



The Role of Cryptocurrency in the Failures of Silvergate, Silicon Valley, and Signature Banks

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The involvement of a number of recently failed banks with the cryptocurrency industry seemed to be the manifestation of crypto market volatility affecting traditional finance. Failed banks' exposure to crypto adds to the policy debate over the appropriate relationship between banks and the crypto ecosystem. This Insight discusses the crypto activities of these banks and whether they may have exacerbated other bank risks. For a look at the bank failures, see CRS Insight [Silicon Valley Bank and Signature Bank Failures](#).

Banking Crypto

Silicon Valley Bank (SVB), Silvergate Bank, and Signature Bank all provided banking services to cryptocurrency firms in the form of holding the deposits of, or making loans to, crypto industry companies (or both). Each bank's level of involvement with crypto firms varied. Of the three, Silvergate's deposit base exhibited the highest concentration in the crypto industry. At the time of its 2022 third-quarter report, its last before opting for a [voluntary liquidation](#), crypto client deposits represented more than 90% of total deposits. At [Signature](#), digital assets reserves accounted for 20% of deposits at the end of 2022. In its most recent [annual statement](#), SVB claimed to have "minimal exposure" through deposits from, and loans to, crypto firms. [Revelations](#) that Circle, the issuer of the USD Coin (USDC) stablecoin, held \$3.3 billion of stablecoin reserves at SVB caused USDC to [depeg](#) from the U.S. dollar and drop to less than \$0.88 before regaining the peg when it became clear that all SVB deposits would be guaranteed.

Loan exposure to the crypto industry is less clear. As with its deposits, SVB claimed to have minimal loan exposure to crypto firms. Silvergate, on the other hand, offered Bitcoin-collateralized loans to industry participants. At the end of September 2022, the bank held \$302 million in Bitcoin-collateralized loans (of a \$1.5 billion commitment) against which borrowers had posted \$769.9 million in Bitcoin as collateral. Signature [also previously offered digital asset collateralized loans](#), but it stated in its [last annual report](#) that it does not make crypto-backed loans, lend to the crypto industry, or hold crypto assets. However, a [press release](#) from a bank that bought some of Signature's assets implied Signature may have had some.

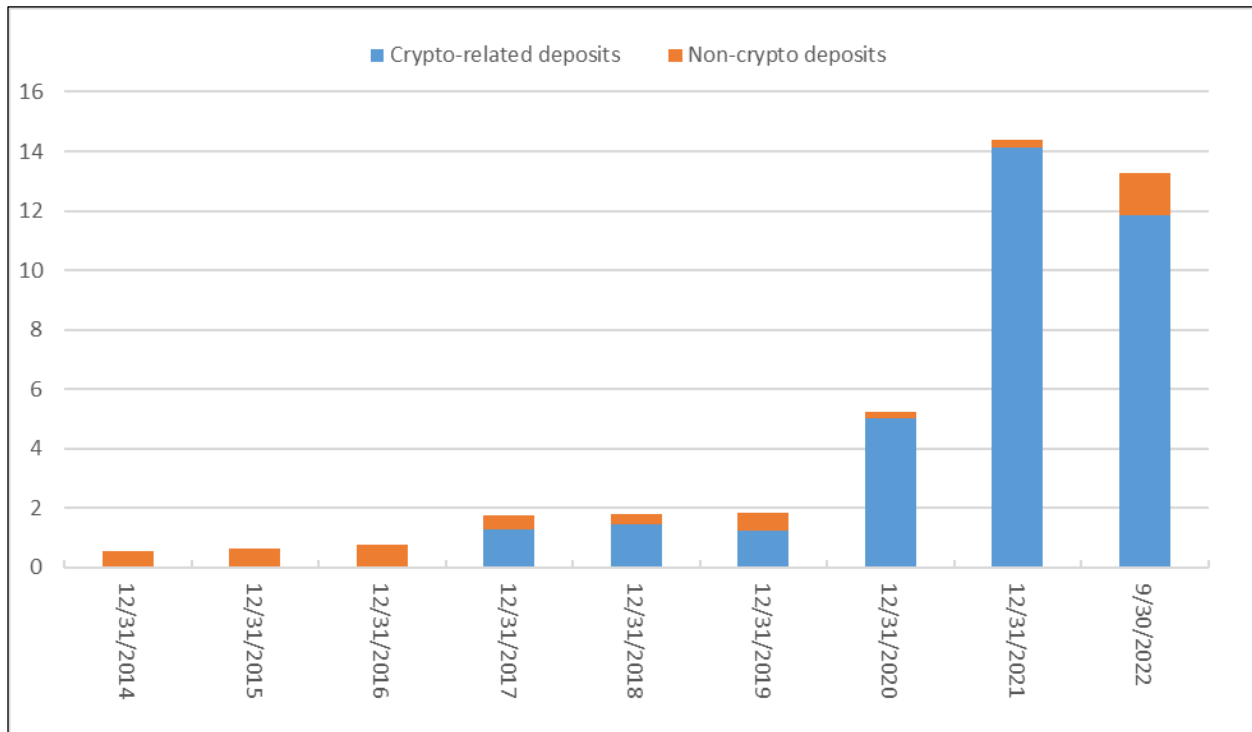
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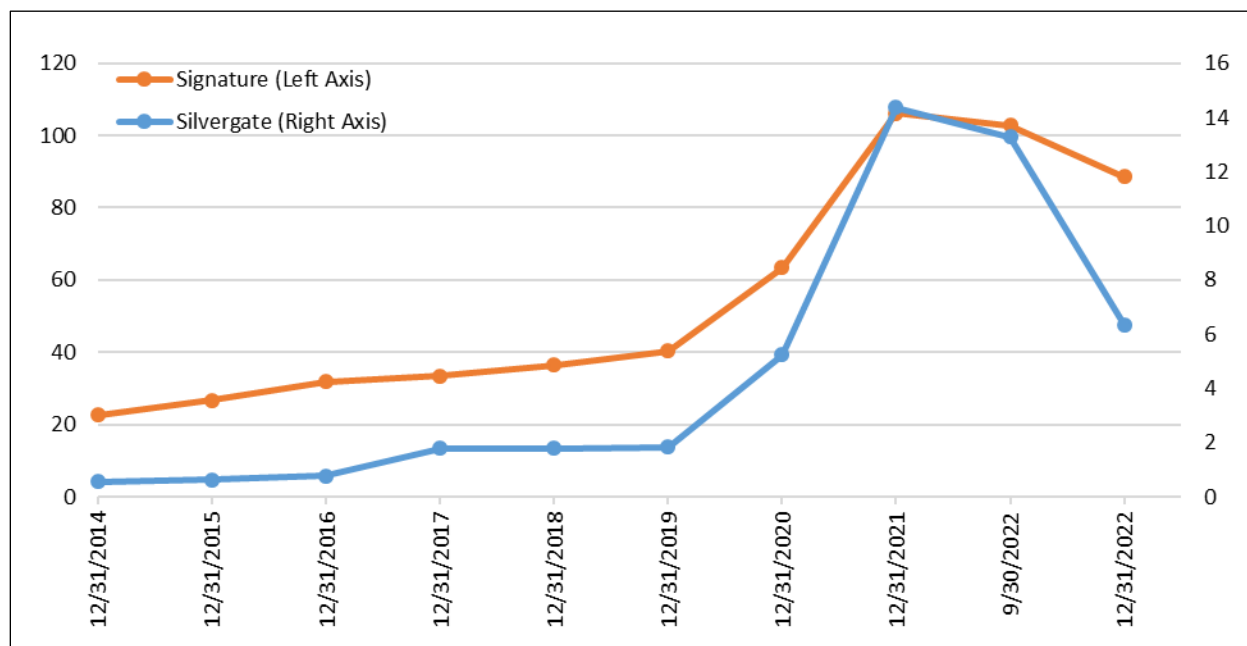
Silvergate and Signature also offered payment networks that facilitated real-time payments among crypto clients. Silvergate [credited](#) its Silvergate Exchange Network with its recent deposit surge. Between 2014 and 2021, the share of Silvergate’s crypto firm deposits increased from 1% of total deposits to a high of more than 98% at the end of 2021 (see **Figure 1**). Signature said that Signet, its own payment platform, was [partly responsible](#) for its increase in deposits (see **Figure 2**).

Figure 1. Deposits from Crypto Firms as a Share of Total Deposits at Silvergate Bank
(in \$Billions)



Source: Total deposit figures from [call reports](#). Crypto firm deposits from [annual](#) and [quarterly reports](#) and [registration statements](#).

Figure 2. Deposits at Silvergate and Signature Banks
(in \$Billions)



Source: From call report data at <https://cdr.ffiec.gov/public/ManageFacsimiles.aspx#>.

Crypto's Role

It is tempting to look for causal relationships between banking failures and specific crypto industry failures. Some banks worked with high-profile crypto company failures, including Celsius and FTX, yet exposure was somewhat limited. At Silvergate, exposure to FTX was limited to holding deposits, which were less than 10% of Silvergate's total. Celsius reportedly held \$130 million at Signature, which in July 2022 represented little more than 0.1% of Signature's total deposits. While FTX held deposits at Signature, those also represented around 0.1% of Signature's deposits. In a House Committee on Financial Services, Subcommittee on Digital Assets, Financial Technology and Inclusion hearing, New York State Department of Financial Services Superintendent Adrienne Harris explained that attributing Signature's failure to crypto was a "misnomer" and that crypto withdrawals during the bank run were proportional to the bank's total crypto deposits. Also, Silvergate's more "exotic" Bitcoin collateralized loans—which were perceived as risky because of the cryptocurrency's volatility—performed "as expected, with no losses or forced liquidations." That said, perceptions of a bank's riskiness because of its crypto exposure may have driven non-crypto firms/individuals to make significant withdrawals.

While the banks appear to have withstood direct exposures to specific crypto firms, some nevertheless experienced significant depletion of deposits as the steady series of failures deepened the crypto market downturn. After reaching an all-time high of around \$3 trillion in November 2021, crypto lost more than two-thirds of its market capitalization by December 2022. As digital asset prices fell, centralized crypto platforms and stablecoin issuers experienced redemptions, likely causing them to draw down deposits held at these banks. To meet withdrawal demand, banks sold ostensibly safe securities for losses, affecting their liquidity and—in some cases—their solvency. In the fourth quarter of 2022, Silvergate's deposits fell by more than half, hastening a drop that began earlier in the year (see Figure 2). Signature's deposits fell by around 15% over the same period. So in this case, losses were not realized on crypto-related assets, but crypto deposit withdrawals caused banks to sell other assets at a loss.

Related Policy Issues

These events have renewed certain policy debates. They demonstrate that volatility in crypto markets may expose banks to liquidity risks that could ultimately lead to fatal losses. The scenario highlights these risks and raises questions of whether banks [with remaining crypto exposure](#) are managing these risks well enough. To that end, on February 23, the federal banking regulatory agencies [issued a joint statement](#) warning of liquidity risks posed by crypto firms and their end users.

From the industry perspective, the loss of two crypto-friendly banks has revived [concerns](#) that crypto firms lack banking options. While banking regulators previously [clarified](#) that banks were “neither prohibited nor discouraged” from banking crypto, banks may be reticent to bank the industry. This reluctance was evinced by the FDIC’s [announcement that it will return](#) Signature’s deposits to crypto firms if another buyer does not emerge. Hesitancy to bank crypto may also highlight broader uncertainty regarding what constitutes appropriate practices in the absence of a more robust [regulatory framework](#).

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