



# *Bank Meltdown 2023*

Presented to



Presented  
by  
Dr. Matthew Will

## All Credit Levels.

LOCATIONS

INVENTORY

Attention U.S. Auto Customers. We have temporarily closed our dealerships and are working on a solution to re-open them as soon as possible. But don't worry, we aren't going anywhere! U.S. Auto's affiliated loan servicing company (USASF Servicing LLC) is still open to accept your payments and assist in servicing your account. Please continue to make your payments as scheduled and reach out to us with any account questions.

Sincerely, -The U.S. Auto Team



Let's find your next car.



464

VEHICLES IN STOCK

FINANCE · BANKING

# Janet Yellen says lending pullback after bank failures could be 'substitute for further interest-rate hikes' by Fed

BY CHRISTOPHER CONDON AND BLOOMBERG

April 15, 2023 at 1:55 PM EDT



# Overview



- Inflation

- Bank Risks

- SVB, Silvergate, etc.

- Who's to Blame?

- Q&A



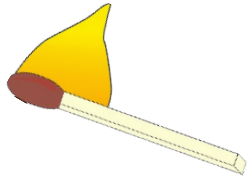


# Conclusion

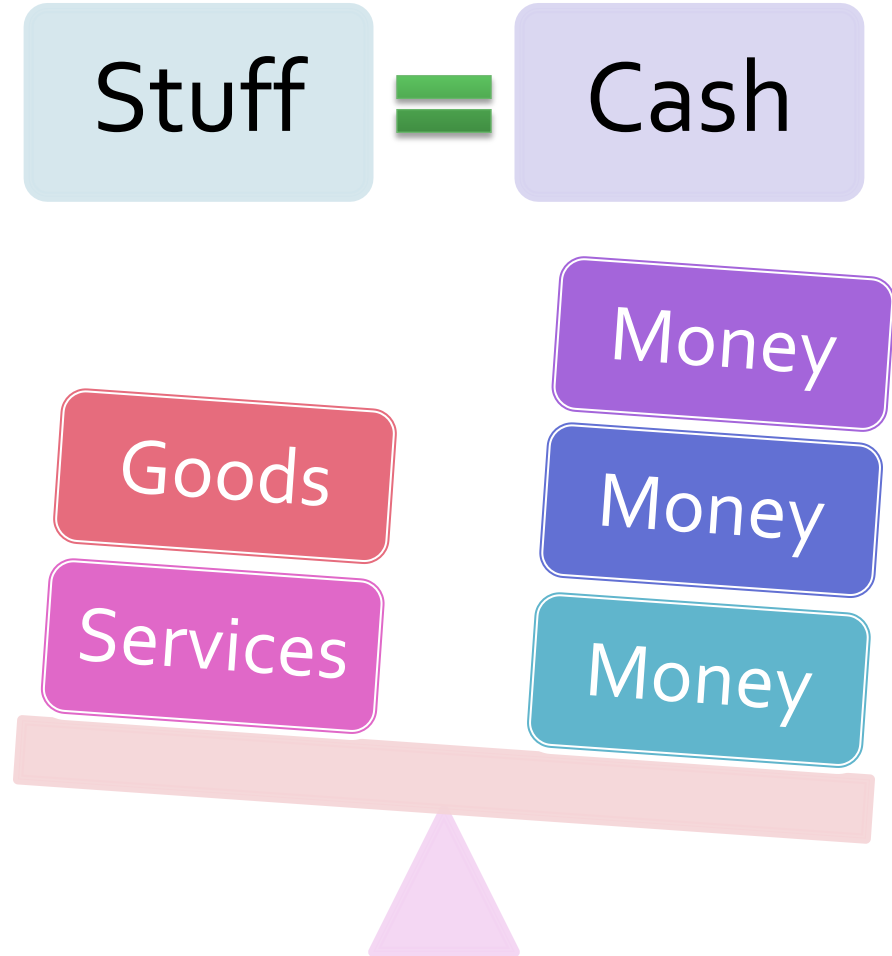
Govt. Policy  
+  
Bank Risk Mgmt.



Inflation



# Inflation



## Inflation

Growth in the money supply exceeds the increase in good and services



# Inflation: Causes

## FEDERAL RESERVE BOARD

### Monetary policy

- Sets US Discount Rate
- Rate paid by member banks

Lower rate increases CASH



INFLATION

## PRESIDENT & CONGRESS

### Fiscal policy

- Deficit spending
- Monetize the debt

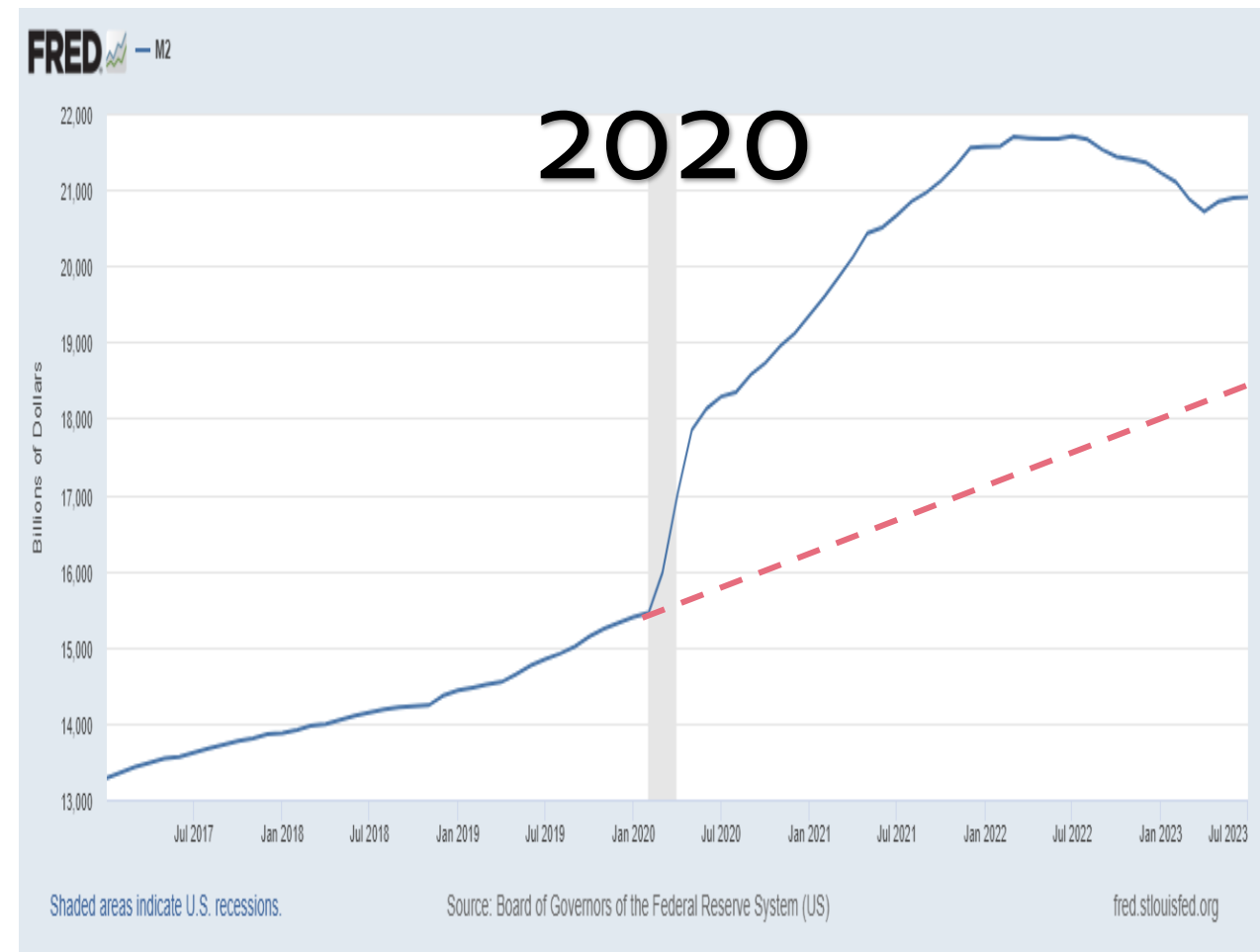
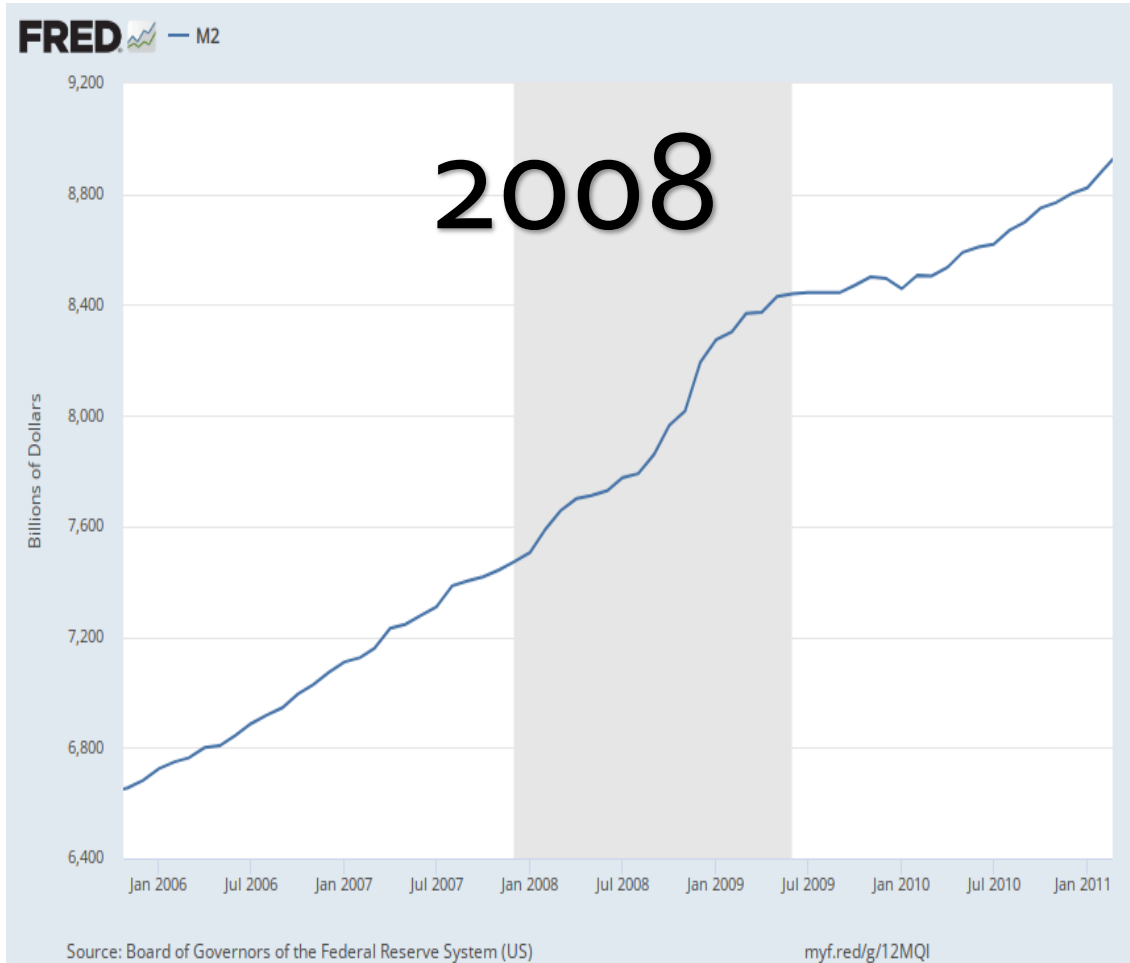
Deficits spending increases CASH



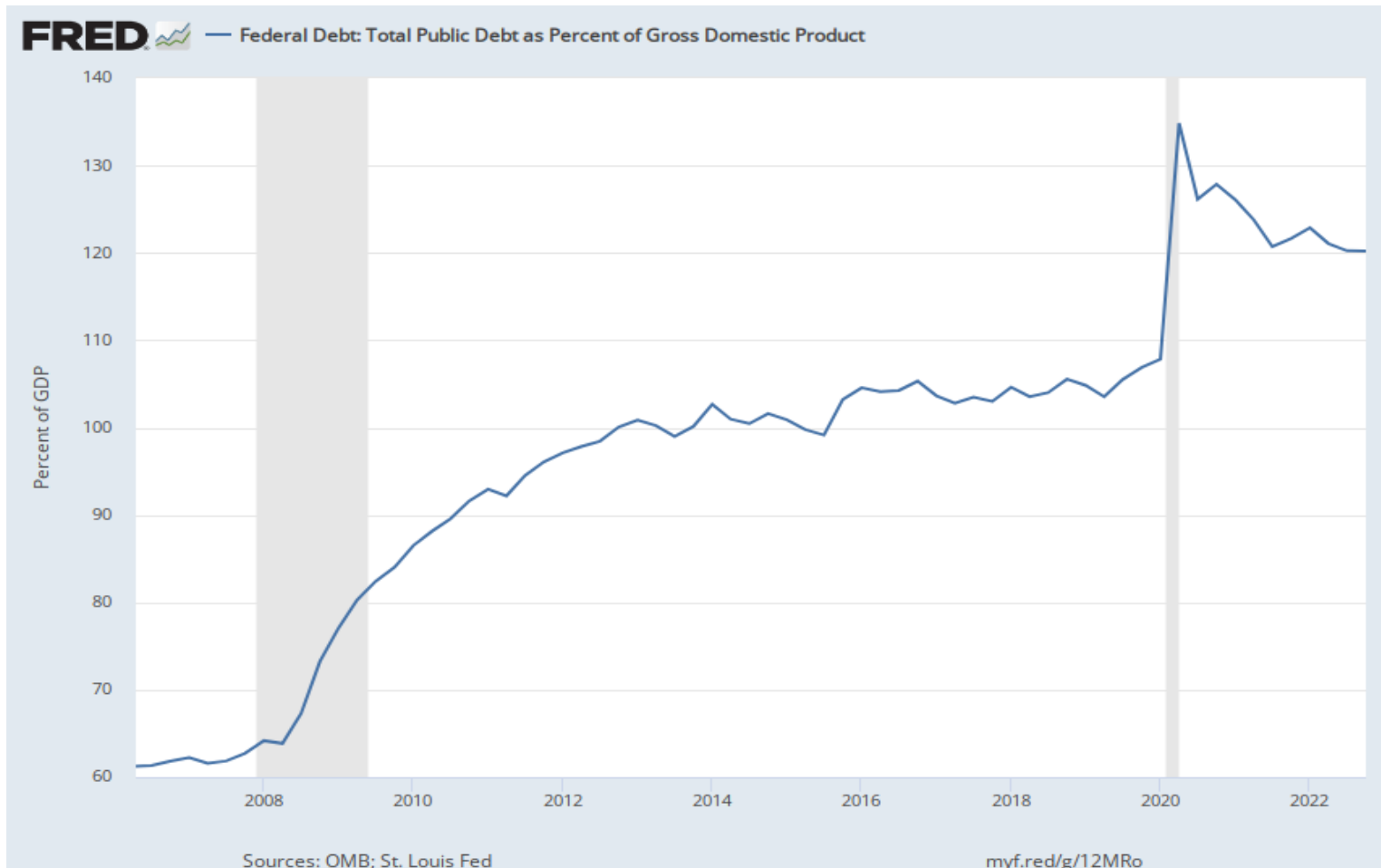
INFLATION



# Monetary Policy - Money Supply



# Fiscal Policy (Federal Debt % of GDP)



120%

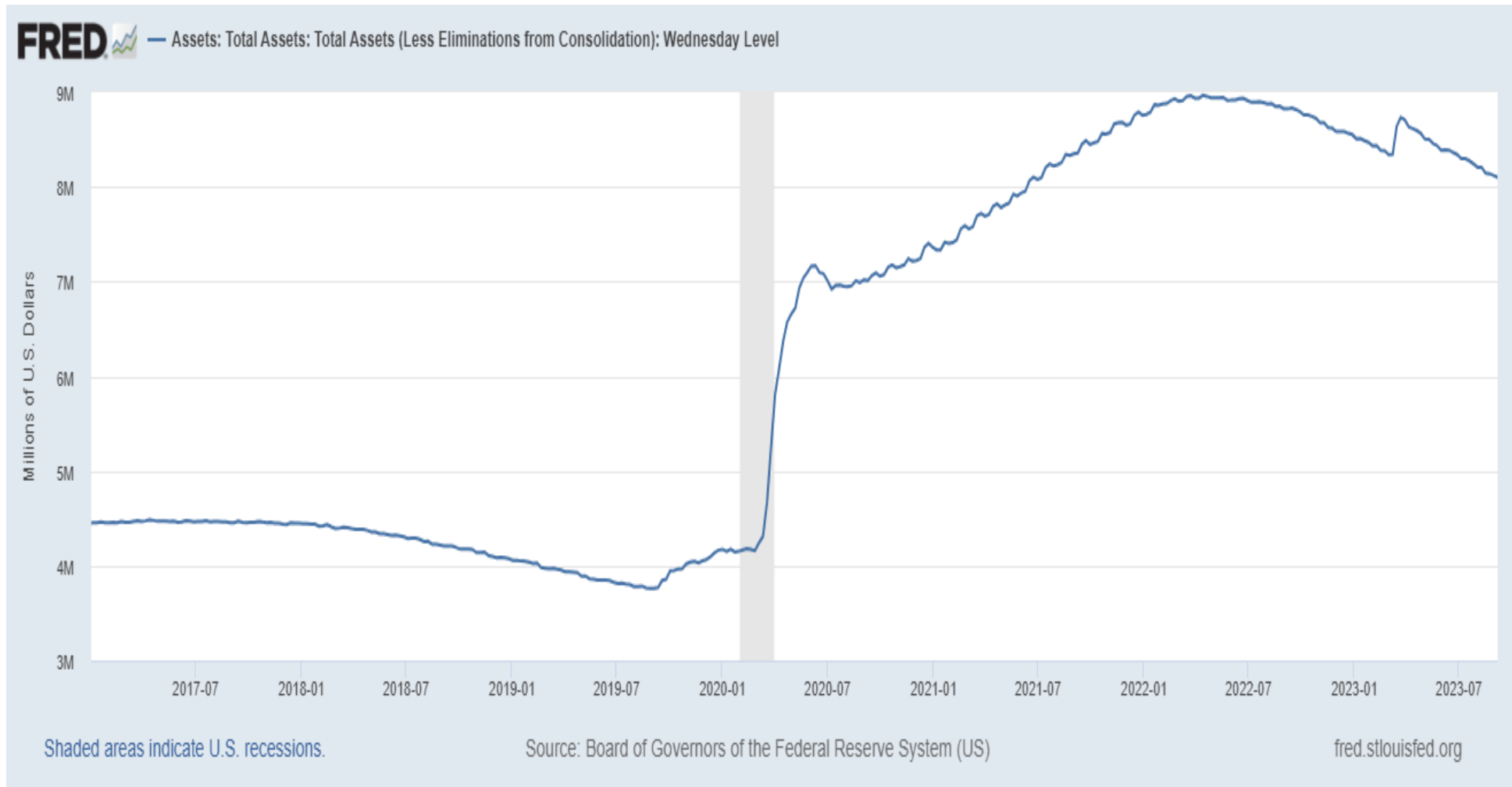
“Capitalism, Socialism, and  
Democracy”

By  
Joseph Schumpeter

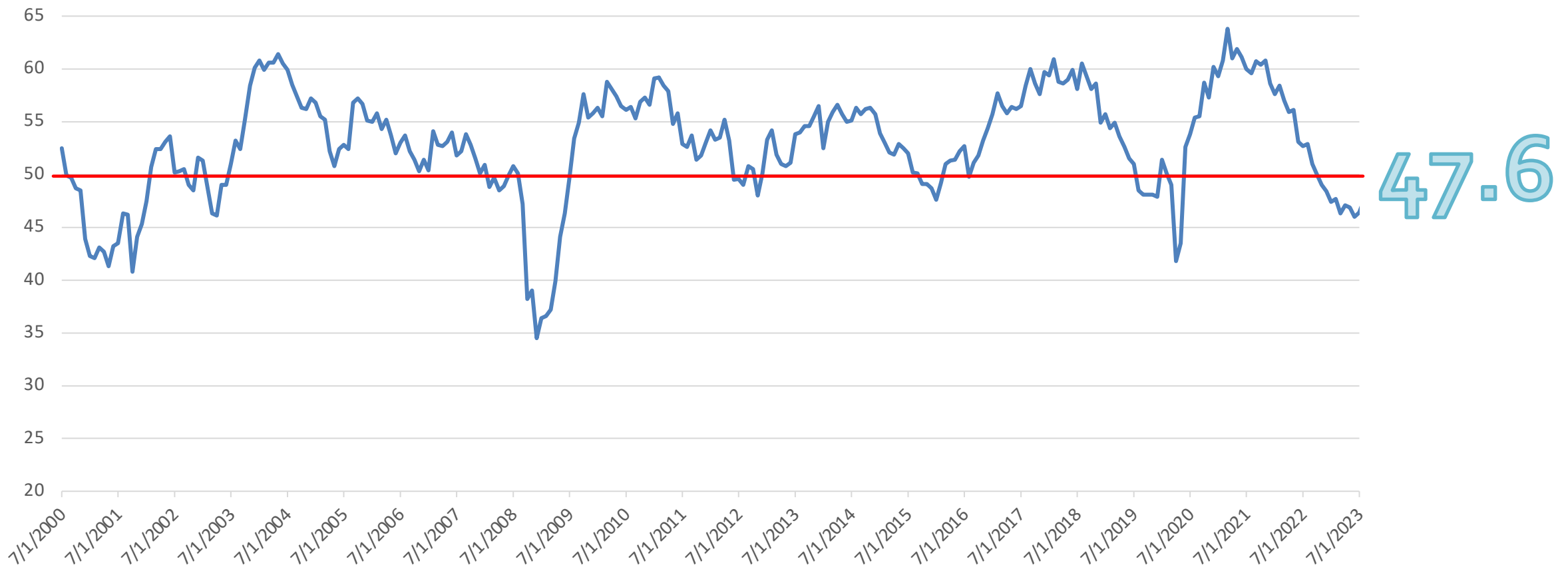




# Monetary & Fiscal Policy - Fed Balance Sheet

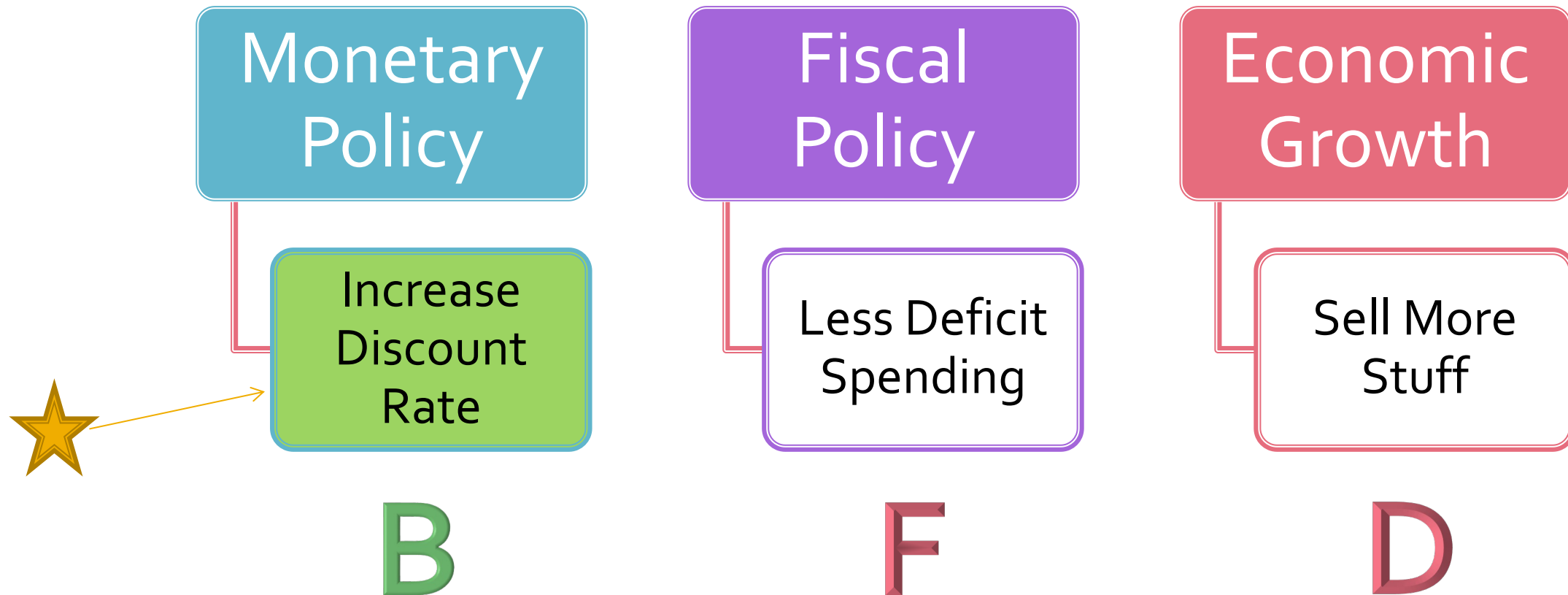


# Stuff = ISM PMI Index (thru August 2023)



Source: <https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm?SSO=1>

# Inflation: Solution



# ISM PMI Report (June 2023)

## AUGUST 2023

■ PMI	47.6
■ <b><i>New orders</i></b>	<b><i>46.8</i></b>
■ <b><u>Employment</u></b>	<b><u>48.5</u></b>
■ Deliveries	48.6
■ <b><i>Inventories</i></b>	<b><i>44.0</i></b>
■ <b><i>Backlog</i></b>	<b><i>44.1</i></b>
■ <b><i>Prices</i></b>	<b><i>48.4</i></b>

## JANUARY 2020

■ PMI	50.9
■ <b><i>New orders</i></b>	<b><i>52.0</i></b>
■ <b><u>Employment</u></b>	<b><u>46.6</u></b>
■ Deliveries	52.9
■ Inventories	43.8
■ <b><i>Backlog</i></b>	<b><i>45.7</i></b>
■ <b><i>Prices</i></b>	<b><i>53.3</i></b>



# Bank Risks

## Interest Rate Risk

- Long term assets
- Short term liabilities

## Credit Risk

- Loan defaults
- Collateral values





# Interest Rate Risk = GOOD

	2022	2023
Income	3.00%	3.50%
Cost	-2.50%	-3.00%
Profit "Spread"	+0.50%	+0.50%

## Risk Management

1. Match duration
2. Hedge with derivatives

## Profit

Small Spread  
+ loan origination fees



# Interest Rate Risk = BAD

	2022	2023
Income	4.00%	4.00%
Cost	-0.50%	-5.18%
Profit "Spread"	+3.5%	-1.18%



## NO Risk Management

1. No duration matching
2. No hedging
3. 94% deposits non-retail
4. Risk Based Capital levels too low \*



# Credit Risk

## Default



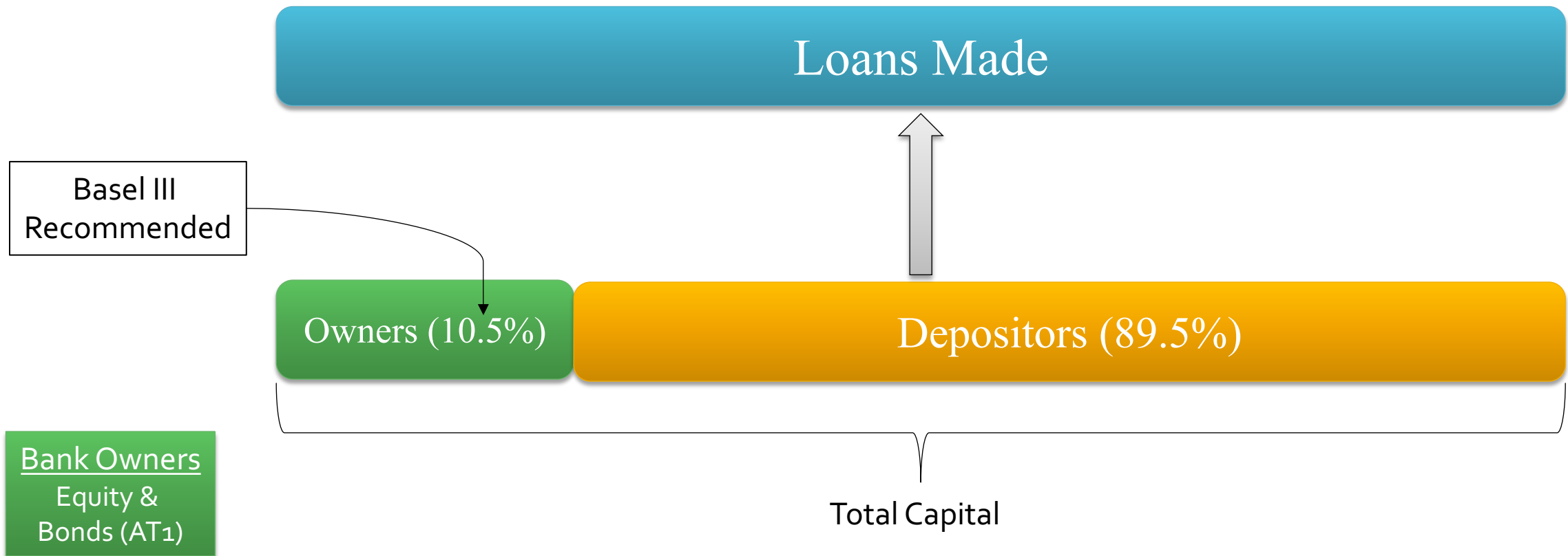
- ☐ Delayed payment
- ☐ Reduced Payment
- ☐ Non-payment

## Measurement

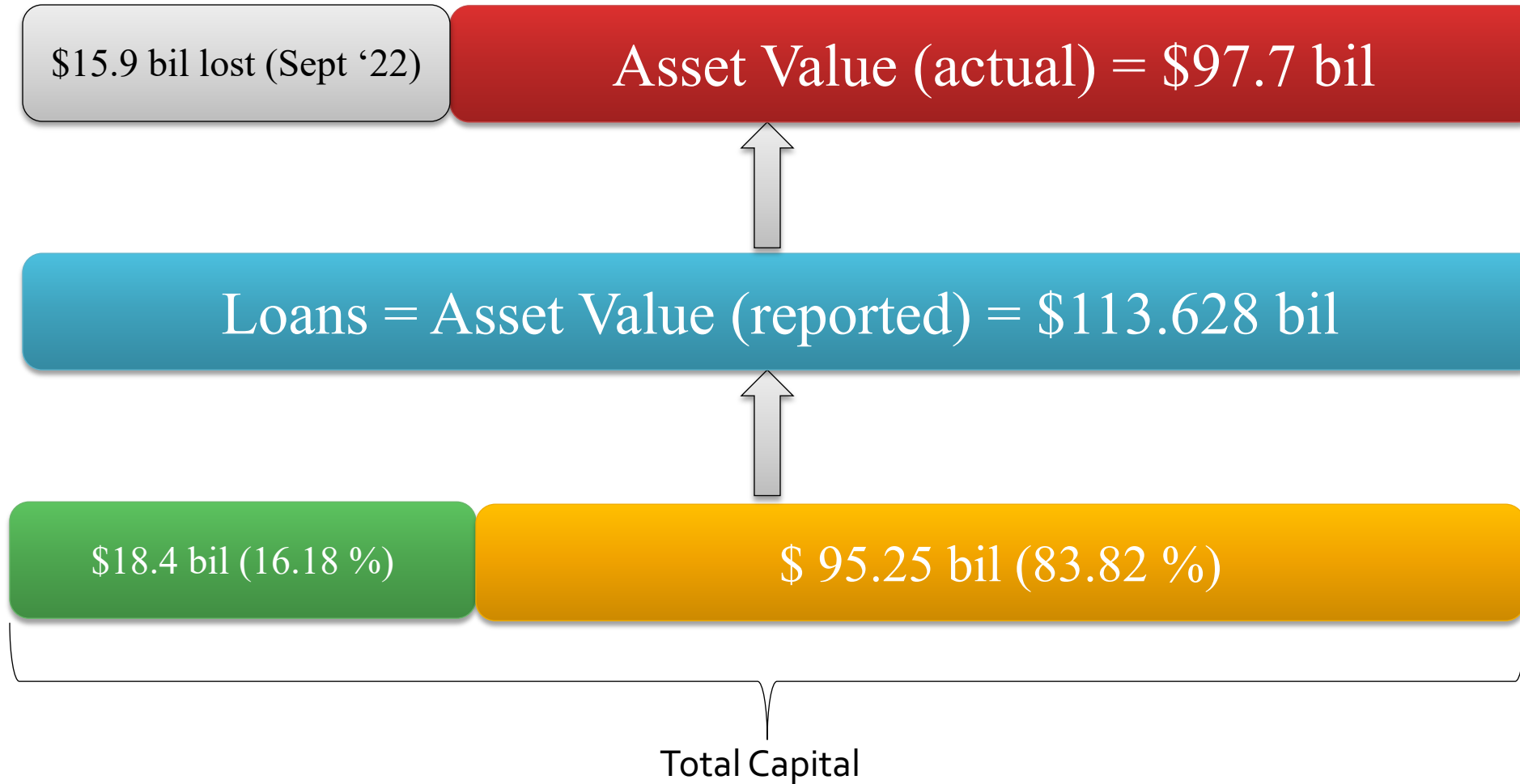


- ☐ Reduced asset values
- ☐ Value at Risk
- ☐ Risk Based Capital

# Credit Risk (Risk Based Capital)



# Credit Risk (Risk Based Capital)



WSJ Reports OCC issued warning letter in 2019. No action taken.

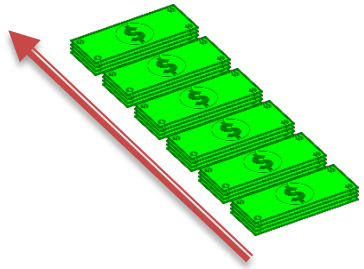
March 2023  
Depositors realize and run on bank





# Bank Run - Process

Withdrawals



Deposits



Sell  
Assets



HTM vs. AFS

Depositors request their cash

New deposits are insufficient

Assets must be sold at loss

MV of assets below BV



# Bank Run & Credit Risk

Risk-Weighted Assets – Standardized Approach		December 31, 2022
(Dollars in millions)		Risk-Weighted Assets
On-balance sheet assets:		
Corporate exposures	\$	65,630
Exposures to GSEs		13,766
Equity exposures		3,180
Residential mortgage exposures		4,628
Other assets <sup>(1)</sup>		2,458
Exposures to PSEs <sup>(2)</sup>		1,578
Exposures to U.S. depository institutions		164
Exposures to foreign banks		353
Past due loans <sup>(3)</sup>		113
Off-balance sheet exposures:		
Loan commitments with original maturity greater than 1 year		12,785
Loan commitments with original maturity of 1 year or less		6,598
Letters of credit		1,942
Exposure to GSEs – Repo style transactions		27
Derivative contracts		406
<b>Total Standardized Approach Risk-Weighted Assets <sup>(4)(5)</sup></b>	<b>\$</b>	<b>113,628</b>



## Risky Assets

Corporate exposure tech dominated

Venture Capital = \$9.5+ bil

Crypto banking clients

- BlockFi
- Circle
- Avalanche
- Ripple
- etc.



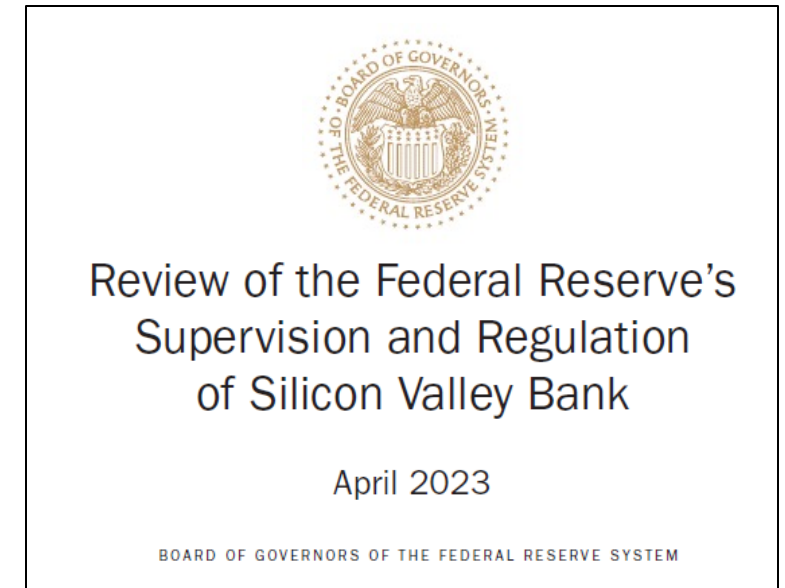
# Regulation Failure

## SVB

- 2019 Fed warning letter
- April 2021 removed interest rate hedges
  - Speculating on rate decreases
- Aug 2021 Fed assigned “failing rating” for control measures
  - No action taken
- Sept 2022, disclosed \$15.9 billion of MV loss
- Feb 2023, Fed staff reported unrealized losses
- Fed rated deposits as “Stable”
  - SVB breached risk limits for many years
- 31 open warnings from Fed regulators .. Dating back to 8/17/21
- Many more ... 114 page report

## Signature

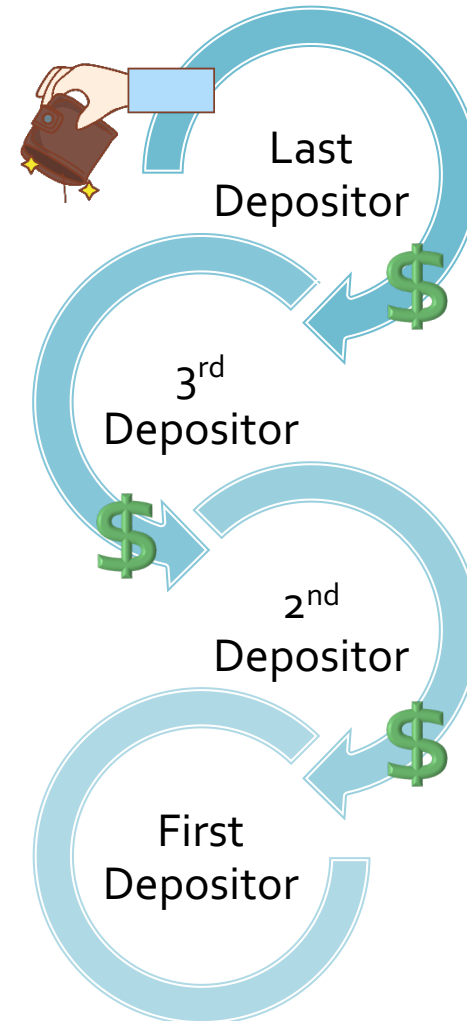
- 2019 Fed downgraded liquidity risk rating
  - 60 depositors with \$250 made up 40% of total deposits



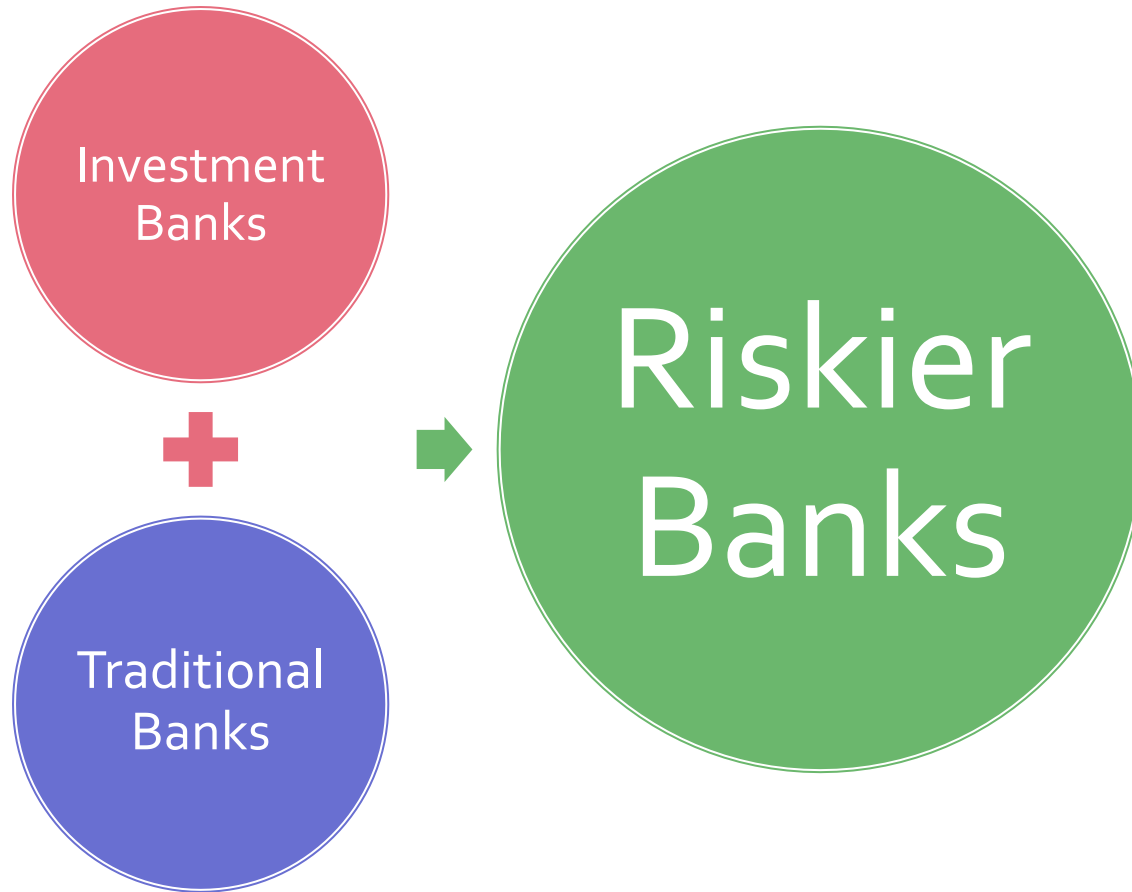
# Pseudo Ponzi Scheme

## DEFINITION

- The fraudulent investment scheme is premised on using new investors' funds to pay the previous investors.
  - *Investopedia*
- New Demand Deposits are being used to payoff old Demand Deposits.
- Bank Runs expose the Ponzi Scheme



# Banking Risk Evolution



**1999**

- Clinton Reversed Glass Steagall Act
- Increased Risk

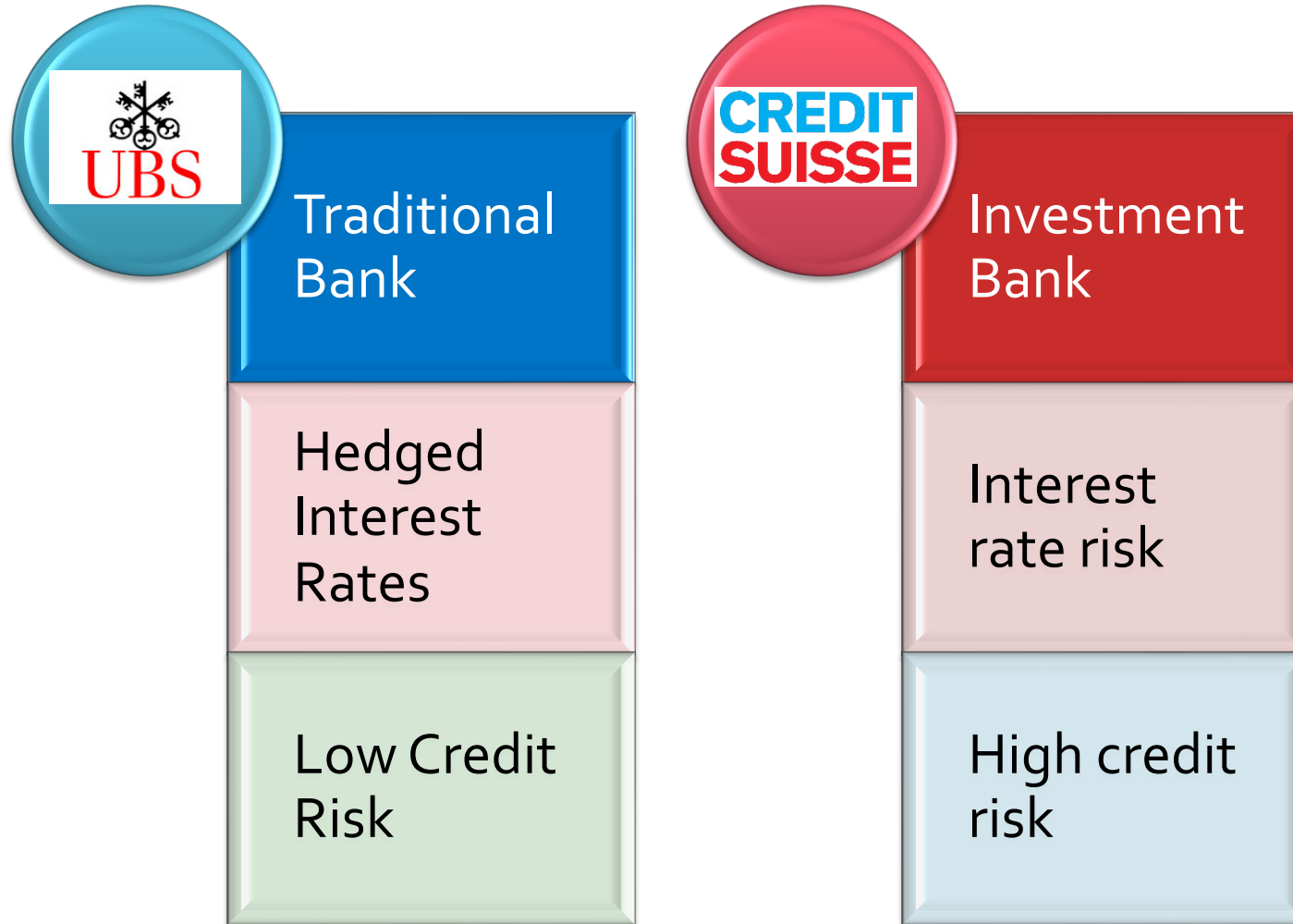
**2008**

- Hope for Homeowners Act by Senator Chris Dodd
- Required stable lenders to purchase defaulted mortgages
- Investment Banks allowed to obtain FDIC insurance
  - Goldman Sachs in Sept 2008





# Banking Risk Today



- UBS Pays \$3.4 bil for CS
- AT1 write off = \$18 bil
- Major VC exposure
- VC competition
- Saudi depositor requests withdrawal of \$4.2 bil



# Bank Risk - Fines for Toxic Securities

JP Morgan Chase	\$ 13.4 bil
Citigroup	\$ 8.8 bil
Credit Suisse	\$ 6.3 bil
UBS	\$ 1.7 bil
Huntington Bank	\$0.00
Old National Bank	\$0.00

# 1 violation = Toxic Security Abuse

ZERO Toxic security violations

# Credit Suisse Decline



\$ 1,000s	12/31/2020	12/31/2021	12/31/2022
Total Assets	805,822,000	755,833,000	531,358,000
Total Liabilities Net Minority Interest	762,881,000	711,603,000	486,027,000
Total Equity Gross Minority Interest	42,941,000	44,230,000	45,331,000



# Credit Risk of Failed Banks



Silvergate  
Crypto



Crypto  
VC



Crypto



VC

\$ 30 bil from  
JPM and  
others

FHLB Lending to Crypto Banks



# SVB Depositors, Clients and Politics



Mark Cuban,  
Cost+ Drugs

Bill Ackman

David Sacks

andreesen.  
horowitz

BainCapital

Battery

BregalSagemount

Accel

bv  
INVESTMENT PARTNERS  
SINCE 1983

FIRSTMARK

FOUNDRY

FP  
FRANCISCO  
PARTNERS

SEQUOIA

FRAZIER  
HEALTHCARE PARTNERS

g<sup>2</sup> | G SQUARED

HURON  
CAPITAL

INSIGHT  
PARTNERS

L CATTERTON

LANDMARK PARTNERS  
an ARES company

MARLIN EQUITY  
PARTNERS

OrbiMed  
Healthcare Fund Management



USD Coin

\$3.3 bil

Pamlico  
CAPITAL

PRIMUS

revolution ventures

SILVERLAKE

SILVERSMITH  
CAPITAL PARTNERS

TA ASSOCIATES

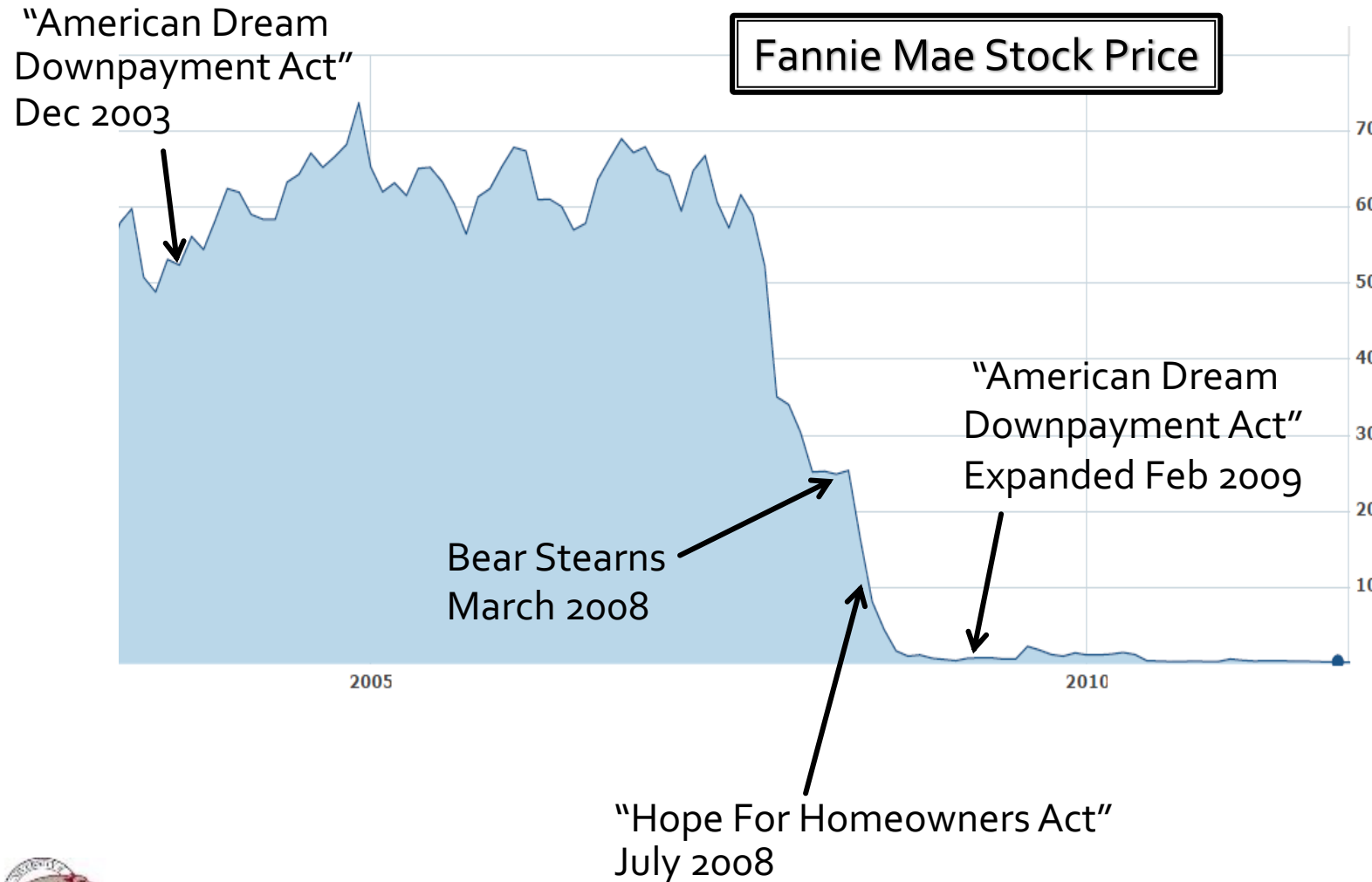
TRIVE CAPITAL

WC  
WYNNCHURCH | CAPITAL

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# Cause - 2008 Financial Contagion



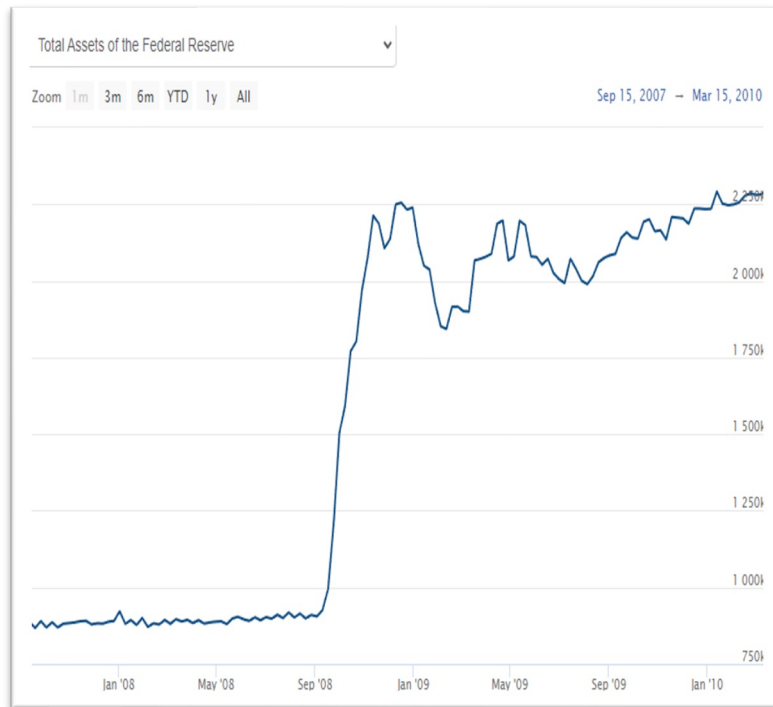
Crisis  
worsened by  
govt  
intervention

Hank Paulson  
&  
Janet Yellen



# Cause - 2023 Financial Contagion ?

## Federal Reserve Balance Sheet



**2007-2010**

### **Yellen on SVB Bailout**

“We’re not going to do it again”

3/12/23

“Secretary Yellen approved actions enabling the FDIC to... fully protect(s) all depositors.”

*Treasury Statement*

3/13/23

“was necessary to protect the broader US banking system,”

3/22/23



**2022-2023**



# Cause - 2023 Financial Contagion ?

## Yellen on SVB Bailout

"We're not going to do it  
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3/12/23

"Secretary Yellen approved  
actions enabling the FDIC to...  
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*Treasury Statement*

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"was necessary to protect  
the broader US banking  
system,"

3/22/23

# FALSE

- Most banks not at risk
- Increases cost to all
- Savings protected by SIPC
- Harms safe regional banks
- Saved speculators
- Helped largest banks

CEO of SVB on  
Fed SF Board





# SVB Depositors, Clients and Politics



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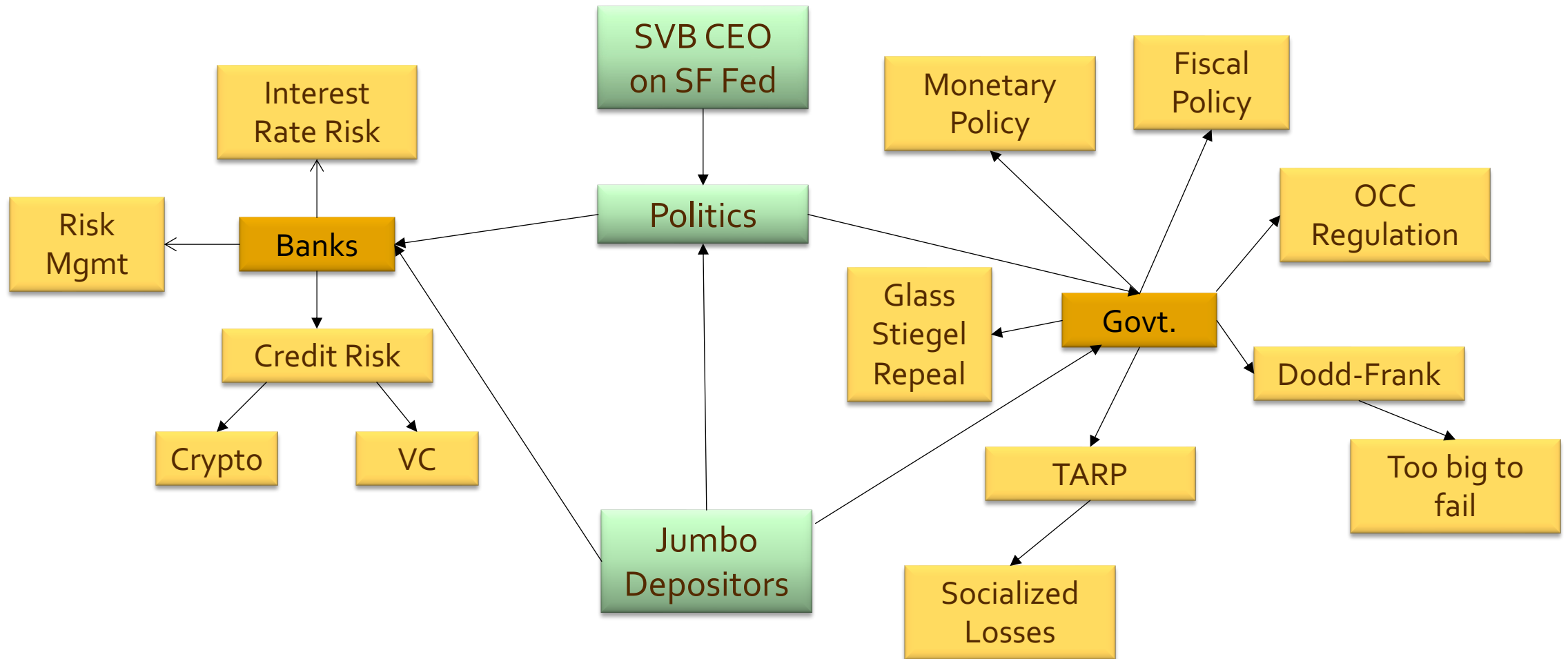
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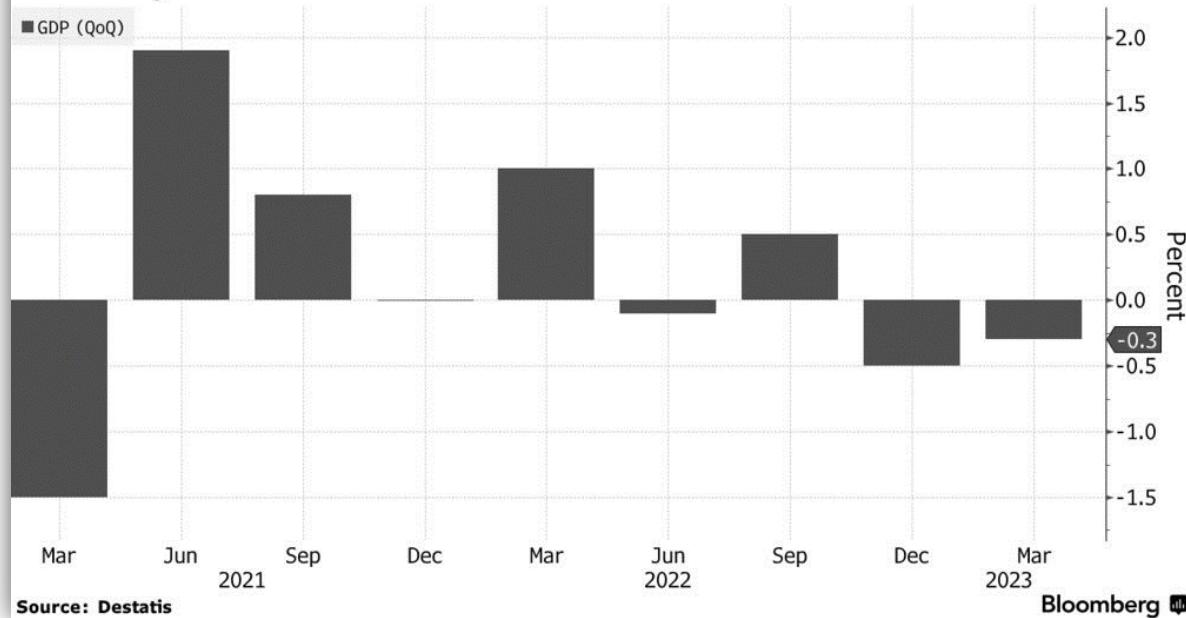


# Causes

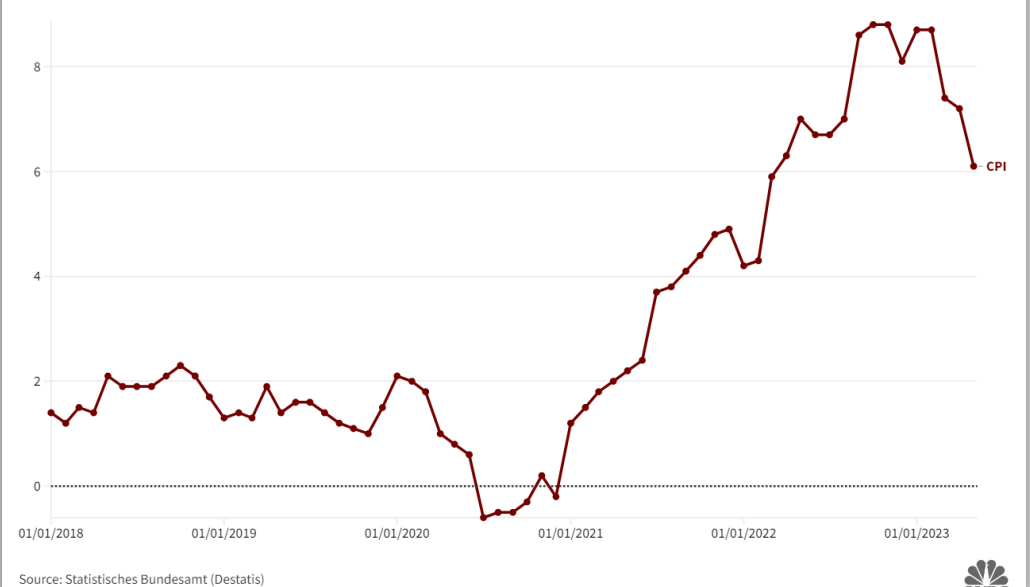


# Germany Recession – Q1 2023

Germany Suffered a Winter Recession After All



Consumer Price Index: Germany



## China GDP ?



# The China Bubble

- Stock Market
- Real Estate
  - Evergrande
- GDP
- Inflation
- Currency manipulation
- Environment



# Chinese Real Estate





# Chinese Real Estate



# Chinese Real Estate

- Population = 1.4 billion
- Vacant Units = 60 million
- Housing for 210 million people



# Wrap Up & Questions

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