Federal Reserve Board Oral History Project

Interview with

Molly Wassom

Former Associate Director, Division of Banking Supervision and Regulation

Date: April 27, 2010

Location: Washington, D.C.

Interviewers: Cynthia Rotruck Carter and Michael Martinson

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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MS. CARTER. Today is Tuesday, April 27, 2010. I am Cynthia Rotruck Carter from the Board's Division of Banking Supervision and Regulation (BS&R). I'm joined by Mike Martinson, a retired associate director in the division. We are interviewing Molly Wassom, currently an associate director in the division. Ms. Wassom joined the Board in May 1983 and will be retiring this year in July. This interview is taking place at the Board in Washington, D.C.

Background

MS. CARTER. Ms. Wassom, please tell us about where you grew up, your educational background, and what brought you to the Board.

MS. WASSOM. I was born in Arlington, Virginia. My father was in military intelligence, so we went from Virginia to Alaska, then back to Virginia and Alaska again, and then to Texas. I didn't realize what he did until I was an adult. We went to Cuba about a year before Fidel Castro took over the country in February 1959. We stayed in a hotel that I subsequently learned was owned by Santos Traficante (an infamous organized crime figure). We were supposedly on vacation, but my father wasn't with us much during the day. In hindsight, I suspect my mother, brother, and I were decoys! Right before he retired, my father was the head of army intelligence for five states. It was his group that gave Lee Harvey Oswald's real name to the police. At one point I did a FOIA (Freedom of Information Act) request and obtained an eight-by-ten picture of which I have the original. So I lived basically all over.

My bachelor's degree was in English. I taught school in Wyoming for four or five months. My husband at the time was in Wyoming in the Air Force. To teach English to students, you had to give them a writing assignment every week. If you had 30 students in each of five classes, that amounted to 150 papers a week to grade, so I decided I didn't want to teach anymore. [Laughter]

Joining the Board Staff

MS. CARTER. How did you end up in Washington, D.C.?

MS. WASSOM. My husband was reassigned to the Pentagon. When my children were school age, I went back to school and got an MBA in finance. The job at the Fed was my first job.

MS. CARTER. In what division did you work?

MS. WASSOM. I was a program budget analyst in the Office of the Controller. In hindsight, it was a good experience because I got to learn about all the functions of the Fed and I got to know all the division directors.

MS. CARTER. How long did you do that?

MS. WASSOM. Until November 1984.

Working in the Division of Banking Supervision and Regulation

MS. CARTER. That's when you moved to bank supervision?

MS. WASSOM. Right.

MR. MARTINSON. Who was the division director?

MS. WASSOM. John E "Jack" Ryan was the division director, but he was on his way out. William "Bill" Taylor was the deputy director then.

MR. MARTINSON. What interested you about banking supervision?

MS. WASSOM. In graduate school, I enjoyed doing case studies of acquisitions and mergers. I desperately wanted to get into applications to analyze mergers.

MS. CARTER. Is that the section in which you worked?

MS. WASSOM. Yes.

MS. CARTER. Did you work on applications a good part of your career at the Board?

MS. WASSOM. I did, yes. I started in the applications section in November 1984. In 1988, I became the manager. In 1992, I was appointed an officer.

MS. CARTER. You were only the second woman officer [in BS&R], is that correct?

MS. WASSOM. Yes, I think that's right.

MR. MARTINSON. When you came in, the banking problems were starting to come to the fore and they continued for a number of years.

MS. WASSOM. Yes, they did. I learned so much from Bill Taylor in that regard. We would go to meetings with bankers, and I would listen to their presentations. Being fairly new at the job, I would have all these questions in my mind, but I was afraid to ask them because I didn't want to appear stupid. To my surprise, Bill would ask those same questions, so I guess they were not stupid after all! Anyway, that gave me the confidence to ask questions to find out the answers. Bill really pushed people and I learned from him how to push to get the answers that sometimes were not easy to obtain.

MS. CARTER. At that point, you were dealing with many challenges. Did you go through a period where you were dealing with plain vanilla applications? What was the progression?

MS. WASSOM. I started out working on the applications that were delegated to the Reserve Banks but, within a couple of months, I was working on Board applications. Applications that had significant issues went to the Board. I learned how to write memos quickly. It was a struggle at first, but after a while I enhanced my writing skills by learning how to write quickly and concisely.

MR. MARTINSON. Did any of the applications stand out in your memory?

MS. WASSOM. Yes. For the first application that I took to the Board, we were recommending denial. Bill was 100 percent behind the denial, but the New York Reserve Bank was recommending approval and, of all the Reserve Banks to be going up against, New York was probably the most intimidating. The specifics of the proposal probably aren't that relevant. Bill talked to Chairman Volcker before the meeting, and Volcker was convinced that the application should be denied as well. The New York Reserve Bank president, E. Gerald Corrigan, was at the Board for an FOMC (Federal Open Market Committee) meeting, and he changed the Reserve Bank's recommendation to denial. At that time, the Board had a lot of new members, and Bill wasn't sure how they would vote because he wasn't that familiar with them. The members were new to Chairman Volcker as well. The Board members voted on the application, and there was unanimous approval, except for the Chairman, who had not yet voted. Then Volcker started working on each Board member one by one, and about 50 minutes later, there was unanimous denial. That was a remarkable Board meeting to have witnessed how the Chairman persuaded the other Board members to change their minds. He started asking very probing questions that were raised in the memo.

MS. CARTER. Had the New York Fed president changed the Reserve Bank recommendation before the Board meeting?

MS. WASSOM. He changed it the day before the Board meeting, but the Board members—other than the Chairman—did not seem to be aware that he had done that. So that was an interesting experience for my first case going to the Board.

MS. CARTER. And it showed you the kind of influence that Chairman Volcker had.

MS. WASSOM. It showed me the skills in bringing out issues. The issues were not capital. The bank had plenty of capital. The issues related to the business model, including the cash needed to hedge a substantial portion of assets invested in commodities and the potential margin calls that the institution could face.

MS. CARTER. The risk involved.

MS. WASSOM. Right.

MS. CARTER. It sounds like he was pretty hands-on with it, too.

MR. MARTINSON. During that period, the Board denied applications, which is almost unheard of now. They were few and far between but—

MS. WASSOM. The Board would give a company an opportunity to withdraw an application. But when you had a split recommendation like that, the company would have no incentive to withdraw if they suspected that at least one party was supportive of the application. Usually applications would be withdrawn. There were some very marginal proposals that would have an adverse effect on the organization if it were known that a proposal was filed and subsequently withdrawn. In those cases, the company was given the option to file the proposal in draft and have us discuss the supervisory issues—sometimes with the Board—in advance. We did that for a four-rated bank in the Northeast that was proposing to acquire a five-rated bank in the Northeast. The proposal was to raise private equity because, if they had issued common stock, they would have had to disclose their condition. The stock to be issued was going to yield 30 percent, and it was obvious to me there was no way it was going to cash flow, but the Boston Reserve Bank was supportive of the proposal. The president of the Boston Reserve Bank came to Washington and made a strong pitch for the proposal probably because, if it worked, it would take care of two problems, at least in the short term. But Bill had a different view, as did I. Bill described the proposal as being about two drunks in the middle of the road. [Laughter]

MS. CARTER. Did he do that before the Board or just before you?

MS. WASSOM. That was in front of the Board; the Board didn't support the merger either.

MS. CARTER. So the application was denied?

MS. WASSOM. It was never filed. They were given the option to file it in draft to avoid the potential adverse effects on both organizations if the proposal did not appear viable. Once an application is filed, it becomes public information, and then if it's withdrawn, that is also public, which can result in adverse market reactions that could jeopardize weaker organizations.

MS. CARTER. Do you have any other recollections that stand out about working with Board members or working with the Chairman?

MS. WASSOM. Not when Volcker was Chairman, but I remember when Alan Greenspan took over. I remember a public Board meeting when he was fairly new. New York Reserve Bank representatives came to the meeting for a closed session after the open session, and they were astounded by what transpired. In the open session, which was public and attended by the press, one of the Board members who was the Chair of the Bank Activities Committee presented a proposal that was going out for public comment. Another Board member immediately started attacking the proposal. A comment was made that if the protesting Board member had attended any of the Bank Activities Committee meetings, that perhaps there wouldn't be an argument in that forum. [Laughter] You had two Board members feuding in a public meeting. I couldn't help but look over at Chairman Greenspan, this brilliant economist. The look on his face was pretty astounding. It was obvious that his job entailed more than just the economy; it also entailed managing—

MS. CARTER. Some of the Board members. [Laughter]

MR. MARTINSON. I remember a diversity of opinions when the Board had meetings on applications.

MS. WASSOM. Absolutely, but rarely in a public meeting. It was awkward for the Chairman because they were going after each other. He politely tried to put an end to it. [Laughter]

MR. MARTINSON. Shortly after you came in, one of the issues that came to a head was the real estate/savings and loan crisis, especially in the Southwest, and there were all the Texas problems. Do you have any memories of that?

MS. WASSOM. I worked on the First Republic transaction. Back then, you didn't know which transaction the FDIC [Federal Deposit Insurance Corporation] was going to approve, and they needed approval for all of the transactions, so we had to take five or six bid proposals to the Board and have the Board act on each one without knowing which one was the winning bidder. I remember that Bill surveyed people in my section that had worked on it about who they thought was going to be the winning bidder. I was the only one who thought it would be NCNB for First Republic.

MS. CARTER. And you were correct.

MS. WASSOM. Yes, but I had no idea. [Laughter] I was embarrassed that I was the only one who thought that NCNB would be the winner. I do recall that it was precedential in the sense that the Board had to give approval to NCNB to manage the failed bank because they only bought 20 percent of it, and then they were going to raise capital and buy out the other 80 percent over a contractual period of time. So the Board had to issue an order giving NCNB approval to manage the institution and then later on to acquire the rest of it. My recollection was that the

Banc One/M Corp proposal was structured the same way, 20 percent up front and then 80 percent down the road.

MS. CARTER. At that time, we didn't have full interstate banking, if I'm correct. So you had these Texas bank failures, but there still were limits on who could acquire who. Did the interstate banking limitations have any play into that at all?

MS. WASSOM. I don't think so because bank failures were involved. M Corp was acquired by Banc One, which was from Ohio. And I know that the bidders for First Republic came from all over.

MR. MARTINSON. These were pretty big at the time compared to the banks that were buying them, and in some respects they dramatically changed the acquiring institution.

MS. CARTER. Was there anything about Texas that seemed different from other things you had worked on?

MS. WASSOM. Well, it was a good learning experience for the current environment. [Laughter] The Dallas Reserve Bank lost almost all of its large institutions. But it was different from what we experienced in the recent financial crisis, which involved all size institutions nationwide. The Texas situation was regional and there were healthy institutions elsewhere in the United States that were able to acquire institutions down there, and there was private interest. One of the more interesting cases was the resolution of First City—both the bank and the holding company—with FDIC assistance. Unfortunately, the organization subsequently failed again. This time, the FDIC split it up and sold it to multiple institutions as this was the most cost effective, but I always teased them that they did so to avoid a First City Three. [Laughter]

There were many potential failures at that time that were resolved without FDIC assistance. I believe that First Interstate in California acquired Allied, a Texas company, which would have failed otherwise. BankAmerica, I recall, bought a large Texas thrift without assistance. Following the Southwest banking crisis, we then had the New England situation. But as with Texas, the New England crisis was regional, and there were healthy institutions elsewhere in the United States that were able to bid. We weren't in a situation where we had problems across the nation of all sizes, as we did more recently.

MS. CARTER. The Continental Illinois crisis preceded the Texas problems.

MS. WASSOM. I was involved with it after the FDIC owned it, and I had to continually analyze proposals that Bill would give me relating to the FDIC unwinding its investment in Continental. [Laughter] I also recall a proposal by Continental to acquire another institution while the FDIC still had ownership in Continental. Bill was adamant that the company should not be allowed to expand with government ownership; I don't think that proposal went anywhere.

Board Members

MR. MARTINSON. You saw supervision under both Chairman Volcker and Chairman Greenspan. Is there any difference that stands out?

MS. WASSOM. The Volcker period was so long ago that I don't have that good of a recollection, but I do certainly of Greenspan. He was the Chairman during most of my tenure. I would bring proposals to the Board almost every single week, and he would tease me that he knew it was bad news if I were there. [Laughter] I remember that the dynamics of the Board members' discussion could change dramatically depending on who were the first Board members to talk. I was incredibly impressed with Vice Chairman David Mullins (1990–1994). From the opposite end of the table, you could see that his memos were completely marked up, and it didn't matter how many memos he received that day. It was obvious that he had read them thoughtfully and thoroughly. He had incredible insight and ability to flag issues for discussion. It really made a difference when he was there versus when he wasn't there because he was the first one to talk. He would influence the discussion going around the Board table by the issues and points that he would raise.

MS. CARTER. Typically, he was the first one to talk?

MS. WASSOM. Yes.

MR. MARTINSON. As the Vice Chairman?

MS. CARTER. As the Vice Chairman.

MS. WASSOM. And if he wasn't there, the dynamics of the meeting could be entirely different.

MR. MARTINSON. That was something that changed over time. When I [first] came [to Board meetings], the senior Governor who wasn't the Chairman or the Vice Chairman spoke first; the Vice Chairman spoke next-to-last. At some point, the sequence changed.

MS. CARTER. Do you think Greenspan was behind that?

MR. MARTINSON. I can't remember when it changed.

MS. WASSOM. I assume they can do it anyway they want.

Banks and Real Estate Problems

MR. MARTINSON. After the 1980s and the early 1990s, the real-estate problem spread to the major banks.

MS. WASSOM. Right.

MR. MARTINSON. It got out of its region and went other places. Are there things that you recall there?

MS. WASSOM. I remember that after the Texas issues, the Dallas Reserve Bank examiners became experts in examining real estate credits. This is what has happened in most of our Districts today. When the problems started to emerge in New England, the Boston Reserve Bank used a lot of resources from the Dallas Reserve Bank to bring its staff up to speed on the real estate credits because there was a learning curve. There has been in this downturn too.

Thrift Crisis

MS. CARTER. Were you involved with any parts of the savings and loan crisis?

MS. WASSOM. Yes. We would get these proposals from bank holding companies to acquire failed S&Ls, or they were S&Ls that technically were failed but they weren't acknowledged to be insolvent. [Laughter] One of the first things that I learned to ask was if the S&L had an operating subsidiary and, if so, how large. We would get these proposals for a several billion dollar organization to acquire a hundred million dollar thrift. I would ask if the thrift had an operating subsidiary." The response was usually, "Yes." And I'd ask, "How big is it?" The answer was, sometimes in the billions. [Laughter] It was remarkable that the thrifts were not required to consolidate the operating subsidiaries, so the balance sheet at the thrift, in many cases, grossly understated the size of the institution. They did not consolidate for capital purposes, either, so the thrift's capital ratios could be woefully deficient. In 1989, FIRREA (Financial Institutions Reform, Recovery, and Enforcement Act) addressed these issues by requiring financial reports to be consolidated and capital to be held for the consolidated organization. FIRREA also imposed 23A-type restrictions on thrift institutions, whereas they previously weren't covered. I used to analyze 23A exemption requests, and we were just inundated with exemption proposals from thrift institutions seeking to ratify existing affiliate transactions. There were very few of these proposals that were actually approvable. Most of them were transactions that the statute was designed to prohibit.

MS. CARTER. Section 23A of the Federal Reserve Act restricts certain types of transactions between a member bank and its affiliates.

MS. WASSOM. Correct. It protects the insured institution, and it limits transactions with uninsured affiliates. When FIRREA became law, the thrifts had existing outstanding transactions that were in violation of the statute, so the thrifts would file a waiver request. But if we were going to grant the waiver request, it would have been in contravention of the statute and the reason for including such restrictions in FIRREA.

MS. CARTER. So, prior to FIRREA, 23A didn't apply to—

MS. WASSOM. To thrifts, correct.

MS. CARTER. So as soon as they came under our wing, they had—

MS. WASSOM. Right. If the thrift were part of a bank holding company then affiliate transactions would be restricted. But yes, it was 1989 before the transactions with affiliates were restricted for thrift institutions.

Division of Banking Supervision and Regulation Officials

MS. CARTER. You mentioned Bill Taylor. Do you have specific recollections about working with others in the banking division?

MS. WASSOM. For much of the time I reported to Sidney M. "Sid" Sussan who reported to Don Kline, but I rarely had much interaction with Sid. And Bill would bring these secret deals to me, and tell me not to tell anybody about them. [Laughter] So none of my bosses knew what I was working on. Bill would swear me to secrecy on these transactions.

MS. CARTER. It was the way things used to be done.

MR. MARTINSON. I guess my impression was that everybody worked directly for him.

MS. CARTER. But there was this milieu of secrecy and information, and information is power. I guess that still exists, but it was especially like that then.

MS. WASSOM. Right. Bill worked seven days a week, and some of his staff, myself included had to work seven days a week as a result. [Laughter] That was very difficult for me because I had two children at home at the time. I remember coming in on weekends frequently and working on matters that had to go to the Board on Monday or Wednesday. Don was always very good to come in and while I was writing things up he stayed there the whole time. In one situation, we didn't even get the proposal until Saturday. I had to read through a couple volumes of the submission and then write a memo on Sunday. It was probably Sunday at about 5:00 before I had the memo ready to send to Bill at his home. He had a fax machine, but this was in the days of very slow faxes, and Bill had only one telephone line. We faxed the memo to him, and it took about an hour and a half to get the fax through. I was looking at my watch because I wanted to go home so badly. After the fax was complete, the phone rang and Bill said, "It ran out of paper. Can you re-fax the last 20 pages?" [Laughter] Don said, "I'll just drop it off at your house," but Bill said, "Oh, no, just throw it in the hopper," so there we were for another couple of hours faxing.

MS. CARTER. That was the fast way of doing things then—pre-email.

MS. WASSOM. Yes. Another time, it was the day after Thanksgiving, I was painting my living room, and I got a call from Bill to come in and I told him no. [Laughter] I was reluctant to do that, but I had everything completely torn apart in my living room and dining room, and it was disruptive to my kids because there was no place to eat. I couldn't just stop in the middle of painting, so I told him I'd come in Sunday evening, but I was not coming in the day after Thanksgiving when I was painting the living room. [Laughter]

MS. CARTER. How did he react to that?

MS. WASSOM. He was not happy.

Technological Change in the Divison of Banking Supervision and Regulation

MR. MARTINSON. Can you talk about the technological change in bank supervision.

MS. WASSOM. Yes. That was difficult for me. We used to write the memos out on yellow pads and then somebody would type them. Every time there was a change, you would have to go back and proof the entire memo to make sure that there wasn't a typo; it was extremely tedious. When I joined the division, I was older than others, and I was not eager to switch to a PC (personal computer). Finally, the law was laid down that you were going to use the PC and you were going to have to draft memos on the PC. It took me probably a week or two to be able to draft on the PC. Once I was able to do that I never went back to the yellow pad. But it was an ordeal. At first I would write it out on the yellow pad and then type it into the PC. Finally I learned how to draft it on the PC, and now I can't imagine writing it out longhand anymore. Bill was very big on technology and on improving it. He had the courage to have the division complete a survey on how they viewed their IT resources. I think the response was not overwhelmingly favorable. [Laughter]

MR. MARTINSON. I think when you got there, the technology was still the Bomar calculators.

MS. WASSOM. Yes. And as part of bank holding company proposals, we had to analyze parent company cash flows. There was a cash flow program on the Board's mainframe. It was a canned program. I would never use a canned program. I'd figure it out myself. But there was a cash-flow debt-service program and it was on the Board's mainframe, and it was quite awkward to use in hindsight.

MS. CARTER. And then you had to come downstairs and get the printouts.

MS. WASSOM. Yes. The printouts came in through the IT division. I had forgotten about that. But I do remember, though, that when we started using the PCs and we got Lotus spreadsheets software—today the equivalent of Excel—I used to develop my own programs to analyze cash flows and other financial analyses on the PC.

MS. CARTER. I think I did that too.

MS. WASSOM. Everybody probably did. [Laughter] It was quite inefficient for everybody to be doing it, whereas now we have a wide variety of analysis tools available to us. There were some skills that I suppose you lose when you don't have to develop the programs yourself.

MS. CARTER. When you first came in that must have been pretty antiquated too because you were doing budgets.

MS. WASSOM. Yes, but it was interesting because you would have to analyze reorganization proposals. I met just about every division director in that job, plus I learned what different areas of the System did in bank operations. I almost didn't get the job as the program budget analyst. I was not their first choice, so was hired as a dual occupant.

Reserve Banks

MS. CARTER. You've mentioned your work with the Reserve Banks. That has evolved over the years in how we deal with them. Do you have any thoughts on some of the dynamics between directors and the officers-in-charge?

MS. WASSOM. If you go back to the 1980s and 1990s, virtually every District had large organizations and they had large state member banks, and their examiners were able to graduate from examining smaller state member banks to going into larger state member banks. But after the late 1980s and early 1990s, the consolidation in the industry was dramatic. Today, very few Districts have large state member banks. We lost a valuable training ground as a result of that because you don't get the same experience through the holding company that you do through the bank examination process. So, for the System and the structure, that has been a dramatic change over the years. Correspondingly, today you have Reserve Bank officers in charge of supervision that may have come from research or some other area of the Reserve Bank, whereas back in the late 1980s, early 1990s I think most of them were probably supervisors and had been examiners themselves. So there's been a lot of change in both the structure within the Districts as well as the management.

Applications for New Powers

MS. CARTER. You were very involved with applications during problem times in mergers and acquisitions. Were you also involved with some of the applications related to new powers?

MS. WASSOM. Yes. I did the Section 20 applications.

MS. CARTER. Would you explain what that is?

MS. WASSOM. It was a means of allowing a bank holding company to engage in securities underwriting and dealing, and there were numerous restrictions placed on these Section 20s.

MS. CARTER. Were they investment subs?

MS. WASSOM. They were broker–dealers that underwrote and traded in securities. When the Gramm–Leach–Bliley Act was passed in 1999, it pretty much eliminated our involvement in the Section 20s, and the system expertise in that area has since diminished because we no longer have the hands-on experience gained by going into the broker–dealers.

MS. CARTER. Gramm–Leach–Bliley took down the firewalls.

MR. MARTINSON. And it put restrictions on the Board supervising entities regulated by somebody else.

MS. WASSOM. The broker–dealers were functionally regulated by the Securities and Exchange Commission (SEC), and we were expected to rely on the SEC to the fullest extent possible. As a result, we didn't do on-site exams of those institutions anymore, and we lost a lot of valuable expertise in that area.

MR. MARTINSON. I took over that group at the end of 1997. They were very hands-on then because among other things they had to police the restrictions, but that gave them detailed knowledge. That was lost over time.

MS. WASSOM. That's right.

From Applications to Supervision

MR. MARTINSON. At what point did you move over to the problem banks or the small banks?

MS. WASSOM. No, it was supervision. That was 1997. From the end of 1984 to September 1997, I had applications. In September 1997, there was a reorganization, and I was thrown into supervision of regional and community banking organizations. So I had two sections under me that oversaw these institutions.

Here's a funny story: I hadn't been in supervision long when Rich Spillenkothen asked me to go to a CSBS (Conference of State Bank Supervisors) meeting for him in Arizona. It was wintertime—January I seem to recall—and he was trying to encourage me to go because he could tell that I was reluctant. I think I was going to have to leave the next day. He said, "They'll have these private meetings in the afternoon, and you'll have some time off. It'll be nice weather there, and you can go swimming and whatever." [Laughter] So I agreed to attend the meeting. I showed up at 9:00, as I was told that was when it was going to start. Neil Milner, the chair of CSBS came over, introduced himself, and said, "Do you want to go first, or do you want Nick Ketcha to go first?" Nick Ketcha was the head of FDIC supervision here in Washington, DC. I said, "What do you mean go first?" And Neil Milner said, "You're on a panel. Didn't Rich tell you?" [Laughter] I said, "What's the topic?" And he said, "Current issues in supervision." Nick Ketcha was standing right there and I said, "I'll defer to Nick, whether he wants me to go first or whether he wants to go first," because after all he was the head of the FDIC's supervision. To my dismay, Nick said, "Oh, no, she can go first!" [Laughter] So I scrambled to put together a list of issues in supervision, not really having been in that area long enough to know what they might be! The irony of it is that Nick Ketcha didn't bring up anything different. [Laughter]

MS. CARTER. You were right on the money!

MS. WASSOM. Either that or he was in the same situation I was.

MS. CARTER. Do you remember what the big issues were?

MS. WASSOM. No, I don't. [Laughter] That was too long ago. But my lesson was that any time you went to a meeting for Rich there was probably a speaking engagement involved.

MS. CARTER. Something he didn't want to do. [Laughter]

Issues that Stand Out

MR. MARTINSON. After the big real estate crisis in the early nineties up to 2000, in my view, there weren't major problems of that sort, but there were a number of things that did come up from time to time. Do any of those stand out, either when you were still in applications or when you moved to supervision?

MS. WASSOM. When I was still in applications, there was an institution in the Northeast that had been in serious trouble, and it had been rated a four. It decided that it would come up with a proposal to save itself. The proposal was one of the first to basically establish a good bank and a bad bank, and the institution was going to fund the write-downs that it would take to move the assets to the bad bank. The source of the funds was a massive issuance of common equity. Bill Taylor was such a big fan of common equity that it was surprising how opposed he was to this proposal. He kept talking about the dilution of shareholders, but I think the real reason that Bill was upset was because the company had not told him about the proposal. Bill found out about it when it was in late stages of development and he found out about it around 8:00 in the morning and so I heard about it at around 8:10. [Laughter] He ordered the institution's representatives to fly down that afternoon, so the chairman of the board of this company and many directors of this institution flew down. They came into Bill's conference room and you could tell that they were uneasy because they knew that Bill Taylor was not a happy camper. Bill stood up, chewed them out, and told them that the founders of the institution were rolling over in their graves because of this massive dilution. But it turned out to be a very successful proposal.

MS. CARTER. So they went forward with it and the Board approved it?

MS. WASSOM. The institution went forward with it, and we approved it. Dilution was not a reason to turn something down, and common stock is the best kind of stock you can raise.

I remember another proposal, when I was in applications. It was a hostile takeover that involved two large West Coast banks. The acquiring institution had come out of a period of incredible stress where it had been rated a four, and it was now back on the mend and rated a two. The target institution did not want to be acquired and was fighting with the aid of some pretty powerful law firms. When the application was filed, the pro forma financials were in the confidential section, which was extremely unusual. I don't think I had ever seen that before because that's so material to the transaction that it's got to be part of the public application. Nonetheless, it was in the confidential section so the target institution kept filing FOIA requests and threatening lawsuits to get the pro forma financials released. The pro forma financials showed massive write-downs of assets and liabilities and a huge amount of goodwill. That in and of itself raised a question about whether this institution that had in the past been a four, and that had now recovered enough to be rated a two, was going to be headed in the other direction if it incurred significant goodwill in the process. I recall meeting with staff from the Legal Division almost daily to go over the latest request from the law firms to release information. Then the acquiring company filed an S4 with the SEC, and interestingly the financials on the S4 didn't show a huge amount of goodwill, and they didn't show massive write-downs of assets and liabilities. I told Bill Taylor about it, and he called representatives of the acquiring institution and then he called the SEC and the proposal was gone the next day. [Laughter]

MS. CARTER. He was a pretty active director. [Laughter]

MS. WASSOM. After I went into supervision—at least, not until recently—there were a number of issues with subprime credit card banks in the late 1990s. They were quite interesting because you had a business model where the institution would issue prime credit cards—maybe 75 percent of its cards would be prime—at a loss or break-even, and then the other quarter of the portfolio would be subprime. These institutions had to securitize the subprime to get them off their books and to sell the securitization. Investors didn't want to buy a securitization with nothing but subprime in it, so that was the motivation behind issuing 75 percent of the portfolio at a loss or break-even. All the profits were coming from the subprime. It was a business model that was predicated on rampant growth, too. And it was the originate-to-distribute model, obviously, in one of the earlier stages, but it proved to be troublesome for a number of institutions including a couple of ours and several of the OCC's [Office of the Comptroller of the Currency] banks. In fact, there was one bank—Next Bank—that was closed as a result of it.

MS. CARTER. Do credit card banks work like traditional banks in that they take deposits? What's their funding source?

MS. WASSOM. Yes, they have deposits. They also have wholesale funding, and part of the funding was the securitization. They had to get the receivables off the books. The Board, including Chairman Greenspan, was very interested in the matter. We took the whole issue of the credit card banks up to the Board to get its support for taking a hard stand with the issues. That was an interesting period.

Also, it was during the late 1990s when the Federal Reserve and the FDIC started looking into how to manage a large bank resolution. We did a study—it was called the F6 Report. Chris Cumming from FRB New York led it. We identified issues in that study that are issues today, one of them being: you have this interconnectedness in some of these large firms and, if the only resolution authority is to resolve the insured institution, the FDIC may have a P.O. box and a financial statement, whereas critical operations may reside outside of the insured institution.

Shortly after that study, we sent an executive summary of it over to the Comptroller of the Currency, who I believe at the time was John D. "Jerry" Hawke, and to the heads of the FDIC and OTS [Office of Thrift Supervision]. Then we started meeting bilaterally with the FDIC to discuss what the issues were in resolving what they called "mega-failures." The issues were immense. One of the issues that the FDIC subsequently tried to address was the identification of who was insured and who wasn't insured. That was a difficult issue to tackle. The FDIC because of FDICIA (Federal Deposit Insurance Corporation Improvement Act of 1991) had to determine which accounts were insured. It basically was a manual process where the FDIC went in and reviewed signature cards. You would have people with the same names. You'd have a variety of people at the same address, and you couldn't really determine who was insured without manually reading the signature cards. One always had the perception that there were certain institutions that would be more difficult to resolve, but I think one of the biggest fears of the FDIC was that it would be an institution that had a lot of customer deposits, for that reason. The FDIC subsequently addressed this issue. They published a proposed rulemaking and then finalized the proposal so that larger institutions now have to develop a means of estimating who's insured and who isn't insured.

MR. MARTINSON. It was a technical difficulty?

MS. WASSOM. Yes. Anyway, we met bilaterally with the FDIC for several years on the subject of megafailures and the host of issues they would raise. Then we started inviting the OCC, OTS, and [the] Treasury because of the systemic risk exception. Ultimately, we developed a protocol for going through the systemic risk exception which proved useful in 2007 and 2008. [Laughter] We even did a simulation exercise. The institution chosen was one that actually had to be resolved a year or two later. There was a lot of study into how you would resolve large problems because the institutions were becoming so very large.

Views on Working in the Division of Banking Supervision and Regulation and Changes over Time

MR. MARTINSON. What are your views or remembrances of working in the Board throughout your career and how that changed over time?

MS. WASSOM. I always enjoyed the work because I liked mergers and acquisitions. I learned a lot from the different deals that were put together. The more dire the circumstances, the more dicey the deal typically was, and the more creative it was. That was also true for problem institutions, although I think there was a lot more creativity in resolving them back in the late 1980s and the early 1990s, whereas now there's so much that's legislated on how they're resolved that there's not as much variety in the types of transactions. There certainly aren't as many private deals today as there were back in the late 1980s and the early 1990s. Because I always enjoyed the work, that made it a good place to work. If you don't enjoy what you're doing then I suppose you should look for something else, but I never felt that way. I always enjoyed the supervision, and it constantly changed. So it was rarely boring. [Laughter]

MS. CARTER. Today the size of the division staff is much larger than when you started.

MS. WASSOM. Definitely.

MS. CARTER. You talked about the changes in technology. Do you have any other thoughts about changes that you would have experienced?

MS. WASSOM. There were different areas of the division that produced peer information, and it didn't always agree [laughter] because they were calculating the ratios differently. That drove Bill Taylor nuts. He would go ballistic. There was a Top 50 report that was put out for years, and the averages were weighted averages. For example, for the Tier One capital ratio they would sum up all the Tier One capital numbers and divide by the sum of all the assets. The problem with that is, when you had a lot of organizations that were experiencing problems, the peer ratio became weighted by the worst of the largest. The simple average was a much more useful peer number, so I quit using the weighted average. Bill did not like having different numbers; he made that very clear. [Laughter]

For Tier One and common stock, there were a lot of investment bankers that would put together proposals to qualify certain types of instruments as Tier One capital. KKR [Kohlberg Kravis Roberts] was one of those. KKR representatives would come in repeatedly with these proposals, and Bill would give them to me. These were some of his secret deals that I wasn't supposed to tell anybody about. [Laughter]. At any rate, KKR tried to make the argument that it had four different classes of common stock and that most of these classes were better than common. Bill would have me analyze it, and then KKR would come in and meet and give the presentation. Bill would let them go through the presentation, and then he'd say, "There's only one class of common stock. Which one is it?" [Laughter] He had a way of getting to the point. Along those lines, he had this framed poster on his wall that stated, "A rolling loan gathers no loss." [Laughter] That's true today. He came back one time with a poster, and he put it up in my office that said "Promise them less punishment." [Laughter]

MS. CARTER. To improve morale.

MS. WASSOM. Yes, right. He thought I would enjoy that. [Laughter]

MS. CARTER. Do you remember the transition after Bill left?

MS. WASSOM. It seemed like we were without a division director for quite a period of time because Bill went over to the RTC (Resolution Trust Corporation) [Oversight Board].

MS. CARTER. Before he was appointed to the FDIC?

MS. WASSOM. Exactly. It seems like he was gone for quite an extended period of time before Rich Spillenkothen was appointed division director.

MS. CARTER. He was still technically the director, but he was detailed at the Oversight Board and he was very involved with that.

MS. WASSOM. Right. When Bill became the chairman of the FDIC, he would invite me over to board meetings. He invited me to the second First City failure [laughter] board meeting, which was controversial in hindsight. I had colleagues at the FDIC, and I would ask them, "How's life under Bill?" and they said, "Oh, my gosh. We have to work 24 hours a day, seven days a week," and I thought, "Yes, indeed." [Laughter]

MS. CARTER. Do you have any comments about subsequent directors with whom you worked?

MS. WASSOM. Rich Spillenkothen was great to work with. He was very reasoned, and he wanted a lot of information before he made a decision. He would make a good decision and stand behind it even if it was controversial. He took quite a few confrontational positions in that manner, but they were always reasoned. After he'd gone through all of the pros and the cons, he was comfortable with the decision.

Bill and Rich were different. When you were new, Bill's strategy was to call you into his office and ask you questions. What you didn't know, but you realized later, was that he already knew the answers. [Laughter] He was looking to see if you knew the answers, whereas Rich I think genuinely would ask the question not knowing the answer, so there was a dramatic difference in that regard. Also, Bill would call and ask you a question. You'd say, "I'm going to have to find it. It's going to take me about 10 minutes," and his response would be, "Well, you'd better hurry because I'm leaving for the Hill in five." [Laughter] Rich was much more reasonable about time demands and producing information, so that aspect was a huge change.

MS. CARTER. Rich came more from the policy side. Bill was an in-the-trenches examiner. They had a different outlook.

MS. WASSOM. Right.

MS. CARTER. Do you have any other reflections about your time in the Board?

Terrorist Attack on September 11, 2001 (9/11)

MS. WASSOM. I'd like to comment on September 11, 2001, which was a remarkable day. That day a congressional hearing was scheduled for Superior, which was a savings and loan that had failed. The head of the OTS was going to be testifying on that failure. Staff from the Board's Congressional Liaison office and I were to go over. Sometime near 9:00 in the morning, I had the computer on, and on Reuters it said that a plane had flown into the World Trade Center. I just assumed it was a small airplane accident. Then a few minutes later, the Reuters article changed to two planes having been flown into the Trade Center. Then, close to 9:25, my older son, who lives in New Zealand, called me up and said, "Mom, what is going on?" I said, "What do you mean?" He said, "The planes and the World Trade Center?" I said, "I think it's just two small planes or one plane," and he said, "No, it's a United flight and an American flight. He knew all the aircraft information calling from New Zealand, and I said, "How do you know all this?" He said, "I'm watching it on TV." So I called the Congressional liaison because we were supposed to meet downstairs to get into the car at about 9:30 and I asked, "Is the hearing still being held?" He had heard the same thing that my son had heard about the commercial aircraft, and he said, "It hasn't been called off yet." So I met him down in the garage, and we went out the Board garage exit. We turned left on Constitution and the Congressional liaison was commenting there had been something that happened in the Middle East a day or two before and that he thought maybe that had triggered something. The radio was on and it was very fuzzy and crackling, and I heard them say "Pentagon," and I turned around and looked to the right and the entire sky was just black with smoke. I screamed for the driver to turn around and go back because it was obvious to me that nobody was in control. Nobody knew what was happening. The Congressional liaison finally said, "Okay, turn around and go back."

When I left the garage that day, which was somewhat later, there was a huge line to get my car out of the garage. When I got to the street, the radio signal kicked in, whereas the radio signal had been blocked from being so far below the ground. They mentioned the plane in Pittsburgh. My younger son lived near the Pittsburgh airport, so I was a complete basket case by the time I got home that day. I was able to drive home, but I could have walked home faster. After that, I kept a pair of running shoes in my office. [Laughter] That was a horrible, horrible day.

MS. CARTER. Did you come into work that next day?

MS. WASSOM. I did have to come in the next day. On September 11, I remember that I didn't want to go back into the building because it was obvious nobody knew what was happening and nobody was in control. The Congressional liaison said, "You're probably better off in the basement of the Board building." I was a bit skeptical of that advice. [Laughter] An hour or two later the World Trade Center buildings collapsed.

Year 2000 (Y2K)

MS. CARTER. Were you involved with any of the Y2K preparations?

MS. WASSOM. Yes. I remember being up in the dining room on New Year's Eve watching the screens for what turned out to be a nonevent. But it wasn't a nonevent for me personally in that I had a computer at home that quit working. [Laughter] It was definitely a Y2K casualty. I wasn't as prepared as the Fed was.

Changes in Board Benefits

It is worth noting that during my period at the Board, the benefits have changed dramatically. The benefits today are incomparable to the ones back when I started. There was no family sick leave back then. The year I started I got 13 days of annual and 13 days of sick, but it was pro-rated because I started in May. My sons were 11 and 8 at the time. My older son got the chicken pox, so there went over half of my annual leave. Two weeks later my younger son got the chicken pox and so there went the rest of my annual leave. Fortunately, I was able to find a sitter after that. Then two weeks later I got the chicken pox, and so there went all my sick leave. [Laughter] There wasn't even maternity leave back then. It definitely is a more work-friendly environment today. We have the ability to telecommute. And the division has been great to keep us equipped with computers at home and to make it easier so you don't have to take your laptop home. One of the fallouts of 9/11 was that they wanted everybody to take their laptop home every night. Then they figured out that maybe the best backup site is your home and that it is more cost-effective to equip people with home laptops. So it's been a great place to work in that regard.

People would always say what a good reputation the Fed has. Obviously that has come under some fire recently, but I do think the organization has integrity.

MS. CARTER. Thank you very much.

MS. WASSOM. You're welcome.