

Faculti Summary

<https://faculti.net/the-not-so-hidden-risks-of-hidden-to-maturity-accounting/>

This video discusses a mathematical modeling project initiated in response to the collapse of Silicon Valley Bank (SVB) in March 2023. The authors analyze the bank's high percentage of uninsured deposits and the implications for bank runs, referring to classic models of banking behavior. They highlight that 90% of SVB's deposits exceeded the FDIC insurance limit, which contributed to a panic run on the bank, exacerbated by rapid information dissemination via social media.

Additionally, the text delves into the concept of "held to maturity" (HTM) assets, which are meant to be kept until maturity without needing to adjust their value based on market fluctuations. The authors emphasize the significance of properly managing these positions in light of the rising interest rates at the time, and the risks associated with having a large amount of these assets.

The model developed by the authors aims to evaluate the risk of bank runs by examining factors such as the percentage of uninsured deposits and the quality of the bank's assets. They found that SVB was managing its risk prudently until late 2022 but failed to adjust its HTM asset positions in time to mitigate risks associated with a changing economic environment.

The analysis extends beyond SVB to include other banks like PNC and First Republic Bank, noting that PNC effectively unwound its HTM assets and, as a result, was better positioned to withstand risks. The authors conclude that understanding a bank's accounting practices, especially regarding HTM versus available-for-sale assets, is crucial for assessing its risk level. They suggest that regulatory frameworks should consider a bank's specific context, including the proportion of insured vs. uninsured deposits, to prevent future failures like SVB's.