

Hello, Bank Slaters!

What a topsy-turvy week. I have rewritten this newsletter five times in the last 72 hours.

In a matter of days, Silvergate Capital shut down its crypto exchange network, then announced it would [liquidate its bank](#). Regulators [closed Silicon Valley Bank](#) less than two days after the bank [sold a large chunk of securities](#) at a substantial loss to offset a steep drop in deposits. Next came [Signature Bank in New York](#) and assurances by regulators that they are going to do what they can to prevent contagion.

So let's talk about confidence and concentrations.

There seems to be a common thread among SVB, Signature and Silvergate. Each had business models that involved large deposit concentrations, whether that was tech and venture capital for SVB or crypto at Silvergate and Signature. We often talk about loan concentrations, but there is usually ample capital in the industry to protect against loans going bad (a reaction to the 2008 financial crisis).

To be sure, SVB had an issue with its asset mix. It parked funds from its deposits (95%+ uninsured) into investment securities, including mortgage-backed securities (MBS), based on a belief that interest rates would stay low. The Fed's aggressive rate hikes (tied to an obsession with inflation) put the securities underwater, creating an issue – but only if many deposits left the bank.

That's how the deposit situation became the real threat. Initially, deposit outflows, tied to cash needs from tech and VC clients, forced SVB to sell its underwater securities at a massive loss. SVB announced the securities sale alongside *plans* to raise capital (it had not shored up all its commitments beforehand), spooking more depositors, who headed for the exits and forced regulators' hands.

It comes down to confidence. Think about this: SVB improved its liquidity position by selling securities (before the announcement brought on panic). The timing and decision-making failed to improve confidence. In fact, the opposite happened. The term 'Twitter-fueled bank run' has been mentioned a bit this weekend.

Regulators vowed to make *all* of SVB's depositors whole (and those at Signature). This is important because, in the case of SVB, many tech companies would have to consider layoffs if they were unable to retrieve uninsured deposits held at SVB. Another effort to restore confidence.

The Fed also announced a new bank term funding program and agreed to [provide more borrowing capacity](#) to First Republic Bank in San Francisco.

Buckle up. It will be a bumpy ride as people question their confidence in other banks (and perhaps the overall banking system). Regulators will do what they can, but it is hard to guess the psyche of investors and depositors in times like these.

If you have a diversified deposit base (which I hope you do) now is the time to remind customers and investors of that. We're already seeing a lot of community banks do just that on social media (kudos for being proactive). Good communication and transparency can go a long way to keeping people confident in your bank.

What are your thoughts? Let me know at info@thebankslate.com.

Let's look at some of the other news events from the past week.

The Big Headline

SoFi Bank [filed a lawsuit](#) in an effort to force the Biden administration to end its pause on federal student loan payments. SoFi said the latest extension cost it at least \$6 million, adding that it could lose a total of \$30 million if the pause lasts through August.

M&A

- Fifth Third Bancorp in Cincinnati [agreed to buy](#) Big Data Healthcare, a healthcare payments company, for an undisclosed amount.

Arrivals | Departures

- The CEO of Lake Shore Bancorp [will retire](#) just weeks after the New York company's bank was classified as being in a "troubled condition" by the OCC.

(Fin)tech

- Julie L. Williams, who twice served as Acting Comptroller of the Currency, [joined the board](#) of Anchorage Digital Bank in San Francisco.

Odds & Ends

- Republic First Bancorp in Philadelphia plans to [raise \\$125 million](#) in capital in a private placement that includes Castle Creek Capital and an affiliate of Cohen Private Ventures.
- Newtek Business Services in Florida, which recently bought a bank, filed to [raise up to \\$500 million](#) over time by selling securities and issuing debt.

- Saint Louis Bancshares in Missouri raised [\\$27 million in capital](#) as it looks to grow from \$824 million of assets to \$1.3 billion of assets.

There you have it. I know this is going to be a hectic week. Hang in there. Do your best. Communicate, be transparent and do what you can to do right by your clients.

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