



What Happened with Silicon Valley Bank and How it Affects the Community Association Management Industry

The last couple weeks have been, in many ways, unprecedented from a commercial banking perspective. For all of us in the community association management industry it has been particularly interesting to follow because so much of what we do relates to being trusted custodians, advisors, and managers of communities' depository relationships and assets. It's a core focus and a core competency of being a successful community manager, and for Vantaca, as a software partner—or any technology partner—our aim should be to add value and insight into that process. With that being said, we thought it would be helpful to walk through what happened, why it matters to our industry, and how we as a trusted software partner are responding.

WHAT HAPPENED AT SILICON VALLEY BANK:

Silicon Valley Bank (SVB) is a major financial institution that has provided financial services to startups, venture funds, private equity funds, among other customers. By the fourth quarter (Q4) of 2021, the bank held \$189.2 billion in deposits up from \$102 billion in 2020 and \$49 billion in 2018. At a high level, SVB's (like most banks) business model involves receiving deposits from clients at a low-interest rate while investing a portion of the money in higher-yielding investments such as long-term government bonds and mortgage-backed securities. While those are generally very safe investments, there is a potential time conflict with regard to when the deposits could be withdrawn. As a result of the rapid deposit growth, the value of these longer-term assets held by SVB grew from \$27 billion in 2020 to \$128 billion in 2021. Yet, when market interest rates rose, the value of SVB's investments decreased, leading to an unrealized loss of around \$17 billion. Additionally, SVB saw a net outflow of deposits from customers resulting in a decline from roughly \$200 billion in Q1 of 2022 to \$175.4 billion by Q4 of 2022.

As a result, SVB decided to sell approximately \$21 billion of its investments for a loss of \$1.8 billion and attempted to raise \$2.2 billion from equity investors. The equity markets reacted poorly to this news and SVB's share price began to drop. The falling share price made it difficult for the bank to raise financing. The combination of these events induced depositors to question the solvency of the bank, causing them to attempt to withdraw \$42 billion of their deposits — about a quarter of SVB's total — on Thursday, March 9. The Federal Deposit Insurance Corporation (FDIC) responded by shutting down the bank on Friday, March 10 to contain the run on the bank. Due to the fact that over 90% of SVB's deposits were uninsured (over the FDIC limit of \$250,000) there was significant uncertainty surrounding depositor access to their money.

Over the weekend regulators (U.S. Treasury, Federal Reserve, and FDIC) declared that they would "backstop" or safeguard uninsured deposits in SVB and across the entire



banking system in an effort to prevent a contagion effect on the broader banking system.

WHY IT MATTERS TO THE COMMUNITY ASSOCIATION MANAGEMENT INDUSTRY:

Since the financial crisis of the 2000s, times have been good, broadly, but some complacency has seeped in with banking regulations like the FDIC limit on insured deposits. That FDIC maximum of \$250,000 became a theoretical limit that most depositors do not think much about. The events of the past week have helped many realize this is something we should be paying closer attention to and ask questions such as:

- Do I understand which deposits are insured by FDIC and which are not?
- And what's my overall depository risk and strategy, both for growth and security?

There's no one-size-fits-all strategy, but community management companies are in the business of advising, or at least managing, these communities' funds making it critical to be knowledgeable about insured vs uninsured deposits, growth strategy, and general deposit accessibility.

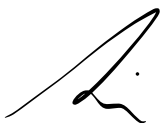
The takeaway from this situation is that there were many depositors at Silicon Valley Bank that made assumptions about their deposits who quickly found out these assumptions were not guaranteed. It is important for all community association management companies to understand what the risk profile is around their communities' financials and understand their broader depository strategy.

WHAT VANTACA IS DOING TO HELP:

At Vantaca we're committed to empowering management companies to be on the leading edge of problem solving for their customers and their own businesses. In that spirit, as we observed these events unfold, we immediately went into the lab to solve the question, how can we help management companies get clear access to their depository information, make informed decisions, and understand where they stand?

The result is a new tool within our business intelligence utility to report on all associations under management with sortable data fields that facilitate easy inquiries and understanding of each association's bank balances.

The past week reminded us that the more information you have and the more you understand, the better and more proactive decisions you can make. The new business intelligence tool within Vantaca is something that we think will be helpful for our current and future customers, both in this moment and moving forward by providing a better understanding of the totality of their depository relationships.



Ben Currin, Vantaca CEO

