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Causes and Consequences of the Silicon Valley Bank Collapse: Examining the Interplay Between Management Missteps and the Federal Reserve's Floundering Decisions

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Abstract: The recent failure of Silicon Valley Bank, one of the largest banks in the world's technology capital, has sent shockwaves throughout the financial sector. It is essential to have a solid understanding of the various causes that led to the bank's failure. The current study sheds light on the subject by analyzing the data and looking at the relevant information. The present study investigates the particular roles that a variety of contributing elements played in the failure of the bank by using the evidence that is already accessible. This evidence includes data that has been published and reports that have been written on the topic. The bank's demise can be ascribed to a combination of management errors, regulatory oversight failings, and government involvement, according to the findings of an in-depth investigation of the causes that contributed to the bank's downfall. The research emphasizes the significance of effective risk management and diversity in investing strategies while simultaneously sounding a warning about the possible dangers of loosening up on regulatory requirements. In conclusion, the research highlights the significant part that effective management plays in the banking industry and issues a call for banks and policymakers to successfully traverse an uncertain and challenging landscape in order to mold the future of the financial system. The study provides implications for both practitioners and academics.

Keywords: Silicon Valley Bank, Bank Failure, Management, Government Intervention

1. Introduction

The banking sector is a crucial aspect of the global economy, and any significant bank failure can have far-reaching consequences [1, 2]. The 2008 financial crisis marked a turning point in the history of the American financial system, leading to the collapse of several major banks and financial institutions. The collapse of the Washington Mutual Bank in 2008 [3]. On March 10, 2022, Silicon Valley Bank (SVB), the largest bank in the United Nations, experienced a significant failure that resulted in the loss of billions of dollars in deposits and investments.

The recent collapse of the Silicon Valley Bank in 2023 has highlighted the vulnerabilities of the American banking system [4, 5]. The Washington Mutual Bank was the sixth largest bank in the United States of America, with assets exceeding $300 billion, whereas the Silicon Valley Bank was one of the largest banks in the technological hub of the world [6, 7]. These collapses have highlighted the need for a comprehensive understanding of the factors that lead to such events and the measures that can be taken to prevent them. The failure of Washington Mutual Bank and Silicon Valley Bank are two examples of the devastating impact of financial crises on the banking sector. These crises draw special attention to the complex interplay between bank management, regulatory oversight, and government intervention. In 2008, the US financial sector was in a state of panic, with the 2008 financial crisis at its peak. The CEO of Washington Mutual, Kerry Killinger, called on the US Treasury Secretary, Hank Paulson, to intervene and save the bank from total collapse [8]. Despite being one of the largest banks in America, with assets exceeding $300 billion [9], Washington Mutual was ultimately acquired by the Federal Deposit Insurance Corporation two months later, marking the largest banking collapse in US history [10].

Fifteen years later, history repeated itself with the collapse of Silicon Valley Bank in 2023. Unlike Washington Mutual, Silicon Valley Bank collapsed in only 36 hours, making it the second-largest banking failure in US history [11]. The bank's inability to meet depositors' requests to withdraw their money caused panic among customers, leading to the bank's failure. [12]. These two banking crises emphasized the significance of effective management and regulatory oversight in maintaining the stability of financial institutions. While the collapse of Washington Mutual led to a range of regulatory reforms, including the Dodd-Frank Wall Street Reform and Consumer Protection Act [13]. However, these measures were not enough to prevent the collapse of Silicon Valley Bank.

Gramm-Leach-Bliley Act: This law was enacted in 1999 and repealed parts of the Glass-Steagall Act of 1933. The law removed barriers between commercial and investment banking which enabled banks to engage in a broader range of financial activities. This led to the creation of financial conglomerates that could offer a wide range of services but also increased the risk of conflicts of interest and systemic risk in the financial system.

The collapse of Silicon Valley Bank raises questions about the adequacy of current regulatory policies and the effectiveness of government intervention in financial crises. This case study provides an opportunity to examine factors that contributed to the collapse of Silicon Valley Bank and to identify areas for improvement in regulatory oversight and government intervention in future financial crises. Moving forward, it is essential to develop more robust regulatory frameworks that can identify and address potential risks in the banking sector before they lead to a systemic collapse. This will require greater coordination between regulatory agencies, effective risk management practices, and a commitment to transparency and accountability. By learning from the lessons of past financial crises, we can work towards building a more stable and resilient banking sector.

This study analyzes the causes and consequences that led to the collapse of Silicon Valley Bank. Specifically, it examines the role of management missteps, the Federal Reserve's regulatory oversight, and the government intervention in the bank's downfall. Also, this study will shed light on the extent to which the collapse of the Silicon Valley Bank can be considered a spark for a new financial crisis. Through a mixed-methods approach, the study draws on data from various sources to explore the dynamics of the interplay between management and regulatory decisions. The findings highlight the potential consequences of inadequate management practices and regulatory oversight on the stability of financial institutions. The study concludes with recommendations for improving management practices and regulatory policies to mitigate the risks of future bank collapses.

2. Background

The collapse of both Washington Mutual Bank and Silicon Valley Bank was triggered by a combination of factors, which include the subprime mortgage crisis, a lack of effective regulatory oversight, and risky business practices. Washington Mutual Bank had invested heavily in subprime mortgages, eventually leading to a surge in loan defaults and a loss of investor confidence [14]. Similarly, the Silicon Valley Bank had invested heavily in US government bonds, which were deemed safe investments [12]. However, the bank's overreliance on these investments and its failure to diversify its portfolio left it vulnerable to market fluctuations. When interest rates began to rise, the value of these bonds declined sharply, causing significant losses for the bank.

Additionally, the bank's risky business practices, such as lending to high-risk borrowers and engaging in complex financial instruments, further exacerbated the situation. The lack of effective regulatory oversight by the Federal Reserve also played a role in allowing these practices to continue unchecked. Ultimately, these factors combined to lead to the collapse of the Silicon Valley Bank [12].

Silicon Valley Bank (SVB) is a financial institution that has played a vital role in the growth of the technology and innovation industries in the United States [15]. Founded in 1983, SVB has become one of the leading banks for start-ups, venture capital firms, and private equity firms in the Silicon Valley area and beyond. The founding of SVB resulted from a group of entrepreneurs who realized the need for a bank that understood the unique needs of the technology industry [16]. In 1982, Ken Wilcox and Bill Biggerstaff, both seasoned bankers with experience in the tech industry, teamed up with a group of Silicon Valley entrepreneurs to create a bank that could provide financial services to start-ups and emerging technology companies [17]. After a year of planning and fundraising, Silicon Valley Bank opened its doors in Santa Clara, California, in 1983. The bank's initial focus was on providing financing to hardware and software companies in the technology industry; however, it rapidly flourished as a key player in the market. Over the years, SVB has expanded its services to include commercial banking, investment banking, and private banking, as well as branching out into other areas of innovation, such as life sciences and clean technology [18]. In the following sub-sections, the success of the bank and the negative consequences that come with success are outlined.

2.1. Success of Silicon Valley Bank

One of the factors that contributed to SVB's success was its ability to adapt to the rapidly changing technology industry. The bank quickly recognized the potential of the Internet, and in the mid-1990s, it launched an online banking platform that allowed clients to access their accounts and conduct transactions from anywhere in the world. SVB also expanded its services to include international banking, providing clients with access to global markets and helping them expand their businesses overseas. SVB's focus on the technology industry enabled it to develop a unique culture and approach to banking. The bank's employees are highly knowledgeable about the technology industry, and many have worked in the industry themselves [19]. This expertise allows SVB to provide clients with customized financial solutions that meet their specific needs, such as venture debt financing, which provides start-ups with access to capital without diluting equity.

Silicon Valley Bank is a pioneering financial institution that sets itself apart from other banks by its ability to cater to emerging technology investors. This is achieved by bridging the lending gap that plagues emerging companies, especially in the technology sector. At the time of the bank's inception, traditional American banks were hesitant to lend to start-up companies, which were deemed high-risk entities with uncertain prospects of profitability for at least five to seven years. Consequently, start-up owners faced insurmountable obstacles when trying to secure financing, as they lacked tangible assets and stable cash flows that could serve as collateral [20]. For almost four decades, Silicon Valley Bank has managed to establish itself as a leading player in the US banking market. Its success is reflected in its ability to attract emerging and technology firms and its ranking as the 16th largest bank in the US in terms of assets held. The bank's continued success can be attributed to its unwavering commitment to innovation and its ability to identify and meet the unique needs of the technology industry. By providing customized financial solutions, Silicon Valley Bank has helped countless start-ups and emerging companies overcome the financial hurdles that typically impede their growth. Its specialized expertise and knowledge of the technology industry have earned the bank a reputation as a trusted partner and valuable resource for entrepreneurs and investors alike [21].

Silicon Valley Bank has been a prominent player in the US banking industry for almost four decades, but its performance has been exceptional over the past five years. This period can be considered the bank's golden era, marked by impressive profits and a significant increase in the percentage of deposits. In 2017, the total value of deposits with the bank was $44 billion, whereas, in 2021, the deposits surged to an astounding $189 billion, indicating a fourfold increase in just four years [22].

The surge in deposits can be attributed to the market conditions prevailing during that period. The US stock market witnessed remarkable growth, and the interest rates were close to zero, compelling investors to explore alternate investment avenues. In particular, venture capital companies and start-ups were actively investing in emerging technology firms, leading to a substantial influx of capital in the banking sector. Silicon Valley Bank, being a leading player in the start-up ecosystem, benefitted the most from this trend, and a significant portion of the funds poured into the American markets found their way into the bank's accounts. The impressive growth of Silicon Valley Bank over the past five years underscores its expertise in catering to the needs of the dynamic and innovative start-up ecosystem. The bank's ability to offer tailor-made financial solutions that cater to the unique needs of start-ups has been a key factor driving its success. As the start-up landscape continues to evolve rapidly, Silicon Valley Bank is well-positioned to leverage its experience and expertise to fuel the growth of innovative businesses, making it a crucial player in the US banking industry [23].

During that period, Silicon Valley Bank's performance was impressive, with the bank achieving significant profits, expanding its assets, and growing its customer base. Like any other bank, Silicon Valley Bank operated on the fundamental principle of taking in deposits from customers and lending them to borrowers at a lower interest rate, thus earning profits from the difference between the two rates.

2.2. The Unintended Consequences

However, the bank faced a unique dilemma, as it received a high volume of deposits but could not lend out all of the funds deposited in its accounts [24]. Furthermore, the US market was awash with liquidity, thanks to the Federal Reserve pumping money into the economy. This led to a decline in the number of individuals seeking loans, and start-ups, in particular, were flush with funds from venture capital firms, public offerings, and other sources. This meant they did not require any additional loans from the bank, which further exacerbated the lending gap [25].

To bridge the lending gap, Silicon Valley Bank invested its surplus funds outside the traditional banking sector, which ultimately proved to be a disaster. A closer look at the bank's balance sheet during that period reveals that by the end of 2022, Silicon Valley Bank had amassed $212 billion in assets. These assets were divided into four categories, with $91 billion in government bonds, $74 billion in loans, $14 billion in cash, and $33 billion in other assets. The Silicon Valley Bank invests its money in four items, which are logical and low-risk. However, recent changes in the percentage of funds invested in lending and US assets have caused unexpected negative consequences. Even though government bonds are considered the safest assets in the world, the percentage of the bank's assets invested in them has increased to more than half [26].

As we've clarified, the Silicon Valley Bank invested its money in buying treasury bonds to compensate for the lending shortage it faced. Investing in government bonds posed no risk to the bank over the years. However, the situation changed after the Federal Reserve's decision in March 2022 to raise interest rates to about five percent [27].

The Federal Reserve Bank has unintentionally impacted the Silicon Valley Bank and contributed to its collapse in an indirect manner. The bank's assets' value declines every time the US Federal Reserve raises interest rates. There is an inverse relationship between the price of government bonds and the current interest rate. The higher the interest rates, the lower the bond prices that were issued. Since the Silicon Valley Bank invested most of its money during the last five years in buying government bonds to bridge the lending gap, it has bought the equivalent of $108 billion in value. However, if the bank decides to sell these bonds in the market, it will sell them at a much lower price because it bought most of them before March 2022, when the US interest rate was close to zero. The returns that Silicon Valley Bank will obtain from these bonds are meager, and the value of these returns is fixed, meaning that they are not affected by the interest rate future increasing.

For instance, if a person purchased a bond from the US government in 2017 for ten-year maturity with an annual interest rate of 1 percent, then if the Federal Bank raises the interest rate to 10 percent, the bondholder's profits will not increase. The profit value remains at 1 percent, based on the interest rate when buying the bond. If the bondholder tries to sell the bond, they will be unable to sell it at the market price and will be forced to sell it at a loss. The bondholder must entice investors to buy the bond by selling it below its market value because after the interest rate increases to five percent, the price of a bond with a five percent interest rate and a bond with a one percent interest rate is the same.

Subsequently, Silicon Valley Bank's recent investment strategy is facing unexpected negative consequences due to changes in the percentage of funds invested in lending and US assets. Investing in government bonds, which was considered safe in the past, poses a risk after the Federal Reserve decided to raise interest rates. The bank's assets' value decreases every time the interest rate increases, and if the bank decides to sell these bonds, it will sell them at a much lower price than the market price.

The market value of bond portfolios held by US banks decreased due to a rise in interest rates in March 2022. This led to unrealized losses for many banks, including Silicon Valley Bank, which suffered losses of around nearly 16 percent, which is about $34 billion in its stock portfolios by the end of 2022 [28].

Despite the decline in the value of bond portfolios for all US banks, Silicon Valley Bank was the only one that collapsed. This was due to the bank's balance sheet, which showed that it held the highest percentage of US treasury bonds as a portion of its total assets, with 55% of its assets being US treasury bonds. This concentration of assets in US treasury bonds exposed Silicon Valley Bank highly to interest rate risk, leading to a significant drop in the value of its portfolio. While all US banks suffered unrealized losses on their bond portfolios, Silicon Valley Bank's high concentration of assets, specifically in US treasury bonds, made it particularly vulnerable to interest rate risk, leading to its collapse.

3. Collapse of the SVB

The decline in the market value of Silicon Valley Bank's bond portfolio, which incurred significant losses, was not the only reason for the bank's downfall. While the decrease in bond prices only represented a loss on paper until the bonds were sold, the Federal Reserve's unintentional action of raising interest rates severely impacted the bank [29].

As investors fled from the stock market and shifted towards investing in government bonds due to the higher returns and lower risks, start-up companies faced difficulties. They relied on their existing bank balances to maintain their continuity, and with withdrawals increasing and cash flow decreasing at Silicon Valley Bank, the bank was forced to sell government bonds at a lower price than their actual value to provide liquidity to its customers, most of whom were start-up owners. This resulted in Silicon Valley Bank realizing losses that were previously unrealized.

Despite this situation, it went unnoticed for some time. CEO Greg Baker even boasted about being the best financial partner under challenging times just days before the bank's collapse at the Upfront Summit on March 1st Festival [30]. However, the situation became critical when Moody's Investment Service contacted the CEO and informed him that the bank's credit rating would be downgraded by more than one degree due to its large portfolio of bonds with weak liquidity that did not cover depositors' withdrawal requests. The CEO realized that the bank would face an inevitable catastrophe as soon as the credit rating was lowered, as customers would rush to withdraw their money with the lack of sufficient liquidity to cover their requests. Subsequently, Silicon Valley Bank's downfall was not solely due to the decline in the market value of its bond portfolio but also to the Federal Reserve's raising of interest rates, the 22mass exodus of investors from stock markets to government bonds, and the bank's lack of sufficient liquidity to cover depositors' requests [31].

Silicon Valley Bank found itself in a difficult situation as the possibility of a credit rating downgrade loomed over it. A downgrade would have had serious consequences, potentially leading to decreased investor confidence, lower stock prices, and even the loss of customers. In an attempt to avoid this outcome, the CEO of the bank instructed his advisors to meet with credit agencies to find a solution that would maintain the bank's rating [32].

The solution that was ultimately proposed consisted of two parts. First, the bank would sell $21 billion of its holdings of low-yielding government bonds and reinvest the proceeds in higher-yielding assets [33]. This would increase the bank's overall returns, thereby offsetting any losses incurred from the sale of the low-yielding bonds. Second, the bank would compensate for any losses by selling new shares in the market. Goldman Sachs was selected as the underwriting manager for this operation [30].

However, the sale of the low-yielding bonds turned out to be more complicated than anticipated. The bond portfolio of Silicon Valley Bank had a market value of about $15 billion less than its value when the portfolio was formed, and the average returns of the portfolio were less than half of current bond returns. As a result, the sale of any part of the portfolio would incur losses. Despite this, the bank proceeded with the plan, selling $21 billion in bonds and incurring a loss of $1.8 billion [34].

Goldman Sachs attempted to sell both preferred and ordinary shares to cover the losses, but the news of the bank's potential collapse had already leaked into the market. This led to a significant drop in share prices, making it difficult to sell the regular shares. The bank's rescue plan ultimately failed, and an alternative plan was put forward: sell the bank or a part of it. However, no one was willing to purchase a bank on the brink of collapse, and Silicon Valley Bank was ultimately unable to recover from the crisis [35].

3.1. The Aftermath of the Collapse

As events unfolded, the news of Silicon Valley Bank's financial troubles began to spread. This resulted in a rush of depositors seeking to withdraw their money from the bank and venture capital firms, urging the start-ups they funded to do the same. The bank was hit with a double blow as it became apparent that a large percentage of its deposits were demand deposits, meaning that customers could withdraw their funds at any time. In contrast, time deposits could only be withdrawn at specific intervals, such as with bank savings certificates.

Silicon Valley Bank's total deposits in 2018-2022 were valued at $173 billion, with $133 billion of that being demand deposits. This means that a staggering 77% of the bank's deposits could be withdrawn immediately if requested. This is an unusually high percentage compared to other banks, where demand deposits accounted for no more than 38% in 2021-2022. As a result of the bank panic on March 9, 2023, withdrawal requests from Silicon Valley Bank reached almost $42 billion in just one day. This was one of the largest banking panics in history, and the bank was unable to provide sufficient liquidity to meet the demand [36, 37]. Despite the head of Silicon Valley Bank's attempts to reassure its customers, the requests to withdraw funds continued to pour in, resulting in the bank's cash holdings being in the red by $958 million by the end of the day [38].

The collapse of the Silicon Valley Bank was a matter of certainty once news of its financial troubles leaked and spread throughout the market. Depositors scrambled to withdraw their money, while venture capital companies urged their funded start-ups to expedite their withdrawal as well. This panic caused a weakness for the bank, as a high percentage of its deposits were demand deposits, meaning that they could be withdrawn at any time. 77% of Silicon Valley Bank's deposits could be requested for withdrawal immediately, making it difficult for the bank to meet customer demands. On March 9th, a banking panic ensued, with withdrawal requests totaling nearly $42 billion in just one day. Despite reassurances from the head of the Silicon Valley Bank, clients continued to request withdrawals. At the end of the day, the bank's cash holdings were negative $958 million [39].

3.2. The Ripple Effect on Other Financial Institutions

The fear now is not just the collapse of the Silicon Valley Bank but the potential for this situation to spread to other American banks. The impact of the bank's failure was evident on the stock market, with US banks losing an estimated $100 billion of their market value in just two days [40]. The California Financial Protection and Innovation Authority intervened by closing the bank's main management headquarters and appointing the Federal Deposit Insurance Corporation as a judicial guard over the bank [41]. As a result, the Silicon Valley Bank officially collapsed, leaving behind deposits worth $175.4 billion. Depositors will receive their money with the caveat that the deposit must not exceed $250,000, which is guaranteed by the US government [42]. Depositors with uninsured deposits must wait until the Federal Deposit Guarantee Corporation liquidates the bank to retrieve their funds [43]. Unfortunately, 93% [44] of those with uninsured deposits will not be able to access their funds until after liquidation [42, 45-47], similar to the situation with the Washington Mutual Bank in 2008.

The collapse of the Silicon Valley Bank created fear and panic in the American banking sector, causing clients of other banks to expedite the withdrawal of their money. This led to the collapse of Signature Bank, which regulators seized and closed on March 12th. In response, the US government intervened to prevent the situation from spreading to other banks. The Federal Deposit Insurance Corporation provided and guaranteed full protection for the funds of depositors in both the Silicon Valley and Signature Banks, covering all deposits, whether insured or uninsured. This announcement eased fears and allowed clients to withdraw their money regularly [48].

4. Discussion

This section will provide a detailed analysis of the reasons behind the bank's collapse. As we previously clarified, the bank's collapse was attributed to a combination of factors, including management missteps, regulatory oversight failures, and government intervention. In this section, we will delve deeper and provide a breakdown of the extent to which each of these factors contributed to the bank's collapse in terms of percentages. By analyzing the data and examining relevant evidence, we aim to shed light on the specific role played by each of these factors in the bank's downfall. Through this analysis, we hope to provide a more nuanced understanding of this particular case and contribute to the broader conversation on the causes and implications of bank failures.

4.1. The Management Missteps

Silicon Valley Bank's collapse in early 2023 has sparked criticism of its investment strategy, which proved to be its Achilles heel. Despite repeated warnings from Federal Reserve Chairman Jerome Powell about the impending interest rate rises to curb inflation, the bank opted to invest heavily in government bonds when interest rates were hovering near zero. Regrettably, the bank's risk management department failed to evaluate the risks of interest rate fluctuations, even with an inflation rate of 9.1% and ample hints from the Fed that interest rates would rise.

It is perplexing that the bank decided to make such a high-risk investment strategy, even though every investor in the market was aware of the Fed's intentions to raise interest rates. The bank's decision to invest heavily in low-interest government bonds raises questions about its competency and risk management policies. The value of the bank's bond portfolio plummeted sharply as the Fed began to increase interest rates. Yet, the bank chose not to sell its bonds to mitigate losses, eventually leading to its collapse.

Despite numerous warnings, the bank's failure to properly manage the risk of interest rate fluctuations proved to be the main contributor to its downfall. The bank's concentration of assets in bonds, accounting for more than half of its balance sheet, exposed it to interest rate risks, making its collapse almost inevitable once interest rates started to rise.

One of the most significant criticisms of the bank's investment strategy is its reluctance to sell bonds when interest rates began to rise, which would have reduced its losses. Although the bank would have incurred losses by selling bonds earlier, it would have prevented its collapse. Silicon Valley Bank's investment strategy was deeply flawed, as it ignored the potential risks associated with investing in government bonds during a period of near-zero interest rates. While investing in government bonds was once considered a safe and low-risk investment, the potential risks associated with interest rate changes should never be overlooked.

It is worth noting that other American banks did not collapse due to the interest rate increase. Although many banks suffered unrealized losses on their bond portfolios, they were able to manage their risk effectively by diversifying their assets and adjusting their investment strategies. It is crucial to have a robust risk management department to assess and mitigate potential risks, especially when dealing with a significant percentage of one asset type, such as government bonds.

The situation for Silicon Valley Bank worsened when people started investing in government bonds due to their high-interest rates, resulting in a decrease in investments in technology and start-up companies. This shift caused these companies to rely on their balances in banks, and as most of the Silicon Valley Bank's customers were owners of these companies, the bank faced immense pressure from cash withdrawal operations. This pressure was on top of the already existing issues of the lending gap and losses incurred in government bonds. The bank's heavy reliance on a particular industry and customer base made it vulnerable to sudden shifts in market conditions, underscoring the need for diversification in its investment strategy.

4.2. Regulatory Oversight Failure

The Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted in 2010 as a response to the financial crisis of 2008. The act aimed to prevent another financial crisis by imposing regulations on the financial industry and providing more protection to consumers. One of the main provisions of the act was the creation of the Financial Stability Oversight Council (FSOC), which was tasked with identifying and monitoring potential risks to the financial system.

However, the Dodd-Frank Act was too burdensome on financial institutions and hindered economic growth. In response, in 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) were signed into law, which modified specific provisions of the Dodd-Frank Act.

One of the fundamental changes made by the EGRRCPA was raising the threshold for banks to be subject to enhanced prudential standards, such as stress testing and resolution planning. Banks with less than $250 billion assets are no longer subject to these standards, which has relieved some of the regulatory burdens on smaller banks.

It is worth mentioning here that the relaxation of regulations may have contributed to the collapse of Silicon Valley Bank. The bank had amassed over $212 billion in assets, primarily due to its heavy investment in government bonds. As interest rates began to rise, the value of these bonds declined, resulting in significant losses for the bank.

The researcher also would like to clarify that the bank may have been emboldened to take on such risky investments due to the relaxation of regulations under the EGRRCPA. The bank may have felt that it was no longer subject to the same level of scrutiny and oversight as before, leading to a more cavalier attitude towards risk management.

While it is difficult to say with certainty whether the EGRRCPA played a significant role in the collapse of Silicon Valley Bank, it is clear that the modification of the Dodd-Frank Act has had far-reaching consequences on the financial industry.

4.3. Government Intervention

The role of the Federal Reserve during the coronavirus pandemic can be seen as indirectly contributing to the collapse of Silicon Valley Bank. The Fed's massive injection of money into the economy during the pandemic led to a decrease in demand for loans and a decline in interest rates. This, in turn, made it more difficult for banks to generate profits and maintain their financial stability. The Federal Reserve's response to the pandemic was modest and insufficient, causing further market fluctuations and uncertainty.

The uncertainty created by the Fed's decisions had a ripple effect on the market, including on the tech sector that Silicon Valley Bank heavily invested in. The fluctuations in the market made it difficult for the bank to make sound investment decisions and manage its risks effectively. Additionally, the Fed's indecisiveness and lack of clear direction may have contributed to a loss of investor confidence in the market, further exacerbating the bank's struggles.

Furthermore, the Fed's focus on fighting the economic impacts of the pandemic rather than the virus itself can be seen as mismanagement of priorities. This may have contributed to a longer and more drawn-out economic recovery, which in turn could have played a role in the bank's ultimate collapse. Overall, while the Federal Reserve's role in the collapse of Silicon Valley Bank may be indirect, it cannot be overlooked. During the pandemic, the Fed's decisions and actions created market uncertainty and instability that may have contributed to the bank's struggles and ultimate collapse.

Finally, the collapse of Silicon Valley Bank cannot be considered a spark of a financial crisis, as happened in 2008. However, it is a stark reminder of the crucial role of proper management in the banking sector. While legislative failure and government intervention did contribute indirectly to the collapse, the missteps made by the bank's management played the most significant role. However, it is essential to note that the fallout from the floundering decisions made by the Federal Reserve during the COVID-19 pandemic, and their overreliance on traditional monetary policy tools, will be severe and long-lasting. This may not result in an immediate financial crisis. However, the financial uncertainty and instability caused by these policies will undoubtedly have severe consequences for the financial system, particularly US banks. It is not a question of if but when these results will begin to appear, leading the world towards an inevitable and prolonged recession. The challenge now for banks and policymakers is to navigate this recession and shape the global economy in its aftermath. The future of the financial system will depend on its ability to adapt and evolve in the face of this uncertain and challenging landscape.

5. Conclusion

The study highlights the significance of adequate risk management and diversification in investing strategies while also sounding a caution about the potential hazards of loosening up on regulatory standards. In conclusion, the research sheds light on the crucial role that efficient management plays in the banking industry and calls for banks and policymakers to effectively navigate an uncertain and challenging landscape to shape the financial system's future. The current study provides the following takeaways for practitioners and academics for future research efforts.

a. Three primary reasons resulted in the collapse of the Silicon Valley Bank, including management missteps, regulatory oversight, and government intervention.
b. The Silicon Valley Bank's collapse should serve as a cautionary tale about the importance of proper risk management and diversification in investment strategies.
c. Policymakers need to strike a balance between ensuring the stability of the financial system and promoting economic growth while also taking into consideration the potential risks and unintended consequences of regulatory changes.
d. The challenge now for banks and policymakers is to navigate this recession and shape the global economy in its aftermath.

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