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Fate of First Republic Hangs in Balance as Shares Plummet Again

A $30 billion cash infusion and a frantic effort to sell a stake in the bank have done little to calm investors.

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The most imperiled bank on Wall Street, First Republic, slid closer to the precipice on Monday as its shares fell 47 percent, down nearly 90 percent since its close on March 8, the day Silicon Valley Bank's woes incited a financial panic.

The calamitous drop in First Republic's stock price, even as shares of many of its peers steadied, highlights the fears that threaten to consume it. Until recently, the bank, based in San Francisco, boasted $176 billion in deposits and an enviable list of wealthy clientele.

Last Thursday, some of the biggest names on Wall Street threw together a $30 billion cash rescue for First Republic, hoping that would quell a run on the bank. But the plan appears not to have worked so far, failing to convince investors to stick by the bank.

The bank had also been trying to sell a stake in recent days, which quickly morphed into efforts to save the bank, said two people with knowledge of the matter. As of Monday afternoon, First Republic was entertaining some possible buyers, but discussions, if any, are in the early stages, one of the people said. The country's biggest banks are unlikely to play savior again, the two people said, although the situation is in flux.

The urgency only increased on Monday, after shares of First Republic fell so much that the New York Stock Exchange automatically halted trading 11 times to prevent a free fall. Monday's rout also dealt a blow to the bank's executives because, as recently as Sunday evening, senior leaders and board members were convinced that the bank had enough leeway and money from its own clients to weather further tumult, according to two people familiar with the bank's discussions.

At the very least, they assumed First Republic had weeks, not days, to solve its problems, by either raising new capital or selling itself, one person with knowledge of the matter said.

The fear that has gripped banks since Silicon Valley Bank's collapse is a reminder that one failure can spook an entire sector. Aaron Wojack for The New York Times

The collapse of SVB, along with the failure of Signature Bank just a couple of days later, pummeled the stocks of many other midsize lenders. But by Monday, those shares were faring better. Shares of the California bank PacWest rose. Those of Western Alliance, based in Phoenix, fell 7 percent, while Comerica's and Zions Bank's vacillated around flat. The KBW Bank Index, which tracks the stocks of 24 banks, rose 1 percent, recovering only part of a more than 5 percent drop on Friday.

Shares of First Republic have been hit especially hard because many investors are unsure whether the bank's finances can withstand further calamity. Bank executives and advisers have been in fevered discussions about how to find more help, but First Republic's spiraling problems are a sign that the rush by government officials and the private sector to find swift solutions, meant to restore confidence in the health of the financial system, most likely exacerbated the recent panic.

A spokeswoman for the Federal Deposit Insurance Corporation, the country's principal bank regulator, declined to comment. A spokesman for First Republic declined to comment on Monday's plunge or provide figures on whether the bank's deposits were rising or falling. In an earlier statement, he said the bank was "well positioned to manage short-term deposit activity."

First Republic lost roughly $70 billion in deposits in recent weeks — nearly half of its total depositor base as of the end of last year — said two people with knowledge of the matter.

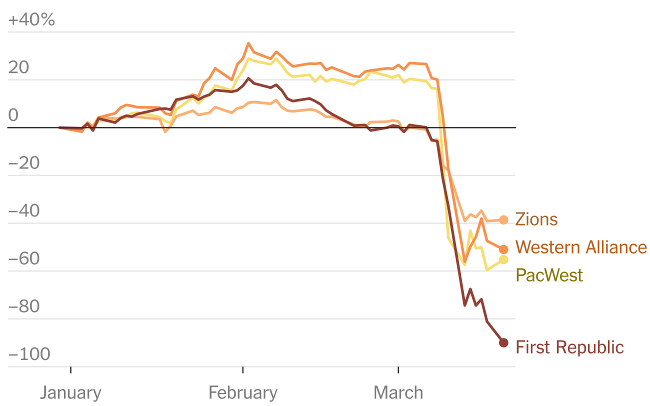
It all added up to evidence that the mix of short-term fixes like loans, efforts to attract a savior to buy all or part of the bank and occasional statements of confidence from bank executives and government officials has not stopped the bank's fall. If anything, despite the enormous sums of money involved, the interventions have amounted to applying Band-Aids on a wound that might need surgery.

"All of this math should work, but it's a confidence game, and when the confidence is gone, there's no easy solution," said Srinivas Namagiri, a former Deutsche Bank executive who helped unwind that institution's busted bets after the 2008 financial crisis.

Even though First Republic's pain seems limited, at least for the moment, to the bank, the fear that has gripped banks from coast to coast after SVB's collapse is a reminder that just one failure can spook an entire sector.

Multiple recent downgrades of banks, including of First Republic, by ratings agencies like Moody's have engendered further fear among investors and depositors. The daily headlines about trouble befalling one bank or another continue to foment uncertainty around the industry at large. The numerous troubles that felled Credit Suisse last week, and ended in a $3 billion takeover of the Swiss bank by its bigger rival UBS on Sunday, added another dark cloud.

Percent change in the stock price of four regional banks since the start of the year



Note: Data through Monday, March 20 • Source: FactSet • By The New York Times

The Federal Reserve reported that banks borrowed more than $150 billion last week from the discount window, a record amount. Private equity firms have been invited to take a look at troubled bank assets and pick off parts they might find attractive. Executives of big banks are in constant touch with government officials, monitoring the health of smaller banks.

And news reports that the Biden administration was in talks with Warren Buffett, the chairman of Berkshire Hathaway, who famously swooped in with billions to bolster Goldman Sachs during the nadir of the 2008 financial crisis, only signaled that the current panic might grow worse.

First Republic is fast becoming the poster child of those contradictions — the extraordinary efforts to save the lender appear to be worrying the markets more, not less.

On Thursday, 11 of the country's largest banks gave First Republic, the nation's 14th-largest bank, a $30 billion short-term loan to shore up its finances as depositors left en masse. The act was meant as a show of support for First Republic, because the amounts that the banks — including JPMorgan Chase, Bank of America, Citigroup and Wells Fargo — lent were uninsured. In other words, the big banks stood to lose their money if First Republic failed, unless the government agreed to pay them back.

Several of those banks, including JPMorgan, have been involved in further discussions on how to steady First Republic.

First Republic has also seen several downgrades of its credit in recent days. On Friday, Moody's said it was downgrading the bank because of its increased reliance on short-term borrowing, including from the Federal Reserve and the consortium of banks. Repaying interest on loans can be expensive for a bank that is trying to shore up its cash.

"Moody's believes the high cost of these borrowings, combined with the high proportion of fixed-rate assets at the bank, is likely to have a large negative impact on First Republic's core profitability in coming quarters," the agency said in a note. Moody's also said it was unclear how First Republic would find a way back to being profitable.

Standard & Poor's, in its own downgrade on Sunday, said the bank continued to face "substantial business, liquidity, funding and profitability challenges."

Joe Rennison contributed reporting.