



RISING TO THE CHALLENGE

Common Sense

A Perspective on Recent Events in Banking

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Banking Basics

Basic Overview & Key Attributes

Model

- Loans: Assets
- Deposits: Liabilities
- Treasury Management Services
- Consumer/Business
- Private Wealth/Trust



A Risk Business

- Credit Risk
- Rate Risk
- Asset Liability Management
- Net Interest Margin = 3 - 4%
- Capitalization



Many Competitors

- Roughly 4,400 banks in the U.S.
- Large National/International
- Regional
- Mid-Size/Community



Highly Regulated

- OCC
- FDIC
- Federal Reserve
- Other



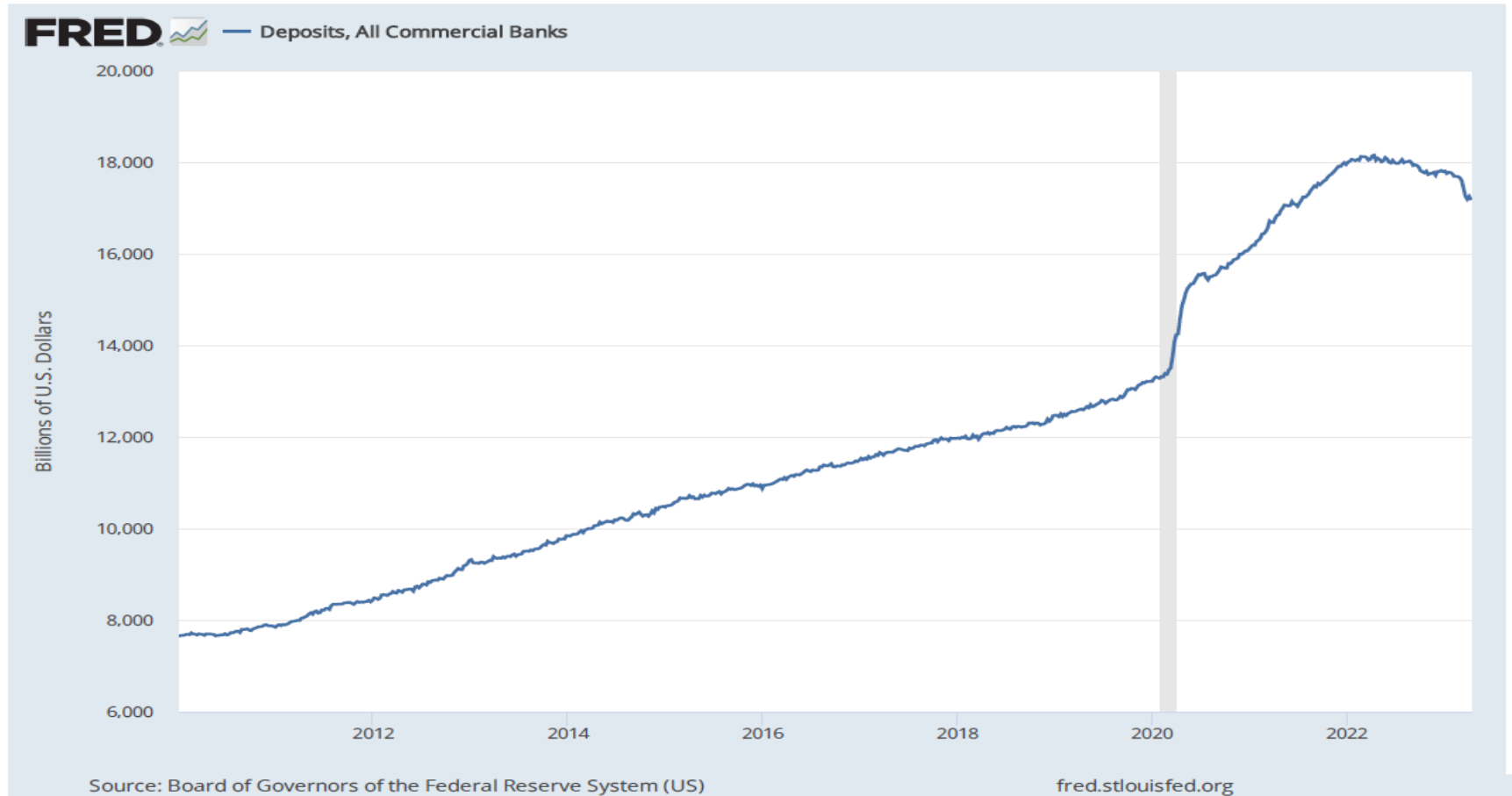


The Build Up

From 2019 to the Present

- The Pandemic
- Geopolitical Stress
- PPP
- Macro-Economic Factors:
 - Supply Chain
 - Labor/Demographics
 - Inflation
- Fed Actions

FRED – Deposits, All Commercial Banks



CPI 20 Year History

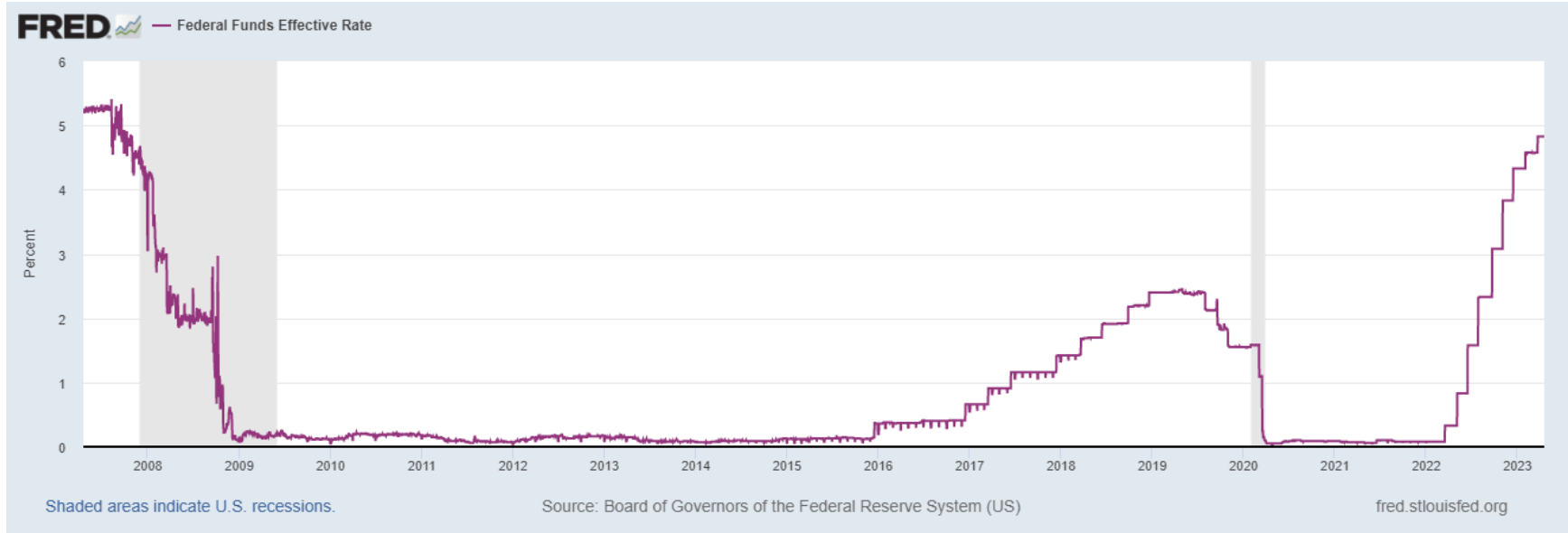


CPI YOY 5.0% For Mar Next Release 10 May 0 Survey --
US CPI Urban Consumers YoY NSA Bureau of Labor Statistics



Tough Times = Easy Money

- Great Recession and Pandemic necessitate accommodative monetary policy





The Melt Down

March 2023: Silicon Valley Bank



- Founded in 1983
- Based in California
- A focus on tech & venture capital
- The second largest bank failure in U.S. history
- A textbook case of mismanagement

Warning Signs: a/k/a “Red Flags”

- Very rapid growth
 - Assets from \$70 billion to \$209 billion from 2019 to 2022 (+198%)
 - Deposits from \$63 billion to \$191 billion from 2019 to 2022 (+204%)
- Industry concentration/lack of diversification
 - Primary focus: Tech sector, start-ups & venture capital
- Hot money
 - Uninsured deposits roughly 90% of total deposit base
- Risk management deficiencies
 - Asset/Liability issue: 60% of assets in longer term securities (bonds)
 - No Chief Risk Officer for 8 months

10 Year Price vs. Yield

US 10-year Treasury Note Price vs. Yield

MacroMicro.me

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Asset/Liability Management

- In addition to credit risk, a key risk factor for banks
- For SVB, a material mismatch
 - Long-term securities (assets) funded with short term deposits (liabilities)
 - Stretching for yield?
 - Paying up for deposits?
- Rising rates reduced value of its long-term bond holdings
- Mark-to-market impact of \$(15 billion)
- A run on the bank, at the speed of light
 - \$42 billion in deposits withdrawn in one day



What's Next?

Banking Sector Dynamics Beyond March

- Potential Regulatory Response
 - Additional oversight, capital requirements, rules?
- Fed Action on Rates
 - Another increase in May?
- Economic Factors
 - Inflation
 - Unemployment
 - Inventory levels/overall demand
 - Capital expenditures/investment
 - Trade
- Attitudes/Perceptions/Confidence: Consumer & Business

FOMC Statement on Banking Crisis:



“The U.S. banking system is sound and resilient. Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain.”

March 22, 2023



Common Sense

Common Sense: Know Your Customer (KYC)



“Guidelines and regulations in financial services that require professionals to verify the identity, suitability, and risks involved with maintaining a business relationship with a customer.”

Common Sense: Know Your Bank (KYB)

- What markets & industries are served? Concentrations?
- What about credit/loan quality measures?
- How do you approach asset/liability management?
- What is happening to net interest margin?
- How is the bank funded?
- How well capitalized is the bank?
- Do you offer extended FDIC insurance?
- Client satisfaction/references?



Questions?



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Thank You for Participating

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