Eder Financial
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Recent Bank Failures, Eder Financial, and You

Several regional banks have gone out of business in recent weeks due to runs by depositors on the bank, with enough depositors withdrawing enough funds to drive the banks into insolvency. You may have questions on whether your Eder Financial account has been adversely impacted. Here's some answers.

Rather than loud lobbies filled with panicked depositors, the bank runs of today can happen very quickly and entirely online. Adding further uncertainty to a volatile marketplace, the collapses of Silicon Valley Bank (SVB) and Signature Bank, as well as the Swiss-government-directed sale of Credit Suisse to UBS, encourages a natural time to pause and reflect on the risks involved and ways to mitigate these risks.

What does this mean for my investments?

One of our investment funds, the Domestic Stock Large Cap Core Index Fund (DSLCCI), had a $16,000 exposure to SVB stock (two hundredths of one percent of the portfolio) and no investments had exposure to Signature Bank, Credit Suisse, or debt instruments from the three banks. Thus, the impact to Eder members was negligible if they were impacted at all. The DSLCCI is used in several of our Strategic funds, such as the Balanced Fund and Domestic Stock Fund, as well as the Tactical funds (i.e., Aggressive Growth Fund, EVI Income & Growth Fund). The diversity underlying our investment strategies has paid dividends in the form of a minimal impact on investment performance in this instance. While the threat of further contagion grabs headlines, there were some unique variables involved in these two banks that do not indicate widespread structural weaknesses in U.S. financial firms.

How did this happen?

The bulk of SVB's customers are technology startups – companies characterized by their reliance on cheap, abundant loans and indeterminate paths to profitability. Signature Bank was one of the few entities actively courting deposits of cryptocurrencies.

Rising interest rates implemented by the Federal Reserve has had a three-fold effect on SVB, Signature, and other regional banks that relied on a continued era of low interest rates. First, startups found it increasingly expensive and difficult to secure loans, resulting in fewer deposits. Second, the tens of billions of dollars in debt SVB had acquired became a larger and larger unrealized loss as time progressed. Third, cryptocurrencies (and their founding firms) increasingly have fallen from favor as bond yields have risen and investors return to safer harbors.

The conditions were ripe for depositors at these banks to become nervous, so when influential venture capital firms learned on March 8 of an emerging cash-crunch at SVB they began a series of conversations that turned into an avalanche of SVB customers seeking to abandon the firm as quickly as they could. Within 36 hours the firm went from being one of the largest banks in the United States to discussing liquidation proceedings and administration by the FDIC. Signature Bank found itself caught up in the twin supernovas of SVB and FTX (an alleged massive cryptocurrency fraud) and imploded when nervous depositors began withdrawing funds simultaneously.

Credit Suisse also suffered from mass withdrawals at a time when they were still recovering from a series of expensive scandals.

Could this happen to Eder Financial?

In a word: no. It is common for banks to keep a very small percentage of their deposits in cash – in December 2022, Bank of America and JPMorgan only had 2% of their deposits in cash, and SVB was at 5%. Eder Financial is not a bank, so 100% of our customers' assets are liquid and secured by the underlying investments. In addition, the holding firm we partner with has more stringent regulations and more diverse income streams than these regional banks that collapsed.

What comes next?

The Federal Deposit Insurance Corporation, alongside the Federal Reserve and the U.S. Treasury, have committed to back all assets from the failed domestic banks. To prevent further contagion among international banks, the United States and other leading central banks updated their cash swap policies to allow daily access to U.S. Dollars rather than relying on weekly order fulfillment. This, alongside the rapid sale of Credit Suisse to (more fiscally conservative) UBS, is meant to provide liquidity and calm markets.

Do you have more questions or concerns?

Please reach out to Dan Radcliff at OI@eder.org with your inquiry.