Written Testimony before the

U.S. Senate Committee on Banking, Housing, and Urban Affairs

by

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Chair Brown, Ranking Member Scott, and Members of the Committee:

Thank you for the opportunity to appear before you today. My name is Greg Becker, and I was the Chief Executive Officer of Silicon Valley Bank ("SVB") and a member of its Board of Directors (the "Board").

At the outset, I want to be clear that I never envisioned myself or SVB being in this situation. I was an employee of SVB for almost 30 years and was SVB's CEO for the last 12 years, until it was taken over by the FDIC. I believed in SVB and its mission, and I cared deeply about our more than 8,000 employees and their families. I was committed to our clients and helping them succeed, whether they were well-known technology companies or small business founders with innovative ideas in towns across the country. I am devastated for our employees and clients, who have faced uncertainty and hardship throughout these events.

I am here today to answer your questions about what happened at SVB to the best of my memory, though I do not have access to SVB documents. I want to be helpful to this Committee and hope my testimony today will be useful as you consider solutions to prevent these types of unprecedented circumstances from happening in the future.

I. BACKGROUND ON SILICON VALLEY BANK

SVB was founded in 1983 as a state-chartered commercial bank headquartered in Santa Clara, California. SVB was designed to meet the needs of the technology and life sciences industries, where start-ups and later-stage companies could keep their deposits, borrow to expand their businesses, and create jobs. We knew our clients personally, understood their needs and goals, and partnered with them as they grew.

As members of this Committee know, innovation has a positive impact on our lives every day in multiple ways. SVB's clients were responsible for innovations in transportation, agriculture, healthcare, food, media, software, hardware, energy, financial services, and manufacturing, touching and transforming almost every industry one could imagine. SVB was proud to help founders who otherwise might not have been able to finance their small businesses, launch women and minority-owned startups, and support companies that are very well-known today, like Cisco, Etsy, Beyond Meat, Roku, and Shopify, among others.[1]

For nearly 40 years, SVB supported the banking needs of tens of thousands of clients that provided high-quality jobs for millions of Americans in nearly every one of your states.[2] In fact, we banked nearly half of all U.S. venture-backed technology and life science companies and

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[1] *See, e.g.*, Mirtha Donastorg, "Why Silicon Valley Bank's Fall Still Impacts Black Atlanta Founders," *The Atlanta Journal-Constitution*, April 27, 2023.

[2] According to a 2022 study, over 67,000 companies have received venture capital investments since 1970, which employ millions of workers in all 50 states. Approximately 60 percent of these jobs were located outside of California, New York, or Massachusetts. *See* Gregory Brown, David Fisher, Lu Yi, Michael Chow, An Analysis of Employment Dynamics at Venture-Backed Companies Between 1990 and 2020, February 2022, at 4.

loaned to thousands of small businesses, the backbone of the U.S. economy. Although the name may imply the narrow geography of "Silicon Valley," SVB had offices throughout the U.S. SVB was a national and international institution, supporting companies that changed the lives of millions of people in the U.S. and around the world.

II. MY ROLE AT SVB

My banking career began in 1990 at Comerica Bank in Detroit. In May 1993, I joined SVB as a relationship banker and was excited by SVB's focus on helping technology and life-sciences companies change the world. During my time at SVB, I served in numerous roles, culminating in being named CEO in April 2011. Over the next 12 years, I helped build SVB into a global institution, and took personal pride in the quality of our employees across the country and the global economic transformation created by our clients.

As SVB grew, I worked to build the best team possible and surround SVB with leading advisors in their respective fields. SVB's Board, as of 2022, included a former Under Secretary for Domestic Finance at the U.S. Department of the Treasury, a former Vice Chair of the Americas Executive Board at Ernst & Young, a former President at Accenture, as well as trusted advisors to the Board, including the former CFO of a top ten bank.

As the bank and its clients evolved, we built and expanded a team of subject matter experts on liquidity, credit, compliance, and operations who focused on analyzing risks and protecting the bank from those risks. We continually sought to add operational expertise and experience to enhance our risk management as the bank and its clients expanded. The internal team partnered on risk management with industry leading outside advisors, including law firms, consultants, and investment bankers with extensive banking and financial services expertise. I listened to that team and devoted significant SVB resources to ensure that the risk management function had the tools it needed to fulfill its mission. By the end of 2022, my recollection is that SVB had roughly 1,000 people with all, or the majority, of their responsibilities focused on risk management of some type.

In addition, the executive team, the Board, and I worked closely with our advisors and consistently sought feedback from regulators. I met regularly, and often monthly, with SVB's regulators, including examiners, to discuss strategy, organizational changes, personnel changes, our initiatives, and address any regulatory issues or concerns.

III. SVB'S GROWTH IN 2020 AND 2021

Between 2015 and 2019, SVB grew from approximately $45 billion in assets to $71 billion in assets, at an annual rate of about 10 percent. In 2020, SVB's growth accelerated because of the government stimulus measures in response to the COVID-19 pandemic. With near-zero interest rates and the largest government-sponsored economic stimulus in history, nearly $5 trillion of new deposits were added to U.S. commercial banks.[3] By the end of 2020, SVB held $112 billion in assets, a 63 percent growth from the prior year, and in 2021, SVB's

[3] Board of Governors of the Federal Reserve System, Supervision and Regulation Report, November 2022, at 6.

assets grew another 83 percent to $212 billion. The vast majority of this growth came from existing business clients. SVB raised more than $8 billion in capital in 2021 to support this growth.

Like any bank, SVB invested these new deposits by making loans and purchasing investment securities. SVB had a committee, the Asset Liability Management Committee ("ALCO"), which included some of SVB's most senior executives and risk management personnel. The ALCO was responsible for making and implementing decisions regarding SVB's investments, subject to the approvals and parameters set by the Board's Finance Committee.[4] Although I was not a member of the ALCO, I had confidence in the background and expertise of its members. I believed then, as I believe now, that the ALCO was making decisions based on the information available at the time and in the best interests of the company.

Throughout 2020 and 2021, the ALCO invested deposits in low-risk, highly rated government-backed securities. These securities were safe assets, as they were backed by the U.S. government, and could be used as collateral for borrowing if SVB ever needed liquidity. The composition, value, yields, and estimated duration of SVB's securities portfolio were disclosed in our public filings. These fixed-income securities complemented our short duration loan portfolio, approximately 90 percent of which had variable interest rates, as reported in our earnings releases.

Importantly, throughout 2020 until late 2021, the messaging from the Federal Reserve was that interest rates would remain low and that the inflation that was starting to bubble up would only be "*transitory*."[5] Like SVB, many other banks invested in their securities portfolios. Indeed, between the start of 2020 and the end of 2021, banks collectively purchased nearly $2.3 trillion of investment securities in this low-yield environment created by the Federal Reserve.[6]

IV. SVB'S TRANSITION INTO A LARGE FINANCIAL INSTITUTION

As SVB approached $100 billion in assets, we prepared our risk management team, processes and procedures, and overall governance with a goal of complying with standards applicable to Large Financial Institutions ("LFI"), a status SVB reached in February 2021 after crossing the $100 billion asset threshold. SVB's status as an LFI meant additional supervision from SVB's regulators.

We engaged outside advisors and proactively worked with our regulators as SVB approached the LFI milestone. From 2020 to 2022, our headcount and professional services expenses increased substantially, the bulk of which were dedicated to enhancing risk

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[4] In 2022, the ALCO also started reporting to the Risk Committee of the Board.

[5] *See, e.g.*, Board of Governors of the Federal Reserve System, Press Release, November 3, 2021, at 1 ("Inflation is elevated, largely reflecting factors that are expected to be transitory."); Board of Governors of the Federal Reserve System, Minutes of the Federal Open Market Committee, September 21-22, 2021, at 7 ("Inflation was elevated, largely reflecting transitory factors.").

[6] Board of Governors of the Federal Reserve System, Supervision and Regulation Report, November 2022, at 11.

management and operational execution. We also hired dozens of new, highly experienced, personnel onto SVB's Treasury team.

During 2021 and 2022, as SVB became a larger bank, we continued our focus on enhancing our risk management department and available resources. The feedback we received in late 2021 from our internal auditors and regulators was that we needed to improve in the areas of governance, controls, and second line risk management. We took this feedback seriously and worked to address those areas, and I was personally involved in these efforts. As explained in the Federal Reserve's April 28, 2023, report (the "Fed Report"), we were responsive and, in consultation with the Federal Reserve, prioritized finding a new Chief Risk Officer with deeper LFI experience, especially as SVB approached $250 billion in assets and would need to meet an even greater set of regulatory obligations and standards.[7] During this search, our existing Chief Risk Officer was available as a consultant through October 1, 2022.

As the search was ongoing, SVB hired additional risk professionals to augment our team. Those professionals, along with existing risk leadership team members, reported to me and the Chair of the Risk Committee. Our Chief Credit Officer, a 30-year veteran of SVB and someone highly regarded by our regulators, stepped in to provide additional enterprise risk management oversight. Key risk team members were added to the second line of defense, including a prior Chief Auditor at CIT Bank, a prior risk executive from Citigroup and Bank of America, and another risk executive who had served as an executive at Fannie Mae, Finastra, and other financial institutions. The new Chief Risk Officer was hired in October and started in December 2022. The Federal Reserve was briefed in advance about our plan to find a new Chief Risk Officer and the timing of the changes.

In 2022, we also took action to improve SVB's liquidity in accordance with the supervisory findings we had received from our regulators. By the end of 2022, SVB had approximately $69.4 billion in available borrowing capacity. Importantly, during this time and throughout our history, SVB's key capital ratios were similar to or higher than its peers, and well above the regulatory thresholds for well-capitalized banks. The chart attached as **Appendix 1** illustrates SVB's Tier 1 common capital risk-based ratio since 2019 compared to our peer group and the regulatory requirements.

During this time, the feedback from regulators was that SVB had sufficient capital and liquidity. On August 17, 2022, the Federal Reserve's supervisory team gave SVB a CAMELS rating of "2"—the second highest possible rating—on liquidity, capital, and market risk.[8] That letter memorialized feedback concerning SVB's risk management, which we were actively working with the Federal Reserve's team to address. The letter also confirmed that SVB's liquidity and capital positions had sufficient buffers, and that SVB's management had

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[7] *See* Fed Report, at 49 ("SVBFG was responsive to concerns articulated in meetings and in the Governance and Risk Management examination report. In April 2022, the CRO left the organization. New risk officers with large bank experience were hired. While the search to fill the CRO position took until December 2022, independent risk management was run by a committee of the senior risk officers.").

[8] *See* SVBFG and SVB 2021 Supervisory Ratings Letter, August 17, 2022, at 6 (CAMELS rating table).

proactively monitored capital and considered strategies in response to potential interest rate changes.[9]

V. THE FEDERAL RESERVE'S UNPRECEDENTED INTEREST RATE INCREASES IN 2022

Throughout 2021, the Federal Reserve described inflation as a transitory risk, suggesting that interest rates would not increase significantly in the short term.[10] Despite this messaging, in early 2022, the Federal Reserve began a series of interest rate hikes that would eventually become the steepest rate increase over a 12-month period in almost 40 years, as reflected in the attached **Appendix 2**.

While the increase in interest rates resulted in a decline in the fair value of SVB's securities portfolio—which was disclosed in our securities filings—those government-backed securities remained safe, and we expected that SVB could borrow against them. Additionally, many other banks similarly experienced declines in the mark to market value of their securities portfolios. By the end of 2022, FDIC-insured banks in the U.S. collectively held over $620 billion in unrealized losses from their investment portfolios, while the Federal Reserve Banks carried over $1 trillion in unrealized losses.[11] Loan portfolios at banks were not immune to these rate increases either.[12] According to one study, the total unrealized mark to market losses on both loans and securities at banks as of the end of 2022 stood at $1.7 trillion.[13]

VI. MARCH 2023 SOCIAL MEDIA FUELED RUN ON THE BANK

On March 8, SVB announced that it was selling the available-for-sale ("AFS") portion of its securities portfolio with the intention of reinvesting it at higher rates, and that it was raising additional capital. Based on the advice of Goldman Sachs, we decided to sell our AFS portfolio first in order to realize those losses and explain to the market why we were raising capital, given that SVB's financials were otherwise healthy. SVB had sufficient liquidity and was adequately capitalized on March 8, as its Federal Reserve supervisory teams had previously acknowledged. SVB's executive team, the Board, and our outside advisors intended for these actions to reinforce SVB's capital position and reposition our portfolio going forward to account for existing market conditions. The consensus was that these actions were in SVB's best interest.

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[9] *Id*. at 5, 7, 8 (explaining that SVB's "actual and post-stress liquidity positions reflect a sufficient buffer"; (ii) "[o]utcomes from the internal stress tests were appropriately used to assess the sufficiency of SVB's capital buffer through a range of conditions" because "[m]anagement has proactively monitored capital adequacy relative to internal goals and limits"; and (iii) "Sensitivity to Market Risk is adequately controlled" and "[m]anagement has appropriately considered strategies to limit the impact of potential declining rate scenarios").

[10] *See supra* note 5.

[11] Federal Deposit Insurance Corporation, Press Release, February 28, 2023; Alex Pollock, Paul Kupiec, How High Interest Rates Turn 'Paper Losses' Into Real Ones, *The Wall Street Journal*, April 12, 2023.

[12] Jonathan Wall, Declines in Loan Values are Widespread Among Banks, *The Wall Street Journal*, April 7, 2023.

[13] Itamar Drechsler, Alexi Savov, Philipp Schnabl, Why Do Banks Invest in MBS?, March 13, 2023, at 6.

Later in the day on March 8, Silvergate Bank ("Silvergate") announced its intent to voluntarily wind down and liquidate, and depositors triggered a run on that bank. SVB and Silvergate were very different banks, as Silvergate was a nearly 100 percent crypto focused bank while SVB only had around 3 percent of its deposits from crypto clients. Despite these differences, SVB had been compared to Silvergate in a Financial Times article published on February 21, which provided negative commentary regarding Silvergate and SVB's securities portfolios.[14] Silvergate's failure and the link to SVB caused rumors and misconceptions to spread quickly online, leading to the start of what would become an unprecedented bank run.[15] The next day, the bank run picked up steam.[16] By the end of the day on March 9, $42 billion in deposits were withdrawn from SVB in ten hours, or roughly $1 million every second.

As the bank run was ongoing, we were working to access additional liquidity when I was informed the morning of March 10 that the FDIC would be taking possession of SVB. That day, another roughly $100 billion in deposits were requested to be withdrawn, bringing the total actual and requested deposit outflow to roughly $142 billion, or about 80 percent of total deposits, over two days. To put the unprecedented velocity of this bank run in context, the previous largest bank run in U.S. history was $19 billion in deposits over the course of 16 days.[17] I do not believe that any bank could survive a bank run of that velocity and magnitude, which was "far beyond historical precedents."[18]

Over the next two days, I made every effort to ensure that SVB's customers and employees would be protected, and worked to minimize, or eliminate, any loses that might result from the FDIC's takeover of SVB. This included seeking to engage potential acquirers, which I believed may have minimized the financial burden of the FDIC's takeover and would have protected SVB's employees. On March 12, I was terminated from the bank.

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[14] *See* Tabby Kinder, Dan McCrum, Antoine Gara, Joshua Franklin, Silicon Valley Bank Profit Squeeze in Tech Downturn Attracts Short Sellers, *Financial Times*, February 22, 2023.

[15] *See* Fed Report, at 22 ("In 2023, SVB's deposit outflows accelerated as clients burned through cash, according to SVBFG public documents. Concerns increased following a Financial Times article that highlighted SVBFG's large securities portfolio.").

[16] *See* Fed Report, at 24 ("This run on deposits at SVB appears to have been fueled by social media and SVB's concentrated network of venture capital investors and technology firms that withdrew their deposits in a coordinated manner with unprecedented speed.").

[17] *See* Fed Report, at 4 ("By comparison, estimates suggest that the failure of Wachovia in 2008 included about $10 billion in outflows over 8 days, while the failure of Washington Mutual in 2008 included $19 billion over 16 days.").

[18] *See* Fed Report, at 59 ("The acute liquidity stress on March 9 was far beyond historical precedents for how quickly a large financial institution can fail.").

VII. STOCK OPTIONS SALE & SVB EMPLOYEE BONUSES

My expiring SVB stock options and compensation have been the subject of much speculation over the past few weeks. A large portion of my compensation, as well as other SVB executives' compensation, was in the form of stock that vested over time, as is typical in the banking industry. I believed very strongly in SVB and was heavily invested in SVB's stock. As a result, I held nearly five times the amount of shares required by the Board, and I planned to hold the vast majority of my SVB stock until after I retired.

During my tenure as CEO, I regularly sold the underlying shares of my stock options before they expired through 10b5-1 plans.[19] I believed that using 10b5-1 plans to sell my stock options was the most ethical means to manage this part of my compensation, and I required the rest of our executive team to do the same.

My stock option exercise and sale in February 2023 followed a similar pattern. Once the trading window opened after SVB announced its financial results for the fourth quarter and fiscal year of 2022, I entered into a 10b5-1 trading plan on January 26, 2023, to exercise and sell options granted in 2016 that were set to expire on May 2, 2023. SVB's legal team approved that plan on the basis that I was not in possession of any material non-public information at that time, which I also believed. The trade executed on February 27 pursuant to pre-determined stock price and date triggers—I did nothing to accelerate that trade and only learned that it had executed after the fact.

Similar to my stock sales, SVB's incentive compensation was determined in the normal course of business. Bonuses for 2022 performance were paid to all U.S. bank eligible employees and were part of SVB's regular, annual incentive compensation program. The payment date was set by our Human Resources department in advance and to my knowledge underwent the normal approval process. There was nothing irregular or accelerated about these payments, and at the time the payments were made I was focused on ensuring the survival of SVB.

VIII. CONCLUSION

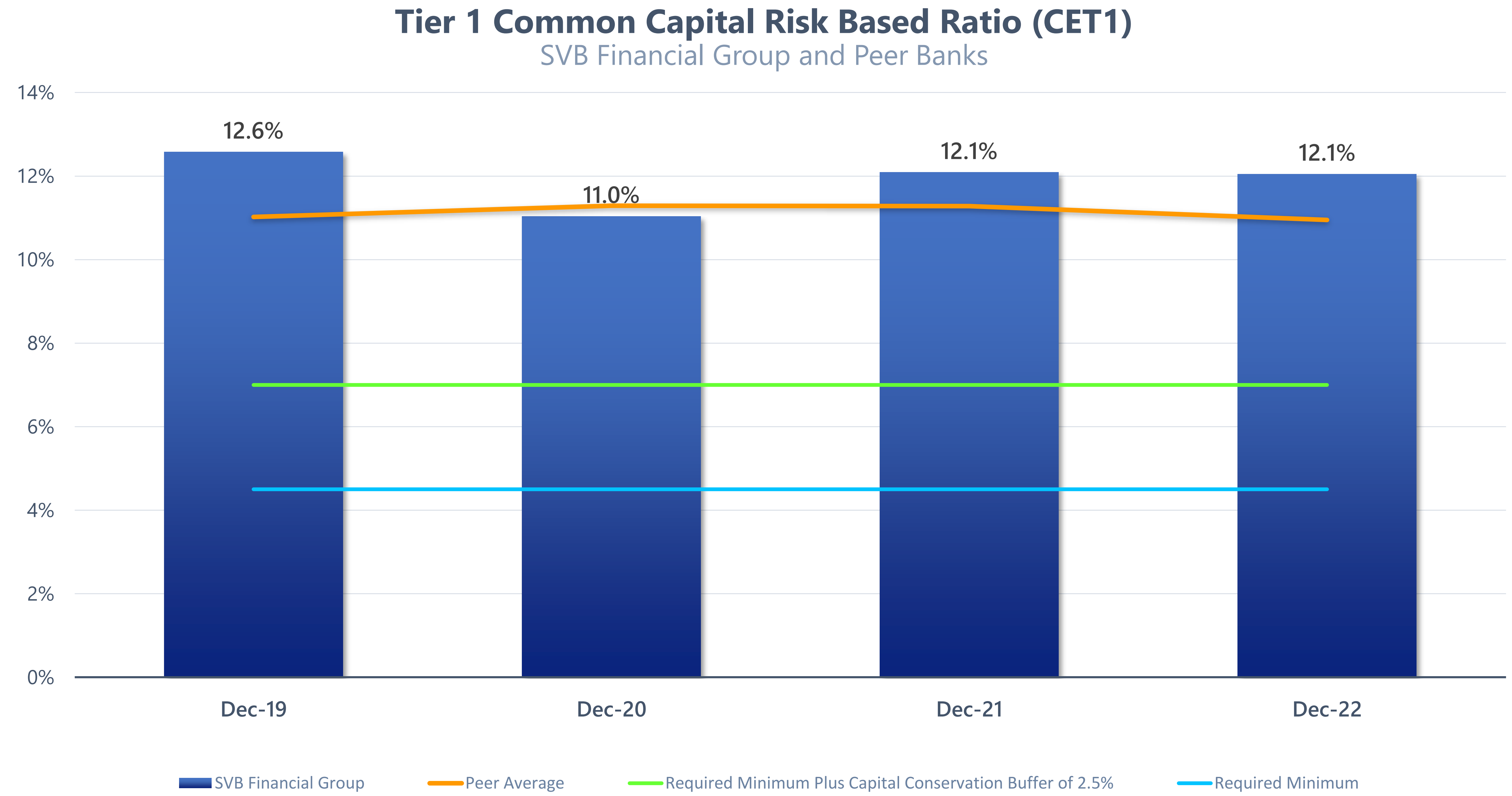
Following SVB's takeover by the FDIC, I have seen employees, close colleagues, former clients, friends, and family impacted by financial loss and uncertainty. I have not had regular contact with SVB's former employees, with whom I cherished working, nor have I been able to help the clients to whom I dedicated my professional life, whether they are household names or simply households.

I never imagined that these unprecedented events could happen to SVB and strongly believe that the leadership team and I made the best decisions we could with the facts, forecasts, and outside expert advice available to us at the time, and that we made these decisions in good faith and in the best interests of SVB, its employees, and its clients. I believe SVB had a positive impact on the tens of thousands of companies that the bank supported. The takeover of SVB has

[19] SEC Rule 10b5-1 allows insiders to sell company stock by setting up a predetermined plan that specifies in advance the share price, amount, and transaction date.

been personally and professionally devastating, and I am truly sorry for how this has impacted SVB's employees, clients, and shareholders. I hope that I can provide insights that will help this Committee and the American public better understand what happened.

Appendix 1



Source: S&P Capital IQ, 10K Filings

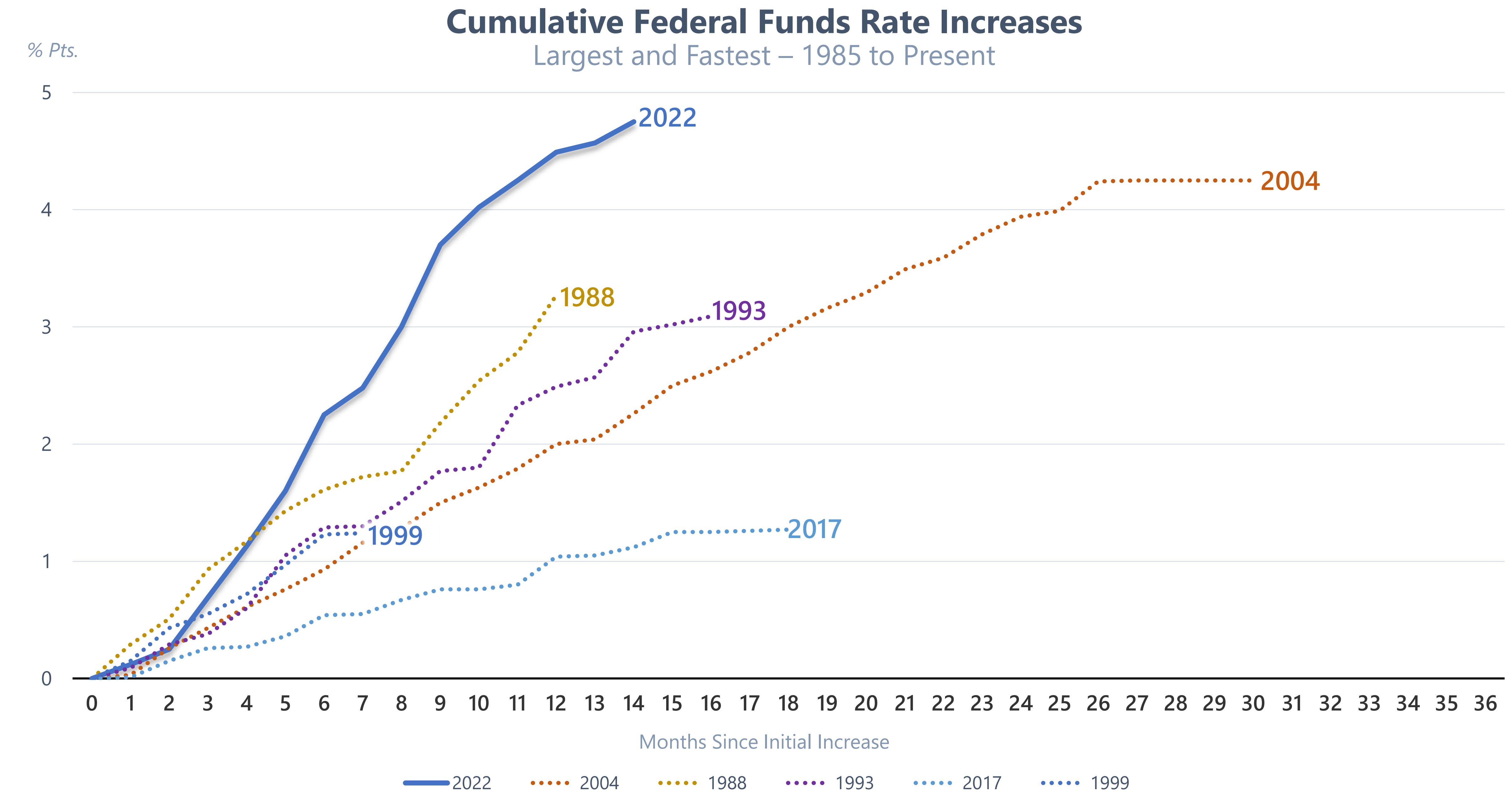
Appendix 1

Tier 1 Common Capital Risk Based Ratio (CET1)

SVB Financial Group and Peer Banks

- "Tier 1 Common Capital" is a commonly used bank capital measure reported to regulators by banks and disclosed in SEC filings.
- In the prior four years SVBFG's Tier 1 Common Capital ratio was:
  - Similar or higher than the average of its peer banks (as disclosed in their SEC filings).
  - Well above the applicable capital thresholds set by regulators.

Appendix 2



Source: Federal Reserve – Federal Funds Effective Rate and WSJ.com

Appendix 2

Cumulative Federal Funds Rate Increases

Largest and Fastest – 1985 to Present

- Starting March 2022, the Federal Reserve raised the Fed Funds rate by 4.75% within 14 months.
- This increase was significantly larger and faster than prior interest rate increases since the mid-1980s.