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Case Study: Signature Bank New York

The EDF-X Early Warning System identified Signature Bank as a severe credit risk nine months before the bank was closed by regulators

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EDF-X Flags Compounding Credit Pressures Ahead of Bank Closure by Regulators

In mid-2022, the EDF-X Early Warning Signal revealed severe risks at Signature Bank, with its Probability of Default (PD) crossing the trigger level by June. This shift marked the beginning of a turbulent period, culminating in the bank's closure by federal regulators in March 2023 to prevent systemic contagion. EDF-X Early Warning Signal flagged the severe risk of default nine months prior to the bank's closure.

Founded in 2001, Signature Bank initially served wealthy clients in private equity, venture banking, and commercial real estate. By 2018, it pivoted towards cryptocurrency deposits, which grew to represent 30% of its total deposits by late 2021. However, this aggressive strategy left the bank exposed to volatile markets.

The collapse of cryptocurrency markets, with Bitcoin prices plummeting and sector defaults, coupled with panic over noninsured deposits following Silicon Valley Bank's failure, forced Signature Bank into taking greater risks. These compounding pressures ultimately led federal regulators to intervene, shutting down the bank to prevent further contagion within the financial system.

