Why did First Republic need a $30BN injection of cash? Bank courted mega rich tech clients like Zuckerberg who were 'gifted' cut-price loans – and had high level of uninsured deposits over $250,000

Description

The bosses of America's largest banks united on Thursday to help flailing First Republic Bank, in a move designed to calm the entire sector.

First Republic received $30 billion in deposits from 11 banks after it was seen to be teetering, and at risk of bringing others down with it.

'This show of support by a group of large banks is most welcome, and demonstrates the resilience of the banking system,' said a group of U.S. regulators led by Treasury Secretary Janet Yellen.

The bank was seen as vulnerable following the collapse of Silicon Valley Bank last week, with both SVB and First Republic having similar compositions in key areas.

When Silicon Valley Bank went into freefall on March 9, analysts thought First Republic would not be far behind.

Banks taking part in the First Republic rescue

- Bank of America
- Citigroup
- JPMorgan Chase
- Wells Fargo
- Goldman Sachs
- Morgan Stanley
- Bank of New York Mellon
- PNC Bank

- State Street
- Truist
- US Bank

Both banks courted a high-net-worth clientele.

SVB, founded in 1983 in Santa Clara, California, catered in particular to tech investors and wineries in the Bay Area, but also had a strong East Coast presence.

First Republic, launched in 1985 in San Francisco, enticed wealthy people on both coasts.

First Republic's clients included Mark Zuckerberg, who was offered a 1.05 percent mortgage rate on a $5.95 million loan for his five-bedroom Palo Alto home in 2011.

At the time, the average 30-year rate was 4.45 percent.

About three-quarters of the bank's mortgage approvals are 'jumbo' loans, or loans above $417,000, the WSJ reported.

And the average mortgage at First Republic is more than $1.2 million.

Many clients are on a first-name basis with their branch manager and cite personal attention as their reason for banking with the lender.

SVB's clients included billionaire venture capitalist Peter Thiel.

Mark Zuckerberg was among First Republic's clients and received a mortgage on extremely favorable terms
First Republic bankers flocked to San Francisco for a no-expense-spared Wonka-themed Christmas party
First Republic Bank is known for being the bank for the super rich, with oyster-fueled events for clients and glitzy Christmas parties for staff. Pictured: Facebook post by Robert Callan Jr. of Sothebys from inside a Willy Wonka inspired First Republic Bank Holiday Event

At First Republic, customers with a median net worth of $3.3 million were enticed by lavish perks including cocktail parties at its 69 branches, stretching from Manhattan to Palm Beach.

Photos and videos posted to social media in December show a glitzy Willy Wonka-themed holiday party, complete with dancers and an orchestra, at the luxury Palace Hotel in San Francisco.

First Republic Bank vs Silicon Valley Bank

Founded:

SVB = 1981, Santa Clara

First Republic = 1985, San Francisco

Total assets at end of 2022:

SVB = $209bn

First Republic = $212.6bn

Loans:

SVB = $74bn

First Republic = $166.9bn

Deposits:

SVB = $175bn

First Republic = $176.4bn

Percentage of uninsured deposits:

SVB = 94%

First Republic = 68%

The bank’s clients also include cultural institutions – among them Lincoln Center and the San Francisco Ballet.

The bank, like Silicon Valley Bank, was caught out when interest rates began to rise.

Their wealthy clientele found they suddenly had a flurry of appealing offers for where to park their cash and earn a good return, and no longer needed to remain loyal to First Republic.

First Republic was also deemed to be at risk due to its high level of uninsured deposits.

A bank where most clients have less than $250,000 in their accounts – the limit which is insured by the federal government – is deemed to be almost immune from a bank run, as depositors know their cash is safe.

The higher the percentage of clients with uninsured deposits, the more likely a bank is to see its customers panic and try and withdraw all their money – which may not be possible, given the nature of banking.

SVB had a dangerously high percentage of uninsured deposits – 94 percent of its total.

First Republic has a sizable 68 percent, according to S&P Global.

At most banks, roughly half of all deposits are uninsured.

After Americans digested the drama of the weekend, on Monday shares in First Republic nosedived 67 percent, and panicked customers raced to branches to empty their accounts of their huge savings.

On Tuesday, Jamie Dimon, the CEO of JPMorgan Chase – the nation's largest bank – held a conversation with Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen to discuss their concerns about First Republic.

On Wednesday, according to Yahoo Finance, Dimon attended a Bank Policy Institute event and spoke to other banking executives, including Citigroup CEO Jane Fraser, about a possible plan to shore up First Republic.

The next day, the deal was done: JPMorgan Chase, Citigroup, Bank of America, Wells Fargo, Goldman Sachs and Morgan Stanley were among the 11 banks involved in the rescue deal.

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First Republic's shares closed up nearly 10 percent in volatile trading. The stock had tumbled 36 percent earlier in the day before reports of the rescue plan sent them up as much as 40 percent.

However, First Republic shares have lost two-thirds of their value in the past seven days and are down more than 65 percent month-to-date.

It's hoped that Thursday's agreement will put a lid on the wild week, but concern is now switching to Credit Suisse, which has been propped up by the Swiss Central Bank – and threatens far more wide-reaching consequences if it teeters.

An investigation has been launched by the Federal Reserve into the mismanagement of SVB, and its findings could also cause more consternation.

Category

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