Holland & Hart

Failed Silicon Valley Bank Acquired by First Citizens Bank

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Today, First Citizens Bank & Trust Company (First Citizens Bank) is taking over the business of the tech-focused Silicon Valley Bank (SVB) which was closed by regulators approximately two weeks ago on March 10. The transaction represents a milestone moment for the banking crisis that shook global markets and triggered a collapse in confidence in the financial community. The purchase is a whole bank purchase and the 17 legacy SVB branches will begin operating as “Silicon Valley Bank, a division of First Citizens Bank.”

First Citizens Bank, founded in 1898 and a subsidiary of First Citizens BancShares, Inc. (Nasdaq: FCNCA), purchased approximately $72 billion of SVB's deposits and loans at a $16.5 billion discount. The FDIC did not receive cash upfront but, rather, received equity appreciation rights in common stock with a potential value of up to $500 million. First Citizens Bank will also receive a $70 billion line of credit from the FDIC for contingent liquidity purposes. Depositors of SVB will automatically become depositors of First Citizens Bank and will be insured up to the FDIC insurance limit of $250,000. “There will be no immediate change to customers' current accounts.”

The FDIC expects that the transaction will minimize disruption for loan customers and instill confidence in the banking sector. The FDIC as receiver and First Citizens Bank will share in losses and potential recoveries on SVB originated loans covered under a loss-share agreement. This agreement has been offered as part of the failed-bank resolution and keeps the assets in the private sector which, in turn, reduces FDIC's immediate needs for cash and minimizes resolution and operating costs. It also provides downside protection for the bank purchaser. Approximately $90 billion in securities and other assets will remain in the receivership for disposition by the FDIC.

The FDIC insurance fund is expected to take about a $20 billion hit, which will be replenished by a levy on member banks. SVB customers will continue to be able to access accounts and lending relationships with existing borrowers in the tech sector will be maintained. The transaction adds significant scale and geographic diversity to First Citizens Bank's footprint which, according to the First Citizens Bank Chair and CEO, is intended to preserve the relationships that SVB had with private equity and venture firms.

While regulators had already taken extraordinary steps to head off a wider crisis on the financial system by guaranteeing all deposits, even those in excess of the FDIC limit, the First Citizens Bank transaction appears to be

significant step in further fortifying trust in the country's regional banks. The acquisition does little, however, to stem the outflows of deposits leaving small to mid-sized banks for large institutions in the face of the abrupt SVB closure—weekly data collected by the Federal Reserve indicates that the largest 25 banks gained $120 billion in deposits while regional firms lost $109 billion.

Related Updates

March 16, 2023: There's A New Banker in Town for Silicon Valley Bank and Signature Bank
March 13, 2023: What's Happening with Silicon Valley Bank and Signature Bank? Answers to Fundamental Questions
March 12, 2023: Silicon Valley Bank Collapse: Navigating Risk and Implications

Related Materials

FDIC Press Release: First-Citizens Bank & Trust Company, Raleigh, NC, to Assume All Deposits and Loans of Silicon Valley Bridge Bank, N.A. (Sunday, March 26, 2023): https://www.fdic.gov/news/press-releases/2023/pr23023.html

FDIC Share-Loss Questions and Answers: https://www.fdic.gov/resources/resolutions/bank-failures/failed-bank-list/lossshare/index.html

First Citizens Bank Press Release, First Citizens Bank Enters into Whole Bank Purchase of Silicon Valley Bridge Bank, N.A. (Monday, March 27, 2023): https://newsroom.firstcitizens.com/2023-03-27-First-Citizens-Bank-Enters-into-Whole-Bank-Purchase-of-Silicon-Valley-Bridge-Bank,-N-A - “there will be no immediate change to customers' current accounts, and they will be able to continue to access their accounts as they do today — through their current websites, mobile apps and branch locations. They can continue to use their checks and cards and will still have ATM and online access to their accounts. Loan customers should continue making loan payments as usual. Customers will be notified of any future account changes in advance.”

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