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The collapse of Silicon Valley Bank, located in Santa Clara, California, has had a ripple effect in Spokane and the entire country since it was known as the go-to bank for venture capitalists who invest into emerging companies.

Tom Simpson, president of Spokane-based Ignite Northwest, which mentors and supports emerging companies in the region, said most of his clients had ties to Silicon Valley Bank.

“Either they had deposit relationships or their payroll processes went through Silicon Valley Bank. Some of the payrolls were in question last week,” Simpson said. “This was an unexpected event. It causes a lot of panic and shock and surprise.”

Federal regulators stepped in to close Silicon Valley Bank late last week after the bank, the 16th largest bank in the country with about $210 billion is assets, said it would have to sell some of its holdings to raise money and recoup its losses.

That disclosure sent off a wave of panic and many SVB customers pulled their money, which set off the cascading effect that ended with regulators putting a halt to activity, according to the Washington Post.

The collapse became the largest U.S. bank failure since Washington Mutual crumbled in 2008 at the beginning of the Great Recession.

However, U.S. government officials announced Sunday evening that depositors with money at the failed California bank would have access to their deposits even beyond the amounts insured by the FDIC.

Simpson, whose email and phone were blowing up all weekend, said the government had little choice but to back the Silicon Valley depositors.

“These companies would have lost their entire deposits. If those deposits were lost, these companies would almost immediately be out of business,” Simpson said.

Many of those business failures would have occurred in Spokane, said Simpson, who declined to specifically name the local companies.

“If all these companies lost their deposits, it would have been traumatic to the U.S. economy,” Simpson said, “not only from the standpoint of companies going out of business but the loss of confidence in banking system.”

Dan Hansen, spokesman for STCU, said the ripple effect from Silicon Valley’s collapse caused his organization to begin reaching out to its customers to let them know that the credit union remains on a solid financial footing.

“I’m sure our front lines have been getting questions about this,” Hansen said. “What I can tell you is there is no run on cash.”

STCU, like other credit unions, has backing from the National Credit Union Association which like the FDIC insures deposits up to $250,000. And for a family, that can total up to $2.5 million, Hansen said.

“I can go into a list of reasons why Silicon is so out of the ordinary,” he said. “We are sympathetic. But the fact is, it just really has no bearing on STCU.”

### **Different kind of bank**

To understand how the collapse of one bank can cause such jolt to the entire economic system, one must understand the role that Silicon Valley Bank played, Simpson said.

“I read something like half of all the venture and angel-backed companies had a relationship with Silicon Valley Bank,” Simpson said. “If they lost those deposits, we would have seen the growth engine for the U.S. economy dramatically jeopardized.”

He explained that Silicon Valley built its entire business model toward helping smaller companies get started.

“Silicon Valley Bank understood the needs for startups and emerging companies. They provided more flexible loan structures that are really catered toward emerging companies,” he said. “That was their specific focus. They were very well going and very well respected.

“There was no other bank in the entire country with the same exposure.”

That was part of the problem, said Greg Deckard, CEO and chairman of Spokane-based State Bank Northwest.

He noted that Silicon Valley’s collapse then led, in part, to the Sunday collapse of Signature Bank, a New York bank with ties to cryptocurrency investors. Another crypto-focused bank, Silvergate Capital in California, closed last Wednesday.

“It’s the risky business models of these banks that created this,” Deckard said. “We remind people it’s not a banking crisis or contagion. There is no reason for a normal depositor to be worried.”

Both the Signature and Silvergate collapses were also tied to the earlier collapse of cryptocurrency exchange FTX, which [filed for bankruptcy last November](https://www.spokesman.com/stories/2022/nov/10/ftx-hurtles-toward-bankruptcy-with-8-billion-hole).

Silicon Valley had about 97% of its holdings invested in a single type of investment, Deckard said.

“There’s a time for finger pointing. But this just didn’t come out of the blue,” Deckard said. “These banks had all these securities (in one investment portfolio). They sort of did it to themselves.”

He questioned why regulators in New York and California didn’t step in to make sure those banks diversified their holdings.

“That’s not the model of community banks. The average small business owner, farmer or consumer should not be worried about a banking crisis,” Deckard said. “They know that we are locally owned and invested in our community and not involved in these exotic lines of business.”

Steve Scranton, chief investment officer and economist for Washington Trust Bank, agreed with Deckard that the crisis was isolated to specialized institutions.

“They didn’t have diversified deposits. When their banking started to see problems, it had an immediate impact,” Scranton said. “Our biggest exposure to any one industry is only 5%. That’s what you’ll see with Main Street , or traditional banks, in Spokane.”

Roberta Hollinshead, the director of banks at the state of Washington’s Department of Financial Institutions, said the “dramatic action” to make depositors whole has “stemmed the tide of concerns by depositors.”

“We have reached out to all the banks, just reminding them that if there is anything surprising going on to let us know,” Hollinshead said. “The actions by the federal government have calmed the market and calmed depositors’ concerns.”

However, Deckard said the decision to have the FDIC cover deposits over $250,000 marks the first time in history for that action. Federal officials noted that the FDIC had enough in its insurance pool to cover the extra cost.

That money does not come from tax payers, but from a fund created by the FDIC by charging premiums to banks. As a result of collapses like Silicon Valley, local bankers will likely have to pay more for insurance, Deckard said.

Those costs may eventually be passed down to consumers.

“We are already paying a supplemental premium to bring the fund back up after the last banking crisis,” Deckard said. “As a member of the industry, it frustrates me.

“Again, they are penalizing those banks that run a typical banking model for the sins of those who have risky practices.”

Troy Stang is CEO of the GoWest Credit Union Association. That organization includes about 100 credit unions in Washington and five other states.

Like Hansen at STCU, Stang said his organization fielded a few inquiries from members. “But I’m getting no significant reports of movements of funds,he said.”

Stang said bank collapses like the one at Silicon Valley “make the marketplace smarter.”

Any Spokane investors with more than $250,000 in Silicon Valley were “sweating in their shoes” on Thursday night and Friday. But the White House agreed on Sunday to have the FDIC insurance cover all the depositors.

He noted the U.S. Treasury Department also opened a line of credit to provide low-interest loans to any other institutions that find themselves in similar risk of collapse.

“Let’s keep our fingers crossed from all perspectives that this is pretty much a singular, isolated incident,” Stang said.

### **Dwindling resources**

While the immediate financial crisis may have passed, Simpson, of Ignite Northwest, said Silicon Valley’s collapse is just the latest setback in an already challenging field.

“The venture capital community has been pretty skittish for the last six or nine months,” he said. “This certainly doesn’t help. It will probably add to the overall conservatism of venture capitalists.”

Spokane, like most communities across the county, relies on its “entrepreneurial core” to grow their local economies, he said.

“I think they are huge,” Simpson said of startups. “If you don’t have new ideas and new companies, you are not going to be growing.”

Now that the deposits of all those companies have the backing of the federal government, it’s hard to tell how the banking industry and customers will react, he said.

“Other banks will likely be able to replicate the services provided by Silicon Valley Bank,” Simpson said. But “other banks might not be as open minded to that.”

The Washington Post contributed to this report