

# How a poker game launched Silicon Valley Bank's four-decade ride of the tech wave, and a bad gamble 42 ended it

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Credit: Unsplash/CC0 Public Domain

In the early Eighties, when "High Tech" was still written with quotation marks and the region was starting to become known as The Silicon Valley, tennis buddies Bob Medearis and Bill Biggerstaff took their idea for a new bank to a poker game in Pajaro Dunes.

Their wives and children would be joining them at their Monterey Bay beachfront rentals the next day, but Friday night the two men gathered their close friends, made a big dinner and explained the plan to open a bank specifically for [tech companies](#). They would call their customers "clients" and name their business after the region's trendy new moniker: Silicon Valley Bank.

## Who's in?

Everyone around the table—including a Lockheed engineer in charge of pilotless drones in the 1970s and a Memorex executive—ponied up \$10,000 each. They turned for support to a cast of luminaries, including a legendary NFL quarterback, a maverick congressman and the founder of one of the Valley's signature law firms.

And the bank that collapsed this month in spectacular fashion was born.

## From white glove to black swan

After 40 years of riding waves of tech booms and busts, Silicon Valley Bank disappeared faster than an errant tweet from Elon Musk, spooking customers into a run on deposits, which in turn jolted the banking industry and roiled the U.S. economy and global markets. The fallout has raised major questions about how the blunders of a single medium-sized bank could unleash a torrent of panic in a region so accustomed to risk.

But Silicon Valley Bank's origin story—and its seemingly prosperous four-decade ride—in many ways mirrors the generations of startups and gambles that turned fields of orchards into the capital of innovation.

"Silicon Valley wouldn't be Silicon Valley without Silicon Valley Bank," said Varun Badhwar, a serial entrepreneur who had millions of dollars at

stake in the crisis.

Tech companies across the region and around the globe had come to expect white-glove treatment from Silicon Valley Bank, not a black-swan event.

Yet the company whose founders once boasted of their PR acumen—mailing out one-sheet newsletters to 10,000 potential clients in the 1980s and dressing up in clean room "bunny suits" to show off their connection to the tech industry—would in many ways be undone by it.

## **Money for new ideas**

When Silicon Valley Bank opened its doors in 1983, Ronald Reagan was president and Congress was deregulating the banking industry. Tom McEnery was mayor of San Jose, redeveloping the downtown core and trying, unsuccessfully, to entice Steve Jobs to build a new Apple headquarters within the city limits. Hewlett Packard, IBM and Lockheed were still the best-known companies in the Valley.

And Medearis, who earned a Harvard MBA and taught construction management part time at Stanford, had come up with the tech-focused concept for the bank.

"The original idea sort of kept hitting me in the head with my students, because they literally, really wanted to find money to start backing a new idea," Medearis said during a 2014 interview at a Computer History Museum event, where he also shared the poker story.

He approached his friend Biggerstaff, a Wells Fargo executive, and together they recruited Roger Smith, another Wells Fargo exec, as president and CEO.

The trio put together a list of 100 founders—from their poker buddy Starr Colby from Lockheed to quarterback Jim Plunkett, a former Stanford star who led the Raiders to the Super Bowl just months after the bank opened.

A former bank executive remembers seeing Plunkett at the bank's cocktail parties. The NFL great said in an interview this past week that he was constantly approached for endorsements back then but doesn't recall his involvement with the bank. "You've got to remember," he said, "I got hit a lot when I was playing football."

The "who's who" list of founders served as the calling card for the new bankers. As Smith, the CEO, said at the history museum event, "I never went anywhere in the world that I would not share our founders group, that somebody didn't know or know of somebody."

Former congressman and Republican presidential candidate Pete McCloskey—who had represented the Valley in Washington for 16 years—was asked to join the bank's board of directors right after losing a campaign for the U.S. Senate.

He was a lawyer, not a banker, said McCloskey, who is 95 now and recovering from a stroke in the home he shares in the high-desert town of Madrid, N.M., with his wife, Helen. "But I think people who organized the bank felt my name and reputation would add dignity to the board because I have so many friends in the venture capital business."

Larry Sonsini, who got his start in California at McCloskey's law firm of McCloskey Wilson and Mosher before spinning off with John Wilson to form the preeminent Wilson Sonsini law firm, was an early legal adviser to the new bank. Just three years earlier, Sonsini had represented Apple in its much-anticipated IPO.

"Roger would come to me and say, 'Do you think Silicon Valley is sustainable?' That was always the question. Is the [valley](#) going to die out?" Sonsini said in an interview Friday. "Having been there at the beginning of 1966, I'd say, 'Hell no!'"

## **'Never call first'**

Medearis, Biggerstaff and Smith quickly established a disciplined work culture. Their daily 8:30 a.m. meetings would always start at 8:25. As the company grew, hundreds of employees joined the call on speaker phone from four offices. Loan committee meetings began at 7 a.m.

Biggerstaff had his own method for success, saying in a 1999 company newsletter that he used a "unique and foolproof" system for recruiting new customers.

"Every Monday, I read the San Jose Mercury News classified from front to back," he said. He would search employment ads for companies that mentioned start-ups, pre-IPOs or entrepreneurs, then drive to their offices and introduce himself.

"I never call first," he said.

As the Valley evolved, those classified ads that once filled the newspaper would be usurped by online sites like Craigslist and Monster.com.

Some of the bank's first customers were Bay Networks, Chips & Technologies and Cisco Systems, whose "two owners did not know how to assemble the company's balance sheet" when they first connected with SVB, Biggerstaff, who died in 2010, said in a company newsletter his daughters keep in a scrapbook.

They also had a system to vet promising technologies through Medearis'

connections at Stanford.

"We'd talk with our friends at the university," Medearis, who is now retired in Davis, said at the history museum. "What do you know about this field? Is this something that's really good? ... If they said there was no fatal flaw, then I'd go ahead and process the loan."

In 1989, Peter Mok came from a competing bank to join SVB's division that focused on technology clients, which was 90% of the bank's deposits.

"It was like Seal Team Six," Mok said, comparing his group to the Navy's special operations force.

There was so much energy and motivation there, he said, that "I would go to work at 7:30 a.m. and most people were there already."

When Smith announced during a morning meeting sometime in the early Nineties that the bank had reached a milestone—\$1 billion in deposits—a cheer went up from the speaker phones and employees high-fived each other, he said.

Over the next few years, the bank would open a Pacific Rim group to attract foreign investors and continue to grow through the dot-com boom into a new century.

"We used to say at the bank," Smith told the audience at the history museum, "don't ever do anything that you wouldn't want to be on '60 Minutes'."

## **Old-fashioned bank run**

On the morning of March 9, news of Silicon Valley Bank's troubles

pinged, chimed and buzzed through social media platforms after CEO Greg Becker told customers that the bank was forced to sell bonds at a \$1.8 billion loss, and implored venture capitalists not to panic.

By the afternoon, an old-fashioned run on the bank ensued at an institution that served more than half of the Valley's venture capital-funded startups, including Pinterest and ZipRecruiter. On that one day, \$42 billion was withdrawn. The next day, the federal government took over, marking the second-largest bank failure in U.S. history, after Washington Mutual in 2008.

Wok called the SVB's blink-of-the-eye demise "a tragedy and a travesty."

The drama rocked the Valley, sending customers into a tailspin.

"Being in a startup culture in the valley, I've flown close to the sun on many occasions, with my companies teetering on the brink of success or failure, but I've never felt the stress that was involved with trying to make payroll when you had zero access to your cash," said Mike Morgan, CFO at San Mateo data storage management start-up Cloudian.

Morgan has been with eight startups since the early 1990s, including seven that did business with Silicon Valley Bank. "We had emergency board meetings where everybody was screaming anything from 'Stay the course, don't worry about it,' to 'My God, let's break into the bank and take our money.'"

At the Palo Alto offices of Endor Labs on University Avenue, Varun Badhwar was in a Zoom meeting behind his desk when a Slack message from a colleague buzzed through with the news: Silicon Valley Bank's stock prices had tanked 60%.

"Honestly, my first reaction was, 'Wow, what an overreaction,'" he said. "This sounds like a great time to buy SVB stock."

But by noon, his phone was flooded with texts from other startup founders asking for advice: "What are you doing? What are you hearing?"

By 2:30, as the run on the bank was underway, Badhwar decided to act. But he had only a half hour before the typical wire transfer cutoff time.

He texted the "relationship manager" at the bank and asked if a transfer would go through. She called him back within two minutes.

Like George Bailey in "It's a Wonderful Life," she tried to talk him out of it.

"Our books are fundamentally sound," Badhwar said the manager told him. "I don't foresee any problems."

But Twitter feeds and text messages were flying with conflicting stories and advice. Badhwar's adrenaline was pumping. What if this really was an overreaction and Monday morning came around and everything was fine? Would he have jeopardized his relationship with the bank? But what about his 42 employees, counting on a paycheck early the next week?

With minutes to spare, he clicked through a \$5 million transfer.

"You've got to, at the end of the day, just listen to your heart," he said. "Not that I expected them to collapse the next morning, but you don't want to be the last guy with money left behind."

**'We'll get stronger'**



Four decades after the poker game near the Pajaro River that gave rise to Silicon Valley Bank, a levee upstream burst, flooding a nearby town with misery—just as the federal government stepped in to rescue Silicon Valley Bank and make its customers whole.

And just as the levee will be rebuilt into something more secure, Sonsini is confident that something will rise up to replace Silicon Valley Bank.

Silicon Valley, he said, is much bigger than one bank, and it will continue to endure beyond any company, even the titans such as Shockley Labs, Fairchild Semiconductor, Intel and Apple.

"I'm an optimist, maybe because I'm in my sixth or seventh decade in the business and still at it," said Sonsini, who is 82. "We'll get stronger, but we just cannot panic about it."

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