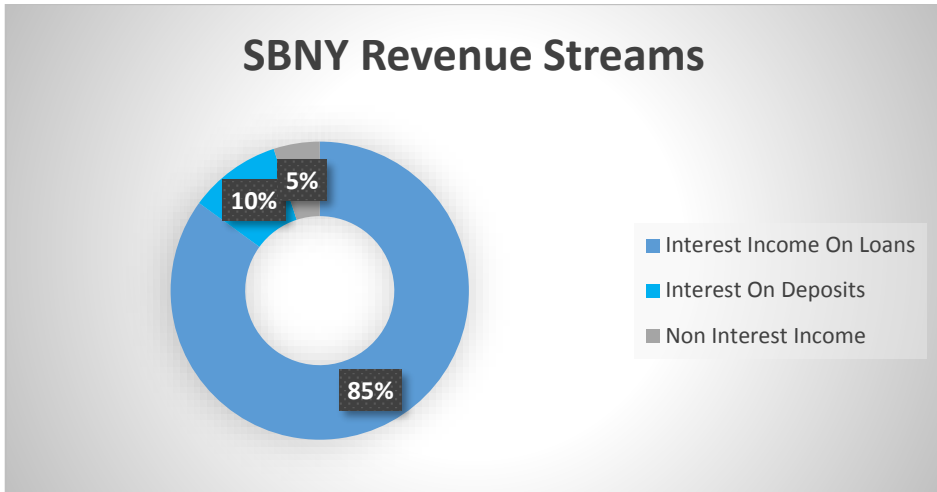


**Figure 9: SVB Hisse Stock Price**  
 Resource: Finance.yahoo.com

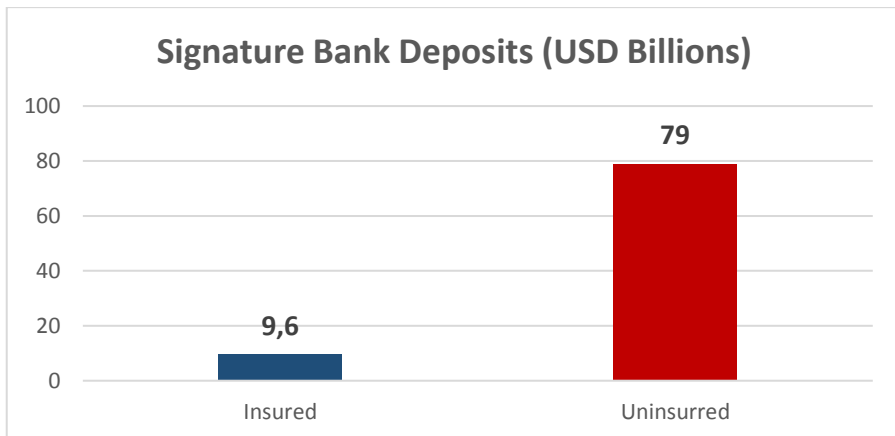
As shown in Figure 9, while the stock of the SVB bank was above \$400 in mid-2021, especially towards the end of 2021 it was above \$700. After the first quarter of 2022, it dropped in, and the prices plummeted completely in 2023.

**Signature Bank (SBNY):** Signature Bank was founded in 2001 by Joseph DePaolo, John Tamberlane and Scott Shay. SBNY is the 42nd largest in the United States. Besides that, it is a member of the S&P 500 index. SBNY derives the vast majority of its income from loan interest income, and the small part from deposits and non-interest income. Therefore, the company is largely dependent on its credit portfolio to generate revenue. More than 80 percent of deposits are made up of middle market businesses such as law firms, accounting practices, healthcare companies, manufacturing companies and real estate management firms, which have helped rapid deposit growth in recent years by opening itself up to the crypto industry in 2018. The bank has created 7/24 payment networks for its crypto clients and has received \$16.5 billion in deposits from customers related to digital assets. As of December 31, 2022, Signature Bank's total assets were \$110.4 billion, and its total deposits were \$88.6 billion. According to Silvergate's report, they gradually invested up to 80% of their deposits in long-term bonds, and the vast majority of them were, surprisingly, bonds that were more than 10 years old. SVB's data showed that they sold all bonds that could be sold for \$21 billion and recorded losses of \$1.8 billion, most of which are U.S. government bonds. Rapid rate increases put pressure on corporate customers, increasing the demand for liquidity for customer deposits and the default rate for unpaid loans. A series of blows forced Silvergate to liquidate these HTM bonds at market prices, resulting in immediate recognition of losses. In the end, the accumulated losses became so severe that the only option was bankruptcy (Hsiao, 2023).



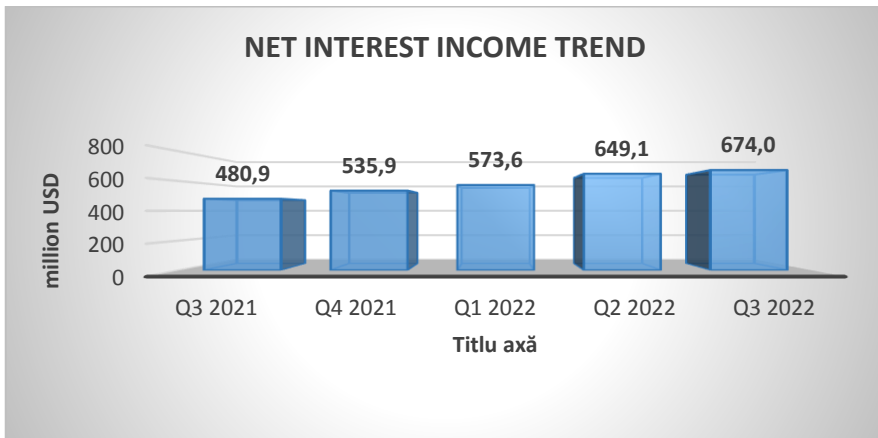
**Figure 10.** *SBNY Revenue Streams*  
 Resource: *seekingalpha.com*

When we examine Figure 10, 85% of the income flows of the SBNY business consist of loan interest income, 10% of deposit interest and 5% of deposit interest income.



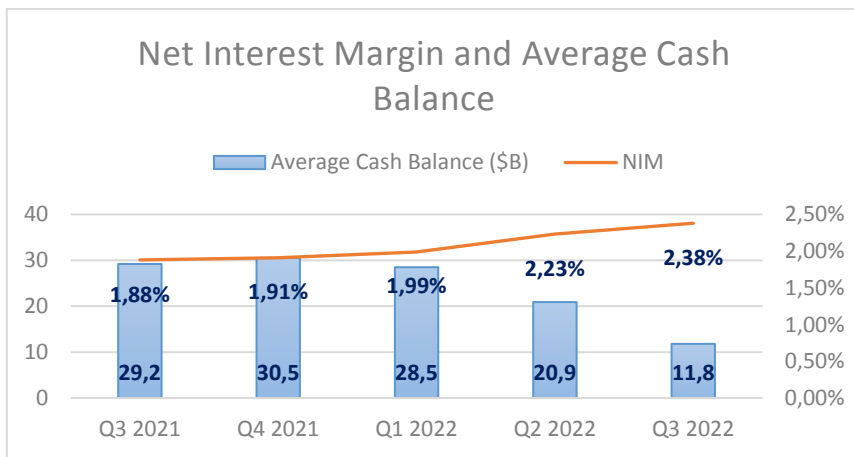
**Figure 11:** *SBNY Insured and Uninsured Fund Amount*  
 Resource: *FDIC*

More than \$79 billion (about 90 percent) of Signature Bank's deposits are not insured by the FDIC, while only about 10% are. About 90 percent of Signature deposits were uninsured and about 18 percent of its total deposits were related to digital assets, but it is not clear how much of digital assets-related assets are uninsured.



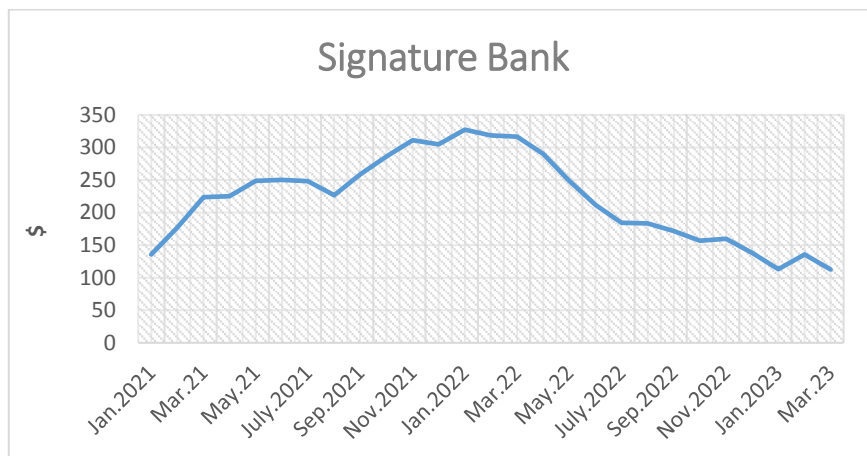
**Figure 12: Net Interest Income Trend**  
Resource: seekingalpha.com

When we examine Figure 12, the net interest income of Signature Bank increased to \$ 480.9 million in the third quarter of 2021 and \$ 674.0 million in the third quarter of 2022. It can be said that there is a ceaseless increase in the interest income of the bank.



**Figure 13: Net Interest Margin and Average Cash Balance**  
Resource: Yahoo.com

When we examine Figure 13, it can be said that Signature Bank has a continuous increase in Net interest Margin. While it was 1.88% in the third quarter of 2021, in the third quarter of 2022 this rate increased to 2.38%. The average cash balance of the bank peaked at \$28.5 million in the first quarter of 2022, and then a steady decline was observed.



**Figure 14:** Signature Bank Stock Price Change  
Resource: Finance.yahoo.com

As shown in Figure 14, the stock price of Signature Bank reached its highest levels at the end of 2021 and the beginning of 2022. After the second quarter of 2022, a steady decline was observed.

## 4. THE DIFFERENCE OF ISLAMIC BANKING AND TRADITIONAL BANKING

### 4.1. OVERVIEW

According to the Federal deposit Insurance Corporation (FDIC), there are more than 4000 banks in the United States. The number of Islamic banks that started to develop in America after 2000 has now exceeded 20. University Islamic Financial is the first and only Sharia-compliant bank in the United States. Devon Bank in Chicago is the only other bank that regularly offers Islamic financing products. Guidance residential is the largest non-bank financial institution offering Islamic financial services in the competition with more than \$3 billion in assets. LARIBA is another major Islamic mortgage lender and also provides business financing. It has provided mortgage financing in 22 states since its doors opened in 2002. Interest-free banking has developed quite rapidly since its inception, and this has led to the fact that the feasibility of the system and whether it is a valid model is often on the agenda for both practitioners and economists. This practice has become increasingly common not only in Islamic countries but also in other countries, such as the United States (Milhem and Istaiteyh, 2015).

Islamic finance is equity-based, asset-based, ethical, sustainable, environmentally and socially responsible finance. It promotes risk sharing, links the financial sector with the real economy, and emphasizes financial inclusion and social welfare. The way Islamic banks and financial institutions work in the US is as follows: One of the most common contracts is the forex, in which the lender and the client have an asset together; the debtor's share of the property increases gradually

by paying until they fully assume the ownership through the sharing of profit and loss. In a governess contract, the lender buys an asset, a house, or even commercial equipment on behalf of a debtor who gradually repays a profit margin agreed on the principal plus and eventually assumes ownership. Ijara contracts are similar to a lease agreement, which includes both the repayment of the principal and a rental fee for the exclusive use of the asset. (Haltom, 2014). Traditional banks are commercial banks, savings institutions and credit unions. In the United States, commercial banks are often joint stock companies whose main obligation is to generate profits for their shareholders. Commercial banks mostly specialize in short-term business loans, but also give out consumer loans and mortgages and have a wide range of financial strength.

## **4.2. DIFFERENCES BETWEEN ISLAMIC BANKING AND TRADITIONAL BANKING**

### **▪ Working Methods**

Interest is defined as the return of money to money due to the preference of time and is strictly prohibited in Islamic banks. Money is not subject to being bought and sold as a product, and money can only be used as a medium of exchange. At the same time, the methods of fundraising and fundraising, which are essential in Islamic banking, are valid.

Commercial banks earn most of their earnings from the difference between the interest rate they pay for deposits and the interest they receive from the loans they give. They will also be able to earn money from the assets they have in their hands. Therefore, money trading is involved because money is considered a product.

### **▪ Money/Profit Function**

Islamic banks deal with depositors on an investment basis. In this sense, Islamic banks themselves are considered modarabas companies in the Islamic pact. In this system, depositors are considered financiers, while bank management (or shareholders in general) are considered entrepreneurs. As a result, the profits should be shared between the depositors and the bank. In Islamic banking, Icara can also profit from the asset sold to the customer by buying an asset or by renting it to the customer by intermediating the bank. On the other hand, in commercial banks, besides banking services, the depositor and the bank provide profit in exchange for the use of money as a product for a certain time. The bank can mediate between depositors and those who use the money. The bank may also make a profit on its securities or banking services.

### **▪ Funding**

In Islamic banking, it provides funds from holders of funds as a current account or joining account. The most important type of account that distinguishes Islamic banks from commercial banks is the profit loss participation account. When it comes to commercial banking, it provides funds with a predetermined interest rate under the name of commercial account and deposit account. Therefore, there is no partnership between the bank and the fund holder.

- **Fund Handling**

In Islamic banking, cash loans are not allowed. The fund, murabaha, icara, musarake and cash value are used. Therefore, there is a commercial link between the fund users and Islamic banks. The profitability of the project is important when using the fund. Maturity is long. Unethical investments are also prohibited. Islamic banking is also characterized by ethical norms and social commitments. Therefore, alcohol, gambling, tobacco, pork products, Non-Islamic hotels or resorts, sensual entertainment, etc. investments in all unethical activities such as those are prohibited in the Islamic banking system. In commercial banking, funds are used in exchange for interest. It does not matter where the bank's assets are used. Money can also be used outside of production.

- **Finance Lease**

Islamic Banks can provide resources directly to their customers through the financial leasing method. That is; they have the right to lease. As for Commercial Bankers, they may not lease directly, but they may set up a leasing company.

- **Risk and Trust**

In Islamic Banking, customers accept risk in advance because they are partners in profit and loss. Therefore, trust is the key in this system. In addition, the solidity of the project that is shared in this system as well as collateral and mortgages is important. Freedom from Al-Garar, any contracts and transactions in Islamic banks should be free from excessive uncertainty. Purification from Al-Darar, contracts in Islamic banks should not be harmful to any party. In commercial banks, there is no risk because there is no profit-loss partnership and it is based on an interest basis. Thus, trust is resolved with mortgage and guarantee.

- **Cost of Fund**

The amount that the customer who uses the fund in Islamic banking will pay on a certain date is predetermined and does not change according to certain conjunctions. On the other hand, in commercial banking, loan costs may vary depending on specific financing instruments. This suggests that the loan costs may change later.

- **Duration of Fund**

While long-term investment projects are financed in Islamic Banking, in commercial banking, short-term projects are financed for commercial purposes.

- **Economic System**

Islamic banking is based on the Islamic economic system. In Islam, money must be used productively to ensure productivity, and wealth is earned through legitimate trade and investment in assets. This is only possible with companies that make Musharaka and mudaraba, which improve production and increase quality. As a result, the Islamic banking system leads economic growth by promoting productive projects and supporting trade in goods and services.



In the Islamic system, investors are prevented from making mistakes that will harm their own interests. For example, investors may be given a period of time to cancel an impulsive transaction. Investors also have the right to equal access to certain information and equal power in the negotiations that lead to a transaction. Consequently, investors who have privileged access to "Inside Information" should be prevented from using this information in their transactions.

Zakat, as one of the Islamic financial instruments, provides support for the realization of socio-economic goals and the creation of a just society. Islamic banks, like other Islamic institutions and even Islamic individuals, are obligated to pay zakat. Zakat is defined as a mandatory periodic tax levied on all Muslims with wealth or income above a certain minimum level, directed towards certain categories of poor and needy people. In commercial banking, it operates on the basis of the capitalist economic system (El-Galfy and Khiyar, 2012).

#### **4.3. ADVANTAGES OF ISLAMIC BANKING AND COMMERCIAL BANKING SYSTEM**

The "profit sharing" feature in Islamic banking is that it increases the competition between Islamic banks and maximizes profitability in both the short and long term. Another advantage of Islamic banks is that they are more stable. Sharia knowledge combined with a high level of cultural talent strengthens the credibility of the Islamic bank and creates a competitive advantage. The last advantage of Islamic banks is that they are more conducive to poverty reduction. Since the most important criterion for financing projects in the conventional banking system is the ability to repay loans, collateral and guarantees, only the rich will have the most access to the financial market. On the other hand, Islamic finance provides funds based on the principle of profit and loss sharing and attaches importance to profitability. Therefore, people who are not wealthy and have the necessary skills to succeed in the project, such as scientists, engineers or artisans, will have a better chance of obtaining funding (Goaied and Sassi, 2010).

### **5. RESULTS**

An alternative banking system to the crises in the United States is Islamic banks. Islamic banks are, in principle, less fragile during financial crises. In practice, Islamic banks survived the crisis of 2008 and the subsequent crises with less damage. The volume of Islamic finance has grown rapidly over time, reaching a volume approaching 3.5 trillion dollars as of the end of 2021. Islamic banking accounts for about 70% of the volume of Islamic finance and has a volume approaching \$2.349 trillion. By the end of 2025, it is estimated that Islamic finance will reach \$4.94 trillion and Islamic banking will reach \$3.5 trillion. The estimated growth rate for 2020-2025 is projected as a fairly high figure of 46%. The Islamic banking system includes a greater function and benefits, beyond the fact that the commercial banking system serves economic growth and development through the financial system.

When it comes to list the cases, the first case is that in commercial banking, there is the practice of lending and borrowing money with interest on a mortgage

loan. The house buyer borrows money to buy a house and agrees to pay it back at additional interest within a certain period of time. The Mortgage crisis of 2007, which caused a worldwide financial crisis, is an example. In the United States, commercial banks have given credit to everyone because they take more risks. Borrowers would be able to borrow more than ever, and people with low credit scores increasingly qualify as high-interest borrowers. Commercial Banks have approved “undocumented and low-documented” loans that do not require verification of the borrower’s income and assets. In 2006, home prices declined and most of those who took out more loans than they could afford to pay off were unable to pay off their debts. What is worse, there was no responsibility or incentive to ensure that borrowers could not repay the loans. At the same time, as interest rates rose, monthly payments on mortgages increased. As a result of this, borrowers had to stop their mortgage payments. Commercial banks have suffered heavy losses due to defaulted loans. This caused the bankruptcy of the banks and a panic all over the world. This is not an acceptable commercial practice according to Islamic principles. One reason for this is that in Islam lending is regulated as a charitable act, meaning that one person helps another who is in difficulty. This is noble behavior and requires the borrower to pay back only what he borrowed, and the lender to expect only the same amount as the loan. Borrowing is not a way to make money. First of all, Islamic finance, especially its adherence to the principles of profit and loss and risk sharing, has been strengthened by the crisis.

As to the second case, when the banks that collapsed in late 2022 and early 2023, “Silvergate and Signature,” and the “Silicon Valley,” which sank in 2008, are examined, we can see that they all have a lot of government bonds in their hands. The U.S. government’s recent increase in interest rates with the rise of inflation has greatly reduced the value of government bonds held by these banks and caused a great deal of damage to banks.

Finally, the third case is that cryptocurrencies and the blockchain industry have grown in popularity, especially in 2017 and 2022. Silvergate, Signature and Silicon Valley banks are considered crypto-friendly, although each has its own diverse deposit base that goes far beyond the digital asset industry. Silvergate and Signature have provided significant infrastructure supporting the digital asset industry in the form of 7/24SEN and Signet payment networks, as well as many banks in the crypto ecosystem. SVB was the primary bank for many venture capital, technology and digital asset firms, including Circle, Roku, BlockFi and Roblox. They have a lot of cryptocurrencies in their hands, especially in 2022 when the TFX collapsed, a big decline in cryptocurrencies was observed. And this has undermined the trust in crypto currencies. As a result, these cases were the end of three banks in the United States. The fate of these banks was quickly resolved. On March 8, 2023, Silvergate Capital announced that it would liquidate its operations and liquidate its bank after announcing that it would not submit its annual report. On March 9, 2023, Silicon Valley Bank collapsed after depositors withdrew more than \$42 billion after the SVB announced it needed to raise \$2.25 billion to support its balance sheet. On March 12, 2023, Signature Bank, which also had a strong crypto focus but was much

larger than Silvergate, was unexpectedly taken over by banking regulators. Silvergate, SVB, and Signature may not be the only bank that has difficulty while you are reading this. It is possible that many commercial banks face similar pressures and we can see that more banks are experiencing difficulties. Cryptocurrencies prohibit uncertainty by Islamic banks, which can lead to deception and exploitation. This situation creates uncertainty for investors with extremely high volatility in the crypto market. One of the other things is gambling. Islamic finance prohibits excessive risk-taking, such as gambling and speculation. Therefore, Islamic finance emphasizes the need for investments based on material assets and productive economic activities. When it comes to cryptocurrencies, some people think that a high level of speculation is similar to gambling. The other reason is social and ethical responsibility. Islamic finance also emphasizes the importance of social and ethical responsibility and encourages investment in socially responsible projects that positively affect society and the environment. Cryptocurrency by its very nature does not promote social and ethical responsibility. Finally, it is asset-based finance. Islamic finance requires all financing transactions to be asset-based, that is, backed by tangible assets. This ensures that the investment is based on actual economic activity and helps to reduce risk. Cryptocurrency is not based on existence by nature. The interesting feature of Islamic banks is the emphasis on transactions that represent only a physical commodity. Therefore, since cryptocurrencies are an artificial and virtual product born of modern finance rather than a traditional physical product, new developments in the world of crypto finance are seen as hostile to sharia. Since cryptocurrencies are the subject of speculation, it seems unacceptable that they are subject to Islamic trade laws.

It is significant that decision makers in the United States support the development process of Islamic banks and introduce new projects. The example of the United States will often pave the way for the development of the Islamic banking sector all over the world, increasing and diversifying financial opportunities, and further contributing to the process of economic development. This study was conducted through the United States and it is important that similar analyses are made for different countries to further enrich the literature.

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