NEW STRAITS TIMES

Worry for tech startups after Silicon Valley Bank failure

By AFP - March 12, 2023 @ 10:48am

Silicon Valley Bank’s stunning collapse has led to the freezing of tens of billions of dollars stored there by startups and their private equity backers, raising fears of a wider tech sector fallout. - REUTERS Pic

New York: Silicon Valley Bank's stunning collapse has led to the freezing of tens of billions of dollars stored there by startups and their private equity backers, raising fears of a wider tech sector fallout.

The company, whose website says it is "the financial partner of the innovation economy," was taken over Friday by the US Federal Deposit Insurance Corporation (FDIC) to prevent further damage.

"SVB knew the entrepreneurial community," Joseph DeSimone, a professor at Stanford University and founder of several startups, told AFP.

"They helped us recruit people, helped with securing mortgages for transplants, gave financial advice to new executives... So their disappearance is a real loss," he said.

The company previously boasted that "nearly half" of technology and life science companies that had US funding banked with them, leading many to worry about the possible ripple effects of its collapse.

For banks that are FDIC-insured, only $250,000 per account is guaranteed.

But according to SVB's latest annual report, 96 percent of its total $173 billion in deposits was uninsured.

The FDIC said Friday that all accounts would quickly get access to the insured portions of their deposits, but that the rest would depend on how much is recovered from sales of the bank's assets, an often lengthy process.

"The real victims of the SVB fallout are the depositors: startups with 10 to 100 employees, who cannot make payroll, and will have to furlough or shutdown workers as soon as Monday," tweeted Garry Tan, head of the well-known incubator Y Combinator.

He warned that "years of US innovation" are on the line, as an entire "generation of American startups" could be destroyed in a month or two.

Activist investor Bill Ackman raised a similar alarm on Twitter, saying that SVB's collapse "could destroy an important long-term driver of the economy."

"If private capital can't provide a solution, a highly dilutive gov't (government) preferred bailout should be considered."

According to several US media reports, SVB had discussed on Thursday and Friday a possible buyout with several banks, but could not find a solution quickly enough.

From winemakers in California to startups across the Atlantic Ocean, companies are scrambling to figure out how to manage their finances after their bank, Silicon Valley Bank, suddenly shut down on Friday. U.S. customers with less than 250,000 in the bank can count on insurance provided by the FDIC.- AP Pic

Champ Bennett, cofounder of the video platform Capsule, revealed on Friday that the $5 million raised in mid-February during the company's first seed funding round was housed at SVB and now inaccessible.

"What happens next is anyone's guess, but it doesn't look good," he tweeted.

Bennett added that an intervention should not be viewed as "bailing out 'The 1' or 'Big Tech'," pointing to the "thousands of the most hardworking, talented individuals" at impacted companies who are currently "struggling."

According to the news website Semafor, hedge funds are offering to front cash to SVB's corporate clients, but at a 20 to 40 percent discount.

Beyond that, Adam Arrigo, boss of virtual gig platform Wave, warned his fellow tech entrepreneurs: "Whether or not you had money in SVB, you are not unaffected. This is going to materially impact everyone."

Like others, Bennett says he is also concerned about the fate of other banks favored by the tech industry, including California's First Republic, whose stock price fell 30 percent in two days.

Some see in the back-to-back failure of two banks, SVB and Silvergate Bank, an example of the financial system's precariousness.

"What happened to everyone talking about how banks (SVB, Silvergate) are safe and better than Crypto DEFI?" tweeted US investor Arjun Sethi.

DeFi, or decentralized finance, allows users to theoretically access their funds at any time and without intermediary, but comes without deposit protections or regulations.