

# County of Santa Clara


Office of the County Executive

County Government Center, East Wing  
70 West Hedding Street  
San Jose, California 95110  
(408) 299-5105



**DATE:** March 27, 2023

**TO:** Honorable Board of Supervisors

**FROM:**  Jeffrey V. Smith, County Executive

**SUBJECT:** Status of County Investments in Wake of Silicon Valley Bank Failure

During the County Executive's report at the March 14, 2023 Board of Supervisors meeting (Item No. 15), Supervisor Lee requested Administration provide additional information concerning the County's exposure relating to the collapse of Silicon Valley Bank (SVB), including any direct impacts and any urgent action needed by the Board of Supervisors. In early March, SVB and New York's Signature Bank became insolvent due to recent losses tied to inflation, interest rate hikes, and losses that led to a flight of depositors.

## **Direct Impacts**

In short, the County has no direct exposure related to the collapse of SVB in its broader financial portfolio managed by the Controller-Treasurer Department. The County has no direct holdings or investments in SVB. In the Finance Agency and Social Services Agency, staff has identified vendors that formerly had SVB business banking accounts. Staff is working with these vendors to update their electronic funds transfer information to facilitate payments to new financial institutions.

There are two Measure A Housing Bond-funded developments under way that have some portion of their financing through SVB: Auzerais (developer is Eden Housing) and Immanuel-Sobrato (Mid-Pen Housing). The County has contributed just under \$29 million in total funding for these two projects. Financing through SVB totals roughly \$77 million for the projects, more than \$57 million of which remains to be disbursed. Fortunately, the Federal Deposit Insurance Corporation (FDIC) has created a new "bridge bank" called Silicon Valley Bank N.A. to hold the assets and continue operations of SVB with the goal of preserving the bank's value and

stabilizing operations until eventual new ownership can be secured.<sup>1</sup> SVB staff has been told that they should continue to fund construction loan draws without interruption and the loan agreements under the eventual new ownership will be fully valid and enforceable. While safeguards and factors favorable to the County are in place for both housing developments, Administration will remain engaged with Eden Housing and Mid-Pen Housing on the status of these construction loans and draws.

### **Indirect Potential Impacts**

The indirect impacts related to SVB's failure are difficult to predict at this time. While a substantial share of SVB's customers were businesses in Santa Clara County and the broader Silicon Valley region, federal action to ensure depositors are made whole should substantially mitigate the local economic impacts of the collapse and lessen indirect impacts on County finances and programs.

The County's retirement system (CalPERS), which covers 1.5 million people in total, reported during its March 13-15 Board meeting roughly \$67 million in exposure to Silicon Valley Bank and \$11 million in exposure to Signature Bank among its \$422 billion pension fund.<sup>2</sup> Early assessment suggests that CalPERS is well positioned to weather this impact, and it may be exploring ways to fill a potential lending gap.<sup>3</sup>

Last week, CEOs of major banks met to discuss the future of lender First Republic Bank among wider concerns for the banking industry. Additionally, a new study of U.S. banks calculated 186 institutions with sufficiently high uninsured leverage to assets ratio, placing their financial stability in question should depositor runs take place.<sup>4</sup> The recent takeover of Credit Suisse by UBS calls for keeping an eye on the stability of the global financial system.

---

<sup>1</sup> On March 26, 2023, it was announced that First Citizens Bancshares would purchase the majority of Silicon Valley Bank. It is reported that commercial loans formerly serviced by SVB will be honored with additional FDIC backing. Refer to Hirsch, L. (2023, Mar. 26). First Citizens to acquire Silicon Valley Bank in government-backed deal. *New York Times*. <https://www.nytimes.com/2023/03/27/business/silicon-valley-bank-first-citizens.html>. Accessed March 27, 2023.

<sup>2</sup> Charalambous, P. (2023, Mar. 17). Pension funds report millions in losses amid Silicon Valley Bank collapse: The losses represent a small percentage of the funds' total investments. *ABC News*. <https://abcnews.go.com/US/pension-funds-report-millions-losses-amid-financial-crisis/story?id=97932375>. Accessed March 20, 2023.

<sup>3</sup> Gethard, G. (2023, Mar. 13). CalPERS explores filling the lending gap in wake of SVB collapse. *Buyouts*. <https://www.buyoutsinsider.com/calpers-explores-filling-the-lending-gap-in-wake-of-svb-collapse/>. Accessed March 21, 2023.

<sup>4</sup> Jiang, E.X., Matvos, G., Piskorski, T., & Seru, Amit. (2023, Mar. 13). Monetary tightening and U.S. bank fragility in 2023: mark-to-market losses and uninsured depositor runs? *Social Science Research Network*. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4387676](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4387676).

No urgent action is needed by the Board of Supervisors at this time. But Administration will continue to closely monitor the general markets for additional turbulence and potential “contagion” in the financial sector. As appropriate, Administration will provide further updates to the Board through future County Executive reports on the regular Board agenda.

c: Chief Board Aides  
Greta S. Hansen, Chief Operating Officer  
James R. Williams, County Counsel  
Tiffany Lennear, Clerk of the Board of Supervisors  
Mary Ann Barrous, Agenda Review Administrator  
Jason McCluskey, Budget and Public Policy Analyst  
Shawn Whiteman, Program Manager II