



The Daily Dish

SVAFU

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The policy response to the demise of Silicon Valley Bank (SVB) has produced a really great example of a SNAFU, which we shall simply shorten to SVAFU.

SVAFU #1: Insuring 100 percent of the SVB deposits. This sets the expectation that every deposit in the United States is fully insured, which is horrific. First, it is really expensive (“taxpayers will not pay a dime” is an open joke). Second, Congress would have to approve it. Third, it sets up terrible incentives for both banks and customers to eliminate all risk.

SVAFU #2: SVB is a victim of the Fed’s disinflationary efforts. One can fully expect that there will be others – people will get laid off, small businesses will close, and it will be a cost of the fiscal and monetary policy errors that spawned inflation. But God forbid that some Silicon Valley fatcat’s French Laundry reservation be put at risk! Making venture capitalists whole and letting unemployed carpenters fend for themselves is grotesquely unfair.

SVAFU #3: SVB incompetently relied on long-term bonds for its capital and the rising interest rates dramatically lowered its value. Somehow neither SVB nor its regulator noticed this rookie error in interest rate risk. If you’re worried about other banks, don’t be. Now there is a special Fed lending program that would give banks loans equal to the face value of bonds if they find themselves in the same position. Didn’t manage interest rate risk? Didn’t monitor the condition of the banks you regulate? No sweat. Just ask for the cash!

SVAFU #4: SVAFU #3 is backed by the Treasury’s Exchange Stabilization Fund, which is a legacy fund for managing fixed exchange rates that Treasury misuses and abuses regularly. It is time to take this slush fund away from the Treasury sugar daddies once and for all.

SVAFU #5: Don’t have the president talking about it. It is not comforting to have the president pulled into a situation – it sends the message of “OMG!” which is at odds with the calming “we got this; no big deal” that one intends. Double don’t have him talk while markets are open and trading.

Bonus SVAFU: Evidently we got the president [out of bed](#) to do this!

Deep breath, Doug. Deep breath.