Frank Gaffney (00:10):

We're back, and we are joined as we have the privilege of being each week about this time by Bill Walton, the host of terrific television podcast called, appropriately enough, the Bill Walton Show. But he brings to bear for both that purpose and his visits with us, a wealth of experience, some of which is exceedingly needed at the moment.

(00:34):

Notably, as a maven of Wall Street, he formerly served as the CEO of a $6 billion enterprise called Allied Capital Corporation. And we're anxious to get his thoughts on what on earth is going on at the moment with respect to prominent banks in our country, notably Silicon Valley Bank, and Signature on the East Coast. And as we are speaking to him, the President has been making some remarks about what the federal government is up to, and we hope to be able to parse all of this with, well, a former insider, but a man who certainly knows his way around this beat.

(01:16):

Bill, it's good to have you back, especially today. Thanks so much for joining us, as always.

Bill Walton (01:20):

Frank, great to be with you.

Frank Gaffney (01:22):

So, just for purposes of level setting, Bill, tell us a little bit about these banks that have gotten into trouble. Why they have, and the extent of it that apparently somebody, and I can only imagine it's American taxpayers, are going to be called upon to remedy.

Bill Walton (01:42):

Well, the bank that we're... The biggest blowup is obviously Silicon Valley Bank, and that's the bank that banks all the venture capital funds and startups in California. And their failure of this weekend, I guess they were taken over by the California authorities Friday afternoon, is the second-largest bank failure in America after Washington Mutual. And that is a very big deal. The thing to keep in mind though, is there's some very special circumstances involving Silicon Valley.

(02:17):

Number one, they face the problem that all banks face right now, which is that they bought bonds back in the year of free money, which were yielding 1.5%.

Frank Gaffney (02:27):

Treasury bonds.

Bill Walton (02:28):

Treasury bonds. Well, all kinds of bonds, but in this case, treasuries mainly. And what's happened is interest rates have risen and inflation has run out of control, those banks, because prevailing rates are a lot higher, those bonds are worth a lot less, and they could be discounted as much as 10, 15, 20 percent from what they're, on their balance sheet from what they're actually worth.

(02:50):

Silicon Valley Bank was carrying those as if they were going to hold those bonds forever, which is where the second factor comes into play. Silicon Valley also was a big beneficiary of free money, and last year, that began to unwind, and there's been a dearth of venture capital money going into startups. And-

Frank Gaffney (03:12):

Bill, let me just clarify. When you say free money, obviously it isn't exactly free, but you're saying that the low interest rates make it effectively free?

Bill Walton (03:24):

... Low interest rates make it effectively free. I mean, we were lending free money to our banks getting 0.0%, 1% on our deposits. So, yeah, and that was when the Fed and the other central banks were flooding the markets with liquidity. And also when the fiscal policy where we spent 6 or 7 trillion dollars that we didn't have, the Congress did, and the Fed financed that by buying up the treasury bonds, which is a way to keep interest rates low.

(03:58):

That's run out of steam. And now interest rates are rising and everybody knows inflation's out of control. And what's not less obvious to people is that what's happened in Silicon Valley is the venture capital business has been in the tank for the last year and a half, and Silicon Valley banked all these small startups, and they were not getting any more capital from the venture capital community.

Frank Gaffney (04:23):

All right. Just take a second to explain that, Bill. Why was venture capital in the tank, and where did the money go that they otherwise would've been putting into startups?

Bill Walton (04:35):

Why is venture capital in the tank? Well, essentially what happened is that there are a lot of digital companies which thrived during the lockdowns. And when the country began to go back to work and became analog instead of digital, those companies were not doing well. And also, the stock market collapsed last year and companies were going public. And so the way venture capital companies and their venture capital backers make their money is that when those companies go public, they sell stock and the risk to the public. That didn't happen. So the venture community was stuck with a lot of investments that were going nowhere, running out of cash. And where did they bank? They banked at Silicon Valley Bank. So...

Frank Gaffney (05:26):

All right, Bill. So-

Bill Walton (05:27):

I'm trying to boil this down.

Frank Gaffney (05:28):

... No, no, you are. And very helpfully so. You also-

Bill Walton (05:31):

It's the world I live in.

Frank Gaffney (05:33):

... I know. But you also added in that Silicon Valley Bank has a particular ideological complexion to it that may have contributed to some of its present difficulties. Explain that.

Bill Walton (05:44):

Oh God, this world's, this is a gift that keeps on giving. Silicon Valley Bank was probably the most woke bank on the planet, and they didn't have a chief risk officer, or at least the chief risk officer was spending more time on diversity of initiatives and gay pride marches than she was in the job of managing risk. She's based in the UK, which is not a great place to be if your bank's in California and all your branches are in California and New York.

(06:15):

And so she was absent without leave on the job. And the approximate thing that caused the bank to go down is they finally had to sell some bonds to cover withdrawals. And they, advised by Goldman Sachs by the way, they botched it. They sold the bonds before they raised some equity capital, leaving them 24 hours without the cash. Their depositors saw that, very smart venture capitalist depositors, and everybody started pulling their money out.

Frank Gaffney (06:45):

Peter Thiel among them was same. Run, right?

Bill Walton (06:50):

Run, run, run. Now, the other two failures that occurred, Signature was one, and the name escapes me of the other one. Those two banks were cryptocurrency banks. And also, that's gone through its own implosion in the last 12 to 18 months. And so those companies were, those banks were also suffering from liquidity issues as their depositors became less and less solvent and they needed their money back. So they had a lot of pressure on them for their customers taking their money out.

Frank Gaffney (07:21):

All right, Bill, breathe. We're going to take a short break. When we come back, we're going to tell people what's being done about all of this mess. Again, at probably your expense, but also this central bank digital currency. Is that going to be the principle beneficiary of all of it? Stay tuned for more with Bill Walton of the Bill Walton Show, which you can find on all kinds of platforms. And I strongly recommend to you. Be right back with more, right after this.