

Press Coverage | March 14, 2023

SVB's Failure Was Contained. Its Effects on Biotech Could Still Linger.

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James Stevens, co-leader of Troutman Pepper's Financial Services Industry Group, and Chris Miller, a partner in Troutman Pepper's Life Sciences, Technology, and Private Equity Groups, were quoted in the March 14, 2023 *BioPharma Dive* article, "[SVB's Failure Was Contained. Its Effects on Biotech Could Still Linger.](#)"

A major reason for SVB's centrality to the sector was its willingness to lend money to early-stage companies on "better terms than a traditional bank would offer," said Chris Miller, a partner at the law firm Troutman Pepper, who works on private financing deals. SVB also had a "close connection" with investors, he said, so it became a preferred parking spot for the seed funding startups raised as well as the larger rounds they later received.

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That isn't a sure thing. Miller noted how many biotech companies worked with SVB because of personal relationships. Key people behind those relationships may not be retained or could leave once SVB is sold. Their clients could follow them to their new jobs. The terms offered to startups by SVB's acquirer might also be different from what SVB historically set.

"The reality is, it's not going to be the same," added James Stevens, head of Troutman's financial services industry group. Another bank, or a combination of several, may therefore have to fill the hole left by SVB.

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Companies' biggest fear over the weekend was whether they could access their SVB deposits on Monday. The concerns sparked a "mad scramble" to secure short-term loans to replace the frozen funds, Miller said. In many cases, those plans were abandoned once the government intervened, he added.

Yet biotechs with lines of credit from SVB could still be in a tough spot. Stevens noted how companies aren't allowed to draw on revolving loans while the government is running the "bridge bank" it created to hold SVB's assets. That bank "isn't looking to grow the balance sheet by making additional extensions of credit under revolvers, or new loans," he said.

Biotechs that rely on those credit lines could still face a cash crunch, particularly in a market environment that's made fundraising harder for small drugmakers. Even if they stick with SVB and a buyer is found, it's not clear

whether that acquirer would pick up their loans on the same terms. “Are [biotechs] going to have to refinance?” Miller said, and if so “what terms are they going to get?”

To Stevens, this puts pressure on the government to sell SVB quickly. The bank’s assets will dwindle in value if companies get new credit lines elsewhere, he said. However, if a buyer emerges soon and keeps biotechs’ loans intact, it could “get into [the startup] space in the biggest way possible immediately.”

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