



United States House of Representatives  
One Hundred Eighteenth Congress  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

March 23, 2023

Clothilde V. Hewlett  
Commissioner  
California Department of Financial Protection & Innovation  
2101 Arena Boulevard  
Sacramento, CA 95834

*RE: Supervision of Silicon Valley Bank, Santa Clara, California*

Dear Commissioner Hewlett:

We write regarding California Department of Financial Protection & Innovation's (CDFPI) supervision and subsequent closure of Silicon Valley Bank, Santa Clara, CA. As you are aware, Silicon Valley Bank, which the CDFPI jointly supervised with the Federal Reserve System (Federal Reserve), failed and was placed into Federal Deposit Insurance Corporation (FDIC) receivership on March 10, 2023.

At the time of failure, Silicon Valley Bank was the 16<sup>th</sup> largest bank in the U.S. Its failure is the second largest by nominal value in U.S. history. According to the Financial Times, "at the peak of the tech investing boom in 2021, customer deposits surged from \$102 billion to \$189 billion," a red-flag signal of rapid growth.<sup>1</sup> Total assets had tripled since 2020. By the end of 2022, Silicon Valley Bank held \$212 billion of assets, \$175 billion in customer deposits, \$26.0 billion of fair value in "available for sale assets," such as Treasuries and agency-backed securities, and \$91.3 billion in the amortized cost of "held to maturity" assets with fair market value of only \$76.2 billion.<sup>2</sup> In addition, Silicon Valley Bank had \$15 billion of outstanding loans from the Federal Home Loan Bank of San Francisco (FHLB SF) and was its top borrower with 20 percent of total outstanding advances.<sup>3</sup>

Rapid deposit withdrawals in early 2023 led the firm to reportedly sell relatively long-duration securities at prices below acquisition prices to obtain liquidity. The upside-down scenario on asset values occurred given the backdrop of the rapid, Federal Reserve driven interest-rate-hike program.

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<sup>1</sup>See "Silicon Valley Bank profit squeeze in tech downturn attracts short sellers," Financial Times, February 22, 2023, available at <https://www.ft.com/content/0387e331-61b4-4848-9e50-04775b4c3fa7> .

<sup>2</sup> See "Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices-FFIEC 031; Institution Name Silicon Valley Bank," available at <https://cdr.ffiec.gov/public/ManageFacsimiles.aspx> .

<sup>3</sup><https://www.sec.gov/ix?doc=/Archives/edgar/data/1316944/000131694422000164/fhlbsf-20220930.htm>

In addition to the decreased value of its assets, approximately 87 percent of deposits by value were, reportedly, uninsured at Silicon Valley Bank. This too should have been a regulatory red flag.<sup>4</sup> This high concentration of uninsured deposit value represented an outlier relative to financial institutions of similar size. By contrast, regional banks have told our offices that they typically have closer to 50 percent of deposits by value insured.

According to reports, the supervisors from CDFPI and the Federal Reserve had clear indications that Silicon Valley Bank was deficient in both their interest rate risk management and balance sheet management that could have been mitigated before its failure.<sup>5</sup> If these reports are accurate, it is concerning that supervisors did not intervene in a timely manner and use the supervisory and enforcement tools available to prevent the firm's failure and subsequent market uncertainty. As policymakers, Congress needs to understand why supervisors failed to use their available tools to correct the firm's numerous financial and management deficiencies.

To that end, please provide the following information.

1. For the period between January 1, 2019 to March 10, 2023, please provide all records and communications from the CDFPI to Silicon Valley Bank communicating supervisory determinations, including, but not limited to, all reports of examination or inspection or any ratings downgrade. Please provide all workpapers supporting such supervisory determinations.
2. Please provide any informal or formal enforcement actions proposed to or issued against Silicon Valley Bank.
3. Please provide all commitments or agreements entered into with Silicon Valley Bank in connection with its acquisition of Boston Private Bank & Trust in 2021.
4. Please provide all records and communications between and among the CDFPI, the Federal Reserve, and/or the Massachusetts Commissioner of Banks regarding the approval of the firm's acquisition of Boston Private Bank & Trust in 2021.
5. Please provide all records and communications between the CDFPI and the Federal Reserve, including the Vice Chair for Supervision, on the various risks posed by the firm's balance sheet from January 1, 2019 to March 10, 2023.

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<sup>4</sup> See *supra* n. 3, at Schedule RC-O.

<sup>5</sup> See, e.g., "Before Collapse of Silicon Valley Bank, the Fed Spotted Big Problems," March 19, 2023, New York Times, available at <https://www.nytimes.com/2023/03/19/business/economy/fed-silicon-valley-bank.html>.

6. Please provide all records and communications between and among the CDFPI and the Federal Reserve regarding Silicon Valley Bank between January 1, 2019 and March 10, 2023.
7. When did CDFPI staff learn Silicon Valley Bank was the top borrower of the FHLB SF, accounting for around 20 percent of all outstanding loans of the FHLB SF?
8. At any time between March of 2021 and the time of Silicon Valley Bank's closure, were CDFPI staff aware of the interest rate risks that Silicon Valley Bank and SVB Financial were facing as a result of the Federal Open Market Committee's (FOMC's) rapid increase in the federal funds rate that, due to FOMC forward guidance, led to rapidly changing interest rate expectations in markets.
9. How do CDFPI staff assess a firm's risk management when there is rapid growth?
10. How many CDFPI staff were assigned to supervise and conduct examinations of Silicon Valley Bank?
11. Please explain how the CDFPI and the Federal Reserve coordinated supervision and examination of Silicon Valley Bank.
12. Please explain whether the CDFPI considered closing Silicon Valley Bank after close of business on Thursday, March 9, 2023.
13. Please explain the CDFPI's reasoning for closing Silicon Valley Bank at the beginning of the business day on Friday, March 10<sup>th</sup> rather than at the close of the business day.
14. Did the Federal Reserve, the FDIC, or the Secretary of the Treasury consult with the CDFPI prior to making the decision to invoke the systemic risk exception?

Please provide written answers to these questions no later than April 6, 2023.

We appreciate your immediate attention to this request. If you have any questions, please do not hesitate to contact Jeff Wrase at (202) 225-7502.

Sincerely,



Andy Barr  
Chairman  
Subcommittee on Financial Institutions and  
Monetary Policy



Bill Huizenga  
Chairman  
Oversight and Investigations



Young Kim  
Member of Congress

CC: The Honorable Maxine Waters, Ranking Member