Sheila C. Bair – Administrator of the Year
Speech Transcript
March 29, 2012

Thank you, Dave. That was a very nice introduction. It really is a pleasure to be here. One of the nice things about no longer being in public service is that I have more time to travel and meet with people, especially students. I really cherish the four years I spent at the University of Massachusetts teaching and like to jump at the opportunity of engaging students in academics, especially those who share a commitment to public service.

That was a very nice introduction, David. You know, I was speaking to my daughter's grade school a few years ago and the dean of the lower school introduced me and mentioned that I had been named the second most powerful woman in the world two years in a row and some other things that I had done and then he turned the program over to me. So I did my usual pitch to young people about banks and deposit insurance, and spending wisely, etc. After I finished my presentation I opened it up to the young women in the audience to ask questions. A little hand shot up in the back of the room and she wanted to know, 'Who was number one?' It is very hard to impress children these days. Two years in a row I was number two and then I believe it was 2010 I dropped to number 14. I think that was a sign that the banking system was stabilizing but Lady Gaga beat me and I was quite concerned. Then last year I dropped off the list completely when I stepped down but was at the top of the list of people who fell off, but it was a good ride. Some people said I had a good crisis. I don't think anybody had a good crisis but I guess I weathered it better than others in terms of reputation and recognition for the things we did at the FDIC and I am very proud of the record that we accomplished.

People ask me how I started my career in public service and I actually started out as civil rights attorney. I went to law school at Kansas University and then I taught for a year at the University of Arkansas School of Law on a teaching fellowship, it was a nice transitional job, but my first real job was as a civil right attorney in the Department of Health, Education and Welfare. A few of you only might be able to remember the old HEW, I'm dating myself. And that job took me to Washington and shortly after I arrived in Washington when Senator Dole, Senator Robert Dole of Kansas, offered me a job as his council on the Senate Judiciary Committee and this was in the early 1980s when President Reagan had just been elected and the Voting Rights Act was up for extension and there was a lot of anxiety about that. Strom Thurman had just taken over as chairman of the Senate Judiciary Committee which was a pretty profound change from Ted Kennedy who had chaired the committee. Senator Thurman, who I had a lot of respect for and passed away, is someone I had a lot of respect for. He did a lot of work as a segregationist and had transitioned beyond that but early on in his political life that was his identification so there was a lot of anxiety about what the Senate Judiciary Committee and the Senate was going to do with the Voting Rights Act extension. Senator Dole was one of the more moderate Republicans on the Judiciary Committee wanted to play a very active role. So Senator Dole, true to his Kansas roots, and to Republican Party's roots, was pretty strong on civil rights issues and asked me to work for him on the Senate Judiciary Committee and I was very pleased to do that. And we did extend the voting rights act and Senator Thurman supported it. We did extend it for 25 years with very strong bi-partisan support and that was my first real foray into major public policy.

I really learned at the knee of my former boss about what it was meant to be a good public servant because he really was quite extraordinary. I think people sometimes saw the rough edges of his personality and perhaps didn't truly appreciate what a compassionate man he was as a public servant and still is. He had quite severe disabilities from his WWII injuries and he hid them very well. People didn't really realize how disabled he actually was from the war but it gave him a real compassion, I think, for people who are less fortunate, people who needed a helping hand. Some people do need a helping hand and that's one of the roles of government. He was very strong on disability rights, he was strong on poverty programs and worked with Senator McGovern on food stamp programs and he was also Chairman of the Senate Finance Committee when I worked for him and of course, that gave him authority over tax laws. Very, very powerful position as chair over the Senate Finance Committee.

Some of you may remember when President Reagan came in, his first public step when coming in was to reduce income tax rates across the board, a total of 30%. It was quite a profound reduction and quite frankly it was needed at the time. We needed a tax stimulus at that time and it helped get the economy jumpstarted but it also presented huge budget deficits. So, Senator Dole as chairman of the Senate Finance Committee decided that the best way to make up for that lost revenue was to close tax loopholes. We didn't want to raise people's rates again but there were a lot of loopholes, especially corporate loopholes that probably didn't need to be there and so he drafted a bill in 1982 called the Deficit Reduction Act and I'll never forget that I was walking down the hall with him on the morning of the markup of this bill in the Senate Finance Committee. This is when the Senate Finance Committee was going to meet and actually review the legislation that Senator Dole and his staff had drafted and then vote on it. The doors of the committee hadn't opened yet and there's a huge line of lobbyists down the hall and I was walking with him. Of course, he saw them, tax lobbyists are one of the better paid professions in Washington, so of course, they're dressed to the nines. He walked past them on his way to the committee room. And he looked back at them and said something to the effect of, "Well, I see a lot of Gucci's in this hall, you're going to be barefoot in the morning." It took them by surprise, but you know, he was like that. He wasn't antagonistic, he always gave people a fair shake and listened to reasoned policy arguments but he was there to serve the public. He wasn't there to serve tax lobbyists. He wasn't there to serve campaign donors. He wasn't there to serve rich corporate interests that could hire a well liked, young lobbyist and make the rest of us pay more because of the revenue they got from their special tax loopholes. We did get that bill passed and it did do a lot to staunch some of the revenue losses from the first round of tax cuts.

Later, he worked with Pat Minahan in 1983 on a major package. Social Security was going broke at that time and he worked with him and they came up with a bi-partisan compromise. Isn't that great? Remember the time when we use to have bi-partisan compromises? We both reduced benefits and we raised taxes. The Republicans got their benefit reductions and the Democrats got their tax increases. They put that together and that has kept Social Security on reasonably good footing. It was sound for the next 30 years and of course we need to start dealing with that again. We don't see much of that kind of bi-partisan compromise in Washington and I think that is really quite unfortunate. You know, it is easy to come up with sound bytes and programs and ideas that sound good on paper but what's really hard is coming up with something that can be passed and executed and actually work and benefit.

Alexander Graham Bell once said about inventions that 1% is inspiration and 99% is perspiration. That's true about public policy too. There's a lot of wonderful sounding ideas out there and a lot of good sound bytes and good speeches we can all give, but actually designing a program that will work and can be approved and funded and implemented and executed in a way that achieves its goals, that's a lot harder to do. And that's why it's so important that we have schools like this one to give all of you young idealists out there who, like me, want to go into government work or nonprofit work because you want to do good, you want to improve people's lives. You want to make a difference. But you will soon run into the practicalities of executing programs even when you do have very good, workable ideas. That's why it's so important to teach management skills to help folks realize their objectives in way that is effective.

When I became Chairman of the FDIC in June 2006, it was a borderline dysfunctional agency. I will have to say that there were big problems. It had gone through a very long period of downsizing, the staff had been cut way to the bone, morale was very bad. I was not there during the budget cuts and the staff reductions enforced but the perception was, among the staff, was that it was not based on merit but it was based on favoritism by whoever was in with the power structure at the time. It was just symptomatic of a larger problem in Washington that everybody had gotten carried away with this idea of self-correcting markets and, we didn't need regulation anymore. Alan Greenspan had figured it out and we were beyond the boom and bust business cycles. The good times were going to roll forever and there wasn't any need for regulation because banks were going to be profitable forever.

All the agencies, not just the FDIC, had really started cutting back on their staff. They had also cut back on their regulatory rigor. When I came they had instituted something called myriad exams, which are examiners perform what are called drive-by exams. So basically, under this program, we have several bank regulators in this country, some people say we have too many, but the FDIC is one of four bank regulators in this country and we regulated most of the smaller, state charter banks. By law, banks that had deposit insurance needed to be examined every year to make sure they're making prudent use of those insured deposits, there is government exposure there. It used to mean that examiners would go in and dig through one of the files and make sure that these were properly performed and done according to their policies. But under these new myriad exams they wouldn't look at the loan files anymore, they basically would go into management and say, "Everything okay? Are you adhering to your policies?" And they would say, "Yeah, well we will see you next June." So, that created some very bad morale problems with the examination staff and they knew there was starting to be problems. Our examiners in the field could start seeing it already. The housing market was softening, living standards had deteriorated significantly so this created a lot of morale problems at the FDIC.

So my first year there, I came in June 2006, I spent a lot of time on operational issues, trying to get the agency turned around. We hired outside consultants to do an employee survey to try to get to the roots of some of the problems. We opened up the lines of communication. I initiated quarterly call-ins and instructed executive staff that they needed to institute communication protocols to make sure that their decisions were being made appropriately. I supported input from all ranks of the FDIC and when decisions were made they were communicated appropriately. We revamped its pay-for-performance system. They had this hideous pay-for-performance system. Nobody liked it except the consultants that the FDIC had paid a lot of money to design it. Basically what it said was it forced managers to divide their employees into three buckets. So, the top third got a very, very big bonus and salary increase. The middle third got an average salary increase, based on cost of living, and the lower third got nothing. So basically what this assumed was one-third of your employees were stars, one-third were average, and one-third of your employees were failures. Well, you're managers out there, that's not reality, and forcing managers to kind of stick all their employees into those buckets would create a terrible morale problem so we tossed that. We gave the managers the authority and pools of money for performance and told them they needed to give it to those with good performance and told them they needed to acknowledge employees that were not doing so well. But we gave them money to be managers and they could make decisions without us forcing to make decisions and put their employees in different buckets.

I also streamlined our corporate objectives. Any good corporation or government agency or nonprofit will have corporate objectives every year and some multi-year plans as well, quarterly milestones, we did all of that. But the corporate objectives were things like protect insured depositors, promote financial stability, but of course we need to do that, but what does that mean? I actually found that the process of revising the corporate objectives and making them more focused and more tangible in terms of what were expected of our employees turned out to be a very good, powerful management tool because it got people focused. What are we about? What do we need to do? Here's a crisis coming. What should be our objective? What does it mean to protect insured depositors and we decided that means that when a bank fails they need to have uninterrupted access to their money. Right? You've got your money in your checking account, if you're going to pay your rent the next morning you don't want any interruptions on your checking account to get your insured money out of a bank. That's what happened in the UK when Northern Rock failed, a thrift lender in the UK, there was a terrible bank run. It wasn't because people didn't think they were going to get paid. They knew the government would eventually pay them their insured deposits but they were going to have to wait six months to get it. People can't wait to get their money, so that became our objective, one of our many, but probably our most important one. It was to make sure when a bank fails that insured depositors have access to their money within one business day. We didn't miss that once. So, it really took a lot of time and wasn't why I took the FDIC job. I'm a policy person, I wanted to do policy. But I quickly realized that you don't do policy unless you have an operationally effective agency to execute those policies. That is what we did and it worked. We had 365 bank failures when I was with the FDIC, about $700 billion in assets. But every single one went smooth as silk. Noone lost a penny of insured deposits. Everyone had seamless access to their money. As Rex indicated, we instituted some innovative strategies that saved us billions of dollars for the agency and for taxpayers but it took a lot of operational work and advanced planning to get there. Sometimes, I think we made it look too easy. I'm very proud of what the industry did.

It wasn't all smooth sailing, though. I must say I did have my ups and downs with the industry, as probably some of you are aware. We were one of the first agencies to see the subprime crisis coming. And we tried very early to get the ship turned before the crisis hit. In 2006, I started calling that we needed to tighten lending standards on subprime loans and got a tremendous amount of pushback, even in late 2006 and early 2007 when it was starting to become clear that these loans, their delinquencies were going up very rapidly, and it became clear that we were going to have a real problem on our hands and the other regulators fought me, and the industry fought me. I will never forget in January 2007, I was out there pushing for stronger lending standards and a group of industry lobbyists came to see me, they were representing mortgage originators, and it's what you call an intimidation meeting in Washington so about 30 of them came in and we're sitting around and they were kind of beating their chest, letting go with what they thought. I will never forget, they came in and what they said was total denial. They said this has nothing to do with the fact that we're making bad loans, this is all about the borrowers. People just don't care about paying their mortgage anymore. I will never forget one guy saying, "You know, if they need a washing machine, they'll go buy a washing machine instead of paying for their mortgage." And I said to him, "Why are they having to make those trade-offs? If they had a mortgage they could afford as opposed to some of this abusive stuff we're seeing in lower income neighborhoods then maybe they wouldn't have to make those trade-offs but this group just insisted it wasn't anything about the loans, lending standards weren't applicable, it was just that borrowers didn't care anymore about paying their mortgage.

So, we went ahead and we finalized, we did strengthen their sub-prime standards. It took me until June 2007 before we finally got it out, but we did, and of course by that time, most of the damage was done. You know, millions of these loans were out there and they had these really state payment resets, so they would start with a lower rate. These sub-prime loans, they were a terrible product; the starter rate was about 9%. Now after two or three years they would jump up to 13-15%. They were made to force the borrower to keep refinancing and then when you refinanced, frequently you'd have to pay a prepayment penalty on top of the refinancing fee to get out of these loans. They were push-marketed in lower income neighborhoods to people who had equity in their house, or frankly, started with 30-year fixed-rate loans. So, we knew these things were resetting and we knew we were going to have a problem. We brought in the securitization industry in the spring and had three separate meetings. I brought in the treasury department, the Fed, the OCC, all the other regulators, we got the accountants in there, the tax lawyers, everyone, and we looked at a framework for getting these loans restructured in scale. We got very strong commitments from the leaders of the securitization industry – they were the ones that were funding these loans, this securitization machine - that they were going to get these loans restructured. And so I felt that we had strong commitments; they made public commitments to Senator Dodd and Senator Shoppe who were also engaged with them. And we waited and nothing happened.

And in the fall of 2007, Mark Sandy of Moodys.com came out with a survey that showed that less than 1% of these distressed sub-prime loans were actually being restructured into affordable payments so that the borrower could stay in the house and keep paying. They were just going straight into foreclosure. So at that point, I decided we needed to ratchet up the public pressure, so I did an op-ed in the *New York Times* on this and then I went to speak to an industry group in New York, a securitization group, and I just said to them, "We've got a real problem on our hands. This locomotive is coming, we can all see it. You said that you would restructure these loans, you're not doing it. You need to do it. Why aren't you doing it? It's in everyone's interest to get these loans restructured. It's going to be more expensive to go into foreclosure than to just reduce the payment a bit and let these people, give these people an affordable payment. And so I was finished with my remarks and I didn't get much applause, and people were looking at each other and kind of rolling their eyes. And you know, these were all the masters of the universe up at New York. They were the ones that were packaging these mortgages into securitizations. So a hand went up in the back of the room and I said okay and he said, "You don't understand; you can't help these people." He called them "these people." "You give them a break on their mortgage and they're going to go out and buy a flat-screen TV with it." So I said, "Well, if you feel that way, why were you providing funding for these mortgages to begin with?" And I won't ever forget he said, "Bad regulation." So there you go. In January, they were coming in fighting tighter lending standards, but by October 2007, when all the loans were going bad it was the regulators' fault that they had done this.

And so I give you that anecdote, to, warn some of you, frankly, you want to go into government service, especially if you want to become a government regulator, that sometimes you can really get whip-sided. Regulators are easy whipping boys or women, as the case might be, and you get a lot of push-back if you try to regulate. By definition, if you're trying to regulate, you're trying to tell somebody to do something they wouldn't otherwise do, and they want to do it and you don't want them to do it, but then if you don't regulate and things go bad, you get blamed, including by the very industry that fought the regulation to begin with. So it can be very tough to be a regulator sometimes, but you know, at the end of the day, that's okay, because a regulator's job, and a government official's job, is not to serve the industry that you regulate; it is to protect the public. And you need to discharge those responsibilities in accordance with your public obligations. And I think sometimes perhaps that's one of the reasons that things went so awry, that regulators didn't identify with the public interest as much as they should have. I would actually hear some regulators say in meetings, "Oh, we can't do that; the industry will oppose it." You know, "That's not something with the industry, the industry will kill us." Well, who cares! You know, that's not your job. You should listen to the industry, I don't want to suggest that. It's always important if you're a regulator to understand how the industry works and what the impact of the regulation will be. That's different from just saying, "They don't like it; we can't do it." But, you know, I still think there's, even after this terrible crisis and all the problems, so much of this could be avoided if there had been two regulations that we added in the early 2000's. One was to raise bank capital, the capital requirements for financial institutions, meaning that they would have to put more skin in the game, to take losses associated with this risk-taking they were doing, if we'd done that. And if we'd had mortgage lending standards that applied to everybody. Those two things could have avoided a lot of that, but it didn't happen. And I do think there was some confusion, perhaps still is, about who works for who and what the appropriate relationship was and should be.

One of my final speeches at the FDIC, before I left, was to the American Banker's Association. I had spoken to them every year of my FDIC chairmanship and generally with positive results. And I was quite frustrated with the ABA, the ABA leadership, I would say, not the members so much. But they had some pretty aggressive lobbyists in Washington who had, I thought, done some very heavy-handed things during the debate on the Dodd Frank financial reform law and then also were really resisting regulator's efforts to try and implement that law and put some of these common sense reforms, like higher capital and mortgage lending standards, into place. So I decided to try to give a speech, this was my final speech to them, and I decided to give them a speech that would appeal to what I thought and hoped would be their better instincts. I want to read you a few quotes from the speech, I was proud of the speechand I thought it was a good speech.

> "We need to get past rhetoric that implies that when it comes to financial services, the best regulation is less regulation. We need to stand together on the principle that prudential standards are essential to protect the competitive position of responsible players from the excesses of the highflyers. I would very much like to hear from the industry a constructive regulatory agenda that would use the provisions of Dodd Frank's to fix the problems that led to the crisis and helped to protect consumers and preserve financial stability in the years ahead.
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> "I would like to propose to you a radical sounding notion. And it is that increasing the size and profitability of the financial services industry is not, and should not be, the goal of our national economic policy. Policy terms in the financial sector is not an end in itself, but a means to an end, which is to support the vitality of the real economy and the livelihood of the American people.
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> "Everyone of your branches prominently displays the FDIC seal. It is a symbol of our public confidence that assures the public that their money is safe if your institution should fail. But that seal also carries with it the expectations of your customers that they will be treated fairly and protected from unsuitable loan products and hidden service charges."

I was quite pleased with myself for this speech and I thought, "We're going to have a good constructive discussion." So, I was finished and I will have to tell you they booed me. I could not believe it. And then they started lobbing me on a regulation the FDIC had put out to try to restrain overdraft fees and probably some of you may have been caught, some students may have been caught by these overdraft fees that can be quite severe. You know, if you overdraw your account by a few bucks, if you buy a latte at Starbucks, you have a $35 overdraft fee. So we put out some guidance that that was for the occasional overdraft and if people were chronically using overdrafts then they should be put in a line of credit. You shouldn't be collecting thousands of dollars a year from customers on overdraft fees. That's not what bankers should be about. I couldn't believe it, after I gave the speech they spent 30 minutes trying to restrain overdraft fees and I found out later that the head of the organization had a special session before my speech to get them to jump up and talk with me about overdraft fees.

So, it was too bad. I hated to leave on a sour note but a week later I went to go speak to the Independent Community Bankers Association, which is another industry trade group, but they represent the smaller banks and that actually was a love fest. They gave me several standing ovations and for whatever reason seemed to receive my remarks better it was because they saw this video CNBC filmed this heckling at it went viral, actually. They made me a hero which is ironic actually, probably noone would've paid attention to the speech if no one had heckled me but they did so I guess that turned out alright after all.

This story has one more permutation before I leave it and that is that after I had given my speech at the ICBA and I had gotten my standing ovations I was feeling good and I just hate to leave on a sour note so I had the head of my office contact the American Banker's Association and suggest that we get together to have coffee to try to patch things up because I was thinking I had had disagreements with the ABA but I had never quite had that kind of a pummeling and I wanted to try to leave on a more positive note. So we tentatively set this up, but then I cancelled it when I saw this gentleman had given an interview to the American Banker, which is a trade association, and he said that he thought that I came in and was aggressive to say the least. And then he said, "It puzzled me because these were regulated people who paid your salary." He was talking about me, and this is what bothered me, he said, "No one gave her a standing ovation, because no government official should ever be given a standing ovation in my judgment. I feel very strongly about that. We are servants of the served."

So really what this said was that the regulators work for the banks, they pay our salary. Those are the interests that we should serve. And it saddened me because after all of this, this is 2011, the head of the major banking association was characterizing regulators in those terms. But, we will never get beyond what happened in 2008. And we will ever get this fixed, in fact, it's still not fixed, unless we do get people in government who rise above this and understand that their job is to protect the public, not to protect industry interest. So I think that is one of the best things that a school like the Romney Institute can do, is to teach their young students to have courage to lead, no matter what kind of pushback you get, your job is to serve the public interest and if you've done that, you will be recognized, you will be acknowledged.

I don't really care about industry lobbyists but I do care about the wonderful letters I received from insured depositors who had their money protected, homeowners that were able to get their money protected from some of the programs that we did at the FDIC. That's really why I went into public service and I think we should celebrate all those students, like you, who are willing to forego the big pay packages, the bonuses. You want to help the less fortunate; you want to improve their lives, whether it's health, education, economic development. You want to pursue a career because you want to right a wrong, or you want to feed the hungry, or you want to ease human suffering, educate the illiterate, and provide tools for economic empowerment for the poor. That's what you want to do and that's what lights you up, and that's what lights me up too. I have nothing against people who want to go out and make a lot of money. I think that's fine. I'm a capitalist at heart as well, as long as you don't hurt innocent people in the process. But a lot of innocent people were hurt as a result of this crisis. So go out there, and if that's what you want to do, go make money, but if that's what you want to do, do it the right way. Provide a service. Don't hurt innocent people. Make sure they know what they're buying and you're giving them something of value as part of your entrepreneurial job.

For those of you that want to choose public service, good for you. I think you deserve not only a standing ovation, I think you deserve a ticker tape parade. I'm very pleased to be here with you and I had a wonderful session with some of the students earlier today. It's just very inspiring and so I hope you go out and do wonderful things with your career and the fine education you're going to be getting here. Thank you.