Federal Reserve Board Oral History Project

Interview with

William Ryback

Former Associate Director, Division of Banking Supervision and Regulation

Date: November 24, 2008, and April 15, 2009

Location: Washington, D.C.

Interviewers: Michael Martinson and Cynthia Rotruck Carter

Editor's note: William Ryback died before having the opportunity to edit and revise this interview transcript. Light editing was done to the transcript, but no other changes were made.

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.

Contents

November 24, 2008 (First Day of Interview) 1

Professional Background; Working at the Office of the Comptroller of the Currency 1

International Examinations 3

Franklin National Bank Failure 8

Setting Up the OCC's Multinational Division 12

Moving from the OCC to the Federal Reserve Board 20

International Agreement on Money Laundering 24

Capital Accord 25

William "Bill" Taylor 28

Classification of Foreign Debt 35

Barings, Daiwa, and Sumitomo .... **Error! Bookmark not defined.**

The Foreign Bank Supervision Enhancement Act 41

April 15, 2009 (Second Day of Interview) 63

November 24, 2008 (First Day of Interview)

MR. MARTINSON. Today is Monday, November 24, 2008. This interview is part of the Oral History Project of the Board of Governors of the Federal Reserve System. I am Mike Martinson, a former associate director in the Board's Division of Banking Supervision and Regulation [BS&R]. I am joined by Cynthia Rotruck Carter, a current staff member in BS&R. We are conducting an interview with William Ryback, also a former associate director in BS&R, who joined the Board in 1986 and retired in 2003. This interview is taking place at the Board.

Professional Background; Working at the Office of the Comptroller of the Currency

MR. MARTINSON. Let's start by having you talk about your background and how you got into banking supervision in your early years with the Office of the Comptroller of the Currency [OCC] before you came to the Board.

MR. RYBACK. I don't think anybody grows up wanting to be a bank examiner. I don't think that's high on your list of career choices. Mine was quite by accident. When I graduated from Seton Hall University in 1968, we had limited options. There were plenty of jobs available, but with a degree in finance that moved you towards either a banking career or a career in insurance, neither of which appealed to me at the time.

There was a government agency called the Office of the Comptroller of the Currency that was looking to expand its force considerably. I was not aware of that agency. I went for an interview. In those days, the OCC's office was located in the same building as the Federal Reserve Bank of New York, on Liberty Street. I got lost and couldn't find my way. I realized, looking at my watch, that I'd be an hour late and I'd look like an idiot. It was better not to go. So I went home and later that night I got a call asking me to consider working for the OCC and indicating that whatever happened yesterday, happened yesterday. I thought, well, if the agency

is pursuing me, I ought to consider working there. The salary looked paltry on paper, but there were other benefits that gave you side income that more than compensated for the low salary. So I signed on board. My salary was going to be $6,200 a year. I couldn't officially join the force until the end of August because it took me the rest of the summer to get my degree. In between, I received a letter saying that the OCC had raised my salary $200. I thought, working for the government is great! I got a $200 raise and I haven't even started!

My first week on the job was spent reading a manual that nobody understood; it was just gibberish. On Friday, I was told that I would be a field examiner. I had read the manual and it was time for me to get some on-the-job training in the field. I was sent to Tom's River National Bank. I said, "I can find Tom's River, but how do I find the bank examiners? I was told to go outside the bank to a nearby coffee shop. The bank examiners would be there. I said, "How will I know they'll be bank examiners?" I was told that I will know. I did what I was told. I went to Tom's River. I found the coffee shop, walked in, and sure enough I could identify the bank examiners.

In those days, all the examinations were surprises. The bank didn't know we were coming. Around 8:30 a.m., we would enter the bank en masse. I was introduced to the examiner-in-charge, a guy named Ed Lake. Ed was a heavy smoker. He had about seven cigarettes all lit at various burning points in this ashtray, and he was lighting another one. I was thinking to myself: What in the hell did you get into? Why on earth would you want to do this? Nevertheless, fate sent me doing my first rookie job, which was counting cash.

In those days, we counted every single penny in the bank. I remember running the deposit ledgers, which wasn't unusual; it was a job they gave to a rookie. When I finished, I was pretty proud because I got within eight cents or so. I thought that was pretty good. I went to

sign off that I had proved these accounts and the examiner-in-charge said, "You proved them, right?" I said, "Within an eight cent margin of error." He looked at me and said, "This job is not about being partially correct, it's about being exactly correct. So you go find those eight cents." I had to spend the rest of the day looking for eight cents, which I found.

I enjoyed field work. It was probably the better part of my career. I liked going to different locations week to week. We always had a Monday morning start. That meant you had to prove the cash back to Friday evening at three o'clock, which was the last time the books were in balance. So if the bank was open on Friday night and Saturday during the day, you had to take out all the entries and work them back to Friday. It was a modest pain in the neck. Somebody said, "Why do we have to have examinations start on Monday? We could do them Tuesday or Wednesday." So all of a sudden you would get your assignments and you'd be in a bank for Monday, Tuesday, and then you'd start something else on Wednesday. The worst thing you could possibly do was to start early at a bank, to walk into the bank before the examination actually was starting. For that, you would be automatically fired. You didn't even go into the office. You just went home and waited for your final salary check. Sometimes people made mistakes because they thought that they were supposed to be there on Tuesday. Now it's Wednesday, I can't remember, and they would walk into a bank and start an examination and realize, "Oh, no. It's tomorrow." That always was a fear to me. I can remember sometimes laying in bed at night, wondering about where I was supposed to go the next day, jumping up, and going into my office to make sure it wasn't Albany or somewhere else I was supposed to go.

International Examinations

MR. RYBACK. We used to do international examinations. New York was a big hub, and Washington liked to have names put in three buckets. The first bucket included very

experienced people. The second bucket was those that had some modest experience. The third bucket was those who had no experience. You had to volunteer. You couldn't just be assigned to do these international examinations.

My first one was in Belgium. I remember going with an examiner who was fairly weak and unassertive. It was Citibank. We went to the bank in the morning for the examination. The head of the branch said, "We're very pressed for space. We couldn't possibly accommodate bank examiners. We have some room in the cellar." So we sat in the cellar with all these old files and dust coming down every time you turned around. Every night I'd go to the hotel and have to send my suit to the cleaners because it was just filthy. I remember thinking to myself, why on earth would I ever want to do this again?

The next time around, they cajoled me into doing it again. I had to go back to the same bank with a different examiner-in-charge. It was déjà vu all over again. The same branch manager started with sitting us in the cellar again, but this examiner looked at the branch manager and said, "I fully understand this, but if you think I'm sitting in the cellar, you've got another thing coming. I'll tell you what I'm going to do. I'm going to go next door. There's a hotel. I'm going to rent the ballroom and you can bring the files that we need to look at over there." He starts to walk out. The branch manager said, "Wait a minute." All of a sudden, we're sitting in these luxurious digs with coffee in china cups every five minutes. You have to be careful how you let people treat you in the banking side. You can be a weak examiner or a strong examiner; it's never good to be a weak examiner.

As time went on, and I started to rethink whether I ever wanted to do these international examinations, we got a letter from the New York office about signing up for these exams. I thought, having worked in the international area for years, why do I have to beg to go on these

international exams? They're not that great, anyway. I didn't have a good time. So I didn't put my name in. The people that I worked with in my group asked me why I didn't put my letter in. I said, "If the agency wants to send me overseas, that's part of the business, I'll go. But why do I have to volunteer? This is stupid." So I refused to send my letter in. With that, a lot of my colleagues followed suit. The boss was wondering why nobody who had experience was putting in to volunteer to go overseas. He was told, "Bill Ryback's not doing it so we're not doing it." I remember that he came into Chase Manhattan where we were and said, "The deputy-in-charge wants to see you in his office." I walked across the street and went into the office. The deputy-in-charge said, "I've had my secretary type this. You're volunteering for these overseas exams. Just sign this." I said, "I'm not going to do that," and I told him my reasons. He said, "It's your view that we have the right to send you anywhere?" I said, "That's right. I work for this agency. If you want to send me to Brussels, you send me to Brussels; you want to send me to Albany—"

We always got our assignments in the mail on Thursday. I went home that Thursday and opened up mine and I looked for the next week. It was to assist an examiner in Puerto Rico. On Tuesday, I had to go to Albany. On Wednesday, I was in Riverhead, Long Island. On Thursday, I was in South Jersey. I thought, "There's no human being alive that can do this." I called the office and I said, "Alright you win. I'll send the letter in and then everything will be fine. Now I don't have to do these assignments next week, right?" I was told, "Oh no, you should do it. Just so you remember." That week was probably the worst week of my life. I was so confused by the end of the week about where I was supposed to be.

When I first went into international examining, we had a hierarchy in the field. The domestic examiners were king. If you couldn't make it there, they would probably send you to international. If you couldn't work there, they sent you down into trust. And if you were a real

idiot, you went into EDP—Electronic Data Processing—examinations. The next step was out the door. So while the office would never admit that this was a hierarchy, everybody knew that the way you got ahead was being a domestic examiner. I happened to like what I was doing. And I thought I'd consider making it a career. So I stayed on the domestic side.

I remember the fateful day. I was in Broadway National Bank in Bayonne, New Jersey. I got a phone call from the office indicating that I had been reassigned to be an international examiner. I said, "Why?" I was told that I volunteered. I said, "No I didn't. Tell me when I volunteered." He said, "The first day you came on the job. We had a form that you filled out. You checked that you'd work international." I said, "Everybody checks the box. You want to be like Mr. Eager Beaver guy? I'll do whatever the agency wants me to do, but you can't hold me to that. He said, "Well, we are."

Monday morning, I was told to report to Bob Malay, who I ended up learning a lot from. He had never been to college, but this man knew his business. I walked into this room in Citibank and there were two examiners dueling with umbrellas in the corner. There was another guy, very huge. He was lying on the heaters. He had his fingers interlaced. He was like the Great Gilderserve, and he said, "Ooh, here comes the newbie." There was another guy whistling at 10 decibels above normal hearing range. Two people were in the back calling each other names and throwing their leave slips around. I thought, "This is the slow slide out the door." Next I'll be a trust examiner, then an EDP examiner, and then I'm gone.

The rule was that examiners always went to lunch at 11:30 a.m. I looked up at 11:30 a.m. and realized that everyone was gone and no one had asked me to go to lunch. I thought, oh man, this is not good. After lunch, I walked up to Mr. Malay and said, "Bob, I've only been here half the day. You don't know me very well, but would you help me get back into the domestic side?

Look at this. It's like the applied science class at high school. All of the bums get into that class. They go wild during the day, and nobody gets anything done." He said, "All right, I'll help you. But how many people are you competing with on the domestic side?" I said, "I'm competing with maybe 200." He said, "How many are you competing against on the international?" I said, "Only you, as far as I could tell." He said, "You want to compete against 200 or 1?" I said, "Okay, I like those odds. I'll stick around."

Little did I realize that efforts were being made to reinvigorate the international side. Every time we started Citibank, the upstate examiners that assisted us were placed in the international division. Otherwise, if you let them do the branches in New York, they'd get lost and everybody would have to stop at 10 o'clock and go find somebody that was stuck in Brooklyn somewhere and save them. So they said, "Just let them do the international." International was growing by leaps and bounds. In Washington, it was decided that we needed people to be specialists. So I was one of the "founding members," if that's the right term, to reconstitute the field staff working in international. And, indeed, you were discriminated against. The people on the domestic side thought that there was the same hierarchy that had always been, that some blemish in your career led you into international. But I happened to like it, and I stayed there for the next three or four years.

I remember getting a phone call from Billy Wood. He was a pretty important guy at the OCC. He called me the Thursday before Labor Day and said, "I want you to come to Washington tomorrow to interview for a job I have." I said, "It's going to be Labor Day. I won't be able to get a flight down. Can we do it next week? He said, "No. You get your behind down here tomorrow. I don't care how you do it. You rent a car, you take the train, you take the plane, or you take a boat. I really don't care. But I expect you in my office at 10 o'clock." And,

indeed, I was correct; there was no way to get an airline ticket on a regularly scheduled flight. I took the shuttle down because you didn't need a ticket for it. He sat me in his office and talked to me for about an hour. He told me there was this new division called the Multinational Division that I should consider volunteering for. I said, "I need some time to think about it. I have a wife and two children." He said, "Call me Tuesday morning at 9 o'clock." I said, "I may need a little more time." He said, "No. Call me on Tuesday at 9 o'clock. Yes or no, that's all I need to know."

I eventually ended up working for the man. I don't know why I ever did because he was a brutal boss. He was one of those people that liked to keep tabs on everything. When I finally moved down there, he was going on leave. I was only about two weeks into the job. He said, "Make sure you call me." I said, "Billy, I've done this for a while. I know what's going on. I can handle things. If something comes up that I think you need to be involved in, I'll call you. Otherwise, you're on vacation." He looked at me and said, "If you don't call me, I'll call you. I want to hear from you every hour." [Laughter] That was my life for the next couple years.

Franklin National Bank Failure

MR. RYBACK. Franklin National Bank failed. That was the departure point for a lot of things that followed in the international arena. Franklin National Bank was a domestic bank that operated out of Long Island. The bank management wanted to compete with the big boys and they thought having a charter in Garden City, Long Island, didn't get you in the door. It couldn't operate out of Manhattan, so it changed its charter to Brooklyn. State law at that time allowed banks to branch in contiguous counties so they could have a branch in Manhattan, which Franklin National did. This developed into the international division. Franklin was eventually purchased by Michele Sindona, an Italian who operated a number of banks in Italy. He

embarked on an aggressive expansion program in international markets and also got the bank involved heavily in foreign currency transactions. As things developed, that area of business wasn't getting the returns that the bank wanted. So it became more aggressive and started to open up its positions more and eventually got to the point where it threatened the solvency of the bank.

We had to do one last examination. We had to go in over the weekend and take a look at all the books and records. That was its final death knell. We had to eventually close Franklin National Bank. It was my first bank closure. We were all brought together into this room. The FDIC is responsible for unwinding failed banks. But it needed assistance because this was the first bank failure in quite a while, and it was certainly the first large bank failure. The FDIC told us that we would be given a code name to use. The code name would be repeated at 3 o'clock on Friday if the FDIC was going to fail the bank. We were told to assemble near the branch that we were assigned to at 2 o'clock, and at 2:30 p.m. [to] call a number and we would be given the code word. After getting the code word, we would go in and close the bank. I should have just kept quiet, but I said, "I've been working in the international division for the last couple of months going over their books and records. Am I supposed to go into the bank as usual, or do you not want me to go in the bank?" They said, "Have you been going in every day?" I said, "Yes, I go there every day." They said, "Then the bank will know that they're going to be closed so you better go to work that day." So I did.

There were rumors floating around the bank. You could hear the bank people talking. "He would be here if they were closing," "No, he wouldn't." When the anointed time came at 2:30 p.m., I called the number, which I thought was the right number. As it turned out, it was never hooked up. So we got a recording that said this is not a working number. It's now getting

down to 3 o'clock and I have to sit there and go through my mind—am I going to be the only one that closes a branch in Franklin National Bank and what would that mean? Or I'd be the only one that won't be closing the branch and what does that mean? Finally, at one minute to three, I said, "What the heck. What's the worst that could happen?" So I went in, closed the bank, and started the normal closure routines that they gave me on a list. Then I started to sweat because it was 3:30 p.m. and no FDIC person is coming on board. I thought, "Oh man, I screwed this up."

Finally, this FDIC examiner from Los Angeles, Fointaine Storm, arrived. I thought, "That's just like a movie actor's name—Fontaine Storm—coming all the way from L.A." Fontaine thought he was an international expert. He was in charge of unwinding and doing whatever the FDIC does. As he's talking to these people, I was trying to tell him that back at the telex room they were telexing like crazy. I said, "You may want to cut the wires from the telex. I don't know anything about closing banks, but it seems to me, we ought to be shutting the whole place down." So he put me in charge of that. I had to go in, take a huge clamp, and undo everything. Then the bank manager came running up and said, "Can I keep one open because we need to settle books?" I said, "It's up to Mr. Storm." We finally got through that day. The bank was closed.

A European consortium called European American Bank that had an office on Broadway in New York ended up absorbing Franklin. As it unfolded, it created one of the impetuses to begin to think about whether or not we had a global structure of supervision that was working. I remember the Comptroller asking if anyone knew anybody overseas because Franklin had a branch in London. It would be improper to close the bank without coordinating with someone in the United Kingdom. One of the research people said he had the name of someone he met at a

cocktail party that he thought worked for the Bank of England. The Comptroller just shook his head and said, "Never mind. I'll talk to the Federal Reserve and we'll get some coordination on this." But what it led to was this Herstatt risk.[1] We closed Franklin at what we thought was an appropriate time, and therefore left all the foreign exchange contracts to be settled. But contemporaneous with this, there was another bank in Germany that was undergoing difficulties for the same reason, engaging in foreign exchange transactions. And the Germans ended up closing the thing in the middle of the day. What happened is that you lost your whole foreign exchange contract, where before there was always a rule of thumb you couldn't lose more than 5 percent on any given movement of foreign exchange overnight. Here, the bank actually lost the whole counterparty amount because they paid out in the morning. New York banks paid out in the morning. They telexed all of their settlements out in the morning. In the afternoon, they'd go out for a hot dog, go to a movie, or go bowling for a while, and then they'd come back at about 2 o'clock and wait for the settlement from the other side. And all they had heard was silence. So it created this "Herstatt risk," which still is a problem as we talk today. It's never fully been resolved and it's a difficult one to resolve since it requires international coordination.

That incident, coupled with Franklin National Bank having an overseas branch, led people to start to question whether or not there was some interest in putting together a committee to look at whether or not bank supervision can be better coordinated. George Blunden from the Bank of England was put in charge. He set up a meeting at the Bank for International Settlements [BIS]. He made the infamous remark at the beginning that he wondered if there was enough interest in this topic to keep the discussion going to lunchtime. If we adjourned before

[1] Editor's note: Bankhaus Herstatt, a German bank, failed in June 1974 during the period it was supposed to settle a contract after having received payment from a counterparty. That failure caused a string of cascading defaults in a rapid sequence, totaling a loss of $620 million to the international banking sector.

lunch, it would be a shame because the BIS has the best wine cellar in Europe and we wouldn't be entitled to dig in if we didn't have lunch. So whether there was enough interest or whether it was the enticement to have a good bottle of wine, I don't know. Nonetheless, those conversations led to the creation of the Basel Committee on Banking Supervision, which still exists to this day, about the 125th or the 130th meeting, whatever it is.

So there indeed was some interest. We put together a document called the Concordat. It wasn't a public document, but it was a document that road-mapped how we could coordinate supervision of banks that operated cross-border. What it essentially said was that solvency in capital was the responsibility of the home supervisor, and that liquidity and other things were the responsibility of the host supervisor. The important element embedded in that document was that there should be coordination. Everybody should understand who's doing what to whom, under what circumstances, and why. That still remains our guiding principle today. The word seems simple enough, but actually undertaking such an initiative is not easy and coordination still remains, in my view, one of the weaknesses in global supervision. We could also use a healthy dose of coordination domestically, but we'll talk about that in a while.

Setting Up the OCC's Multinational Division

MR. RYBACK. Let's talk about setting up the Multinational Division, how we coordinated, what led to coordination with the Federal Reserve. The Multinational Division in the OCC was put together to address the problem of differing standards nationwide. The way in which we examine banks in New York was nowhere near the way they did in [it] California, and Chicago had a different set of rules. This led the banks to great angst about how some loans could be criticized differently among financial institutions even though they were the same loans. And it seems to hinge on the examiner's whim of the day. This didn't make banks very happy.

The Multinational Division was put together to address that, and certainly within that, the top 10 banks were the ones that did 90 percent of the international transactions.

There was also a group that looked at international. The reason that they pushed me to come to Washington was that the OCC, at that time, used to go through periods of having the same region control Washington. When I first went down it was the Ohio Region. That was actually how my boss got transferred from Cleveland to New York, with no understanding of what was going on in the big banks. He was transferred as part of this "Ohio mafia," we used to call it. Then it turned around to Texas. And all of a sudden everybody from Texas was in charge. Billy Bob, Frankie Bob, Sammy Bob, everybody with these Bobby names came up to rule Washington. We used to confuse the Europeans because my boss's name was Billy Wood, and they used to insist on addressing him with letters William C. Wood, and that would aggravate him to no end. He said, "Didn't these people ever hear of the name Billy?" I said, "No, I don't think they did, Bill. Maybe you'd want to consider changing your name." Of course, he would not.

We got a lot of responsibility to deal more and more in the international arena. And the Congress, in its wisdom, passed the International Banking Act of 1978 and gave the OCC the responsibility for chartering federal branches [of foreign banks]. This was a new item for the OCC. It never had to deal with foreign banks before in a direct context. Patterned after the state of New York, all states treated most of these applications from foreign banks in the same way. Reciprocity was a huge issue. If you didn't allow New York banks to come into Brazil or Australia, for example, then Australian and Brazilian banks wouldn't be allowed into our markets. So it was kind of a stand-off. When the Act was passed, creating the authority to set up a federal branch as well as a state branch for a foreign bank, the OCC had no one that had any

dealings with foreign banks. So they had to import some talent. This is why the OCC recruited me to come down and write the regulations on how to deal with a federal branch of a foreign bank. One of the early decisions that was made after much discussion was to reject this notion of reciprocity since the Act itself had embedded in it the principle of national treatment, which implied that foreign banks were to be treated the same way as domestic banks. They had the same rights and privileges. They were also subject to the same constraints, but not mentioned in there was anything about reciprocity.

So, after much discussion, it was decided that reciprocity was not an element to be considered in applications from foreign banks to establish a federal branch. What that did was effectively allow Brazilian banks and Australian banks to come into New York where, heretofore, they had not been allowed a branch office. This created great tension between the states and the OCC about who had the right to charter these things, et cetera, et cetera. But once that bridge was crossed, you couldn't contain it anymore. There was a huge explosion of foreign banks wanting to have a license in the United States, either a federal branch or a state branch. To their credit, the states came to the realization that they may have these strong views about reciprocity, but all that was going to happen is they were all going to be federal branches at the end of the day. So they might as well get into the game.

It used to amuse me because I would be asked to talk a lot at these international conferences with foreign banks in the United States. Wilbert Baskin was the head of the Division of Foreign Banks for the state of Florida. I would always get up first and talk about federal branches and what rights they had, that we were there to welcome them, and all that stuff. Wilbert would go always right after me. He would stand up and said, "I like Bill Ryback. He's

a nice guy, but he's a liar." Then he'd go on with all of the things where he believed we wouldn't be able to deliver. It was amusing.

We had an application from the Bank of China. China wasn't allowed to operate anywhere in the United States because its market was closed to foreign banks. Bank of China thought it could get a license through a federal branch. I was naïve even though I grew up in New York—I'd just take things at face value. I don't look at conspiracy and all these kinds of things. There was a great political backlash against the Bank of China wishing to operate in the United States. It was the only time I ever got a phone call from the White House. The person on the other end said, "The President is interested in the progress of this application. He wants to make clear that he's not interfering with the process. He doesn't want you to decide anything in his favor, but he is interested in knowing what was going on."

Well, I was born at night but not last night, and I realized right away that there was intense political interest in all of this. Looking at it from the purest standpoint, whether or not they were eligible to come into the United States, it seemed to me that the factors were in their favor. In those days, you could have FDIC insurance as a companion ticket, which is part of the reason the Bank of China decided to try to get a license in the United States. If it could have insurance, it could have a retail presence in New York City. And they had lots of reasons to want to get Chinese citizens living in New York to deal with the Bank of China.

We received a message that the president of the Bank of China was coming to the United States. The president of the Bank of China was also very high in the Communist hierarchy. So when he visited the United States, he was going to stop by the Comptroller's office to talk about the progress of their branch application. Being stupid and naïve, I thought, "This man is important and he has limited time. I should have everyone that has an interest in this in the room

at one time. Why go visit the FDIC after they visit the OCC? We'll just do it all one-stop shopping."

It was pretty impressive. We were at L'Enfant Plaza. There was a long parade. Up came the policemen on motorcycle cars, followed by three Cadillac cars with the Chinese flags in the front, and more motorcycles at the tail end. It was really quite a show. The Comptroller himself was downstairs to greet them. We occupied the first six floors. Above that was a Lowes hotel. The Comptroller brought them up to the conference room where I was, introduced the head of the Bank of China to me, and said, "Bill will take care of you." He left because he didn't want to be in the line of sight no matter what happened. I started the meeting by telling the Bank of China president that things were going in train and there was no reason to think that they wouldn't have a license. It would take us maybe another 30 days. There was some information pieces that we needed to put together, but it seemed to be reasonably on track.

I turned it over to the FDIC, and the person from the FDIC said that he was concerned because the bank didn't have enough entries on its balance sheets; it only had four or five asset classifications and two or three liability classifications. The president of the Bank of China responded, "That's the way we've done business in China." Then the person from the FDIC said they'll need an audited report and he suggested that they go down to Hong Kong and hire Pricewaterhouse to come and audit the Bank of China, who has over 12,000 branches. That wasn't very feasible. Then he said to the head of the Bank of China that he was worried about political stability. I wrote him a little note saying, "They've had the same government since 1947. We change every four years. Maybe you shouldn't worry about this." Nonetheless, he was signaling his displeasure about the FDIC having to authorize insurance if we authorized the branch. There was no way they could turn down insurance if we gave them the branch license.

By the time that he got back to his desk, the Chinese government had filed a formal complaint with the State Department about the way they were treated. They wanted to make sure that they understood the OCC people treated them nicely, but the FDIC was a little bit erratic in its behavior and this was not the way negotiations should happen, and blah, blah, blah. That poor person from the FDIC never did get farther in his career. He was lucky he kept his job. He told me that the chairman of the FDIC at the time said, "I have to keep you on board, but I don't want to ever look at you. So if you see me coming down the hallway, turn towards the wall," because he had embarrassed the FDIC.

MS. CARTER. This was the late 1970s, when James "Jimmy" Carter was President. How much longer was it before you came to the Fed?

MR. RYBACK. I came to the Fed in 1986.

MR. MARTINSON. I met [William] "Bill" [Taylor]in 1978, when we did that dog and pony show in New York.

MR. RYBACK. Right, and Kathleen O'Day was there. God, those were the days.

MS. CARTER. So you continued in international at the OCC, the multinational group?

MR. RYBACK. Well, I had other responsibilities. I started out being the director of International Activities in this Multinational Division. Then I was in charge of multinational policy, which meant you would form policy implementation for all large banks. But I had to keep the international stuff. And while we had a separate division that dealt with that, they reported in through me. I was dealing with the Basel Committee, the evolution of the Basel Committee, as well as this explosion of foreign banking in the United States. At the same time, U.S. banks were very aggressive in wanting to expand overseas, especially with respect to getting a brass plate kind of operation in the Caymans or the Bahamas because it allowed them

entrée into the offshore market, an alternate form of deposit gathering or liability underwriting. So there was a lot of activity going on in those days.

Mike Martinson was in charge at the Board level. We had conducted an examination of Citibank. It was the first time I had to formally deal with Bill Taylor at the Federal Reserve. The OCC had done an examination of the subsidiary of the bank in Brazil. And apparently intramural squabbles always go on with these things. The people at the Fed had some interest in looking at this examination, and the guy in charge wouldn't let them have it because it was part of the bank, not the holding company. All of this stuff I thought was nonsense. Nonetheless, to some, it was important to preserve the dignity of these lines. I had known who Bill Taylor was. I got a phone call late at night, about 7:00 p.m. I should have been home, but I never was—I was always working. I picked up the phone and I heard, "It's Bill Taylor at the Federal Reserve." I said, "Yes sir." He said, "You know who I am?" I said, "Yes I do." He said, "Your people have done an examination in Brazil. I need to see that." I said, "Okay." He said, "You'll allow me to see it?" I said, "Sure, you can have it." So he said, "Can I have it tonight?" I said, "That I don't know. I have to go back and see the person who handles this thing, whether or not he's got it at his desk. If it's not on the desk and it's locked up, there's not much I can [do to] help." I went back and it was lying on the desk, and I said, "I'll make you a copy if you want." He said, "You'll give me a copy?" I said, "Yes, sure, you want a copy? Take a copy. It's all the same stuff." I made a copy, and I called him and I said, "It's done. I'm on my way home. What do you want me to do with it?" He said, "Go to the Federal Reserve. There will be somebody standing there. Give it to him." So I drove by the Federal Reserve building and sure enough somebody was standing out there. I didn't know him, but I found out later it was Bob Lord, Bill's executive assistant at the time. I rolled down the window and said, "Are you here for Bill

Taylor?" He said, "Yes." I gave him the envelope and off I went. Then, when I was probably halfway home, it occurred to me that I might have violated some law or code at the OCC that I'm not supposed to give the Fed an examination report. But to me, as I said, the whole preservation of these lines of responsibility for supervision was just never in my mind in all my 36 years in supervision; it never really made any sense.

MS. CARTER. So it was before all these information-sharing agreements that—

MR. RYBACK. Well, there's a funny thing about information-sharing agreements. I'm probably turning myself in, but I think the statute of limitations has probably gone by. We used to handle things differently in, quote, "the old days." If we got a phone call from the Bank of England and they were worried about a U.S. bank that was operating in their market, there's no exclusion under the law that allows us to transfer information to a foreign supervisor. It's a shame, but that's the truth. So the way we used to do it is they used to call up and say, "We're interested in what's going on in Bankers Trust in the United Kingdom. We need some information." I would say, "You know I can't give you any information. But if someone's in town from the Bank of England within the next week or two have him give me a call." Sure enough, somebody called me from the Bank of England and said, "I'm going to be in town" on such and such a day. And I tell him to come into my office and meet with me, and I arranged for a time for that. So, they'd show up and I'd say to them, "I'm sorry I got you here, but I now have something to do. Why don't you sit here at my desk." And on my desk was always the report of [the] exam. I said, "I'll be back in around 45 minutes." I'd go out and have a smoke, joke, and a coke somewhere. I would come back and I'd say, "Do you have what you need?" He would say, "Yes." And off he would trundle.

The first Memorandum of Understanding [MOU] that we ever did at the Federal Reserve was with the Bank of England, which subsequently transferred to the FSA [Financial Services Authority], and it was again because of their concern about Banker's Trust and other banks operating in their markets. They wanted much more information than we were willing to give. After the document was signed by Virgil Mattingly [the Board's General Counsel] and by their chief counsel, they called and said, "We'd like to look at this examination report. Can we come take a look at it?" I said, "I can't do that." They said, "Why not? You used to do that." I said, "We used to do that, but now we have a formal arrangement. Look at who signed the MOU; it's Virgil Mattingly and he's a lawyer. You have to talk to the lawyers. And they were always ticked because their information flow was shut down even after these formal arrangements were put in place. That's the way we used to deal with it, and that's still the way it is. I was a host supervisor in Hong Kong for five years after I retired from the Federal Reserve, and it used to tweak me that you still can't get any robust information flows from anybody. These MOUs, or however they're so named, don't do justice to the need to have transference of information.

It struck me when I was in Hong Kong and in Korea that the U.S. financial system's falling apart, and you're moving from a market crisis to a valuation crisis, into a credit crisis, into a solvency crisis—and I heard nothing from the Federal Reserve, nothing from the OCC. And I'm thinking, how am I supposed to deal with this? I've got Citibank operating in my markets. How do I know whether you're stabilizing them? What am I supposed to do? All of these information flows are hugely imperfect. Hopefully, this latest turmoil will underscore once again the need to have a global supervision network.

Moving from the OCC to the Federal Reserve Board

MR. MARTINSON. Would you talk now about how you came to the Federal Reserve?

MR. RYBACK. Yes, that's an interesting story. Bill Taylor called me up one evening and asked me to dinner. He took me to the Prime Rib, which was a pretty ritzy and expensive place. He said, "I won't cut your pay, but you guys at the OCC get paid a lot more than we get paid at the Fed. I want them to understand here at the Board what it costs to have a good supervisor. It's not a free good. If you come, that means you won't get a raise for a couple of years while your colleagues do because it'll take a while for them to catch up." He said, "I'm bringing back the old international team. I'm bringing back Mike Martinson. Jim Houpt will be there. We have to do this because the Fed's going to have a lot more responsibility in the foreign area."

He proved to be right. Maybe he had some insight I wasn't aware of, but clearly the Fed was getting more and more responsibility for more of the foreign banking activities in the United States and responsibility to supervise it. And Bill Taylor was trying to put together the organization that could deal with that. He would bring me in at the deputy associate level.

The OCC likes to play mind games, and it was refreshing when I came to the Fed and found out that such games were not played over here. The OCC was always sending you off to seminars and training exercises, all of which I thought were fairly juvenile. Nonetheless, the OCC thought it was an important element of your training and career development. There were career development ladders. There was a career development level for young people that were being brought into Washington with some aspirations to move up higher in the organization. If you wanted to get to a senior level, you had to go through the career level two development program. Most of the people who graduated from the program never were able to find jobs because the people who had to do the work didn't think much of the people that were selected to go through the career development. All of a sudden they decided, at my level, to create a career

development ladder level three for those who were going to end up being deputy comptroller or higher. So we went through this exercise.

I am a person that believes in the organization's work and supports its work, or I feel obligated to go somewhere else. At that time, we had what we called the hierarchy of risk. The multinational banks were our highest risk. Foreign banking was our second highest risk and it trailed down to small, local [or] regional banks that on the scale of things weren't very important. Although the law of numbers will get you: If you have enough small bank failures, somebody obviously will pay attention. At that time, the OCC was run by the deputy comptrollers out in each one of those regions. So for them, supervising small banks was important work. To me, this was superfluous and distracting. And when I went for my interview for the career development level three, the panel consisted of deputy comptrollers from the regions and we got into this discussion about where the OCC should be spending its time. I said that I thought the organization had already decided how it was going to spend its time and asked why we were sitting there talking about that. If you're not doing what you're supposed to be doing, don't confess it to me. Maybe you want to rethink your career choices. That, of course, didn't sit well with the people around the table.

I went back to my office, and later in the day my boss came in, shut the door, and said, "You obviously know you weren't the star today at the table. They decided to punish you by not having you go into career development level three." I thought that wasn't punishment. I really didn't care. So I said fine. "You're still going to get my job when my job is available"—blah, blah, blah. He said, "We already talked about that." Coincidentally, he walks out of my office and five minutes later the phone rings and it was Bill Taylor. He said, "I just went to the Board. If you want to come on board, we'll have you." I said, "Fine, consider it a deal." I wrote up a

letter of resignation to my boss, gave it to him, and went to work for the Federal Reserve. Part of it was spite; I had no idea what I was getting into.

So, it was a happenstance of timing that got me into the position where I came to the Federal Reserve. Once I did, it really enlightened me. First of all, Bill Taylor, as everyone has come to recognize, was probably the best supervisor the world has ever produced. He also was one of the most demanding bosses I've ever had. On any given day, I'd either want to stab him to death or take a bullet for the guy. That's just the way he was. He taught me a lot of things, although he never was purposely trying to teach you anything. That wasn't Bill Taylor's way. But you started to realize why you were doing bank supervision, why supervision makes sense. That was because the people at the Federal Reserve have a need to know what's going on, on the ground, in the banking system. If you don't, you can't make the right calibrations about monetary policy. All the other things we were doing at the OCC, as good as they might be, at the end of the day have to feed into this huge information flow that goes into the Board to help calibrate monetary policy.

At the OCC, I had a division of probably 45 to 50 people. Every year you had to go through the budget exercise and explain how much money you needed to support the division and the work that you did. And you had to provide a list of objectives that you would accomplish during the year. And maybe for the fifth objective, they said, "We don't want you to do this objective. We want you to do this instead. Go back and re-price the budget." You went back and came up with a budget request. The budget that I had when I left the OCC was about $4.5 million to run my portion of the Multinational Division.

The second day that I was at the Federal Reserve, while I was unpacking my books, a woman came in and said that she was from the Board's staff and needed my signature. She

presented a book like I used to see in the banks where I had to write my signature three times and write my initials three times, and I did that. She said, "You can approve expenses and this is to make sure your signature matches." I asked what I could approve. She said, "$74.99; for $75 you have to go see the big boy, Bill Taylor." So I came from running a $4.5 million shop to being allowed to buy donuts on a good day on my own signature, if I didn't have too many people.

MS. CARTER. What year was this?

MR. RYBACK. This was 1986.

International Agreement on Money Laundering

MR. RYBACK. The Board was under some pressure to secure international arrangements in a number of areas. One was dealing with money laundering. Every time a Board member went up to the Hill, they were increasingly getting beat up on about a lack of international consensus on dealing with money laundering. Those that were smart knew that you can't deal with this in isolation. It was a global problem that needed global cooperation. After one particularly brutal session up on the Hill, Bill Taylor came into my office and said, "I'm tired of this. I want you to go overseas and secure an arrangement that makes us proud that bank supervisors are going to be involved in this money laundering addition. Get the Germans, the French, the Italians, and the Swiss on board. I've already got the United Kingdom on board." He gave me a one-way ticket and said, "There is no return. If you don't get this agreement, don't even bother coming back. You get the other half when you call and tell me you've got it done."

So off I went. The Italians balked the most. The French agreed to go along if I got others to go along, and the Germans went along. The Swiss were the most vocal advocates of getting something organized to deal with money laundering. So, in 1987, we were able to secure a

statement from the international community that the responsibility of bank supervisors is to ensure that banks aren't wittingly or unwittingly used as conduits of illegal and immoral behavior, including money laundering. That doesn't sound grand in today's terms, but in those days it was an important initiative to get the Basel Committee to issue a document that said bank supervisors need to concentrate on money laundering and need to look at this area.

Capital Accord

The other was a capital accord. The Board was getting increasingly concerned about allowing Japanese banks in particular and foreign banks in general to operate within our borders where their capital arrangements weren't consistent with the United States and that looked, on paper, to be less than the United States. We had gone through our crisis earlier in the late 1970s, early 1980s when our banks started to let their capital adequacy ratios drift. At the time, no one was smart enough to figure out what the capital ought to be, but everyone was kind of smart to say, 3 percent or 2.9 percent doesn't sound good. So that legislation passed the required 5 percent capital for banks and 5.5 percent for holding companies. But we had to make adjustments for foreign banks. They had the same capital requirement, but they had different ways in which different things were considered capital, and different assets were counted differently. So you had to make these arrangements.

I remember coming to the Board with a Japanese bank application. The Board members were particularly feisty. They started saying, "Why should we give all these Japanese banks credits for all these securities—they are undervalued—and allow them to count these in their capital adequacy ratios?" We made an argument that it's just a different way of accounting for this stuff, and this can be considered consistent with some forms of capital that doesn't parallel ours as deeply as one would like, but nonetheless, it does have some capital elements to it. But

the Board members weren't content with that and they said, "If they had to sell these securities to build capital in their banking system, wouldn't this stress the markets and therefore those values wouldn't be consistent with what they are on the balance sheet?" We said, "Yes." So we left and put our heads together. Then we went back to the Board with the application and said that even if we do some haircut, say a 40 percent haircut, and only allow 60 percent of these securities, they still meet the 5 percent requirement. The Board said, "If they sold them, wouldn't there be some tax effect?" We said, "Yes, but we don't know what that is." So we had to withdraw the application and come back and tell the Board what the tax was. Then one of the Governors raised this prefecture tax. If there was a national tax—it just got to be very, very silly. At the same time, I could understand the pressures on the Board members because, as they went on to these banking conferences, their dinner partner would certainly get aggravated about the fact that Japanese banks were coming and competing in our markets without adequate capital.

Volcker had a strong interest in having an international capital arrangement. After much pressure at the governor's level at the BIS, they challenged the Basel committee to deal with this. It's very slow-going in international negotiations. It takes a long time because not everyone, obviously, will agree. Everyone will come to the table with their own national interests involved and try to negotiate those national interests into a normal arrangement, and it's difficult to make progress. Finally, I don't know who called who, but it was decided that the Bank of England thought it would be good if we had a bilateral arrangement that dealt with capital adequacy in New York and London. Well, the Japanese found out about this and they weren't very happy to be left outside, so they asked to join. By then, we were pretty far along with having a bilateral arrangement with the United Kingdom.

The Japanese sent a delegation over here; they were in New York trying to deal with this. They put a list of demands on the table, and finally Jerry Corrigan said to them—he was president of the Federal Reserve Bank of New York at the time—"Look if you want to join, you join. If you don't want to join, you don't join. But you don't come in the middle of the process and put demands on the table. You have one decision to make and that's whether or not you want to go along with the arrangements that we've already negotiated with the United Kingdom. Some allowance for some small, minor modifications, but we're not restarting the whole negotiations." So they spent that evening talking to Tokyo, and Tokyo finally agreed that it's better to be inside the tent than outside the tent.

So we had this tri-party arrangement which would have taken care of Tokyo, New York, and London to have common capital arrangements for banks operating in each other's markets. Well, you can imagine how the French, the Germans, and the Italians, and the Swiss felt that they were left out in the cold. So there was intense interest to allow a fuller international negotiation to extend further. I remember being in Volcker's office—it was just Volcker, Peter Cook, the head of the Basel Committee, and me. Peter was kind of begging Volcker to allow the Basel negotiation to continue. It was very dark in the room. Volcker was sitting on the couch. The light from a lamp cut off his head, and all you saw was his tie downward. He had this roll of quarters that he kept playing with and stacking up and listening to Peter argue why an international arrangement is preferable to a tri-party arrangement. Peter Cook kept leaning into him further and further. Volcker wasn't saying anything. Finally Volcker says, "I don't have a strong preference one way or the other. What I do have a preference for is having some beginnings of a common capital arrangement between markets. I'll give it to the end of the year. You can come up with an international arrangement or we go with the U.K. arrangement."

That's when Bill Taylor and others went to Gerzensee, Switzerland, got locked in a castle owned by the Swiss banking authorities, and negotiated the 1988 Accord. The Accord was a very useful document that sprang us ahead in so many ways. First of all, it was ingenious to base this whole thing on common stock arrangements, which everyone had, everyone could recognize, and everyone could utilize as the fundamental block, and then allow all of these nationalistic impurities count as tier-two capital to get up to [the] 8 percent level. It allowed the Japanese banks time to get their capital adequacy up to where it should be, but they've wasted that way through the 1990s and still aren't where they need to be. Capital arrangements were renegotiated to the Basel II Accord, which still has, probably, some infections that need to be addressed in light of today's events. But it's a giant step forward. You don't have to argue about individual nationalistic tendencies and try to face them off to a U.S. framework in order to get applications approved.

William "Bill" Taylor

MR. MARTINSON. Would you talk about the differences or changes from Volcker to Greenspan?

MR. RYBACK. Volcker in my view—and I have to say I only worked with him for about 18 months before Greenspan came on board, but Paul Volcker was very hands-on. He liked to get involved with the nitty-gritty stuff. One of the days supervision had one of its finest hours, I think, was when the chairman of the First National Bank of Chicago came in to complain to Volcker that bank examiners weren't perfect in determining where credits were weakest, and how they categorized them into substandard doubtful loss. If you look at it over time, some of those decisions are right, some of them are wrong. But things were fluid, and bank examiners were taking much too rigid a view of asset quality in these large banks. To his credit,

Paul Volcker said, “Look you’re in the wrong office. I pay a gentleman across the street”—who is Taylor—“a lot of money to give me advice on the condition of the banking system. He thinks you’re a bad bank so you really belong over there.” So once word got out in the market the Chairman of the Federal Reserve Board is not sympathetic to listening to complaints about the way we conduct and execute supervision, I think it did a long way toward making the banks understand that the problems that we were trying to address were real and substantive and needed to be addressed.

You know, they used to say, “In the history of U.S. banking, more capital was raised in Bill Taylor’s conference room than any time in its history.” I don’t know whether the figures bear that out, but certainly I think he did a lot. I can remember two instances, one where the foreign banks came in right after the Basel Accord was done—that required a minimum 8 percent capital ratio—and they brought a whole group in with some of their lawyers to inform the Federal Reserve of what their plans were now to be more aggressive in the U.S. market. And Bill Taylor reminded them they would need substantively more capital than they currently had to be able to engage in those activities. And they said, “Well, you know, there’s the new capital arrangement, its 8 percent. We could do this.” I remember Bill Taylor telling them, “You mean the minimum requirement? The minimum of 8 percent. I don’t remember that word being maximum.” He said, “Given that you’ve got the minimum, there’s no way that you can execute that business plan in the United States.” So at least he set off in the right tone, I think, this understanding that the foreign banks weren’t going to come in and go back to the old days of being able to compete aggressively, unless they had a similar capital requirement as the U.S. banks.

The other thing was, I remember when we first came out with the 1988 Accord, there was a lot of interest by the banks to do a lot of these novel instruments, and Bill Taylor was not at all interested in hearing anything about this. But there was a little bit of pressure put on Bill to at least hear the banks out. I remember Chase Manhattan came down, and they gave a slideshow with their $5,000 suit people. They came in and had all these exploding graphs on the screen, and they got finished, and Bill Taylor said, "Let me get this right," he said, "you got something that quacks like a duck, it walks like a duck, it swims like a duck, it looks like a duck. But you want to tell me it's a dog." They said, "No, no, no. We wouldn't say that." And he said, "Oh, I understand you wouldn't say that," he said, "I'm saying that." And he says, "What does your board think about all this?" And they said, well, they hadn't been to their board and at that point he said, "Oh I get it. You want to come down here and put this on the table of the Federal Reserve," he says, "we're going to have a silent 'yes,' that is, we're not going to say anything. We're just going to say thank you for coming in. Then you're going to go back to your board and tell them the Federal Reserve said it was okay." So he says, "I resent that. You're wasting my time. I'm going to see your board tomorrow. Not on this, but I'm going to bring this matter up—that I'm concerned that they're wasting our time at the Federal Reserve when the directors can't even address their own capital adequacy issues."

Well, those people couldn't wait to get out of that office quickly enough. They were practically tripping over themselves to get the elevator to get back home. And word went out, that don't even bother to go down there with these unique kinds of instruments, because if they weren't pure capital, Bill Taylor wasn't interested in hearing about it or even listening about it. He would let staff do it, but he was not interested.

So clearly, he set the tone, I think, for the introduction of the '88 [Capital] Accord, or at least the way the U.S. would apply it on both the foreign banking side as well as the domestic side. Kind of fun.

MS. CARTER. So he really was going to a board meeting the next day?

MR. RYBACK. He was. He was actually going to see the management of the bank.

MS. CARTER. That's very coincidental.

MR. RYBACK. Bill Taylor and Jerry Corrigan, in my view of history, did more to stabilize the U.S. banking system during an unstable time than anybody else. They took it on themselves. The OCC wasn't being very aggressive. The FDIC was being more aggressive than they should have been, if you ask my view. But I think it fell upon Bill Taylor and Jerry Corrigan to call up these large banks and say, you have several problems that you're not addressing. There's asset quality problems that need to be aggressively dealt with. You have capital adequacy issues and you have management issues.

And Jerry Corrigan once did this presentation—it was called the five-year life cycle of a problem institution—where the first two years the bank doesn't recognize it as a problem. Examiners are telling them there's a fire in the basement, smoke is coming up through the elevator shaft, but they're totally disinterested. They're saying, our earnings are good, our outlook is robust, the economy looks good. Why should we listen to some $35,000-a-year bureaucrat? And then finally what we've been telling them comes to pass and it starts to show up on their balance sheet, they start to get resistance in the market.

I remember one particular incident when Bank of America was going through their second tranche of having to report to the market that they were having difficulties and that they were going to have to increase their loan loss reserves. I was over at the OCC, and we were

trying to convince them that they were going to have a negative market reaction. And their view was, they're the Bank of America. So they made the announcement and surely enough, the market started to turn against them and they had funding difficulties. And I called the West Coast at about 6 o'clock—it was probably about 5:30 p.m. I said, "You're going to close in a half hour out there, you got all the funding you need out there, are you going to get it all? The examiners said, "Oh yes." I said, "Really?" They said, "Yes." Well, you got me because I would have bet you a steak dinner that we would have had to have gone to the Fed [discount window] tonight. So I said, "Now it's all in the house. I can tell the boss that you're funded for the day." The examiner says, "Well we don't have it all." I said, "What do you mean you don't have it all?" He said, "Well, there's still the Federal Home Loan Bank Board. The guy is supposed to give us $1 billion [in short-term funding], but he's out on the golf course." I said, "Yeah, he's out on the golf course and you're never going to find him because that's why he doesn't want to be found, because he's not going to sign a piece of paper that turns over $1 billion. And sure enough, the bank started to panic. They started to pay up for funds, and then the word got out in the market, and J.P. Morgan called and said, "Look if you got a problem on the West coast we can get a group of banks together to stabilize this thing." We even got a phone call from Panama, of all places, that they were destabilizing the market down there by bidding aggressively for funds, et cetera.

So, you know, trying to convince a bank that supervisors actually do have some experience about knowing what a bank goes through when it's weak is very difficult to do. But Bill Taylor and Jerry Corrigan got very aggressive. I could remember Bill Taylor calling up John Reed [Citicorp] and telling him he's going to send him a bunch of 10 loans that are randomly selected, and they're not ginned in any way—they're not geared in any way—they

were just selected as a random sample of 10 loans that were extending globally from different branches around the world. And he wanted his own opinion, John Reed's opinion of what he thought the value of these loans was. About 10 days later, Reed called up and said he had no idea these were the kind of loans the bank was making. And it was a very similar pattern to today. They weren't making any sensible loans or making loans based on judgment of future value somewhere down the road that may or may not occur, that may or may not be likely, but didn't allow the bank to collect against the fullness of its collateral. So you had a very similar pattern in the late 1980s and early 1990s to the destabilization that goes on.

It kind of struck me, you know. When we went through this last crisis in late 1980s, early 1990s, it was kind of similar, although I'm sure it's worse today. I mean, we worked six days a week, we insisted on taking one day off. I used to take Saturday off; I always worked Sunday. And you worked from, you know, 6:30, 7:00 a.m., until 9:00 or 10:00 p.m. And it was like being in the ocean where wave after wave just hits you. You couldn't catch your breath. No matter what you did, something new was coming over the transom that you had to deal with. And it was pretty depressing because Congress was getting on the bank examiners for allowing the problem to fester in the first place, that they should have been more aggressive in supervision. And then the tide always turns, and then bank examiners get blamed for not allowing the economy to recover because they're creating a credit crisis by classifying everything that moves.

And I had a guy who, when I left New York, was just retiring, and he was a Grade 15 then, and in those days they were supermen. And he did all the large banks. The guy's name was Ed Langden. And he sent me a brochure from the 1930s where President Roosevelt had called the bank examiners to Washington to discuss this very problem, that they were part of the

problem going in and part of the problem of resolving the economy by being too pig-headed in their classifications. And it was an actual brochure, it wasn't somebody's memory. And I looked at this thing and I realized, well, this is just part of being a bank supervisor. You're never going to get a hero's badge for doing the job right. You're always going to get criticized for reacting too slowly [or] acting too quickly, and there's never a perfect way in which it's done.

But I think we could've had our banking system really go off the deep end if it weren't for aggressive supervision from the Federal Reserve by making the banks—I remember a Barnes from Philadelphia National Bank—this was before first Pennsylvania—it was Pittsburgh National. Anyway, he took the bank from being a very conservative organization to being very aggressive right at the wrong time. He had a very forceful personality. And I always realized when I was out examining banks—if all you ever heard around the board table was one voice, you could pretty well bet that bank was going off in oblivion because people were afraid to discuss anything. They just listened to the Chairman. But I remember him complaining—and he was a complainer—vocally about aggressive supervision, and Bill Taylor told him, "There's no magic to this thing," he said, "none whatsoever." He says, "We're not the brightest people on the planet, nor are we the dumbest." And he said, "I could give you a new exam if it makes you happy, but I think you got a pretty good exam. But if I do that, I'm going to bring in the best credit people the Federal Reserve has to offer around the U.S." And he said, "If they find more loans, there's no crime. And they well could find more loans that are even worse." So he said, "But, no complaints. You have to live with those results." Barnes didn't like that. And he said, "Well, you could do it yourself." So they said, "What do you mean?" He said, "Look, why don't you take your portfolio, why don't you stress it to tell me what you think is going to happen if the real estate values go down another 10 or 20 percent and the interest rates go up

another 1 or 2 percent." And they call back a well later and said, "We're busted." And he goes, "That's exactly right. You're busted." He said, "Now you need to have aggressive action to fix this." So there was a lot that went on to deal with that banking crisis that, of course, never gets reported and appropriately so. But they could have made this much worse.

MS. CARTER. You mentioned a little earlier about Bill and Jerry Corrigan. Is it your view that they were working independently on parallel paths or were they working in concert on some of these issues?

MR. RYBACK. I don't know the dynamics. I was not a fly on the wall. And I can't imagine that the strong personalities that Corrigan and Taylor had, that there wasn't some barking going on back and forth. But I think eventually they realized they had to get the Chairman's blessing. I mean, Volcker wanted this done and Volcker liked—in my view—liked to have this stuff go on, have it done on [the] staff level and just be done with it. So I can imagine how he encouraged Taylor and Corrigan to move aggressively, because the OCC wasn't doing it. The OCC, I think, was still probably denying that they had a problem, that the problem was as massive as it was. And there was quite a bit of concern about macho supervision. We all like to think we're better supervisors. The OCC thinks they're better than the Fed or the Fed thinks that—and the reality is that we're all bank examiners, we all think the same. And there's not a whole lot of difference between the two, but you can't tell that to the people in the organization that they work for, that we're all the same underneath the skin.

Classification of Foreign Debt

So there was a lot of moaning and groaning about the Fed orchestrating the bailout of the banks when the LDC problem—the Less Developed Country debt problem—occurred, and ways in which to deal with that. You know, it's easy to sit out in the field as a field examiner and call

these dud loans because that's your job. But then you have to go through the various layers of bureaucracy, the various layers of your institution who have different views on this thing. I don't know how others may explain history but, clearly, one of the problems we had as I talked about earlier was whether or not there was equal treatment in these banks. And that was especially true in the foreign area, loans to foreign governments. I mean, as an economist, one might go up the wall, and I'm sure some here in the Federal Reserve did, but you know, if you're looking at how they're going to get cash flow to pay those debts, et cetera, et cetera, one could take a dim view of that. But what really was happening was they were being viewed differently in all these institutions, and they were basically the same loans. A country's debt classified as substandard in one bank; it would be special mentioned [in another]; and in another, it wouldn't even be criticized in at all.

So the OCC put together this group that had to deal with the common classification of all foreign debt. And we really were unprepared to do that. We were unprepared because we didn't have the fullness and richness of what would go on in the State Department. We didn't know what's going on at the Fed—we were trying to deal with this in isolation and you start to look at it from a bank examiner's perspective and it looks pretty ugly. And one thing you learn in Washington: The three agencies can give you good cover when you need it. So instead of being criticized at the OCC, as we were, in reality what was happening is foreign ministers were coming up to Washington, and instead of seeing the State Department first, they were going over to the OCC to plead their case. That doesn't make the State Department feel good. We then thought it in our best interest, as did the Fed, to do this international country review—

MS. CARTER. ICERC?

MR. RYBACK. ICERC, Interagency Country Exposure Review Committee, and to set this up in a more uniform way. Because while we might have been doing it uniformly in the OCC, that didn't mean to say there was uniformity throughout the system, because the Federal Reserve would take a different view on some of these loans. So there came a time that it seemed wise for us all to sit together in one room.

Volcker had an intense interest in this ICERC stuff. Before the committee actually met, we would have to go into his office, we'd have to explain where we thought the classification was coming out, we'd have to explain why and he'd have to agree with it. And if he disagreed, you know, we got to have more discussion.

And I remember, one time during the second banking crisis, he was particularly concerned that the government's initiatives could be undermined by the bank examiners taking a harsher view of a country's credit than they might, and that there was a possibility it would be classified; if it was classified there was no way any of these broader U.S. government initiatives were going to work. And we were sitting here discussing a country's debt with the Chairman, and he made his views known that he thought it would be a pity if ICERC examiners were to classify this as substandard. He could accept it. It might be a criticized loan, but he couldn't understand why they would want to go and classify the loans because it would undermine one [of] these other initiatives. Michael Martinson told him that he wanted to remind him that we were only a committee of three votes—[a] dime-person committee—and that all he could deliver was three votes. And I remember Volcker looking up at him and saying, "Do you think that I can't fire you? So, you do what needs to be done." So that's an extra layer of incentive when you know you're going to ICERC with the Chairman saying, "Don't come back with this if you can't deliver."

MS. CARTER. This whole idea of country risk and things—that hadn't been done before. Was that considered politically sensitive? Or how—

MR. RYBACK. In my view, we became more visible on the radar scope in the first Mexican banking crisis. It was back in 1983, Michael? 1981?

MR. MARTINSON. End of 1981-82.

MR. RYBACK. Yeah, '82. I remember I was going on vacation in August. I had packed up the family, and we always go to the New Jersey shore—that's where I grew up, that's what I know, so that's where the kids would spend their summer vacations. Going in and out of the house, packing the car, I kept missing the phone calls. Although by the time I got up to the shore house, Washington finally got a hold of me and said, you know, there's this crisis going on in Mexico. I said, "Do you want me to come back?" They said, "No." But I ended up spending two weeks at the beach sitting in the beach house going through this whole thing. It was the first time we ever had this problem with foreign debt because Walter Wriston [Chairman and CEO of Citigroup, 1967-1994] used to run around the world, telling everybody that, you know, loans to foreign countries don't default.

MS. CARTER. Because countries don't fail.

MR. RYBACK. Right, countries don't fail. They just fail to pay their debts.

[At this point, the recording malfunctions; see second day of interview.]

MR. MARTINSON. Okay. Well, I think we pretty much covered BCCI. There were a few other sorts of similar incidents in the mid-'90s: Barings, Daiwa, the Sumitomo copper situation. Would you like to say anything about these events?

MR. RYBACK. Yeah. You know, if you look at Barings, you look at Daiwa, and you look at Sumitomo copper, they have some very, very common elements, which underscores, once again, that if bank examiners are paying attention to the banks, these problems should not get as far as they get—especially when they're life-threatening to financial institutions. If you look at the Barings event, and Sumitomo copper, and Daiwa—with [Toshihide] Iguchi's illicit and bad trading activities—there were about four or five elements of good prudent management that were violated that bank examiners should have recognized going into the situation. First of all, there was the fact that none of the individuals were responsible for the losses in those institutions or took any vacations—very simple things, like taking the two-week vacation that used to be religiously enforced when I was a younger examiner. And in Mr. Iguchi's case, he hadn't taken a day off in 10 years. And one might scratch one's head. We always used to put in a report of exam that 22 people didn't follow the two-week vacation rule. But you could not tell from reading that report whether they were board members of the institution or if they were lower level clerks. So we didn't do enough follow up.

The other thing that comes to mind with all three of these institutions is that in all three of these cases, the problem area provided the predominant share of earnings to the financial institutions or the industrial company that went unquestioned. They just thought, "Oh gee, they must be doing a wonderful job." And if you're producing more than normal average return, somebody in management, you think, and somebody in the bank supervisory field, you think, would kind of come up without the question of how is this being done. What do they know that the market doesn't know? Daiwa was particularly unfortunate because they probably would have escaped without their harsh punishment of being expelled from the United States if they had 'fessed up early on that they had a situation in play and that they were embarrassed and they

were putting the proper controls in place. That usually gets you a lot of sway with the supervising authorities. But they attempted to hide this up, cover it up; they hid it from examiners, and they hid it from senior officials at the Board and senior officials at the state of New York banking department to the point at which you had to come to the conclusion that it wasn't very good having them operate in our financial markets in the U.S. So they were expelled even though there was no harm done to any of our financial institutions, no harm done to the financial markets—truth be told—other than it severely weakened Daiwa.

And I think these events happened in a time frame in which there was this interest in redoing the [Basel] Capital Accord. Quite frankly I think it disrupted the Basel Committee from doing more in the operations context, especially with regard to concentration, which is always the underbelly and the soft spot in all of these financial institutions. So I think we sat trying to perfect something that can never be perfected in revising the Capital Accord to produce Basel II, but at the sacrifice of these operational glitches that perhaps should have been studied better and a way found in which to deal with this national or global supervision problem. If you look at the accidents that happened, especially with respect to foreign banks, they usually happened way away from the head office, which means that the controls are weaker the farther you get away from the home base. So it struck me always as never being able to put together true global oversight, no matter who you are, whether you're the Federal Reserve, whether you're the Bank of England, whether you're the Japan[ese] FSA.

And I moved further along in my career, I became the deputy chief executive of the Hong Kong Monetary Authority, and as a host supervisor, it always struck me that I never had a request from a foreign supervisor to do any test checking in my market of whether or not proper controls were in place or whether or not there was rigorous underwriting. Any of the problems

that later proved to be severe within a financial institution, never did I hear from the home supervisor that they wanted to test check these controls on a global basis and therefore ask our input. And I can assure you that the Hong Kong bank examiners are more like the examiners of old; they went and checked every little thing from top to bottom. And that may or may not be wrong, but nonetheless they still had those skill sets, whereas we've lost those skill sets in the U.S. So I think when we look at all of this in calmer times and look at the present turmoil that's going on, we're going to find out how weak global supervision really is. And I don't really know how to address it, but I do think that all of these examples we've been talking about are manifestations of all of that, which puts a heavy burden on the Federal Reserve, because you can't just assume that a foreign bank has the proper controls and oversight responsibilities, which means we've got to do more work than we probably should have to do with respect to keeping stability in our markets and making sure that financial institutions are operating in our markets with proper controls.

The Foreign Bank Supervision Enhancement Act

MR. MARTINSON. Well, this brings up the enactment of FBSEA [Foreign Bank Supervision Enhancement Act] in 1991, which gave the Fed a lot more control and power in this area. You oversaw the implementation of a new supervisory program that was actually adopted by all the agencies. Do you have much recollection of that?

MR. RYBACK. Yes, you know, Bill Taylor was very pushy in that respect. I mean, he understood that, unquestionably, the Federal Reserve was going to have much more responsibility for foreign banks given their growing presence in our markets and our interest in ensuring that they operate in good form. It's not surprising that when we would begin to think about how we could bring foreign banks into a stronger circle of supervision, Mike Martinson—

and many others—did a lot of work on the rating system, which I think was a major advancement. Before that we really didn't have a rating system that was consistent with the domestic side or enough alike where you could just transfer people back and forth from foreign to domestic. And I'm not quite sure that the old system actually did as reasonable a job as we would've liked it to. We had to revise the country exposure report to reflect reality better. We had to get much more active.

I remember in the early days where the Federal Reserve was given responsibility to make sure that any foreign bank making a license application in the U.S., whether it's a federal branch or a state branch of a foreign bank, that the parent institution had consolidated comprehensive supervision. And nobody in the world knew what comprehensive consolidated supervision really was or what examples you might have to point to that. And we set out some guidelines that could get us reasonably close to making that determination, but we were not very comfortable in doing that since the U.S. was the first to have a law that mandated us to give consideration to the fact of whether consolidated comprehensive supervision actually existed. And it proved to be much too harsh a standard, and we had to have the law changed subsequently to say a country had to be moving towards comprehensive consolidated supervision to make it a little more squishy. And you know, you could fit many elephants under that tent where you couldn't beforehand. But it put us in the unfortunate point of having to make absolute decisions on the supervision of other countries and whether or not they were doing a poor or good or reasonable job of that supervision. It's not something that any agency feels comfortable doing—I think the Federal Reserve more than anyone.

When I first got to the Board, as a courtesy—there was no legal requirement—every state would write to us and tell us that a foreign bank has put an application in for a branch in the

United States and we're notifying you because you should be notified and if you have any comments, we'd appreciate them. I used to write back to, say to Florida, for example, and tell them that this bank that they were thinking of licensing was from a jurisdiction that didn't practice good supervision and that it had weaknesses, that it was too small of a bank, all this litany of reasons why they shouldn't do this. Which they would dutifully write back and say thank you for your comments and go ahead and approve it anyway.

Bill Taylor used to get a little annoyed with me. He said, "You shouldn't be writing those letters." I said, well, if you don't, then they're going to imply that we didn't care. Either that we didn't care or that we approved this thing—either way that can't be good. So he let me do this, but I know he was not happy. Although he did later come to me and said he thought it was good that we were writing these letters because they really were just poor choices on behalf of the state of Florida. Of course all that changed. In two months, we became legally responsible under the law for having to make formal decisions on whether or not we would allow these banks to operate. So you got a different character of financial institutions coming in to the U.S. To be sure, I think the state of Florida lost a lot of business as they would view it.

That may or may not be unfortunate. I think it's fortunate for them, for the state banking system, and fortunate for the U.S. banking system that these characters weren't allowed in. But this stimulated another area where the Fed was not used to getting involved in—and that was that if we were going to mandate requirements on comprehensive consolidated supervision, don't we have some obligation to teach people what that's all about? And there was a heavy discussion within the Board of how we should be supporting training activities, and up until that point, our training contribution was in the context of large multinational institutions like the IMF and the World Bank. But we never held our own training programs. I can remember the bank

supervisor from El Salvador coming up to the Fed and asking for assistance, and since I had no authority by the Board to commit to anything, you get a little bit elusive in your response. And he reminded me, "You know, the last time I was here you admonished me because El Salvador doesn't have a bank supervisor that lasts more than six months, which means there's no professional supervision and this bank supervision is just a stepping stone to higher government positions. And the Federal Reserve has no desire to get involved in countries that don't want to help themselves." And he said he'd been a bank supervisor now for two years, and asked if that was sufficient enough for us to change our views. So after much discussion it was decided that we should indeed be helping in training programs for Latin America and Asia.

I think we did a lot of good work in training a lot of supervisors, both at the elementary level, as well as the intermediate level, as well as the advanced levels. If for no other reason than we were able to bring their level of sophistication up to the level at which we think it needs to be or should be. This, again, led us in different areas. The more you get involved, the more you have to get involved. And again after much discussion, and I could tell you there was, at first, a lot of opposition, we got involved in a group of Latin American supervisors that eventually banded together as a group to try to improve supervision on the continent.

MS. CARTER. That's ASBA?

MR. RYBACK. ASBA, Association of Bank Supervisors in the Americas. And we were there first in an advisory capacity, but as things would develop, jealousies arose in those countries that make it difficult for them to effectively have leadership changes. And every leadership change involves a big debate on who did the last favor for whom and who was going to vote for whom. That was underscored when I was down in Mexico City for one of the meetings of the directors of ASBA. I was there in an advisory capacity, but I found it curious

that before I even put my bags on the floor, my phone rang and it was from the Mexicans who were hosting the meeting in Mexico City and began going through this long litany of why we shouldn't encourage or allow or permit the Brazilians to be in charge of ASBA. Then you heard from the Chileans who said they'd be glad to be a compromise candidate. And I realized, gee, I'm not a State Department employee. I have no diplomacy skills, I just don't want to get involved in all of this. But you can't help becoming involved. So the decision came up that well, maybe, the way forward is to have the Federal Reserve be the Chairman of this committee. I can tell you that this did not make the Board happy. It did not make the Chairman happy. It did not make anyone here happy. And I think there was always some residual feeling that I got the Federal Reserve involved in something I shouldn't have, but as I look at it, it was a natural evolution of where ASBA was going.

But you began to understand that the only way you were going to be able to move South America forward was to have an outside body encouraging that change like the Federal Reserve. It didn't become as painful as first thinking might bring you to. So the Fed took over the Chairman of the Association of Bank Supervisors of the Americas, brought in the Caribbean and eventually, I think 35 or so countries became involved in this Association. But I think, if it did nothing else, it incented these countries to give a serious look at where they wanted to be and to quit ASBA reforms running to the country with the slowest reform pace. And that's what you used to hear at the beginning, that we can't undertake these reforms because this country can't do it. And we'd finally have to say, "Why don't you drop out for a while and rejoin us when you take this more seriously?" And I think there's now more commonality, there's more exchange of information. These people now think that they're dealing with professional bodies instead of personalities. So there's a lot of reforms that went on.

Asia is just in the process of those kinds of reforms. They don't have the capacity to band together, and it is still very much run by two or three persons—I won't even say organizations—persons that drive the agenda and just are against any kind of rigorous kinds of reforms. And that means that Asia doesn't have much of a contribution to make in the discussion of evolving issues because they can't agree amongst themselves. I think at least you can say that ASBA did that.

So I think we've gotten a lot of benefit from foreign banks activities here in the U.S,, certainly financially. As I said before, at one time foreign banks had 25 percent of commercial industrial loans and took lots of losses on this. If you look at the latest round of losses, plenty of foreign banks have contributed by taking some of these securitized products and CDOs [collateralized debt obligations] and other kinds of things on their balance sheets that would've normally been left to the U.S. to absorb, which would have meant we had a much larger problem.

But there's lots of reforms that are going to need to take place, I think, and the Basel Committee—and I'm not convinced that the Basel Committee is a good forum for such reforms primarily for the reason they've changed their stripes. When the Basel Committee first started, there were two people that were asked to come. One was the bank supervisor and the other was the head of the foreign exchange activity, whether it be the central bank or someone else, but usually the central bank. And that created a perfect opportunity for the Federal Reserve to join, because the way this discussion between who should represent the Board and who should represent the Federal Reserve Bank of New York didn't become such an issue. But I can guarantee you from the papers I have read, it was a rather significant discussion. Each arguing to be the representative, but given that there was one supervisor, we took the role of supervisor and

the Federal Reserve Bank of New York took the role as market observer. As the Basel Committee began to change from one that was primarily looking at market turmoil to a bank supervision body, the market people had less and less to say in the deliberations that went on. And the heads of supervision, or their deputies, were primarily present at these meetings.

But eventually when development of Basel II began, these discussions became way too complex for the average bank supervisor. As a matter of fact, my version of history is that even early discussions here within the Board fragmented the group on the third floor into supervisors and policy wonks. And bank examiners thought the Basel II stuff was too ethereal and refused to get involved with it, which wasn't right. It clearly wasn't right. But as it got more complex and more complex, and the colors of the patterns got gray and dark gray and light gray, and gray with white speckles, and gray with black speckles, and you couldn't tell what pigeon belonged in what hole, the more the examiners just resisted all of this. So the result was you had a product that was five miles deep and two inches across and had little connectivity. And consequently, the people that went to the Basel Committee during this time were not bank examiners but primarily policy wonks or policy people—I shouldn't say wonks. Wonks is a negative word—that's not meant to be negative. And therefore, there were fewer and fewer bank examiners sitting around the table directing the outcome.

And that's the risk you run going forward, that the Basel Committee turns to become a policy debate as opposed to a supervisory debate. And you will need rigorous leadership. I'm not sure the current leadership is very good, but the BIS certainly will have to give some thought to how all these issues are connected and what changes need to be made. It's all going to get back to where we began, which is there are a lot of operational weaknesses that have been pointed out. These are the same operational weaknesses that have existed for some time.

There's been no movement to get bank supervisors to become bank examiners once again, and I think that at least merits a half-hour debate. Are we doing the right thing, and where have we gone wrong? Part of our job is to make sure that the people in the bowels of the bank are doing their job; we've gotten away from that. We can never go back to surprise exams, but I do think it would be useful to at least consider whether all of this intense focus on policy is the right thing.

MR. MARTINSON. We've gone through a lot of topics today. Are there some others you'd like to talk about?

MR. RYBACK. Well, I consider myself a citizen of the world. The Fed's given me the opportunity, and early on in the OCC, to get exposed to different cultures. I think in my career I visited close to 100 countries. What struck me all this time is that supervisors in every country face the same challenges. It's no different here than in Asia, than in Russia, than in the middle of Europe. We all face the same problems and have to deal with the same issues. We all get the same negative feedback when things don't go the way in which those people in power think they should go, which brings us back to this commonality; which means there should be a lot of reforms that need to be put in place, both domestically in the U.S., with its Byzantine system, and globally. I mean, the fact is bank supervisors don't talk to one another as often as we should. I think the blueprint that was put on the table by Henry Paulson to strengthen supervision in the U.S. clearly has some merits, because I think the three-peaks model makes a lot more sense than anything I've seen. The only thing I know is that the one-peak model like the FSA in the U.K. makes absolutely no sense. There's too much competition for resources between market oversight and prudential supervision. And if you look what happened to the FSA over that period of time, prudential supervision got totally neutered. And more and more effort and energy was put into market supervision. Why? Because it's the most visible to the public.

MR. MARTINSON. Of the bunch?

MR. RYBACK. Prudential supervision is sometimes behind the scenes. Market supervision—whether some customer got screwed by his local bank, becomes the five o'clock news topic both here and overseas. So it's easy to see what the temptations are, where to put your resources. But this introduction of a third peak, which is a financial stability oversight, I think, has to have a very intense period of debate and discussion because, as I mentioned before, the reason we do bank supervision is, at the end of the day, to keep policy leaders informed of the true condition of the banking system. I think we failed to do that over the last three or four years because examiners got into looking at policies as opposed to what's really going on in the basement. Are the banks stable? Are they underwriting good loans, are they underwriting bad loans? No one could have predicted the magnitude of this, but you certainly had to be unconscious if you didn't know that banks were making poor decisions and poor underwriting choices. And that's okay as long as you have proper capital against the risk. But concentration risk over and over again causes bank failures.

There's always two elements in every bank failure. One is a concentration of business risk, the second is poor underwriting and fraud. Those two things combine to fail every bank that's ever failed in the history of mankind going back to the Phoenicians. And supervisors have failed to properly deal with it. We just never deal with it. I think we should give some careful consideration to making sure that if a bank wants to take an aggressive market share, they're going to keep not 12 percent capital, but 24 percent capital to guard against the problem that they've taken on a lion's share of bad loans. So hopefully we'll get serious with that.

I've spent a lot of time in Asia; I believe that Asia deserves a stronger voice in whatever reforms are going to take place. If you look at Asia, they haven't had as heavy an influence and

have no first round effects of the current crisis, which means Asian bankers were too conservative to take any of these financial instruments on board directly.

I thought at first we would have a huge problem with the branches in the U.S. taking on a big share of these collateralized debt obligations or subprime mortgages, but that proved not to be the case. They pretty well stayed away from them because they didn't understand them, so I think that was a benefit. But the second round effects are being clearly felt in Korea and elsewhere, like China, where withholding of credit is becoming an issue and a problem, and uncovering weaknesses in the banking system that perhaps were there but certainly are exacerbated by this second-round effect. But all in all, I think Asia needs to give some careful thought about how they stitch together all of the disparate interests into a singular voice, because the Basel Committee is not going to listen to them as 23 separate voices. They will only listen if there's one of them, this is the Asian platform like it or not, this is what we're going to do. Then they can deal.

As I look back on my 40-year career as a bank examiner, it's a choice I never made willingly. It's a choice I accidentally got into, but it certainly wasn't a boring career. And it certainly led me to places I never thought I'd be. Sitting in Catholic schools listening to the nuns rap me on the head, I never thought I'd even go outside of the U.S., even on vacation. But having the opportunity to visit all these countries, talk to all of these people, recognize that we all deal in this singular world, all trying to get by, all having the same common problems, I think is very heartening. Who's going to take up the next leadership role? We always used to think in Washington that in each one of the three agencies, someone would be there to provide leadership through any financial crisis. Now it's not clear that that exists now for a combination of reasons, perhaps. But I think it is time that we ended up with a single prudential supervisor. The FDIC,

being an insurer, they won't agree to this. And I think the Federal Reserve has to take its responsibility for financial stability seriously, which means you don't have time to tinker around with everyday supervision of small banks, it's too serious.

MS. CARTER. You've talked a lot about capital and the importance of capital. Any thoughts about "risk-focused supervision?" That approach by supervisors—do you have any comments about that or thoughts about that?

MR. RYBACK. Steve Hoffman used to say when we introduced risk-focused supervision, "You know what 'risk-focused supervision' means here at the Board? It means, show us a risk and we'll focus on it." And he was absolutely right. I mean, we still are paying attention to things we don't belong paying attention to. Even when small banks would fail and someone from the Board would call and say, why did such and such fail—I had no idea. "Well, you better find out." Well, no, I better not find out. That's not risk-focused supervision. So we introduced the world to risk-focused supervision. It has not been perfected. We don't do it very well here—we do it very poorly actually. We have no hierarchy of risks, we concentrate on everything that comes over the transom. Today's world is a manifestation of that. Every single thing that happens, the Federal Reserve thinks they have to know about it, they have to deal with it, and they have to take the monkey on their back. And that's because you don't have risk focused [approach] here. It's a word. We have exported this disease overseas. I remember going to Korea and them saying they wanted risk-focused supervision. They had no idea what it was; it just was a term that sounded good. It sounds like smart people are doing smart things and not wasting government revenues. But at the end of the day, if this is what risk-focused supervision is, and the Board's example is the mantra for the world, or the example to the world, we've done a great harm to the world, a great harm.

So it sounds good, nice concept. Doesn't work in practice—doesn't work for practical reasons. I objected strongly when I was at the OCC to the resident examiner concept, I still do. I think it's horrible. I think it's the worst concept anybody ever thought up. I mean, here were these examiners operating everyday in these financial institutions, and not one of them had a clue what was going on and how serious this was, and what might be happening. So they're conducting supervisory exercises for the purpose of conducting supervisory exercises. Once you start going to work every day in a bank—I mean, I always had a rule—when the OCC made us put full-time on-site examiners, I used to have a rule. Anytime a person said to me, "My bank," the next day he was changed because it's not your bank. You're getting too close to the financial institution. There has to be a lot more coordination of what's being done, what's being looked at.

You know, I think simultaneous examinations conducted on business lines—we did them back in the 1970s—for example, we used to look at the shipping loans. Around the globe, if they were in London, that's where we went; if they were in L.A., that's where we went. Horizontal exams you could call them—whatever you want to call them. At the end of the day those are very, very productive because they point out those banks that are taking on abnormal risk, those banks that are poorly underwriting risk. They stand out so glaringly. But you can't tell that if you're sitting there working at Citibank. You have no idea what's going on at J.P. Morgan, how things are changing. Underwriting rules are changing and new risk management techniques are put on board. You hear about them way too late, and that's usually through the *Wall Street Journal* having some article about it. So I don't think this on-site full-time exam thing was ever productive. I mean, I don't know why we keep it.

Now with that said, I do believe 100 percent that some large banks, many large banks need full time supervision, but that doesn't mean you have to have people parked in them every day and sit in there and go in there. It just doesn't make sense; it still doesn't make any sense to me.

MS. CARTER. Any thoughts about the Gramm-Leach-Bliley legislation [in 1999] that repealed Glass-Steagall-era restrictions?

MR. RYBACK. Well, I'll give my version of history. When it was pointed out to the Chairman that Gramm-Leach-Bliley produced an inferior result with respect to supervision, Greenspan's retort was that he wanted financial reform. He thought financial reform was important institutionally; he thought financial reform was important for the industry. And then if you start introducing this arcane topic of bank supervision, and how to perfect bank supervision into the mix of ingredients up on the Hill, this bill is not going to go anywhere. And he said, what we do is accept the imperfect, we wait for the accident to happen, and once we pull all the bodies out, we can have re-regulation. Well, this is exactly the way it will happen. He was right. There's bodies all over the place. More cars and trucks slipped on this road than anybody could have ever imagined, and if you even mentioned that you thought Armageddon was coming, nobody would have believed you. So now we're going to have re-regulation. So now we're going to have perfection.

I remember Greenspan getting annoyed with me because one time I went to a retirement thing at the FDIC, and Gramm-Leach-Bliley was just passed, and people wanted to know what umbrella supervision was. And I said, "Well, I'll tell you what umbrella supervision is to me." I said, "You know how you have this handle and then you have a shaft, and then there are all the ribs. But when you open it up, there's no canvas over this thing." I said, "So I'm standing here

with this umbrella thing getting poured on." So Greenspan personally called and told me to shut up. [Laughter]

So he was not happy with that characterization. But I think it's exactly an apt characterization of exactly what the Fed got handed. It was an impossible task. The head of supervision has only two choices: You could try to stitch this thing together into whole cloth, which was never going to happen, or you could live with it. There were too many vested interests that would not let the Fed act the heavy—to say, "I am the supervisor in town, I am the Sheriff, you all are deputies, you report to me." And that's not the Fed's personality. So consequently, you had to try to convince members what is in their best interest. Well, that doesn't work well in this town. The SEC wanders off on their own, and we never had a clue in hell what went on in the insurance area. Nobody has any clue what goes on in that opaque industry. So I think so far it proved to be a failure. Except for Citibank there was no other organization that took on any seriousness to try to have a financial holding company, and that proved not to be good. Citi had to eventually get rid of the insurance part of it because they couldn't manage it properly—too many conflicts.

MS. CARTER. I often wonder if Bill Taylor had still been here, if we would've operated differently.

MR. RYBACK. Oh, I definitely think he would have. Either that or he would have been dragged out of here and fired, I guess. I think he would've chosen alternative A—let's put it B, because alternative A is a conscientious decision. Alternative B, which he would have said, "I've got a responsibility here; we're going to take this seriously. We're going to have weekly meetings. The SEC is going to sit in this building; they're going to sit in the Board Room." He loved the Board Room because he thought it was the best home court advantage the world had.

He said to sit in that Board Room, it gives you an aura beyond just a mere mortal. So I think we would've had a lot more coordination. And that doesn't mean to say it was handled wrongly at all. I'm not trying to be critical here. I think we were dealt a hand we could never win at all.

When I was at OCC, you had the policy group—okay. You had seven wise men sitting around a table. And there were a number of debates, and there were lots of people that were a lot smarter than I, and you know, every time you went in there you had to make sure you were in your A game, because if you were in your B game, they kind of told you to go home and take some time off because you're too tired, because you're not making any sense. But because of the Freedom of Information Act that developed that, in my view, tarnished or inhibited the Board from being able to have robust discussions from a lot of different areas. You ended up having channeled discussions that weren't very helpful—and the lawyers, who made it clear from day one, they were here to protect the Board, not the organization. Now, I think you can make a differentiation between the two. But it was always very, very difficult to try to convince the Legal Division that you had a problem that needed to be discussed.

I remember one incident, for example, where a bank in New York wanted to open up a subsidiary in Luxemburg, and we in Supervision [BS&R] were adamantly opposed. We said, "We can't supervise this thing." And they said, "Well, you know you have consolidated supervision. I said, "That doesn't mean to say I'm going to get the information I need from Luxemburg. It's a secrecy jurisdiction. The banks were trying to get a license. So they said, "Well, they'll fly this information to Gibraltar," and I had just had it. And I finally said, "Look, if we're going to take this application to the Board, I want the Board on record to know that I cannot supervise this branch, this subsidiary. I cannot supervise it." They said, "Oh, you can't say that to the Board." I said, "I can and I will." And eventually they called up the bank and

told them you couldn't deal with the license, to take it away. I'm not saying I was right. But I wasn't going to go up there and capitulate because I think the Board should have discussed this. And I feel there are better ways to do this where the Board felt comfortable; despite these differences, you have to work around them. That was fine, I had no axe to grind one way or the other. But it was these kinds of things that never got to the Board, I think, that should have been.

Because I believe there should be a lot of robust discussion. I think we should have a lot more discussion on Basel II. I think we should have a lot more discussion on some of these other issues. But, you know, the Board wasn't particularly interested in dealing with these boring things, and therefore the guidance that you received had to be going to individual Board members, which was never perfect because you can't put it all together. A doesn't agree with B or C's got a whole different view on this. So it's a little bit easier to operate under the OCC structure.

Before I came to the Federal Reserve, there was a guy named Neal Sausse, he used to be Chairman Volcker's deputy assistant. I don't know what official context he had. But I once asked Neal at a cocktail party, I said to him, "Neal, you know the Board always seems so bright and everything." And I said, "The OCC, we go through periods. Sometimes I believe we're invincible, we've got so many smart people working. Then I turn around, and people have wandered off and we got've some idiots running the organization and you kind of scratch your head and say how you're going to survive at the end of day." And he said something to me that made a lot of sense. He said, "You know, when you have an agency of the government like the OCC, it takes on the persona of the head of the agency. So if the person is a curious guy, the organization is going to be curious and there's going to be a lot of debate [and] discussion." He said, "If he has a different personality, which is to say he's disinterested, kind of interested in his

own limelight, it's not going to induce the finest and brightest people to come to work at that organization." He said, "The Board is never going to have these high peaks. But it's not going to have low valleys either. It is a steady organization that goes through, it has its own history, it has its own institutional memory, and because you have a Board of seven people, you know, you're never going to have these kinds of vacillations."

And when I came over here I found out that was very true. In 14-year terms of the Board members, you have a lot of stability that you don't have at other organizations. I used to hate that at the OCC. Every four years, despite having a five-year term, they always resigned when the new President came in. You had a new Comptroller, which was fine, you could deal with that. But then they brought all the political apparatus that went with it. And you had to retrain everybody every four years to tell them, "Yes. I think your goals and objectives are very good ones, but they're not realistic." And you had to be careful how you said that.

The first year, the first transition that I went through when I was down here, John Heimann was the Comptroller and he had brought in a very limited number, but nonetheless there were five or six appointees, if you will, that he put in high positions. And when it was time for them to leave, they were all scampering around trying to get permanent jobs in the agency because they happened to like the OCC and probably figured out they aren't smart enough to compete in the outside world, so staying in the government is not so bad.

MS. CARTER. I did have an organizational question. Mike asked you about your observations when the Fed chairmanship changed from Volcker to Greenspan. You were also here for a large period under two different bank supervision [BS&R] directors. Any thoughts about the changes in the Fed and dynamics under different directors?

MR. RYBACK. That's really a tricky question. You know, it's what you grow up with and what you're taught within your working world, I think. You know, in the OCC, bank examiners were king. The examiner-in-charge was the examiner-in-charge. And that word "in charge" meant in charge. Even the Comptroller himself couldn't change a word on that report of examination, not a word without the examiner-in-charge saying, "I agree to that change." But I got over to the Federal Reserve, and I'm used to that kind of discipline. And I'm here a couple months, not very long, and I get a phone call from the Philadelphia Fed. It was contracted by the New York Fed to assist in overseas exams because the New York Fed had manpower issues and Philadelphia could lend it examiners. So they contracted out some of the overseas exams. And the Philadelphia Fed was relating the fact that they conducted an examination in Argentina of J.P. Morgan, and they considered it a weakened institution. And they noticed when the report went back to the bank, the rating did not reflect that. I said, "Oh, that can't be. It must be a mistake. You know, are you sure?" He sent me out the report of exam, and it sure sounded like a weakened institution. If you ask me, I would have put in an even weaker rating, but whatever.

I called up the New York Fed and talked to a guy named Tom McQueeny, and I said, "Tom, I'm a little bit confused." I said, "I've got this report down here from the Philadelphia Fed. They sent it to you guys in New York." And I said, "When it went to the bank, it's a better rating!" He said, "Oh yeah, that's right." I said, "What do you mean that's right?" He said, "Well, we gave all the subsidiaries the same rating as J.P. Morgan." I said, "Well then I'm curious, why do we go through this supervision thing? Why do we play this charade if you're not going to listen to what these people are telling you that there's some fire going on in Argentina?" I said, "It just doesn't make any sense to me." I said, "Can you do that?" "Sure,"

he said, "nothing the field ever does is finalized until we say it is." I said, "So everything is filtered through your eyes?" He said, "Well yeah." I said, "Okay, I was just curious."

My point of telling that story was that, you know, you grow up at the OCC—and I have to be honest, I spent a half a day working and a half a day watching my back because we're all from the same socioeconomic background. Most of us went to state schools—we didn't have any Harvard or Yale's running around at the OCC—and the way people thought you got ahead was by calling your competency into question. So when you walked out of the room, somebody would say, "You know, gee, you really think Bill is right? I don't know." It seems there was a reorganization almost every other week at the OCC, there was always somebody reorganizing something. And there was a big reorganization going on, and they had not talked to any of the staff about it. But they announced it on Friday that a reorganization was going to be announced. I got back to my desk, I don't know where I was, and there was an envelope. And I open up the envelope and the envelope said, "Your position has been upgraded one level." And I thought, it makes sense because it's a lot of responsibility. And it said, and the new director of the division was me. It means I kept my job. I didn't think anything of it until I walked to get a cup of coffee and somebody says, "Congratulations on surviving." And then you realized that not only was your position being revaluated, but all the people with it. And that would happen lots of times at the OCC. You had to reapply for jobs. I remember the way in which we dealt with problems in New York was you got sent to Montana, to one of the offices out in Montana for "retraining," they called it. To get your attitude right.

MS. CARTER. So, re-education?

MR. RYBACK. Re-education camp, you know. And that was pretty brutal. Two years in Montana was not fun. My point of this is that I got brought up in an atmosphere where

independent actions were rewarded; that's how you got ahead in the organization, by standing out against your peers by [being] willing to take risks. You come over here, that's not that way. And that's got some favorable attributes to it. I mean, I was really genuinely surprised when one of the first things I worked on, somebody from the International Finance area called me up—it was Larry Promisel. He said, "Bill, I read this thing. I think it needs some enhancement in these areas. We'll give you some wording," blah, blah, blah. It was actually all working together to achieve the same result. And I thought, boy, this is bizarre, because at the OCC you husbanded this stuff, you know, and you always kept that last 10 percent of information for the big meeting with the boss.

I remember getting punished at the OCC because when the interest rates were going up under Paul Volcker, we had what we called the 20 percent prime committee, and we had to give advice to the Comptroller on what would happen if prime hit 20 percent. And you had a meeting everyday at 3 o'clock, I remember it was in the Chief National Bank Examiner's office. And if you had an outside meeting, you had to be back by 3 o'clock. If you were outside the building you had to call in, but all those that were in that committee had to be present at 3 o'clock. The inevitable happened—the prime rate reached 20 percent. So the Chief National Bank Examiner said, "What should we do?" And I said, "Well, first of all, you have to rename the committee." He said, "What do you mean?" I said, "Well, it's the 20 percent prime committee. The world didn't fall apart, so let's move it to 25 percent. Let's call ourselves the 25 percent prime committee. So I got sent away for being inappropriate and being disrespectful to the Chief National Bank Examiner."

But anyway, when I got here—and it was a pleasant surprise to see that everyone was working together. But there were rigorous debates between (Bill) Taylor and (Michael)

Bradfield and Ted Truman about ways forward. Kind of the Holy Trinity that ran this place. But I felt better under Volcker. Under Greenspan, he would elliptically allude to what he liked or didn't like. And it's harder, I think, to operate under those kinds of contexts. So I always liked Bill Taylor. On any given day I'd want to kill the man. Literally go into his office and throw him off the roof because he could aggravate you. Other times, you would want to take a bullet for the guy.

MS. CARTER. Oh, they were going to California?

MR. RYBACK. For example, when BNL, an Italian bank, was introduced here in the States, I was supposed to take a vacation in California. And I called my wife and said, "I can't make it, maybe your father can go with you." And the kids and my wife didn't speak to me for a good while after I got back.

And to make up for it, I said I would take them to Hawaii for Christmas—which I did, I got the tickets, I got all the arrangements. And Bill Taylor believed you worked for the Federal Reserve Board 24/7, and if you had a family thing, he didn't care whether your wife was dying of cancer or whatever, you had an obligation to be where you had an obligation to be! So off we go to Hawaii that Christmas, and I just get into the hotel room and we had adjoining rooms. Kids had one room, and my wife and I had another. And they got the room switched, and my son comes through the doorway, and he said, "The telephone is for you—it's Bill Taylor." Now Bill Taylor, as I said, he worked 24/7, and if you were somewhere and you were on vacation and he needed you to do something, well you were going to go do it. And I could remember him calling up people and saying they had to go do something. And they'd say they don't have their passport, and he says, "It's on its way as we speak. It will be down there tomorrow morning. You just got to go!" So my wife said to me, as I'm going to the phone, she said, "Look, I'm

telling you right now. If he's sending you somewhere, I'm getting a divorce." So I'm going to the phone, going, hmmm job, divorce—wow, what a decision to make in what, six seconds? I got to make this?

So I got on the phone, not sure what I was going to answer, but on the other end of that line is Bill Taylor. He says, "You know, I wanted to say Merry Christmas to my favorite international supervisor. I couldn't leave without saying Merry Christmas to the Rybacks." He had Lolly, his secretary, call every hotel in Hawaii until they eventually got me. And he said, "I just want to wish you a Merry Christmas. Pass it on to your family." Click! That's the kind of guy you take a bullet for. I mean, you really would. I mean, who would care? You'd think he'd say Merry Christmas when you got back, but that was quintessential Bill Taylor. You know?

MS. CARTER. That's a great story.

MR. RYBACK. Then the next minute he was aggravating the hell out of you, and you really wanted to stab him in the head with a pencil. But on balance he was a great supervisor, he was a good man, he was a good leader. We lost a lot when he left.

MR. MARTINSON. Well, it's been very enjoyable, and I think we've all learned a lot from this.

MS. CARTER. Anything else? Any last parting words?

MR. RYBACK. No.

MS. CARTER. Great, thanks.

MR. MARTINSON. Thank you very much.

April 15, 2009 (Second Day of Interview)

MR. MARTINSON. This is Mike Martinson. It's Wednesday, April 15. We're at Bill Ryback's house, and we're interviewing him to cover some of the parts that got accidentally deleted from the tape. Bill, I think one of the parts was BCCI. Do you want to start with what you remember about that?

MR. RYBACK. Yeah, Mike, that's a very interesting tale for the Fed. The Fed had been interested for a quite a while in determining whether there were any real ties between BCCI and First American. Our mission in life was to spend considerable amounts of examination time to uncover any evidence or indicia that there was a controlling interest, or more than a passing interest, than the benign investment that BCCI said they had in First American. And we never could quite come up with any gun, or smoking gun, or close to a smoking gun. And then fortune gave us a case where the DEA [Drug Enforcement Agency] was trying to do a sting for money laundering, and every time they tried to approach a bank to launder some dirty funds in Florida, they kept getting the answer, "Well, we don't do that, we go to BCCI." So the DEA did an undercover operation, hooked in a lot of the Boca employees to blatantly launder money through the Boca Raton office. And the interesting part of that was, as the DEA came to close its investigation and make arrests based on the evidence they had, they ended up throwing an engagement party. There were two DEA agents—one male, one female—that were supposedly engaged, and were laundering this money. And they threw a party at a Miami hotel and invited the Boca Raton employees most associated with the money laundering incident. And as they came off the elevator on the top floor of this Miami hotel, they arrested them, one by one, and took them to jail. And some of the staff of BCCI thought this was part of the games going on, with the engagement party. Didn't realize until next morning they were really in deep trouble.

That opportunity gave us—that incident gave us an opportunity to get BCCI into the Board, and to tell them that we don't allow felons to operate in this country, and clearly, that [the] money laundering case was going—a felony charge, which they ultimately pleaded guilty to. And given that, they had to unwind their offices in the U.S. Now, I should say, at this point, BCCI was a dollar-based bank operating out of the Middle East and London. And they needed a dollar clearing mechanism, and that would've severely damaged their ability to operate. But we allowed them time to have an orderly unwind, and eventually, they closed all but the Los Angeles and New York offices.

And we were in the process of monitoring that unwinding when one of the investigators who worked at the Fed came to me and told me that there was this report in London from an audit firm—a well-known audit firm—that connected the BCCI investors, through BCCI, to direct ownership of First American. Exactly what we had been looking for all these years. And with that, we called in the audit firm [and] told them we needed to see that report. And much to my surprise, the audit firm claimed that, while they operated a worldwide franchise under one banner name, that all of these were, in fact, independent companies operating worldwide, and they had no authority to tell their office in London to give us anything. Well, we threatened, if they didn't, that we would take action to make sure they never audited a U.S. financial institution, and I think that changed their minds. And they made a compromise, which was that someone could go over to London to look at this report.

And I was elected to do so; and off I went. And I had to stop in Germany the week before, and on the way back I stopped in London to go to the offices of BCCI on Leadenhall Street, and to take a look at this audit report. And interestingly, I got into London Sunday night. And I stayed at the Thistle Hotel at St. Catherine's Wharf. I was unpacking, and I heard this

rustling. And I looked up, and there was a piece of paper stuck under my door. I went to the door and I opened it up, and no one was in the hallway. And when I looked at the note, it asked if I would stop by the Bank of England after I finished looking at the report—which surprised me because I hadn't told the Bank of England I was there. But obviously, word had spread. So the next morning, I went to BCCI's offices on Leadenhall Street and they gave me this report that was all in code. There were no borrowers listed—there were no names. In fact, all in the report, they were all "XYZ," or "ABC" or "STV Corp," but it didn't take me long to realize that this loan, XYZ, to a financial institution in the U.S., was, in fact, the smoking gun that undermined all of the untruths that BCCI had been telling us for all these years that there was no direct association from BCCI to First American. And in fact, all the capital that had come, had actually come from BCCI. And that the shareholders of record of First American were, in fact, straw persons. They had never put a dime into the bank. It was all furnished by BCCI.

I went to the Bank of England afterwards and they so much as acknowledged that they were aware of things, but they weren't quite sure, and that they didn't want to make allegations. But it was kind of clear to me that, although we'd asked the question many times, and in many different ways, the Bank of England, for some reason, chose to deny that there was this connection, or that they knew of this connection, or they were aware of a connection. So that end remains a little bit of a mystery as to why they wouldn't have conducted a more robust or fuller investigation, since we had told them for years we were interested in the conduit of BCCI to First American.[2]

[2] Editor's note: Additional detail is provided in Senator John Kerry and Senator Hank Brown (1992), "The BCCI Affair," A Report to the Committee on Foreign Relations, United States Senate, 102d Congress 2d Session Senate Print 102-140 (December).

About a week after I got back, and had informed the General Counsel that there indeed was this report, and what were the next steps to be done, there was a law firm—Patton Boggs—who called up and asked to make an appointment to see us. And when they came in, they had with them their little black book which detailed all of the ownership: how it was tied to BCCI, how loans were made, and how all of this operated—and gave us the code names that were in this report and said that the government of Dubai wanted to settle whatever case they could, whatever damages needed to be done, because they had larger interests than dealing with BCCI. This created a problem for the U.K., because it uncovered, once and for all, the nefarious activities that BCCI had undertaken. Not only there, but elsewhere. And forced the U.K.'s hand to move to close BCCI, and of course that was a very difficult and serious undertaking. You had to get all of the various offices on board—at least notify them a few hours before the event. And the story's told (I don't know how true it is) that the day they actually tried to close the operation, which had to be closed first in Belgium—

MR. MARTINSON. Luxembourg, maybe?

MR. RYBACK. —Luxembourg. It happened to be Judge's Day, and the judges were all out at a picnic. And no one was there to sign an order closing BCCI. And the story's told that the head of supervision in Luxembourg had to get on the back of a motor scooter, going around from park to park, looking for the judges that were necessary to give the liquidation order for everything else to proceed entrain. They eventually got the signature. Everything began to close worldwide. The only office that remained open was in Hong Kong, who contested that their subsidiary in Hong Kong was still viable and still solvent. And they called the Fed and said that they were going to keep that office open, and we kind of told them that what's going to happen is everybody from all over the world is going to fly in to attach those assets. And indeed, that's

what began to happen on Saturday—we closed it on Friday. And by Monday, they had to also be the last office to close. But many supervisors heard about the closure of BCCI driving to work that morning and weren't very happy with the way in which that was conducted globally. But one can appreciate that there was some nervousness that if you had too much of a lead time, funds could disappear, things could happen. And it was a very, very difficult global kind of closure event. But BCCI was a very interesting chapter in the Fed's history.

MR. MARTINSON. What I sort of remember is that they closed it sort of mid-day in New York time rather than [at] the end, so a lot of money was trapped in New York, which the U.S. got access to, that—

MR. RYBACK. Yeah, there was rather—that's correct. They closed it, if I remember, right in the beginning of the workday, because it would've been some time in the afternoon in the U.K. And I think we never allowed them to open that day, that's my recollection. But a lot of it got trapped, absolutely, in New York.

And there were still billions in the pipeline that hadn't quite settled, that we were able to attach, and the rest of the world—most of the rest of the world—operates on a single office liquidation theory: You're supposed to move all of these assets to that office and then they can distribute pari passu, or some other magic way, globally. But in the U.S., the laws are such that each individual state has claim to those assets. So New York State was sitting on a pile of money, which we eventually trapped and fined the bank heavily—BCCI—for their behavior. I think it was about $450 million, which we eventually turned over to the liquidators in Luxembourg. But, nonetheless, it was a very hefty fine.

[Robert] Altman and Clark Clifford, which protested that they were innocent and unaware of any of this, eventually went to trial and were not found to be guilty, which I think

upset the government to no end. But it was all the tricky means, I think, that BCCI took to obfuscate all of this. And various steps that no one, perhaps, except one or two of the top management at BCCI, actually knew what was going on. So it's an event that lives on—still haven't resolved all of those issues—on how one closes a global institution, and how do you reconcile all of that. Various committees and various academic interests have looked into all of this, but you're never going to get an international treaty that allows some kind of orderly resolution of—especially the orderly resolution of an errant bank.

MR. MARTINSON. Yes, that was quite an experience. I guess this was our first time dealing with Bill Taylor and those flip charts.

MR. RYBACK. Yeah, for whatever reason, Bill [Taylor] always had things on his mind of how he wanted to do things, and they weren't always apparent to staff. But the decision was made that I needed more domestic experience, so I was told to be the head BCCI person in the U.S. And Steve Schemering, who was the head domestic guy—Bill Taylor thought he could be exposed more to international, so he told Steve, he says, "I want you to get on a plane. I want you to go to the U.K. and I want you to help out the Bank of England. And, by the way, keep us informed of what's going on." So that was earlier in the morning, around 10:00 a.m.

He told me to get the war room ready, and set up, which consisted of putting lots of phones in a room, manning the thing almost 24/7, making sure we had all these information flows. And Bill Taylor liked to have everything on a flip chart. And, later in the day, about 1:00 p.m., he comes out of his office and he sees Schemering, and he says, "I thought I told you to get to London." And Schemering explained to him that the planes didn't leave until the afternoon. He says, "When I said to go to London, I meant now." He says, "Find a way. There's ways, I'm sure, you can get to London." So he was banished out of the office.

I set up the war room and got the telephones manned, and I thought, "Well, this is a—I can improve upon this." Instead of having a flip chart, where we made comments and notations of every phone call, what time they came in, who said what, so that there was a running narrative of what we knew when, and who we knew it from, I thought it would be better to have one of the secretaries come in, take all this in shorthand, and keep the notes flowing. Therefore someone could just take them; if they needed to go the men's room, they could look at them in the men's room, and they didn't have this flip chart. And later that evening, Mr. Taylor comes in, he looks around, he goes, "Where's the flip chart?" I said, "Well, I've got this improved method, that we have almost, within 15 minutes, everything on a printed form." And he comes up to me and he looks at me, and he says, "What word is it that you don't understand—flip or chart?" So [laughs] I had to go running around, rummaging around, making sure I got a flip chart. And after that, I figured, there's no sense improving the process—that's what he wants, that's what he's going to get. So we kept our flip charts rolling, where he could come in any moment and just flip through them. And it actually is—we learned all of this, setting up a war room, through the Butcher banks and other events that had proved that particular mechanism to be particularly good. So I learned after that, I do literally what Mr. Taylor tells me—not figuratively.

MR. MARTINSON. And I think the other piece that we somehow lost on the tape was, sort of, some examples of the difference between Greenspan's involvement and supervision, and Volcker's. You had one story in particular that was pretty humorous.

MR. RYBACK. Well there were lots of differences, obviously, between Greenspan's and Volcker's approach. Volcker was very committed and very interested in managing the events in supervision, and being kept fully informed. And he was a real hands-on kind of Chairman. And I remember, we had set up this International Country Exposure Review

Committee, which you yourself—and that Committee was responsible for looking at whether or not any of these loans to various government and government entities around the world should be classified in some way, shape, or form, or criticized. And it was a very elaborate process that took lots of resources to deal with. One had to do a lot of economic, kind of underpinning, work.

And the Committee itself was made up of three individuals from the Federal Reserve, three from the OCC, and three from the FDIC. But before the Committee even met, Volcker would take an intense interest in knowing what was on the agenda, what were our recommended positions, how were we going to deal with that. And he had some strong views on how we would, should, deal with each one.

And I remember one occasion, where we were all in the room, including you, Mike, and he was particularly interested in ensuring that a country, which was having its financial difficulties, didn't get classified. He didn't care whether we criticized that, which would be special mention, but he wanted to make sure that it wasn't classified. Because if those loans were classified, it would undermine the ability of the government to provide additional financing, both of the banking system and through the government itself. And there were resolutions underway that would be affected. So, as he went on, he said "You know, now, it's your job, Mike, to make sure that these loans don't get classified." I remember you commenting to the Chairman that you were only one of three votes, and you clearly thought we could control three votes, but that left six votes that they could vote however way they wanted. And it was a majority rule. And if it came out five to four, there wasn't much we could do about it. And I remember Volcker looking up, he says, "Are you under some misapprehension that I can't fire you?" [Laughs] So, kind of focuses your attention and your mind to get your job done.

So you went from this rather intense interest in supervision—and I can remember, I think the credibility of the Fed as a supervisor was enhanced immeasurably when we were going through the problems of late '80s and early '90s. And banks were complaining about examiners being too tough and too rigid, and not having a good understanding of the credits and classifying them, because they were nervous that, if they didn't, and they eventually ended up turning out to be sour loans in the future. And banks just didn't want to acknowledge then that they have a lot of bad loans, and a lot of lousy loans, and a lot of loans with imperfected collateral that were going to cost them money in loan losses.

And I remember the Chairman of First National Bank of Chicago, Barry Sullivan, came in to see Volcker. And he complained that—he thought the examinations were much too negative, and that the Bank knew its customers best, and they should be in charge of determining what was a bad loan and what wasn't. He had all the normal kinds of excuses or reasons, rationale, a bank would give for not having to absorb these loan losses. When he finished, I remember, Volcker stood up and he said, "Look." He said, "I pay the guy across the street, Mr. Taylor, a lot of money to give me his advice on what banks he thinks are weak or—and need to undertake remedial measures." He says, "You're in the wrong office. You have to go see him. And if you change his mind, then you'll have changed mine." And I think the words spin very quickly through the banking sector, "Don't go see the Chairman of the Federal Reserve. He's only going to refer you to the head of bank supervision."

So there was a credibility that began under Volcker, I think, that allowed the Fed—Bill Taylor and Jerry Corrigan, specifically—to direct a lot of initiatives in the banking system that, in my view, saved a number of the very large banks from teetering off into oblivion. You know, they were quite frank with a lot of the large banks, and told them that their only course of action

would be to find merger partners, augment capital, get rid of the bad management, and do a lot of these things that we didn't want to have to do through enforcement orders because they become public. So I think Volcker did quite a bit for enhancing the reputation of bank supervision and making it clear that you had to satisfy the bank supervisors before the Board would be satisfied on whether or not you were cured or you were a fixed bank.

Greenspan never gave that impression that he was much interested in what went on in bank supervision. I think, clearly, he needed, wanted, and desired the information flow that came from the banking supervision process. Having a very close birds-eye view of what was going on in credit underwriting standards, et cetera, and I believe—I don't know, but I have to believe—that it was very useful in setting monetary policy and calibrating monetary policy. But the routine and the mechanics of supervision, he never liked to tinker with.

I remember one time, we were over there, the Japanese banking system was going through an unstable period, and eventually the markets, as they always do, began to adjust and they started to teeter the market between the Japanese banks and the rest of the global institutions, which are all just a polyglot. Collateral could be substituted globally, and pricing was always the same for the large multinational financial institutions. And the market began to differentiate whether they'd take Japanese collateral—Japanese short-term notes as collateral. And then, inevitably, that led to tiering within the Japanese banking system. The market was making a lot of differentiation between Japanese banks and other global institutions, as well as the Japanese banks themselves. And Japanese banks had very, very large U.S. dollar positions, and if their liquidity was unstable, it could disrupt the market. So we thought it best to begin a regimen of having much more granular, much more enhanced liquidity information on a daily basis. And, of course, as we're wont to do, we had to go tell the Chairman this is what we're

doing. And I remember it particularly well, it was one Friday night—and I should've been home with my family, but I wasn't—sitting in the Chairman's office, and it was raining, and lightning, and I'm explaining to Greenspan this method that we're going to use to continue to look at Japanese liquidity. And we had decided that, instead of doing it directly, we would do it indirectly through the Bank of Japan. They would report those figures to the Bank of Japan who had an office in New York. And they, in turn, would give it to us. So it was kind of inter-governmental sharing as opposed to direct looking at Japanese banks. I explained this to Greenspan, and he looked up at me, and he said, "Do I have to tell you what's going to happen to the world markets if they start finding out the Federal Reserve's looking at Japanese liquidity much more intensely?" So I said, "No, you don't have to tell me." And that, kind of, would be a signal that the Chairman wasn't enamored with the course of action that we were taking. But that was all you were going to get. But then he stood up, and he came over to me, and he looked down at me and he said, "On the other hand," he said, "if you allow the Federal Reserve to have their pockets picked, I'm going to thank you personally." So, as we walked out into the hallway, my boss looked at me and he says, "What did he mean?" And I said, "Well, the only thing I got out of that conversation was, if this doesn't turn out the way we hope it does, then I'm fired." I said, "And I think you're fired too, because you're in his line of sight." So, it was these nuances you had to deal with, with Greenspan, that you didn't have to do with Volcker, because he was quite direct as to what he wanted you to do. I remember him telling me once, he wanted me to call the Senator, and to tell him this—and he says, "And, by the way, when you hang up, he's going to call me, and he's going to complain," and he says, "And I'm going to make you look like an idiot because I'm going to tell him that you had no authority to speak for the Federal Reserve, et cetera." He says, "But I want him to know that there are things on the table."

MR. MARTINSON. Do you want to tell the socks story? Or can we leave that? [Laughter]

MR. RYBACK. No. I'll tell the story. One of the first times we were exposed to Chairman Greenspan, Bill Taylor—well, first I should tell you, the first exposure I had to Alan Greenspan was—he was there about a week (my boss was on vacation), he came in July, sometime during the summer. My boss was on vacation. Bill Taylor called me up and he said, "Look." He said, "You have to go over at 1:00 p.m. and brief the Chairman on this matter." And he said, "Now, this is the first time Bank Supervision is going to be in front of the Chairman." So he says, "I don't want you to screw this up. I don't want the Chairman to complain to me, he thinks you're an idiot." So he says, you know, "Make sure you know what you're doing, blah, blah, blah. Give him good advice." So at about two minutes before 1:00, I'm in the men's room across the hall from the Chairman's office. I'm straightening my tie, I'm grooming myself. This is what you've worked for your whole career, a one-on-one with the Federal Reserve Board Chairman—mano y mano—talking high resolution finance and international global supervision. And I was waiting in his outer office, and he finally told Catherine Mallardi, his secretary, he says, "You can send him in." So I go in, I start to pull up a chair to sit down, and Greenspan looks at me and he says, "Going to take so long you have to sit?" So I kind of realized, "Well, he's not wanting this briefing. This is my boss trying to force a briefing on him." So I just went ahead and did whatever I had to do. But anyway, a little bit later, we had to go over on another matter, and we're briefing the Chairman. It's late at night and he had finished a tennis match, I guess, or—in any event, he was going to a grade-A kind of event afterwards. And he's sitting in his chair, and he's got on this white fluffy robe and he had just taken a shower, and we were trying to brief him, whatever we were doing. And all of a

sudden, he leans down, he takes a ruler, and he leans under his desk, and he's moving the ruler around, and then he looks up, he says, "Are my socks over there?" So I said, "I didn't see them." My boss, Bill Taylor, he pounds me in the leg, and he says, "Give the Chairman your socks. You give him—you wear those long socks. He likes those long socks. Give him your socks." I said, "No, I'm not going to give up my socks." So we went on a sock hunt and we eventually found the socks. [Laughter] But I clearly thought this man was not too interested in what we were having to say. And, to be fair, you really had to be on the ball for Greenspan, because you had to come out within the first couple sentences with something that was going to connect the dots for him, to make it useful. Otherwise, as far as I was concerned, you know, much of the time we were wasting, because he just wanted us to do our job without having to know the nitty-gritty granular details. Bank supervision's an ugly business, it really is.

MR. MARTINSON. I think that covers the points that got lost on the other tape. Is there any other thing that you've thought about in the interim, that—

MR. RYBACK. I had 36 years in the government. I spent 18 years at the Comptroller's Office and 18 years at the Federal Reserve Board. And, when you're at the Comptroller's Office, all we do is bank supervision. That's what the mission is. Whereas the Fed has a much broader responsibility, to be sure. And, at the OCC, you went out and you examined banks, you tried to do that in a professional manner, you had to make judgments as to which banks were going to survive, and how to grade them, and rate them. But it took me a couple years at the Fed to understand and see that the Federal Reserve really was a better supervisor—not in the technical aspects of the job. You can debate that all you want, as to who's more technologically proficient. But I admire Bill Taylor and Jerry Corrigan and others, for resolving the banking problems in a very, let me say, adult way. They took it upon themselves to pressure the banks to

do the right thing [so as] to not have to undertake formal actions—to not have to precisely, with a great degree, nth degree, of analysis determine how much loan loss was. They just told the banks, they said, “Look. You know these loans are underwater. We’re not going to have any forbearance.” You have to undertake a very aggressive reserving program to reserve against these values that we don’t know. They’re unknown. Who knows what the value of an empty building is on Madison Avenue in New York. It should be north of zero, but you could calculate that it was zero—there was no rent. There was no nothing. And the OCC would take that view, and say, “Well, you have to take up half a loss, and you have to put another quarter of doubt, and the rest is substandard, and the very heavily reserved,” where the Federal Reserve said, “I don’t know. There’s some loss. You tell me what you think that loss is. You take that loss, and then you begin to build your reserves.” And pressured the bank to make changes in management.

I remember Bill Taylor calling up John Reed, at Citibank, and we were having a particular aggressive discussions with the bank, trying to make them understand that their loan portfolio was built on sand—that there may be payments coming in, but those payments weren’t going to be there forever. And much of this was very aggressive lending on future values that didn’t appear to be realistic. Even though you could get some quant, which they did, from MIT to demonstrate on a computer model that the values of a certain brewery were realistic, the problem was they didn’t control stock, they didn’t control the company, so all of this was imaginary values. But they were convinced that that lending was sound. And we were not having particular success into making the senior management understand the severity of these problems. And Bill Taylor, for example, he called up John Reed, he says, “I’m going to send you 15 loans.” He says, “They’re not biased, they’re not skewed in any way.” He said, “They’re loans we’ve taken out of a sample of your global loan portfolio.” And he said, “You tell me

whether I'm wrong." He said, "I think these are pretty crummy loans." And he said, "But you tell me what you think." And he called—he, John Reed—called a couple days later, and said he really had no idea that that's how bad the loan portfolio was. And he started to take aggressive action to turn that institution around.

So things like that made me understand that there's ways in which you can conduct and undertake bank supervision that's less stressful on the banking system, but yet gets the objective done. And I realized at the end, that I much prefer the Federal Reserve because of those reasons. They just took a much more holistic view of having to get the job accomplished: doing it behind the scenes; doing it non-aggressively; doing it through persuasion and common sense. I thought my career was particularly blessed by making that transition. I never understood why the Fed hired me, because I certainly don't have the pedigree that most people have coming into the Fed. They had degrees I could only have wished for, hoped for. I only graduated from Seton Hall, a college in New Jersey. But I think I did—was helpful at the Fed. Because the one thing I knew [from] working in New York was how the markets worked, and how they're going to react, and what things were going to be done. So I think that was helpful in its own way—understanding that everything has a consequence, of course, and here's what the markets would do.

I remember, after the Russian crisis, there was intense interest at the Federal Reserve—throughout the U.S. government, for that matter—to find a way in which everyone would undertake the same degree of losses, both the public and the private sector. And those losses would have to be forced upon the private sector. And we were in Greenspan's office, and the economists were going on and on about this, that, and the other thing—and different models you could use, and different variations of the [inaudible], and then finally Greenspan looked at me, and he said, "Does Bank Supervision have a view on this?" And I said, "Well, I can't compete

with this argument." But I said, "I'll tell you what the market's going to do." And I said, "As soon as you start to enforce losses into the banking system, the banks are going to be forced to move all of their loans to New York, and all of the deposits to New York, create a huge offset, and then move against—aggressively—any collateral that's available worldwide." And one of the economists pointed out that this would be a government initiative, and I said, "Well, you know, the funny thing is, that these are private companies. They owe their shareholders." And I said, "They've got to make some attempt at recovering these loans, irrespective of what the government thinks, unless the government is going to make them whole," et cetera. And I think that at least had an impression that while I was totally agreeing with the philosophy of wanting to move in that direction, the realities were quite different. So I had a good career.

MR. MARTINSON. Yep, it was a good—

MR. RYBACK. It was a good run.

MR. MARTINSON. —time to be there.

MR. RYBACK. And I always had Mike by my side. Mike always, was a sense of practicality. I can remember when Mike would bring me a letter we were supposed to write, and I'd tell him, I said, "My God, this sounds like you're asking your Aunt Susie to pick you up at the train station." And I'd take a draft at it, and Mike would just look up at me. He says, "You can't say that." But somewhere in the interim, we got the tone just about right.

MR. MARTINSON. After a few drafts, we'd—[laughter]—okay, well, it was—

MR. RYBACK. Thank you, Michael.

MR. MARTINSON. Nice talking to you.