Daily Article (Bharath's Reading list) - Answers and Explanations 05.04.2023

Article link : http://bit.ly/3KBm1D1 (The Silicon Valley Bank Collapse vs. the 2008 Financial Crisis)

1.According to the article, the SVB case was unique due to all the following reasons except:

A.SVB catered specifically to tech and healthcare startups, which are considered risky customers by other banks

B.SVB's customers didn't need loans as they could get money from venture capitalists

C.SVB had a fraction of the number of branches banks of its size have

D.SVB took the decision to raise $2 billion capital by itself to cover banking losses

Explanation: D

SVB's decision to raise capital to cover banking losses by itself was not, according to the passage, anything new: "So then, SVB decided to raise capital itself (to the tune of $2 billion) to cover the loss. All fairly normal business decisions."

2.Which of the following is NOT a reason why the 2008 financial crisis and the SBV collapse are different?

A.While a number of banks failed in 2008 because they had too many real estate loans, SVB failed because it bought risky securities with its cash deposits

B.Unlike the 2008 financial crisis, which had a buildup over many months, the collapse of SVB happened in 48 hours

C.The 2008 financial crisis was the result of some banks engaging in risky lending behavior while the SVB collapse was the result of the bank being so concentrated in the tech industry

D.The FDIC had worked out a deal in advance for a buyer to take over a majority of the failed banks in 2008–2010 time frame whereas with SVB, there was no immediate buyer lined up

Explanation: A
Option A is not true: “So SVB took the money and bought Treasury securities. A low-risk investment and a seemingly prudent thing to do with the extra cash… until the Fed began raising interest rates. Suddenly that investment was worth a lot less.”

3.Which of the following is incorrect, based on the article?
A.The backlash to SVB's collapse on social media, claiming that SVB was the home of rich tech companies and venture capitalists does not take into consideration the potential ripple effects of its collapse on tech company employees, financial institutions doing business with SVB account holders and on the community banking world at large.
B.All investors in SVB have been protected and given full access to all of their money by the US government but the move has not been funded using taxpayer money
C.A combination of several factors, including the bank's unique clientele, a changing VC-backed tech landscape, rising interest rates, deregulation, and a bad press release lead to SBV's collapse
D.None of the above

Explanation:
Correct option **B**
Option B is incorrect: the investors of SVB are not protected, only the depositors are protected.