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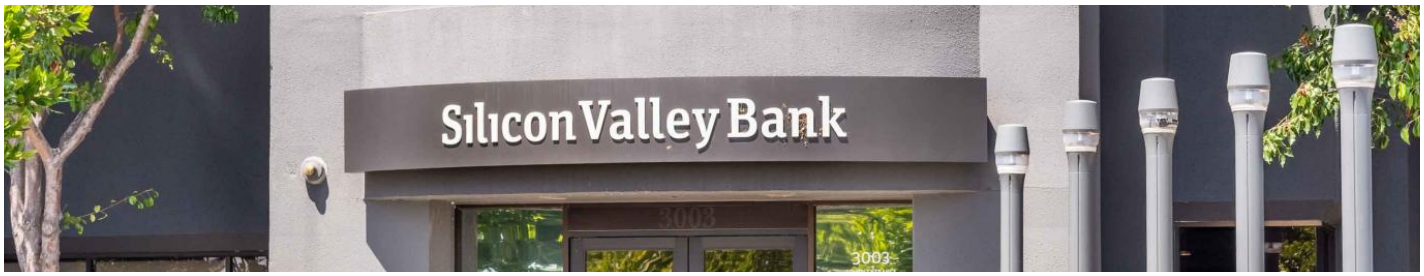
What the Silicon Valley Bank Collapse Means for You (Even if You Don't Have Money There)



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Written by **Mallika Mitra** for **Money.com →**

By now, you've probably at least heard about the Friday collapse of Silicon Valley Bank, the largest bank failure in the U.S. since 2008 (and the second-biggest in the nation's history). If you're confused about what happened — or worried about what it might mean for your money — you're not alone.

These investments dropped in value amid the Federal Reserve's interest rate hikes. A combination of that decline
attempting to pull out their money as funding for startups receded meant that the bank had to sell its investment
the withdrawals.

That led to fear, which caused a scramble for more withdrawals and, eventually, the bank’s collapse. Then, on Su
Signature Bank as fear spread.

While a bank failure is scary — especially for those who remember the financial crisis of 2008 — experts say ramifications for individuals, economy and markets overall may be limited.

“The good news is that this seems to be an isolated incident, or at least a problem that may be limited to some smaller banks,” Jurrien Timmer, director of global macro at Fidelity Investments, said in a blog post. “In my view, this does not appear to be a situation that could become systemic, like the sub-prime mortgage collapse did in 2007.”

Here’s what you need to know about SVB’s failure.

Depositors are protected

To protect Americans’ money, a U.S. regulator called the Federal Deposit Insurance Corporation (or FDIC) insures customers’ funds up to a certain amount at most banks. It backs up as much as $250,000 per depositor per account type per institution in the event of a bank failure. The FDIC covers deposit accounts like checking, savings and money market accounts, but not investments like those in stocks and bonds.

One of the initial issues with Silicon Valley Bank was that the vast majority of its deposits — over 90%, by one count — were uninsured as they were over the $250,000 limit. Those customers, predictably, freaked out at the prospect of losing their money.

On Sunday, the Department of the Treasury, Federal Reserve and FDIC took emergency action and announced that all deposit accounts at both SVB and Signature Bank would be guaranteed. The regulators said depositors will have access to all their money beginning Monday and that “no losses associated with the resolution of Silicon Valley Bank will be borne by the taxpayer.” The same goes for depositors of Signature Bank.

Ideally, the move will prevent any widespread fallout from the bank’s collapse. The regulators also said they will “make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors.”

Your bank is probably not at risk

"SVB was a unique bank that grew rapidly in a very specific niche industry, while the broader banking system is regularly stress-tested, has added meaningful liquidity and capital over the past decade, and has worked to manage balance sheets conservatively," wrote Matt Reed, manager of the Fidelity Select Financial Services Portfolio. "While markets are likely to worry, it doesn't look like there is meaningful spillover into the broader banking system and the economy."

President Joe Biden spoke on TV Monday morning to assure the country that the financial system isn't in danger.

"Americans can have confidence that the banking system is safe," he said. "Your deposits will be there when you need them."

Investors should stay the course

U.S. banks stocks immediately fell on Friday as the news of SVB's collapse triggered serious concern throughout the financial industry, with some regional bank stocks logging their worst week in years.

"SVB has already caused contagion across financial services which may well be overdone — most mainstream banks probably have more diversification and less concentration in their holdings," Aoifinn Devitt, chief investment officer at Moneta, tells Money via email. "However, it will send a chill through the stock market as it is evidence of another unknown that navigating through the current unprecedented time has created."

But while some stocks will likely suffer in the short term, there isn't a ton of concern at the moment for long-term investors.

"The best strategy at the moment is probably to do nothing," Mike Bailey, director of research at FBB Capital Partners, told Bloomberg News. "If retail investors are saving money for long-term goals, then this SVB news is just a minor hiccup."

The Fed may back off its rate hikes

Market experts quickly tried to understand what the recent events could mean for the Federal Reserve's next actions regarding interest rates. The Fed has been hiking interest rates for about a year in an attempt to tamp down inflation, and those hikes have been weighing on the price of financial assets like stocks and bonds.

Last week, Fed Chair Jerome Powell signaled that the central bank was ready to re-accelerate the rate of rate hikes after the most recent increase was smaller than the previous few had been. But now the future is more uncertain.

In fact, analysts at Goldman Sachs said Sunday they no longer believe the Fed will hike rates at its March meeting due to SVB-related uncertainty in the financial services sector.

an effort to keep fighting inflation," Richard Saperstein, chief investment officer at Treasury Partners, said in written commentary shared with Money.

Of course, this is a quickly developing story, and there's no saying exactly what the Fed will do later this month. But you can bet investors will be digesting the SVB news and attempting to forecast the central bank's moves until the meeting.

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