



CALIFORNIA BANKERS ASSOCIATION STATE ISSUE BRIEF

The State of the Banking Industry

The U.S. banking system is safe, remains resilient and is on a solid foundation. The banking industry is well-capitalized, has strong liquidity, and is represented by banks of all sizes that serve every segment of the American economy.

While the recent failure of Silicon Valley Bank (SVB) and Signature Bank needs to be examined carefully, both by the industry and policymakers, it does not reflect the strength of the overall sector. It has been widely reported that SVB had unusually significant uninsured deposits and a high concentration of tech and venture capital firms as depositors. The tech industry's recent economic challenges which resulted in higher than usual withdrawals to fund operations caused the bank to sell high-quality liquid securities from their investment portfolio at a loss. The combination of certain bank customers urging their clients to withdraw funds, the ability to move money rapidly electronically, and panic fueled by social media resulted in a historic \$42 billion in withdrawals from the bank in one single day.

Several investigative reports have now been issued by banking regulators. On April 28, the Federal Reserve issued a report with respect to their oversight of SVB, the FDIC published its report with regard to the supervision of Signature Bank, and the Government Accountability Office released a report covering both failures. The California Department of Financial Protection and Innovation produced its report on SVB on May 8.

Distilling down the hundreds of pages from these reports, the findings affirm what many suspected, bank management and the board of directors failed to manage risk, regulators were aware of percolating issues and didn't respond or escalate the matter soon enough, and technology has increased the velocity for which money can move.

Highlights

- ***The U.S. banking system is safe, remains resilient and is on a solid foundation. The banking industry is well-capitalized and has strong liquidity.***
- ***Findings from several government-issued reports affirm that SVB bank management and the board of directors failed to manage risk, regulators were aware of percolating issues and didn't respond or escalate the matter soon enough, and technology has increased the velocity for which money can move.***
- ***The diversity of banks serving communities continues to be a source of strength for our economy. The nation's 4,700 banks, including community banks, midsize banks, regional banks, and large banks, compete for Americans' business.***

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Despite recent bank failures, the diversity of banks serving communities continues to be a source of strength for our economy. The nation's 4,700 banks, including community banks, midsize banks, regional banks, and large banks, compete every day for Americans' business. While banks may have different business models and strengths, institutions succeed when they meet the needs of their communities. No bank is defined by size alone and customers have a wide range of choices. Banks of every size add unique value and are critically important to our financial system and our economy.

- Community banks account for the vast majority of banks and play a major role providing critical financial services to individuals and businesses. Community banks are known for their focus on relationships in addition to small business and agricultural lending that have been the hallmark of these banks since this country's founding.
- At roughly \$10-100 billion in assets, midsize banks offer a wide range of financial services and products. Midsize banks serve the needs of small and medium-size businesses and finance multifamily housing.
- Regional banks have a major presence in communities and play leading roles in serving the banking needs of millions of individual customers, a range of businesses, and state and local governments.
- Large banks are globally important as they have the size and scale necessary to meet the complex financial requirements of America's multinational corporations, while also serving the banking needs of millions of consumers and smaller businesses.

As Congress, regulators, and independent parties examine recent bank failures and consider policy responses, we urge policymakers to preserve America's competitive advantage by ensuring that banks of all sizes with diverse business models are allowed to compete and succeed in serving their communities. This can be done by tailoring rules and supervision to a bank's risk profile.

Americans know that there is no safer place for their hard-earned cash than in a bank, especially one they have come to trust over time. To reinforce that trust and confidence, we support a business environment that allows all segments of the banking sector to compete and thrive. Doing so supports the broader economy and expands opportunities for all Americans.

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