

Federal Reserve Board Oral History Project

Interview with

Griffith L. Garwood

Former Director, Division of Consumer and Community Affairs

Date: December 13, 2007

Location: Burkittsville, Maryland

Interviewers: Adrienne D. Hurt and Winthrop P. Hambley

Federal Reserve Board Oral History Project

In connection with the centennial anniversary of the Federal Reserve in 2013, the Board undertook an oral history project to collect personal recollections of a range of former Governors and senior staff members, including their background and education before working at the Board; important economic, monetary policy, and regulatory developments during their careers; and impressions of the institution's culture.

Following the interview, each participant was given the opportunity to edit and revise the transcript. In some cases, the Board staff also removed confidential FOMC and Board material in accordance with records retention and disposition schedules covering FOMC and Board records that were approved by the National Archives and Records Administration.

Note that the views of the participants and interviewers are their own and are not in any way approved or endorsed by the Board of Governors of the Federal Reserve System. Because the conversations are based on personal recollections, they may include misstatements and errors.

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MR. HAMBLEY. Today is Thursday, December 13, 2007. This interview is part of the Oral History Project of the Board of Governors of the Federal Reserve System. I'm Winthrop P. "Win" Hambley of the Board staff. I'm joined by Adrienne D. Hurt, also of the Board staff. We are interviewing Griffith L. Garwood— known as "Griff" to his friends. He worked at the Federal Reserve Board for about 30 years and was the director of the Board's Division of Consumer and Community Affairs from 1982 to 1998. This interview is taking place at the Garwood home in Burkittsville, Maryland.

Mr. Garwood, thank you for participating in the project. To begin with, could you say who you are, and then tell us about your background and your educational and professional experience before coming to the Board?

Educational and Professional Background

MR. GARWOOD. I'm Griff Garwood. I spent a long and rewarding time at the Federal Reserve. I have many fond memories of what a high-class professional organization it is and of the terrific folks that I either served under or who were my colleagues. So I'm delighted to talk about that period.

I'm a lawyer by training, and I graduated from the University of Michigan Law School in 1965. I began my career with a law firm in New York City and was there for three years. During that period, I decided that practicing corporate law was not particularly interesting to me, so I decided to try something else.

My father had worked in the Treasury Department. I grew up in Washington, D.C., and from what I could tell as a child, he thrived on dealing with public policy issues. So I thought that might be something that would be more personally rewarding to me than the kind of private law practice I had begun.

At that time, when I came back to Washington, the Federal Reserve Board had just been given responsibility for administering the Truth in Lending Act.¹ This was an area that was totally foreign to the Board. The Board had been given this task over the objection of its Chairman. In typical fashion, however, the Board decided to do as good a job as possible. It assembled a small staff of only four or five people, with a couple of attorneys, and I was hired to join that staff. Our offices were in the Watergate building—incidentally, right underneath the Democratic National Committee, the scene of the infamous break-in, so that was an interesting aspect. It was also a period of turmoil in Washington. I recall watching demonstrators come in great volume down the road; we observed that from the roof. Anyway, that's the way I began my career at the Fed.

MR. HAMBLEY. You began in corporate law. Was there any preparation you might have had that was relevant to writing regulations to implement the Truth in Lending Act—often referred to as TILA—or was this just a totally new thing for you?

MR. GARWOOD. The substance was brand new. What attorneys learn in law school, above all, is a way of thinking—kind of an analytical approach to issues. You also learn not to be intimidated by either the law or folks who purport to influence the law. So it was good training, in that sense, for the host of complex issues presented by the truth in lending law and for the extensive process of public participation in the rulewriting process. In terms of subject matter, however, there was very little overlap with what I had been doing in private practice.

¹ The Truth in Lending Act [passed in 1968] is the first comprehensive federal consumer credit protection law that, among other things, requires creditors to use uniform methods for computing the cost of credit and for disclosing credit terms to consumers.

Early Responsibilities upon Joining the Board's Staff: Truth in Lending Act Rulewriting

MR. HAMBLEY. We understand that you were mainly involved in the rulewriting for the Truth in Lending Act, which had passed in 1968, when you first came to the Board. Is that correct?

MR. GARWOOD. That's correct. Little did we know at the time that this was just the beginning of a long succession of consumer laws for which the Board would have responsibility.

MR. HAMBLEY. Do you remember anything about what led to that act? Was there history that had occurred before you came on the scene of which you were not aware or subsequently learned about?

MR. GARWOOD. The Truth in Lending Act was very high profile and very controversial on the Hill. As I recall, it had been worked on for as long as a decade. There was plenty of need for the law. In New York City, for example, when I was there, it always puzzled me that the banks would advertise in big letters that they would pay you 5 percent on your deposit and at the same time lend you money for 5 percent. The reason was because they were calculating those percentages quite differently.

That confusion and deception was widespread and of concern to the Congress, but it was very tricky to design a scheme to remedy the problem. Constructing disclosures that were accurate and that would represent the so-called true rates was a conundrum. In fact, anything "true" is just itself an approximation.

Truth in lending was a simple idea. But, in fact, it was a mathematical puzzle and politically sensitive. It had been struggled with by the Congress for some time. A Vice Chairman of the Board, James Louis Robertson—I think on his own initiative—testified in favor of the enactment of truth in lending. I believe, in those days, Board members were not

necessarily confined in their congressional testimony to what was approved by the entire Board. It's my understanding that control over testimony by individual Board members increased dramatically under Arthur F. Burns. Anyway, as a reward to Robertson, which he probably didn't want, the Congress said, "Fine, why doesn't the Fed take this hot potato and draft the regulations to make it work." So the Board got the responsibility, I think somewhat accidentally. I don't believe it was particularly happy to have that job, but in true style, having gotten it, the Board set about to do the very best work possible.

MR. HAMBLEY. We had heard that, at the time, there were several candidates for the rulewriting responsibility. The FTC (Federal Trade Commission) was one. Is it your sense that the Board was rewarded because Vice Chairman Robertson said something positive about the act, or was there a political decision being made as well that somebody important, maybe important interest groups, would prefer one rulemaker rather than another?

MR. GARWOOD. Yes, you are right. There was more than just the Robertson testimony that brought the Fed into the picture. When it became evident that something was going to pass, the business community decided that the Fed was a lot safer than the Federal Trade Commission, in terms of listening carefully to the business side of the equation. That also had a lot to do with handing this difficult, sensitive, and controversial piece of legislation to the Fed.

MR. HAMBLEY. I've heard that once the act was passed and the regulation was put in place, you and other staff at the Fed went around and did what were called "TILA road shows." Can you tell us about this? I don't think we do that much that way anymore.

MR. GARWOOD. Sure. Well, the Fed knew a lot about banking, but the Truth in Lending Act applied to a lot of businesses that it knew nothing about. It applied to every retailer

in the country. It included every finance company and pawn shop. It covered every automobile dealer. It even applied to every doctor who happened to be extending credit. There were literally millions of businesses that all of a sudden were faced with this complicated federal legal obligation. And the Fed was faced with trying to understand all of these businesses with which it had no prior relationship. There was a tight timetable to prepare the regulations.

So, as a young attorney, I was sent out—and others were as well—to go to all kinds of gatherings of businesses to, one, explain what was happening and, two, try to gather information about those businesses. I spoke to groups of funeral directors, Realtors, automobile dealers, finance companies, and lots of other organizations telling them about what was going on but also soliciting input, because we needed to educate ourselves on all of these various industries.

Many of these groups did not like the prospect of complying with new, complicated government rules, particularly from an agency that was foreign to them. I knew early on that these groups would be aggressive in their questioning, and they were, indeed. They wanted answers right then to questions about how their unique practices would be treated in the regulations. I decided that even though I might be standing in front of hundreds of people, if I didn't know the answer, I was perfectly willing to say so. But I always made the commitment to get back with an answer at some point. Frankly, I think we built up a great deal of credibility along the way.

So it was a dog-and-pony show. Many of the constituencies were quite hostile and enjoyed beating up on the emissary of this whole project. Taking it was just part of the job. Over time, we did come to understand very well the many different industries that were affected by the rules. And I think we demonstrated that we were interested in their businesses and interested in drafting rules that were responsive to their particular business practices while

carrying out the congressional intent to better protect the public. And, over time, I think we diffused a good deal of the hostility that first was raised about it.

MR. HAMBLEY. Truth in lending was the Fed's first consumer responsibility. It's not as if the Fed had a huge bank of knowledge from this particular consumer perspective, so the information gathering and getting up to speed was something quite unusual. As early as 1960, Chairman William McC. Martin was testifying against the Fed being given this responsibility.

You alluded to Chairman Burns. Was Chairman Burns the Chairman when the Truth in Lending Act became law?

MR. GARWOOD. No, Chairman Martin was still there. And Louis Robertson, his Vice Chair, was still there.

MS. HURT. I believe you said there were four attorneys working on truth in lending. Do you remember who some of the other attorneys were?

MR. GARWOOD. Milton Schober was the head attorney. Actually, it was just he and I at first. Neil Butler joined at some point. We had an economist and an ex-Deputy Controller of the Currency. But, initially, it was just the four of us, and then Gerald "Jerry" Kluckman, who had come from the Credit Union Administration, was added. A few others followed. We also were supported by consultants, for example, from the retail sector.

MR. HAMBLEY. You alluded to the fact that the Truth in Lending Act was quite technical and complicated. I assume that is because of the disclosure relating to the annual percentage rate of the loan. Do you remember anything about the work that was done, particularly on that aspect of the original regulations?

MR. GARWOOD. We called in lots of expertise from mathematical consultants, one of whom was the official U.S. Actuary who was on loan from the Treasury Department. There are

a number of actuaries around the government, but only one bears this title. He was a consultant of ours. We also brought in people who designed the mathematical tables that were used to calculate the annual percentage rate, or APR. In those days, paper charts were still in use. We had other consultants all working on this difficult question of how you determine the “true” rate. It was very technical, very controversial, and, to a certain extent, arbitrary. There is no absolute pristine “true” way for determining the APR. So, at some point, we had to decide how it was to be calculated from a host of possibilities. There was some judgment involved. We had lots and lots of experts participating in that—and not always agreeing.

MR. HAMBLEY. At that time, when you were in bank supervision and regulation, there wasn't any consumer operation at the Board, correct?

MR. GARWOOD. Right.

MR. HAMBLEY. Did you work solely on the Truth in Lending Act at the beginning, or did you have other projects?

MR. GARWOOD. No, it was strictly Truth in Lending.

Working in the Board's Legal Division and the Secretary's Office

MR. HAMBLEY. Then you moved on to the Legal Division and, ultimately, the Secretary's office in the period from 1974 to 1980. What kinds of things did you work on when you were in those two places?

MR. GARWOOD. In the Legal Division, I was kind of a floating troubleshooter. I worked on a variety of different matters without any common thread. In the Secretary's office, I was assistant secretary. In those days, the responsibility of the Secretary's office, in large part, was to prepare the Chairman of the Board for all of the items that would be discussed at any given Board meeting. The Board met several times a week then and considered a wide range of

issues that, over time, were delegated either to the Reserve Banks or the staff. But in the early years, the Board met quite often and had a very heavy agenda of items to consider, including many bank and bank holding company cases having to do with competitive issues. Typically, the pile of briefing memos was several inches thick. It was certainly beyond the capability of any Chairman, with the Chairman's many other responsibilities, to absorb all of the material that was presented for those Board meetings. So one of the jobs of the Secretary and the assistant secretary was to brief the Chairman on each of the items that would be discussed.

Given the preciousness of his time, our job was to predigest the material and hopefully tell him everything he absolutely had to know about an issue, and nothing that was unnecessary. Our job was to prepare him to conduct the meetings with real insight into the issues without having to personally labor through all the background information. We also kept all the records of the Board and took all of the official acts of the Board. And we had other responsibilities—for example, for foreign visitors and the Freedom of Information Act office.

MS. HURT. What was it like working at the Board in the late 1960s, early 1970s?

MR. GARWOOD. Very similar, in essence, to the way it was right up to the end of my career. It was smaller, of course, but very similar, in the sense of a collegial atmosphere and high standards. People worked hard and worked well together. So it was really no different at its core throughout the many years of my career. Of course, the world was a bit simpler in the early years.

MS. HURT. And at that time, did you envision that your tenure at the Board would be long-standing?

MR. GARWOOD. No, but I wasn't thinking that I would definitely leave, either. I was just testing to see whether the work would fit my interests. And if it hadn't, I would have moved

on. In fact, I found the job rewarding and the Board an absolutely wonderful place to work. I was fortunate in moving to three different divisions. One of the problems the Fed has had is very little movement of staff within the organization. But I was fortunate. I probably moved more than almost anyone, having served as an officer in three different divisions. One might say four—the Division of Bank Supervision and Regulation, Legal, the Secretary’s office, and the Division of Consumer and Community Affairs. That was unusual. And that kept things fresh and interesting. So I stayed.

MR. HAMBLEY. In your position in the Secretary’s office, you had a range of things that you had to tell the Chairman about. And, of course, the Fed’s own responsibilities are very diverse. So, in some sense, you had to be a “mini expert” in being able to distill that. That had to have been very stimulating, I would think.

MR. GARWOOD. Well, it was, and quite challenging. Even more so with Arthur Burns as Chairman, who was a formidable figure. He expected the Secretary and the assistant secretary to police the quality of the staff work that was served to the Board members.

So we had the very uncomfortable job of reviewing, for example, a memo on some Reserve Bank matter or some banking supervision matter and deciding whether it should, in fact, go to the Board. If it didn’t seem to be up to certain standards, we had to call the division director—over whom we had no authority—and inform him (all “him’s” in those days) that, in our view, the work wasn’t ready to go before the Board. As you might imagine, that was very tough at times. The recipients of those calls often were offended, but that was what we were expected to do.

Over time, after Burn’s tenure, the Secretary’s office got out of that policing job, although it still provided the briefings. I should say that our policing responsibility did not apply

to monetary policy matters, however. But it did apply to the full range of other issues. We were held accountable for the quality of the staff work. So that made it very interesting. Our primary job was to prepare the Chairman so that, even though he might not have read anything about an issue that was to be discussed at a meeting, no one would ever know this, because our briefing provided the essence of the matter. So, yes, you had to be a mini expert in almost everything the Board did in order to do that effectively.

MR. HAMBLEY. I imagine that what you describe as being sort of a personal assistant to the Chairman was replaced ultimately by the “committee system,” where some subset of the Board would be responsible for overseeing some subject area, like supervision or consumer affairs, and they would be the judge of whether a matter was ready to go before the Board. Was it a direct change from what you described to that system?

MR. GARWOOD. I think that’s a good observation. The committee system, which developed along the way, did perform the vetting role that once was thrust on the Secretary—and actually did it better.

MR. HAMBLEY. Right. We have heard speculation that the Board’s committee system was an outgrowth of the Freedom of Information Act, and that, because you had to have open meetings if the entire Board convened, you wanted to make sure a product was fully developed before public consideration. The committee system developed so that you could do a vetting—that you’d be comfortable that a particular recommendation was ready for prime time. And then it would come to the Board. But it may be one of those things that was lost in antiquity.

MR. GARWOOD. That’s probably one reason for the committee development, but not the primary one. Frankly, it just made good organizational sense to have the many complicated

matters go through committees of Board members who developed particular expertise in specific subjects.

The Board's Growing Responsibility for Consumer Financial Services Laws

MR. HAMBLEY. While you were in the Legal Division and then the Secretary's office from 1974 to 1980, a large number of new consumer laws were passed. Some of the most familiar were the Equal Credit Opportunity Act, the Community Reinvestment Act (commonly referred to as CRA), and the Home Mortgage Disclosure Act (commonly referred to as HMDA).

Also during that time the Board changed its approach to consumer matters. It established the Office of Saver and Consumer Affairs in 1974, which turned into the Division of Consumer Affairs in 1976. And in 1979, it became the Division of Consumer and Community Affairs. Were you personally involved in the Board responding to the legislative initiatives that became those laws? Was the Board itself actively commenting on those laws before they came into existence?

MR. GARWOOD. Yes, we commonly were asked to testify. I think the Board felt trapped a little. It had done a good job with Truth in Lending, and that was well known. So, as these other consumer laws were considered by the Congress, the question was always, who would do the rulewriting? I think the worry among the business groups about the FTC having the rulewriting responsibility was always there.

In the case of most of these laws, the Fed ended up having regulatory authority—sometimes over its own objections. Typically, we would testify in favor of the laws, in concept at least—like the Equal Credit Opportunity Act—but in the end would make the plea for some

other entity to have the rulewriting authority.² And the Congress would always say, in essence, “Well, the Fed did a good job before, so they’ll probably do a good job again.” Having a “responsible” rulewriter also took some of the heat off the Congress in controversial areas.

So the Board began to get all of these rulewriting jobs, one after the other. Not in every case, of course—RESPA (The Real Settlement Procedures Act) was given to HUD (the Department of Housing and Urban Development), and the Community Reinvestment Act was split among agencies. But the pattern for a lot of the rules was to let the Fed do it, on the assumption that it would take care of things in an orderly way.

MR. HAMBLEY. So the Fed basically was being forced to build up an expertise about a lot of things and a lot of institutions and operations in the economy that weren’t originally part of the Fed’s responsibility. And you’re learning as you’re going along, and there is kind of an accretion effect, where you demonstrate the ability to handle the thing, and the next time when something similar comes around it’s handed to the Fed.

MR. GARWOOD. Right. And some areas were very far afield. For example, pawn shops were deeply affected by some of this, and we had to become experts in pawn shop practices.

MR. HAMBLEY. And you mentioned the funeral business.

MR. GARWOOD. Right.

MR. HAMBLEY. But you were not directly involved in any of the laws being enacted at that time.

MR. GARWOOD. No. I was doing other things.

² The Equal Credit Opportunity Act primarily prohibits discrimination in credit transactions on several bases, including gender, marital status, age, race, religion, color, national origin, the receipt of public assistance funds, or the exercise of any right under the Consumer Credit Protection Act.

MR. HAMBLEY. In 1980, the Congress passed the Truth in Lending Simplification Act. What do you remember about the origin and motivations of that act? Were you involved at all in the before and after?

MR. GARWOOD. I wasn't involved in the "before." By that point, Regulation Z had become formidable in length and complexity. There was a general feeling that some simplification was necessary. I think some of the desire was based on a faulty perception that an overly complex law and regulation had been laid down on relatively simple underlying transactions.

A lot of the pressure for simplification came from the complications of real estate closings, which certainly are characterized by complex documents. But, in fact, the Truth in Lending statement is only one aspect of a real property transaction. Most of the complications have little or nothing to do with Truth in Lending. There was, however, a general feeling that the process was so complicated that something needed to be done to simplify things. You remember that this was in a period of general concern about overregulation. The Board supported the ideal of simplification and then was given that responsibility when the act was passed. It was about that time that I came back to the consumer division.

MR. HAMBLEY. As I understand it, the Board made a Truth in Lending simplification proposal to the Congress. Do you remember that?

MR. GARWOOD. That's right. Everyone was talking about the need for simplification, and we were called upon to make a specific proposal. The Fed served up some modest ideas, expecting the Congress to really get into the hard calls needed to streamline things in a meaningful way. Instead, not much was done beyond the Fed's very limited proposal. Though there was some simplification in the end, I think it was more like stirring the pot. Most of the

ingredients of the original law were still there. Redoing the regulation, however, was a huge effort. Whether it was worth all of the uproar I'm not certain. It caused people to have to relearn the regulation, to learn new wording, and to change some disclosure. But the end result was much the same kind of disclosures that had been mandated before.

MR. HAMBLEY. To what degree was that act motivated by concerns by business about actual or potential civil liability for TILA violations?

MR. GARWOOD. Oh, there was a wave of litigation giving momentum to the idea of simplification. In fact, there were certain law firms that specialized in Truth in Lending matters. The large creditors were traumatized by the specter of losing a Truth in Lending class action over what they considered an innocent technical mistake.

There were certain federal circuit courts that seemed to be particularly friendly to those lawsuits. Because of the complexity of the credit-granting process and the complexity of the regulation, mistakes were made, and adverse judgments were rendered. There was a great deal of concern in the credit-granting community about the exposure to civil litigation. By changing the provision on civil liability, exposure to class actions was reduced. This was the primary effect of the simplification act.

MR. HAMBLEY. In 1980, you became deputy director of the Division of Consumer and Community Affairs. When you first worked for that division, Janet Hart was the director. What memories do you have of her?

MR. GARWOOD. Janet was a wonderful person and very interesting. She was a lawyer and had become so when it was somewhat unusual for women to have law degrees. She had served at the SEC (Securities and Exchange Commission). She was bright, hard working, and elegant. She did an excellent job and was widely admired. I was brought in as her deputy when

she was beginning to think about retirement. Then she did retire. It was a smooth transition between the two of us.

MS. HURT. Before we move on, you mentioned Vice Chairman Robertson as having some interest in the consumer area. Do you recall other Governors who had an interest in the area?

MR. GARWOOD. We had quite a few Governors who had responsibility for the area, particularly under the committee system. These included Nancy H. Teeters, Emmett J. Rice, Lawrence B. “Larry” Lindsey, Martha R. Seger, Laurence H. “Larry” Meyer, Philip C. “Phil” Jackson, Jr., and John P. LaWare. I may have overlooked a couple of others. I would say that their true interest in consumer matters varied, however.

MS. HURT. What about further back—perhaps Governor George W. Mitchell or Governor Jeffrey M. Bucher?

MR. GARWOOD. Yes, Bucher had this responsibility. George Mitchell did not. All of these Governors took their responsibilities very seriously. As you might expect, however, the depth of their personal interest was not all the same. All of them knew that this was not the mainstream of the Board’s business, but they all were committed to having the Fed faithfully discharge its responsibility to the public. Consumer affairs was always a sideline to banking supervision and certainly to monetary policy, all of which meant that the division operated with a great deal of autonomy.

For all the many years that I was there, I had very little day-to-day oversight. I basically carried out my responsibilities as I saw fit. Perhaps this is immodest, but I think that I was able to do so because they had confidence that, under my supervision, the area wouldn’t go off the track.

When called upon, all these Governors stepped up to deal with the tough and controversial issues that appeared from time to time, but they didn't often initiate things. One Governor was quite hostile to government regulation in general, and consumer affairs in particular. But because the major decisions were made by the full Board, this had little effect on our performance. Through it all we kept going and, as I said, without a great deal of specific direction.

MS. HURT. Do you have any recollection of Governor Jackson and his involvement in the consumer area?

MR. GARWOOD. I do. But I was not in the division then, so I don't have firsthand knowledge of how it went.

Being Director of the Board's Division of Consumer and Community Affairs

MR. HAMBLEY. Did you have any hesitation about becoming head of the Division of Consumer and Community Affairs? You said that you felt the Board saw consumer matters as not central to their mission.

MR. GARWOOD. I had been in the Secretary's office for several years. I was ready for a change. I hadn't done anything about it at the time, and I was approached about taking the consumer area job. The idea of something new and challenging was appealing to me, and that was probably the only place that I could have moved. I saw the work as important and formidable. The Legal Division was a possibility, but what I had been doing there prior to being in the Office of the Secretary was a little bit of this, a little bit of that, and not policymaking. Others had that locked up. The prospect of having responsibility for the consumer division in a policymaking role was very attractive. So I readily took the job.

MR. HAMBLEY. Early in your tenure as director, staff commentaries on the Truth in Lending Act and other laws were substituted for interpretive letters. What motivated that change?

MR. GARWOOD. Well, as I told you, when we first started out with truth in lending, we had all of these different businesses to deal with and a wide range of practices that had to be accommodated in the rulemaking.

But even with the many, many pages of rules we had, there were always complications that weren't addressed perfectly in the regulation itself. People wrote us letters asking questions about compliance issues. We simply began by responding to this mail. That was part of the public service we were offering. It became known that we would do so, and we got lots of letters. Then we began to get Freedom of Information Act requests from a commercial publisher for our responses. We would batch them up and give them to this service, and they would publish the letters. I think it was Commerce Clearinghouse. As a result, the questions kept coming in greater numbers, so we kept answering the letters.

Letter after letter began to circulate as important interpretative material. There were very few situations where you had two letters that might have seemed inconsistent, but that was always a risk. At some point there were so many letters—and they were so hard to index and manage—that we decided we ought to boil them down into a usable document that everybody could use. We were also concerned that we were interpreting the regulation (and indirectly the law) without any public input. So we changed procedures and began publishing a draft commentary for public comment before being finalized. That's how the staff commentary began, and it was a big success. It was far more orderly, posed less risk of mistakes, and benefited greatly from the public comment process.

MR. HAMBLEY. We've heard that there was a lot of resistance to that kind of change. People wanted to have their specific question answered at the moment they needed to know. Is that the way you remember it? Was there a resistance to that change?

MR. GARWOOD. Yes. There was concern because the staff commentary was only updated once a year, and people wanted a quick answer. They didn't want to wait for those intervals. Part of the delay was because the staff commentary was issued for public comment. Also at this point, a number of private-sector lawyers were specializing in our area, and they had developed expertise in mastering all these letters. The more complex the scene, the better off it was for them. They could be very knowledgeable about the letterwriting process and about important individual letters. That expertise then translated into power and clients. This also was a source of some resistance. Anyway, it became clear to us that the orderly way to interpret the regulation for the public at large was through the staff commentary. That's why we moved in that direction.

MR. HAMBLEY. You have described generically the Fed Governors involved in consumer affairs. You mentioned Nancy Teeters, who was one of the principal oversight Governors when you were division director early in your term. Do you have any particular recollection of her or, perhaps, Emmett Rice?

MR. GARWOOD. By the time she arrived, it was clear we were a major player in consumer protection, and by inclination, she was a supporter of this movement. She was more interested than other Governors had been. I think, politically, she was more inclined to be a supporter of intervention in the market. That was kind of a welcome feeling coming from her. In general, however, there wasn't a sea change from Governor to Governor. They varied

politically, but they were all careful public servants who would give our area appropriate attention when needed. Moreover, any major decisions were made by the full Board.

MR. HAMBLEY. After you took over as division director, there was another burst of new consumer financial services laws, and almost all of them—the ones that I’m going to cite—required rulemakings by the Board: the Expedited Funds Availability Act, the Fair Credit And Charge Card Disclosure Act, the Home Equity Loan Consumer Protection Act, the amendments to HMDA in 1989, Truth in Savings, and the Home Ownership Equity Protection Act. Also, in the 1980s, particularly, and then spilling into the 1990s, there was a lot of renewed interest in CRA (Community Reinvestment Act) and fair lending.

What was your impression of that time—your first years as division director? Was it challenging? Can you talk particularly about CRA and fair lending and how that fit into the scheme of things for the division?

MR. GARWOOD. Well, the earlier laws had to do with mathematical calculations, disclosures, real estate closings, and those kinds of things, which presented technical challenges. This also was so with regard to some of the new laws, like the Truth in Savings Act. They were sensitive because of the litigation that we talked about—particularly the exposure to class actions—but I would characterize the issues as involving fairness with a small “f.”

Some of these later laws dealt with much more highly charged societal issues. They involved issues of race and class, which I would characterize as “capital letter” fairness questions. That was an entirely new dimension—an entirely new source of controversy and emotion. The scene was completely different in degree from the old issues of regulatory burden or accuracy in calculations. All of a sudden we had a community of constituents who were vocal—at times were even unruly—in comparison with our old creditor community critics.

These new actors were willing to demonstrate in front of the Board with bullhorns and, on rare occasions, were known to go to Board members' homes to register their displeasure with us. All of a sudden there was a degree of sensitivity to our work of an order of magnitude that was brand new and very challenging as we took on these additional social issues.

Thoughts about the Home Mortgage Disclosure and Community Reinvestment Acts

MR. HAMBLEY. One of those laws was the Home Mortgage Disclosure Act and the changes that took place in 1989, where creditors were required to report information about home loan applicants, including their race, national origin, and gender. This became part of a public disclosure system that was much more focused on fair lending than it had been. It was a controversial change when it happened. Was it a good change?

MR. GARWOOD. Oh, sure. HMDA and its companion, the Community Reinvestment Act, were landmark pieces of legislation that had great positive import.³ I'm sure that, because of these laws, millions of loans were made to help revitalize low- and moderate-income communities that otherwise would not have been granted.

The Community Reinvestment Act was one of the most successful laws that I ever observed both in its effect and how it was structured. In that law, the Congress set down the objective to be achieved and stayed out of the details by directing the agencies to flesh it out. But even better than that, it left it to the local communities to work out how the law would be applied as the struggle played out between the community folks and the bankers on a community-by-community basis. It was the best of all regulatory worlds in that the Congress

³ The Home Mortgage Disclosure Act requires mortgage lenders to annually disclose to the public data about the geographic distribution of their home loan applications and originations. Lenders must report data on the ethnicity, race, gender, income of applicants and borrowers, and other data. The Community Reinvestment Act encourages financial institutions to help meet the credit needs of their entire communities, particularly low- and moderate-income neighborhoods, consistent with safe and sound operations.

was the policymaker, the agencies were the guidance givers, and the local communities were the implementers. Of course, the agency examiners were there to make sure that things were, in fact, happening.

The Home Mortgage Disclosure Act was also very important in showing the lending patterns in the country. It led to lots of research and efforts to correct the underlending that had been going on in low- and moderate-income and minority areas. The Congress simply directed lenders to tell the people what they were doing. If the story wasn't good, it left it to the communities to work it out between community groups, local pressure groups, and lending institutions, with the oversight of the examiners. I consider the pattern of both of these laws to be far more successful, in a way, than all of the details, for example, in the Truth in Lending Act, which the Congress provided in the statute itself.

MR. HAMBLEY. And your sense is that both CRA and HMDA changes set in motion positive developments that were beneficial?

MR. GARWOOD. Major positive developments. I don't know what the figures would be, but I don't have any doubt that, over time, billions of dollars went into low-income communities as a result of HMDA and the Community Reinvestment Act. I personally observed the "greening" of a lot of bankers who initially had little interest in serving those markets and were compelled by these laws to do so. Once having determined that it could be successful and that they were doing something positive for the community, they often enjoyed it and took pride in the new markets they had developed.

MR. HAMBLEY. And maybe making money, too.

MR. GARWOOD. And making some money, too. So I think these were extremely successful pieces of legislation. Of course, we now know that these same historically

underserved markets became attractive places to practice predatory lending. They went from too little credit to too much—a sad irony.

MR. HAMBLEY. Do you think a lot of that was stimulated by bankers learning something about their own lending patterns and having to respond to the patterns that were publicly revealed and the pressures that came from the public, and then having to go and think about having to do things in a new and more creative way? Did it encourage innovation in the financial world?

MR. GARWOOD. Yes, it did, but then things went too far. I'm not prepared to think that all of these exotic mortgage market products, many of which have had the adverse subprime problems, came about because of CRA. I believe that there were a lot of other forces at work that really were driving that—primarily, too much worldwide liquidity. Certainly some of the creative aspects beyond traditional lending did increase the credit in overlooked areas in a positive way. Meeting the needs of underserved communities did require some new thinking at times. But the lack of prudence and greed eventually took things beyond the mission of CRA and HMDA.

MR. HAMBLEY. In the middle of the 1990s, President William J. “Bill” Clinton directed the banking agencies to rewrite their CRA regulations. And, ultimately, they were rewritten and finalized in 1995. Do you remember what people were saying about CRA that led to that order? Do you think that the regulatory rewrite was constructive and a useful exercise to go through?

MR. GARWOOD. Well, I don't know what's happened since I left the Fed, and I'm curious to know. I thought that the very strength of the original CRA was its flexibility and the fact that it left compliance to be worked out between the institutions and the local needs and

community groups—with, of course, the agencies to assure good faith efforts by the banks. It stayed far away from specifying how much should be lent and to whom.

That, however, was uncomfortable to some institutions. You have the paradox that, on the one hand, business doesn't want to be tightly regulated and told what to do. On the other hand, if there is ambiguity as to what they have to do, they beg for certainty, which means more detailed and specific regulation. We initially worked hard not to make CRA a credit allocation effort in which the federal government had a heavy hand in telling lending institutions who they should lend to, in what amounts, and where. Those decisions were pretty much left up to the local institutions with federal oversight and local accountability.

Business, however, is uncomfortable with uncertainty, and it's true there was some vagueness. Lenders were being evaluated against fluid and flexible standards, and apparently they couldn't stand that. The community groups wanted a more direct whip hand with the federal authorities and argued for more definitive requirements. So the decision was made to tighten it up. I thought it was a mistake, but I don't know how it's worked out in the end.

More on Being Division Director

MS. HURT. As director of the Division of Consumer and Community Affairs, did you have a particular philosophy, generally?

MR. GARWOOD. Sure. I thought it was important for us to be as balanced as we could be between the creditors and the consumers, which was difficult to do because of the tremendous lobbying capability of the business side. Not that they curried favor or exerted improper influence, they just had more resources, for example, to do all the technical work required to participate effectively in the public comment process. I always thought that we had to work hard to make sure both sides were equally represented. We had to be very careful to make up for the

imbalance in lobbying resources. I was always aware that, at the Federal Reserve, the consumer responsibilities were outside the Fed's primary mission, and, therefore, it was particularly important to do high-quality staff work. We had to constantly prove ourselves worthy of respect at the Board.

Frankly, as a division director, I welcomed this external pressure for good performance. It made my job easier. I thought that it was important for our division to "push" the Board members to take pro-consumer positions, given their primary focus on other matters. I worked hard to avoid unnecessarily competitive feuds with other agencies, whether they were the banking agencies, the FTC, HUD, or the Justice Department. When I think back on areas of strength and weaknesses in our performance during my tenure, one of the things I am proud of is the interagency cooperation, particularly with the Federal Trade Commission and Justice. Our relations were good because of our efforts to make them good. I think that was very important.

Impressions of Fed Chairmen

MR. HAMBLEY. You were at the Board for a long time. You worked under five Fed Chairmen, I believe. What can you tell us about William McChesney Martin, who was there for a short time, and the others?

MR. GARWOOD. I really didn't know Chairman Martin, because Louie Robertson, his Vice Chairman, supervised us entirely. I had little contact with the full Board during the Martin period, so I can't tell you anything about that. Arthur Burns was a stern figure who frightened a lot of people. He didn't intimidate me. I don't know why, but I was very comfortable around him. He, of course, had little interest in consumer affairs and little personal involvement. Paul A. Volcker was a giant in every way—in stature, range of interest, and intelligence—and was just a delight to work with. He did his duty in our area but was not directly involved.

My most intimate work was with Chairman Alan Greenspan. By then, the Congress was very much involved in looking over the Fed as it took on the more far-reaching, sensitive social issues. The complexion on the Hill had changed, and the Chairman was called upon to be knowledgeable in high-profile consumer and community matters. I thought this was positive for the Federal Reserve, provided we did a good job. It was an area in which we would make friends with people who might not normally be predisposed to look favorably on the Fed.

To the extent that we were recognized as being open, evenhanded, and involved in community affairs, this was very helpful, since at times the Fed is viewed as being too close to Wall Street or too close to the business community. The Chairman's exposure to these issues was important for the institution in other ways. I walked around Watts with the Chairman where we went to a CRA hearing on the West Coast. By this time, community groups were coming in and visiting the Board. I think it was very good for Chairman Greenspan to be exposed to people he normally wouldn't come in contact with. It was good for him individually, and it was good for the Board. I think these visits made an impact.

MR. HAMBLEY. Let's go back for a minute. When you were assistant secretary, that would have been under Chairman Burns, is that correct?

MR. GARWOOD. That's correct.

MR. HAMBLEY. You indicated that you were very comfortable with Burns. Please explain what briefing him was like.

MR. GARWOOD. In serving these various Chairmen, I would identify one unusual characteristic in all of them, which made them different from most of us. It was their ability to listen to an uncanny degree. I think most people actually listen casually, if you know what I mean. One of the most distinctive traits they all shared was being acute listeners, and Burns was

one of the best. You would go into Burns's office and review each item on the long Board meeting agenda—setting the scene and describing what each matter was all about. Again, remember, I am not talking about monetary policy issues. You'd describe the issue carefully, outlining the arguments for and against the staff recommendation. He would go into the meeting with that information. He had heard and stored everything that you said. It was all processed through his great mind. Then he would pick up on the conversation around the table and participate fully in the discussion. Typically, he had never read the 25-page memo that everybody else had struggled through, and no one would ever know that. I think it's because he could listen so well.

Thoughts on Central Bank Responsibility for Regulating Consumer Financial Services Laws

MR. HAMBLEY. You've touched on this a couple of times, but one of the most unusual things about the Federal Reserve is, it's primarily a central bank with consumer responsibilities. And, as we've indicated, those responsibilities have expanded over time. What are your views about having a central bank involved in consumer protection? Do you think that the Congress made a wise decision on involving the Fed?

MR. GARWOOD. I don't know. For some of these matters, there wasn't another obvious agency. But if you take it in a more abstract vein—that is, should a central bank have consumer protection rulewriting responsibility—I guess, all told, I would tend to be skeptical about it.

Many of the consumer responsibilities are far afield from the Fed's major expertise, its other responsibilities, and the primary goals of the organization. But there is a big benefit, I think, from the central bank's involvement in things like HMDA and CRA. Board members tend to come from a certain segment of society. They probably went to schools that attracted a certain

group of people. They associate with this group, and their prior work experience is with this group. All of which is pretty far afield, in most cases, from low-income people.

I am uncomfortable in making generalizations, but, in general, I think Board members are unlikely to have very deep roots in communities being benefited by programs for the poor and underserved. I suspect that there is a great deal of value in the exposure that the Board members have to that constituency because of the Board's community affairs responsibilities. In a subtle way, I have a feeling that the exposure of Board members and Reserve Bank presidents—both to the ideas behind these laws and the people who benefit from them—may make them better stewards of their monetary policy responsibilities. So I think there is value there.

There is certainly political value in the Board making it clear that it has constituents at all levels of society beyond Wall Street. To show that you have trust from community groups can be extremely valuable in what, at times, is a hostile climate in the Congress. But I can't tell you that I think that all the consumer protection responsibilities are integral to a central bank's function—that if you were setting up a mythical country, with a treasury, a central bank, and other regulatory agencies, you would necessarily assign these responsibilities to the central bank.

MR. HAMBLEY. Is there value in having an independently funded, nonpolitical organization being responsible for writing rules and implementing consumer protection laws in a society like ours?

MR. GARWOOD. I don't think so, necessarily. I don't see these rules as any different than environmental protection rules, or energy conservation rules, or aviation safety rules. I don't see anything that's unique about these particular laws that attaches to an agency that doesn't use appropriated funds. I don't see that connection.

Reflecting on Board Career

MR. HAMBLEY. Thinking back about your 30 years at the Fed, what would be some of the major changes that you observed while you were there? How different was it when you left from when you got there?

MR. GARWOOD. Well, as I indicated, when I first came, the Board met every day or pretty close to that. If you told Board members that now, I'm sure they would be incredulous, wondering what in the world the Board members talked about. And the answer is, probably a lot of things that they shouldn't have been thinking and talking about—minor bank merger cases and the like. Over time, lots of delegation was made to the Reserve Banks and to the staff. The Board became much more efficient. Of course, there have been major changes in bank and bank holding company supervision, the payments mechanism responsibilities, and the like. But I will leave it to others to go into these matters. The consumer area, obviously, has grown dramatically during that period, and everything suggests it will probably continue to grow.

MR. HAMBLEY. What about the role of women in the organization?

MR. GARWOOD. That's dramatically different, of course. I was there at a time when there were no women division directors. I think when I first came, out of a cadre of maybe 75 officers, there might have been two women. I don't know what it is today, but it's probably close to 50–50. So that's different. Certainly the minority representation in the officer corps went from near zero to some much better number. I don't know what it is today, but at least it's a whole lot more representative than it was.

MR. HAMBLEY. Is there anything else that you want to say?

MR. GARWOOD. Well, I was at the Fed a long time and saw many different pieces of the organization. You hear so many negative things said about government agencies that I think

it's important to note that, in all my 30 years, I never once heard anything or saw anything that suggested impropriety, self-dealing, sharp practices, or anything improper of the type that so many people associate with government service. Certainly, the Fed made some mistakes. But whenever it did so, it was despite its best efforts to serve the public. It was simply because, when you have to make a lot of decisions, you don't always get them all right. My experience was that the Governors and the staff were bright people, trying to do the best job possible, gathering all the information they could assemble to help make the right decisions, and doing so free of bias or political influence or self-aggrandizement. It was quite inspiring to see government operate like this over a long period and in many different roles.

There is another thing that I think is truly interesting and remarkable about the Fed as an institution. It attracts the very top kind of people, the kind that you'd think would include a few prima donnas—perhaps more than a few. But my experience over a long period of time was that the Board was amazingly free of that kind of behavior. People were willing to work in a collegial atmosphere—in fact, that was a hallmark of the place. Certainly, there were conflicts, but the atmosphere seemed to be virtually free of the kind of cheap infighting that you hear about in agencies. I believe that climate is unique. It existed over many years, under a lot of different leaders, and with a lot of different staff. I never was really sure why it worked so well. It was almost as if the walls were permeated with a certain standard of behavior that was taken on by everyone.

In summary, the Fed provided an ideal working environment, and I am thankful for having had the opportunity to be there.

MR. HAMBLEY. Thank you. We appreciate your taking the time to participate in the Board's Oral History Project.