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ECONOMIC POLICY

Bailout talk roils Washington after Silicon Valley Bank's collapse

Government help for large depositors could ignite a political firestorm — but failing to act could crush some tech start-ups

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Federal officials faced growing pressure Saturday to bail out even the biggest customers of the collapsed Silicon Valley Bank, igniting a ferocious political debate over Washington's role in tamping down potential threats to the broader U.S. financial sector.

Tech executives, former government officials and at least two Democratic lawmakers called for safeguarding depositors with money at stake in the collapse if a buyer for the bank's assets isn't found by Monday, arguing that it's the only way to limit a cascade of bigger problems.

Companies that did business with Silicon Valley Bank are already warning that the bank's failure may force thousands of layoffs or furloughs, and prevent many workers from receiving their next paycheck.

Some experts worry that large numbers of companies could move to transfer their money from regional banks similar to SVB to safer giant commercial banks Monday, leading to a fresh round of destabilization.

A move to make Silicon Valley Bank's depositors whole without a buyer would probably require Congress to pass legislation drawing on an insurance fund paid into by all banks and backed by U.S. taxpayers — a fund that typically only covers deposits up to the Federal Deposit Insurance Corp.'s limit of $250,000. But more than 90 percent of SVB's accounts were over that limit. Critics of using the fund to help larger depositors argue that it would establish a troubling precedent, leading other banks in similar circumstances to expect federal authorities to swoop in and save them as well.

That could lead to a backlash, in an echo of the fury directed at government rescue measures for Wall Street during the 2008 financial crisis. But this time taxpayers would be bailing out the would-be lords of tech rather than the lords of finance.

Another possibility is that larger Wall Street banks, fearing wider contagion, acquire what's left of SVB and make all of its depositors whole. That could be a tricky bet, however, and bigger banks might ask for the federal government's help before agreeing to a potentially unprofitable purchase.

“All the choices are bad choices,” said Simon Johnson, an economist at MIT who previously served as chief economist of the International Monetary Fund. “You don't want to extend this kind of bailout to people. But if you aren't doing that, you face a run of really big — and really hard to predict — proportions.”

Created during the Great Depression to provide a federal backstop on bank runs, the FDIC is meant to insure only a portion of customer deposits — both to reduce the risk to taxpayers and to encourage customers to perform due diligence and not put their deposits in banks that take irresponsible risks.

But officials at the FDIC — which, in a stunning move Friday, took over Silicon Valley Bank during normal trading hours — are facing some calls to go beyond giving smaller customers their money back.

On Friday, the FDIC said in a statement that everyone with an insured deposit — meaning accounts worth less than $250,000 — would have full access to their money by Monday morning. The statement said that uninsured depositors — those with accounts exceeding $250,000 — would get some of their money back, but it did not specify how much. Uninsured depositors make up the overwhelming majority of the bank's customers.

In deciding how to respond, federal authorities will have to weigh what the extent of the risk posed by the collapse is to other parts of the banking sector and U.S. economy. Experts differ sharply on the answer to that question. Many banking experts see SVB's implosion as an anomaly confined to a specific part of the economy — important to the volatile tech sector but little else, at least for now. Nothing on the scale of SVB's collapse emerged in other parts of the banking system, but some of the largest Wall Street firms — JPMorgan Chase, Bank of America, Citigroup, Wells Fargo and Goldman Sachs — saw their stock prices sink amid the chaos.

“The question the Fed has to deal with is how broadly is this happening. Is it a problem with just a couple banks, which is unfortunate but manageable, or is there a broader movement here which might be systemic, in which case they have to step in and use the powers they have,” said Barney Frank, the former Massachusetts congressman who played a leading role in writing the legislation to regulate Wall Street following the 2008 crisis.

Frank said he told senior officials at the Federal Reserve on Friday that the risk to the broader financial system could be “more widespread.”

A slew of federal regulators — including those with the FDIC, Federal Reserve and Treasury Department — have scheduled a number of private briefings with top lawmakers since the bank's collapse, including members of the House Financial Services Committee, which oversees banking, according to two people familiar with the matter who spoke on the condition of anonymity to describe the conversations.

"The committee is in touch with regulators and closely monitoring the situation," said Laura Peavey, a spokesman for Rep. Patrick T. McHenry (R-N.C.), the chairman of the panel.

One of the committee's members, Rep. Brad Sherman (D-Calif.), said the government needed to "do everything possible so that payroll is met," citing the financial blow to his tech-heavy home state if companies are not able to pay their workers promptly because they can't access their deposits.

"The last thing I want to hear is 40 companies go under because they can't make payroll … [and] they get it 40 weeks from now and their company is gone," he said.

California Gov. Gavin Newsom (D) said in a statement Saturday that he'd been discussing the situation with the Biden administration: "Everyone is working with FDIC to stabilize the situation as quickly as possible, to protect jobs, people's livelihoods, and the entire innovation ecosystem that has served as a tent pole for our economy."

Rep. Katie Porter (D-Calif.) said she had been in contact with Newsom, since state law requires employees to be paid within "so many days of work." That, she said, raised the potential that payroll processors without access to their money come Monday could create a wave of "unnecessary layoffs."

Porter said the easiest solution is for the bank to "find a buyer," which could set the stage for even uninsured depositors to access their money. "I think we wait and see if that can happen. If it doesn't, we can start to think about other kinds of ways … that the government can bridge [the gap]," she explained, noting the bank did hold "assets of real value."

Unwinding the bank's balance sheet will begin in the next few days if the FDIC can't find another bank to take over all of SVB's business. Customers who had uninsured deposits will receive some amount of money back by next week, the FDIC said, without specifying how much. The FDIC is expected to sell the bank's remaining assets and use the proceeds to pay the uninsured depositors.

The FDIC has a fund paid into regularly by U.S. banks that is intended to protected insured depositors. That fund is ultimately backed by U.S. taxpayers. Congress would need to pass a law authorizing the FDIC to use the insurance fund to protect uninsured deposits, said Todd Phillips, who served as an attorney for the FDIC and is now a fellow at the Roosevelt Institute, a center-left think tank. That raises the prospect of special federal assistance for uninsured depositors, even though experts downplay the odds of that occurring.

"I think it's unlikely that Congress will pass a law making these uninsured depositors whole," Phillips said. "The $250,000 ceiling is really meant to cover real people, and Congress has not previously shown much of an interest in bailing out businesses that hold millions of dollars with banks. I don't think it's likely to start now, but stranger things have happened."

SVB held roughly $150 billion in uninsured deposits, according to the company's latest financial statement, issued late last month. That amounts to more than 93 percent of the firm's deposits, Bloomberg News reported. Many of the deposits came from wealthy venture capitalists or tech firms that Washington would face certain fury for aiding, although the precise percentage held by businesses is unknown. Roku, California vineyards and for aiding, although the precise percentage held by businesses is unknown. Roku, California vineyards and philanthropic efforts backed by venture capitalists were all among the firms that had money at SVB.

SVB held more than $200 billion in assets at the end of last year. California regulators estimated that the bank had seen roughly $40 billion in outflows, suggesting somewhere in the neighborhood of $160 billion in outstanding assets. While acknowledging that the precise math is not immediately clear, Phillips estimated that the uninsured depositors could face losses of between 10 and 15 percent from the returns on the sales of these assets, which would be difficult for them but not catastrophic for the economy.

The FDIC could coordinate its work with the nation's other top authorities for regulating the banks, the Federal Reserve and the Treasury Department. On Friday afternoon, Treasury Secretary Janet L. Yellen said she had convened a meeting of top banking regulators but announced no actions. Cecilia Rouse, a top White House economist, also expressed confidence Friday in the resilience of the banking system.

Spokespeople for the Fed, FDIC and Treasury declined to comment on the prospect of government aid for the uninsured deposits.

Calls for action emerged Friday and were only expected to intensify. Larry Summers, the former Democratic treasury secretary, told The Washington Post that making all uninsured depositors whole could prevent a broader financial panic.

"We must make sure all deposits exceeding the FDIC $250K limit are honored. Banking is about confidence," Rep. Eric Swalwell (D-Calif.) said on Twitter. "If depositors lose confidence on the safety of their deposits over 250k then we are in trouble."

Rep. Ruben Gallego (D-Ariz.) also tweeted that the FDIC "must work to protect deposits exceeding the 250k limit and keep [Arizonans'] money protected."

Garry Tan, chief executive of Y Combinator, one of the industry's most influential start-up incubators, tweeted that failure to act could represent an "extinction level event" for start-ups and could set back innovation "by 10 years or more." David Sacks, general partner of Craft Ventures and a longtime venture investor, also directly petitioned Yellen and Federal Reserve Chair Jerome H. Powell for help. "Where is Powell? Where is Yellen? Stop this crisis now. Announce that all depositors will be safe. Place SVB with a Top 4 bank," Sacks tweeted. "Do this before Monday open or there will be contagion and the crisis will spread."

Bill Ackman, a billionaire hedge fund manager, also predicted a run on all but the biggest banks Monday absent government intervention or the emergence of another bank to buy SVB, which he described as unlikely.

As soon as calls for intervention began, so did the outcry from the left and right against any potential bailouts.

Rep. Matt Gaetz (R-Fla.) tweeted, "I will NOT support a taxpayer bailout of Silicon Valley Bank."

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"Bailing out SVB would embolden banks to take irresponsible risks," Max Ghenis, a policy analyst at PolicyEngine, wrote on Twitter. "A tiny, disproportionately rich share of US jobs are at stake. … How is this debatable."

Another awkward challenge: Greg Becker, the CEO of SVB, was a director of the Federal Reserve Bank of San Francisco from 2019 until Friday.

"There's a balance to strike here. The FDIC wants to maintain confidence in markets, but how much they go beyond their statutory duties is certainly the question of the hour," said Eswar Prasad, an economist at Cornell University. "I don't think they'll stick their necks out that much."

Gerrit De Vynck contributed to this report.