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BUSINESS

Wisconsin banks much safer than Silicon Valley Bank and others that collapsed, analysts say

It's unlikely that any Wisconsin banks had the same faulty business practices as Silicon Valley Bank, an investment fund manager said.

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Wisconsin banks don't face the risks that brought down three banks in high-profile collapses last week, industry analysts said.

Two California-based banks — Silicon Valley Bank and Silvergate Bank — and a New York-based bank, Signature Bank, collapsed last week, after their clients rushed to withdraw funds.

The now-shuttered banks worked closely with the tech industry, which has been hemorrhaging money in the last year. Silicon Valley Bank, which was the 16th largest bank in the United States, had an unusually large share of its money tied up in long-term government bonds that had lost value as interest rates rose.

Wisconsin banks have more diverse investments and less risky clients, analysts said.

Nonetheless, after Silicon Valley Bank's problems surfaced, investors began questioning the stability of the nation's entire banking system.

Bank stocks plunged Thursday and their declines continued through Monday.

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At the close of markets Monday, Green Bay-based Associated Bank's stock was down 10.5% since Thursday, when the depths of Silicon Valley Bank's problems became apparent. Green Bay-based Nicolet Bank was down 9%.

Those declines pale in comparison to the drop in the stock prices of larger regional banks like Minneapolis-based U.S. Bank, which has lost almost 20% of its value.

Associated and Nicolet shares also started to bounce after sinking early Monday morning, posting end-ofthe-day declines 3.8% and 2.9%, respectively, while U.S. Bank's stock fell 10%.

"I think this is temporary, just due to the nature of the news over the last three or four days," Rose Oswald Poels, president and CEO of the Wisconsin Bankers Association, said of the drastic fall in stock prices.

Wisconsin is mostly insulated from the tech crash

Each of the banks that collapsed last week worked closely with the tech industry. The largest bank to crash, Silicon Valley Bank, served a large number of startups and venture-capital firms.

During the pandemic, cash was pouring into the tech industry as lockdowns moved many businesses online, creating more demand for tech services. Interest rates were low, which meant investors were willing to bet money on not-yet-profitable businesses.

Then, as the Federal Reserve began raising interest rates, the tech industry got squeezed andbegan withdrawing larger than expected amounts from their bank accounts. That posed problems for their banks, which couldn't liquidate their assets fast enough.

Wisconsin, much to the chagrin of its entrepreneurs, doesn't have a robust tech sector. It's home to a few notable startups, including Epic Systems and Exact Sciences. But unlike California, Wisconsin's economy doesn't depend as much on tech and banks aren't as heavily involved in tech company finances.

In the wake of these bank collapses, the small scale of Wisconsin's tech industry may be a blessing in disguise.

"Wisconsin banks don't typically have much exposure, if any exposure, to the tech sector," Oswald Poels said.

Wisconsin banks safer because their investments are more diverse

Wisconsin banks also are much more liquid than the banks that collapsed, analysts said. That's because they pursued a different investment strategy.

Banks make money by loaning out their clients' deposits. During the tech boom, Silicon Valley Bank's startup clients had lots of money on hand, which meant their deposits were far greater than the demand for loans. So Silicon Valley Bank parked its money in long-term Treasury bonds.

These bonds are typically a safe investment; they're guaranteed by the federal government. However, the value of older bonds fell, as the Fed increased interest rates to fight inflation.

With better interest rates available to investors, Silicon Valley Bank had to sell its bonds at a discount. It lost $1.8 billion in the process.

Wisconsin banks also invest in Treasury bonds, but those bonds make up a much smaller share of their overall portfolio.

What happened at Silicon Valley Bank was unique to that bank and its business model, said Jon Bruss, managing partner and CEO of Fortress Partners Capital Management.

"I don't think that there are any banks in southeastern Wisconsin, probably in the entire state, and even arguably in the Midwest, that have a faulty business model like Silicon Valley Bank," Bruss said.

Federal government steps in to shore up bank finances

President Joe Biden on Monday reassured the public that the banking system is stable.

"Americans can have confidence that the banking system is safe," Biden said at the White House. "Your deposits will be there when you need them."

On Sunday night, the Federal Reserve announced a $25 billion emergency lending program to support banks that are strapped for cash. Instead of selling their Treasury bonds at a loss — as Silicon Valley Bank did — banks can borrow from the Fed and post their Treasury bonds as collateral.

In a note to investors, Baird analyst David George on Monday described the program as "an incremental positive" for the nation's regional banks. "It should help alleviate some investors' concerns over the group's ability to maintain adequate liquidity," George wrote.