley Bank Became Startups' Best Friend*, WIRED (Mar. 15, 2023, 7:00 AM), <https://www.wired.com/story/wine-skiing-and-loans-how-silicon-valley-bank-became-startups-best-friend/> [https://perma.cc/BD4F-HLD8].

75. See Zuckerman et al., *supra* note 67.

76. *Id.*

77. *Id.*

78. *Id.*

79. *Id.*

80. *Id.*

81. Dave, *supra* note 74.

82. *Id.*

83. *Id.*

84. *Id.*

85. See Zuckerman et al., *supra* note 67.

86. *Id.*

with a single regional and industry ecosystem.<sup>87</sup> A bank run would be more abrupt if confidence wavered—everyone would leave at once.<sup>88</sup>

Such practices guaranteed SVB a huge influx of deposits.<sup>89</sup> Much like the startup clientele it courted, SVB grew at a breakneck pace with assets nearly quadrupling between 2018 and 2021.<sup>90</sup> “It was the nation’s sixteenth largest bank by the end of 2022, with \$209 billion in assets.”<sup>91</sup> By 2023, “SVB had grown to more than 8,000 employees.”<sup>92</sup> Its offices globally “looked a lot like those of the startups the bank catered to, with open architecture, white wood and lots of glass.”<sup>93</sup> Throughout the growth, SVB’s culture mirrored that of its clients—innovative but perhaps also casual when it came to governance and risk protocols, especially at the scale it reached.<sup>94</sup> The rapid growth alone should have set off alarm bells. Rapid growth often hides underlying vulnerabilities.<sup>95</sup> Regulators and executives sometimes celebrate asset growth without asking if it’s sustainable or diversified enough to weather downturns.<sup>96</sup>

### B. Problem 2: Liquidity Risk

Banks must keep assets on their balance sheet to match customer deposits, which count as liabilities on their balance sheets.<sup>97</sup> SVB “held an unusually large proportion (55%) of its customers’ deposits in long-dated Treasur[y securities].”<sup>98</sup> Those are typically super-safe assets,<sup>99</sup> and SVB was hardly alone in loading up on bonds in the era of near-zero interest rates.<sup>100</sup> Because Treasuries are normally low-risk,<sup>101</sup> this seems like a prudent choice; however, they carry a duration mismatch—long-duration bonds mature after ten years or more while depositors could withdraw at any time.<sup>102</sup> This was a ticking time bomb as

---

87. Morrow, *supra* note 61.

88. Zuckerman et al., *supra* note 67.

89. *Id.*

90. Morrow, *supra* note 61.

91. *Id.*

92. Zuckerman et al., *supra* note 67.

93. *Id.*

94. *See id.*

95. *See* Morrow, *supra* note 61.

96. *See* Zuckerman et al., *supra* note 67.

97. In a fractional-reserve banking system, when you deposit money in a bank, you are effectively making a short-term loan to that institution in exchange for any applicable interest. Banks do not hold 100% of deposits on reserve; instead, they lend or invest a portion of those funds while maintaining sufficient reserves and high-quality liquid assets to meet withdrawal requests. Regulatory requirements—such as the Liquidity Coverage Ratio under the Basel III framework—ensure that banks have enough liquidity on hand to handle the amount of deposits likely to be withdrawn during periods of market stress. *See* BASEL COMM. ON BANKING SUPERVISION, BANK FOR INT’L SETTLEMENTS, *BASEL III: THE LIQUIDITY COVERAGE RATIO AND LIQUIDITY RISK MONITORING TOOLS 1–3* (2013), <https://www.bis.org/publ/bcbs238.pdf> [<https://perma.cc/Q6LJ-3AXN>].

98. *See* Morrow, *supra* note 61.

99. *Id.*

100. *Id.*; BD. OF GOVERNORS OF THE FED. RSRV. SYS., *REVIEW OF THE FEDERAL RESERVE’S SUPERVISION AND REGULATION OF SILICON VALLEY BANK 81* (2023), <https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf> [<https://perma.cc/MC3R-YQ4S>].

101. *See* Morrow, *supra* note 61.

102. *See* BD. OF GOVERNORS OF THE FED. RSRV. SYS., *supra* note 100, at 3, 21.

interest rates began to rise.<sup>103</sup> This is because the treasury bonds' market value decreases when interest rates go up, leaving the bank with a liability mismatch—the value of their assets meant to cover deposits goes below the value of those deposits.<sup>104</sup>

The mismatch between assets and liabilities was not, by itself, unusual. Banks always face some mismatch between deposits (liabilities) and loans or securities (assets).<sup>105</sup> But SVB's mismatch was amplified by its heavy reliance on long-dated bonds.<sup>106</sup> "Typically, a bank hedges its interest rate risk using financial instruments called [interest rate] swaps, effectively exchanging a fixed interest rate for a floating rate for a period of time to minimize its exposure to rising rates."<sup>107</sup> By early 2023, it had been obvious for some time that interest rates would go up.<sup>108</sup> Many other banks had hedging strategies in place or scaled back long-dated positions when the Federal Reserve signaled higher interest rates.<sup>109</sup> But SVB "had let expire [its] interest-rate hedges . . . leaving [its] bonds vulnerable to the declines [in value] as the rates rose."<sup>110</sup> This meant that as interest rates rose, SVB did not have enough assets to cover its liabilities.<sup>111</sup> SVB had not done this but SVB did not hedge their risk.<sup>112</sup> SVB's choice not to do so is a key point of contention in post-mortem analyses, and the question of why they did not do this remains central to SVB's failure.<sup>113</sup>

On top of this, virtually all—93.8%, according to data from Standard and Poor's ("S&P") 500 Index—of SVB's deposits were uninsured.<sup>114</sup> "Typically, U.S. banks finance 30% of their balance sheets with uninsured deposits."<sup>115</sup> SVB's were extremely high.<sup>116</sup> The Federal Deposit Insurance Corporation ("FDIC") typically insures deposits only up to \$250,000 per bank account.<sup>117</sup> Many SVB clients, especially businesses, had far more money than that, making them prone to panic at any sign of problems at SVB.<sup>118</sup> Uninsured depositors have the strongest incentive to pull their money at the first whiff of trouble, and in SVB's case, that dynamic played out in a massive run.<sup>119</sup>

---

103. *Id.* at 3.

104. *See id.*

105. *See id.* at 61.

106. *Id.* at 63.

107. *See* Morrow, *supra* note 61.

108. *See id.*

109. *See id.*

110. Zuckerman et al., *supra* note 67.

111. *See id.*

112. *Id.*

113. *See, e.g.*, BD. OF GOVERNORS OF THE FED. RESRV. SYS., *supra* note 100, at 3.

114. David Hayes, *SVB, Signature Racked Up Some High Rates of Uninsured Deposits*, S&P GLOB. (Mar. 14, 2023), <https://www.spglobal.com/market-intelligence/en/news-insights/articles/2023/3/svb-signature-racked-up-some-high-rates-of-uninsured-deposits-74747639> [<https://perma.cc/6TPC-XGMW>].

115. Morrow, *supra* note 61.

116. *Id.*

117. *See* Flitter & Copeland, *supra* note 1.

118. *See* Morrow, *supra* note 61.

119. *Id.*

C. *Problem 3: Bad Risk Management*

For the year prior to SVB's collapse, the Fed had raised interest rates at an unprecedented pace in the modern era.<sup>120</sup> One must wonder how SVB did not see the risks to its stability in the changing economic environment. The oversight is even more surprising given that the Fed had cited risks to SVB's management as early as 2019—four years before the bank's collapse.<sup>121</sup> Then again, in a 2021 review, the Fed identified significant vulnerabilities in the bank's containment of risk, but the bank did not rectify the weaknesses.<sup>122</sup>

Failure to act on such regulatory warnings is alarming. It suggests a breakdown in SVB's internal governance and risk management.<sup>123</sup> This may have been due to complacency or outright negligence.<sup>124</sup> This was arguably one of the most glaring mistakes. Allowing hedges to expire while interest rates were forecast to climb heightened SVB's exposure drastically.<sup>125</sup>

For most of the year prior to the collapse, SVB was operating with a massive vacancy in its corporate leadership team: there was no chief risk officer.<sup>126</sup> A chief risk officer for a bank is charged with having a bird's eye view of the bank's activities and ensuring compliance with regulation as well as managing economic risks.<sup>127</sup> With the position vacant, responsibility for risk management fell to a committee of the board of directors.<sup>128</sup> To their credit, members of the committee met frequently, attempting to fill the gap.<sup>129</sup> But boards cannot do everything. They are supervisory bodies and are not set up to run the day-to-day operations of a bank.<sup>130</sup> Moreover, a risk committee is only as effective as its members and leadership.<sup>131</sup> Not a single member of the committee had expertise in bank liquidity.<sup>132</sup> Managing a bank's liquidity risk is a complicated operation and requires expertise.<sup>133</sup> Without that expertise and absent a dedicated chief risk officer, even a well-meaning, hardworking board committee can fail to understand its own blind spots.

---

120. See Jeanna Smialek, *Before Collapse of Silicon Valley Bank, the Fed Spotted Big Problems*, N.Y. TIMES (Mar. 19, 2023), <https://www.nytimes.com/2023/03/19/business/economy/fed-silicon-valley-bank.html> [<https://perma.cc/HJ6H-FYHY>].

121. See *Morrow*, *supra* note 61.

122. Smialek, *supra* note 120.

123. See *id.*

124. See *id.*

125. See *Morrow*, *supra* note 61.

126. Noah Barsky, *Silicon Valley Bank Proxy Shows Board's Secret Yearlong Risk Panic*, FORBES, <https://www.forbes.com/sites/noahbarsky/2023/03/12/silicon-valley-bank-proxy-shows-boards-secret-yearlong-risk-panic/> (Mar. 13, 2023, 4:32 PM) [<https://perma.cc/8242-Y789>].

127. See *Morrow*, *supra* note 61.

128. See Barsky, *supra* note 126.

129. *Id.*

130. See *id.*

131. See *id.*

132. See *id.*

133. See *Morrow*, *supra* note 61.

*D. Problem 4: Lack of Regulation*

Regulation, or lack thereof, may also share some of the blame. After the financial crisis, Congress enacted stricter requirements for bank capital holding and risk management.<sup>134</sup> A few years prior to SVB's collapse, Congress did an about face on some of that regulation by passing the Economic Growth, Regulatory Relief, and Consumer Protection Act.<sup>135</sup> The law rolled back several of Dodd-Frank's provisions, including by raising the threshold for enhanced regulations from \$50 billion to \$250 billion in assets (though it allowed the Federal Reserve to reimpose regulations for institutions between \$100 billion and \$250 billion if it chose to).<sup>136</sup> At the time of their collapses, SVB, Signature, and FRB all had more than \$100 billion but less than \$250 billion in assets,<sup>137</sup> and thus fell into this new regulation-light zone.<sup>138</sup> Moreover, at the time, SVB was too small to be required to file a resolution plan—a plan to deal with a failure—so the FDIC did not convey its concerns to bank management.<sup>139</sup> This legislative shift meant mid-sized banks like SVB enjoyed a lighter regulatory touch.<sup>140</sup> Critics argue that had the stricter Dodd-Frank requirements still applied, SVB might have faced earlier intervention—or at least been forced to devise a “living will” for an orderly resolution.<sup>141</sup>

Although according to regulators, the new regulations' light treatment of banks like SVB did not directly cause its failure, it did make its failure messy, which in turn added fuel to the panic.<sup>142</sup> The lack of a resolution plan likely prevented SVB from “failing well,” or in a more orderly way that wouldn't have induced such widespread public panic.<sup>143</sup> Moreover, the lighter regulations may have caused the Fed to move more slowly as problems at SVB came to light.<sup>144</sup> As the vice chair for supervision at the Fed, Michael Barr, stated in his report on 2023's bank failures, a “shift in culture and expectations” caused delays and, on occasion, led Fed staff to not take action.<sup>145</sup> Barr's comment suggests that even when warning signs were present, there was not enough urgency to clamp down

---

134. *See id.*

135. Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018, Pub. L. No. 115-174, 132 Stat. 1296 (2018).

136. Todd Phillips, *How 2018 Regulatory Rollbacks Set the Stage for the Silicon Valley Bank Collapse, and How to Change Course*, ROOSEVELT INST. (Mar. 15, 2023), <https://rooseveltinstitute.org/blog/how-2018-regulatory-rollbacks-set-the-stage-for-the-silicon-valley-bank-collapse-and-how-to-change-course/> [https://perma.cc/XRS7-PYFZ].

137. Zuhaib Gull & Yizhu Wang, *Republic First Becomes the 6th Largest Bank Failure Since 2010*, S&P GLOB. (Apr. 26, 2024), <https://www.spglobal.com/market-intelligence/en/news-insights/articles/2024/4/republic-first-becomes-the-6th-largest-bank-failure-since-2010-81372097> [https://perma.cc/YV9P-RNNQ].

138. *See Phillips, supra* note 136.

139. *Id.*

140. *See id.*

141. *See id.*

142. *See id.*

143. *See* BD. OF GOVERNORS OF THE FED. RSRV. SYS., *supra* note 100, at 91.

144. *Id.* at 66.

145. *Id.* at 11, 36.

on banks like SVB. This cultural shift in the regulatory environment might have emboldened institutions to take on riskier positions.

#### *E. Problem 5: Corporate Governance*

Even with sound regulation and expert officers, a company can only be well run if executive incentives are aligned with doing so.<sup>146</sup> SVB's March 2023 proxy statement filed with the Securities and Exchange Commission ("SEC") revealed that SVB's executive compensation packages were very heavy on short-term versus long-term incentives.<sup>147</sup> That is not unusual in the industry, and was, in fact, in line with similar institutions.<sup>148</sup> But such packages can disincentivize long-term risk management in favor of short-term profit.<sup>149</sup> There is evidence that this mentality pervaded SVB's management.<sup>150</sup> As the bank was collapsing, evidence indicates that SVB executives had 10b-1 plans as early as January 2023.<sup>151</sup> 10b-1 plans allow insiders to trade securities as long as they are done according to a preset schedule.<sup>152</sup> The timing of the plans' enactment is concerning, however.<sup>153</sup> They indicate an effort on the part of SVB management to mitigate the losses they thought might be coming due to the bank's troubles.<sup>154</sup>

A key lesson is that banks with such large exposures to interest-rate fluctuations should structure executive pay to reward prudence and longevity, not just growth. Otherwise, leaders can reap outsized rewards during boom times while leaving shareholders—and depositors—holding the bag when markets turn.

### IV. LOOKING AHEAD

The purpose of this Article is largely descriptive, as a myriad of experts in this Symposium have proposed possible fixes to the system to prevent a future SVB. I will note a few here that are related to corporate governance in particular.

Corporate governance at SVB was a clear problem but unlike other types of corporate entities,<sup>155</sup> bank governance has consequences for the wider

---

146. *Id.* at 96.

147. SVB FIN. GROUP, PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934 at 47, 51, 53 (2023), <https://d18m0p25nwr6d.cloudfront.net/CIK-0000719739/7d992e5b-9272-4bc8-a5cf-5a8c6b8c5251.pdf> [<https://perma.cc/34XA-P78A>].

148. *Id.* at 28.

149. BD. OF GOVERNORS OF THE FED. RSRV. SYS., *supra* note 51, at 14.

150. *Id.*

151. Mark Olsen, *Execs' 10b5-1 Plans Reportedly at Heart of Silicon Valley Bank Investigation*, INTELLIGIZE (Mar. 21, 2023), <https://www.intelligize.com/execs-10b5-1-plans-reportedly-at-heart-of-silicon-valley-bank-investigation/> [<https://perma.cc/B8VG-HZCE>].

152. U.S. SEC. & EXCH. COMM'N, RULE 10B5-1: INSIDER TRADING ARRANGEMENTS AND RELATED DISCLOSURE 1-2 (2022), <https://www.sec.gov/files/33-11138-fact-sheet.pdf> [<https://perma.cc/422P-QVS5>].

153. Austin Weinstein & Bloomberg, *Silicon Valley Bank's CEO Sold \$3.6 Million of Stock in Potentially "Problematic" Transaction Days Before Historic Bank Failure*, FORTUNE (Mar. 10, 2023, 8:01 PM), <https://fortune.com/2023/03/10/silicon-valley-bank-ceo-greg-becker-3-6-million-stock-sale/> [<https://perma.cc/CM5R-6W82>].

154. BD. OF GOVERNORS OF THE FED. RSRV. SYS., *supra* note 51, at 27.

155. *Id.* at 13.

financial system.<sup>156</sup> State corporate law does not always provide the right kinds of incentives for an institution like this, concerned as it is with the allocation of rights internally between corporate stakeholders.<sup>157</sup> Its focus on internal stakeholders—managers and shareholders—leaves out externalities like the systemic effects of bank runs.<sup>158</sup> In addition, even where state corporate law might, in theory, incentivize attention to systemic effects (*e.g.*, because they are good for shareholders) shareholder enforcement would come too late.<sup>159</sup> It would have to come either by way of proxy fight (to oust board members) or litigation (via a derivative suit).<sup>160</sup> Both of these actions are retrospective and require the problem to come to light before action can be taken.<sup>161</sup> But in SVB’s situation, the problem was already a full blown disaster when it came to light.<sup>162</sup> More *ex ante* incentives for better governance are needed.

Bank corporate governance is not only the province of state law, however. The FDIC, a federal bank regulator,<sup>163</sup> has the power to add a layer of *ex ante* corporate governance incentives.<sup>164</sup> The FDIC already regulates internal bank governance in certain respects, including issuing guidelines with respect to compensation of executives of insured institutions.<sup>165</sup> Further changes to guidelines that shift the balance to long-term incentives, such as requiring more disclosure of insider equity transactions or tying compensation to risk management goals, could improve governance. Moreover, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (“FIRREA”) empowers the FDIC to hold directors and officers accountable for failures.<sup>166</sup> This is not to suggest that the FDIC should take over corporate governance for banks, and the suggestions are relatively small additions to what the FDIC already does.

Perhaps the most important lesson from the SVB collapse is the enduring significance of regulatory oversight in preserving financial stability. In prosperous times, regulation can appear burdensome, expensive, and unnecessary—tempting lawmakers and industry leaders to scale it back.<sup>167</sup> The costs are visible and immediate, while the benefits—namely, the prevention of crises—are often

---

156. *Id.* at 18.

157. SVB FIN. GROUP, *supra* note 147, at 48.

158. *See id.*

159. *See* BD. OF GOVERNORS OF THE FED. RESRV. SYS., *supra* note 100, at 95.

160. Kevin M. LaCroix, *Corporate Loan Provisions Aimed at Proxy Campaigns Trigger D&O Litigation*, D&O DIARY (Apr. 29, 2015), <https://www.dandodiary.com/2015/04/articles/shareholders-derivative-litigation/corporate-loan-provisions-aimed-at-proxy-campaigns-trigger-do-litigation/> [<https://perma.cc/TY5L-CDT5>].

161. *See id.*

162. *See* BD. OF GOVERNORS OF THE FED. RESRV. SYS., *supra* note 100, at 95.

163. *Id.* at 79.

164. *See id.*

165. Interagency Guidelines Establishing Standards for Safety and Soundness, 12 C.F.R. pt. 364, app. A (2025); *see, e.g.*, FED. DEPOSIT INS. CORP., RMS MANUAL OF EXAMINATION POLICIES SECTION 4.1: MANAGEMENT (2025), <https://www.fdic.gov/resources/supervision-and-examinations/examination-policies-manual/section4-1.pdf> [<https://perma.cc/W3KG-5YHN>].

166. *Financial Institutions Reform Recovery and Enforcement Act (FIRREA)*, FDIC, <https://www.fdic.gov/publications/financial-institutions-reform-recovery-and-enforcement-act-firrea> (June 12, 2023) [<https://perma.cc/LLY3-YPT3>].

167. *See* Barr, *supra* note 48.

---

---

intangible and hard to measure until disaster strikes.<sup>168</sup> The SVB episode underscores this dynamic: It reveals how regulatory gaps contributed to a cascading failure, but also how swift intervention by regulators helped contain the damage and prevent a far more devastating crisis. It serves as a reminder that robust oversight is not a luxury, but a safeguard that becomes most vital just when it seems least necessary.

## V. CONCLUSION

The SVB and Signature Bank collapses serve as cautionary tales about the perils of complacency in risk management, the rapid spread of fear through social media, and the fragility of banks heavily concentrated in a single sector. As we have seen, it was not just one failing but a cascade of smaller ones—much like the Federal Aviation Administration analogy of an airplane crash—that brought down these once stalwart institutions.<sup>169</sup>

Better governance structures, more robust regulatory oversight, and scrutiny of executive incentives could mitigate similar crises in the future. Ultimately, the events of 2023 underscore an unavoidable truth: When an entire ecosystem—startups, venture capital, and the banks that serve them—grows at breakneck speed without the necessary safety nets, the ensuing fallout can reverberate far beyond Silicon Valley.<sup>170</sup> The key now is to learn from every misstep and ensure that future innovation is paired with responsible risk-taking and vigilant oversight.

\* \* \*

---

168. See *supra* notes 1–7 and accompanying text.

169. See discussion *supra* Part III.

170. See discussion *supra* Section III.A.

