Yale SCHOOL OF MANAGEMENT
*Program on Financial Stability*

# Lessons Learned Oral History Project Interview

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| **Interviewee Name and Crisis Position** | John Bovenzi[1]<br>Deputy to the Chairman, FDIC and Chief Operating Officer; Chief Executive, IndyMac under FDIC conservatorship |
| **Interviewer Name** | Sandra Ward (contractor)<br>Yale Program on Financial Stability |
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**Introduction:**

The Yale Program on Financial Stability (YPFS) contacted John Bovenzi by email to request an interview regarding Bovenzi's time as Deputy to the Chairman of the Federal Deposit Insurance Corp. as well as his role as Chief Operating Officer of the FDIC during the financial crisis of 2007-09.[2] In addition, Bovenzi served as the Chief Executive of IndyMac from July 2008 when it was under FDIC conservatorship until its sale to a private group in January 2009.

During the Great Financial Crisis, the FDIC played a critical role in stabilizing financial conditions and establishing confidence in the financial markets by guaranteeing newly issued debt on a temporary basis for banks and thrifts as well as financial holding companies and eligible bank affiliates. The agency also fully guaranteed certain non-interest-bearing transaction deposit accounts.

As Deputy, Bovenzi provided policy advice to the FDIC Chairman and as Chief Operating Officer, he oversaw the agency's operations, including business lines, bank supervision, bank closings, deposit insurance, and administrative affairs. Bovenzi's most notable role during the financial crisis was manning the helm of mortgage lender IndyMac after the FDIC took it over in July 2008 to position it for a sale.

Bovenzi joined the FDIC in 1981 as a financial economist and was elevated to Deputy to the Chairman in 1989 and Director, Division of Resolutions and Receiverships in 1992 amid the unfolding savings and loan crisis of the late 1980s and early 1990s, roles that would prepare him for the more cataclysmic banking crisis of 2007-09.

[1] The opinions expressed during this interview are those of Mr. Bovenzi, and not those any of the institutions for which the interview subject is affiliated.
[2] A stylized summary of the key observations and insights gleamed from this interview with Mr. Bovenzi is available in the Yale Program on Financial Stability's *Journal of Financial Crises*

On leaving the FDIC in 2009, Bovenzi joined the independent consultancy Oliver Wyman as a senior partner providing advice to financial services companies and government agencies for an 11-year run through September 2020. Bovenzi, in 2017, joined the board of Green Dot Bank, a financial technology and bank holding company operating primarily on mobile platforms, where he continues to serve on the board and as chair of the bank's risk committee. At the time of this interview, he was a principal of the Bovenzi Group LLC, a boutique financial services advisory firm founded by he and his wife in 2020.

***This transcript of a telephone interview has been edited for accuracy and clarity.***

**Transcript:**

**YPFS:** **Tell me what your role at the FDIC entailed and how that might have changed during the financial crisis?**

Bovenzi: Pretty much my whole career had been at the FDIC. I started out as a financial economist in the 1980s. By the 2000s, I was the Deputy to the Chairman and also Chief Operating Officer. It was a job I had for roughly 10 years. A Deputy to the Chairman is an advisor to the Chairman on policy issues and other matters. And the Chief Operating Officer is responsible for the operations of the FDIC and that included all the business lines, bank supervision, handling bank closings, deposit insurance, along with administrative and information-system type functions. The business lines that did not report to the Chief Operating Officer included legal, reporting to the General Counsel, finance, reporting to a CFO, and external and government affairs reporting directly to the Chairman.

**YPFS:** **A big job.**

Bovenzi: Yes, it was a fairly expansive job at the time. In a lot of ways, I served as an intermediary between the career staff at the FDIC and the political appointees who were on the Board of Directors, most importantly being the Chairman.

**YPFS:** **Once the crisis started to unfold and the FDIC was brought in, how did you prioritize your functions? Or did things carry on as usual?**

Bovenzi: Everything picked up in intensity starting in 2007. We knew something big was coming. We didn't know exactly what form it would take. In many ways, the activities related to bank supervision, the monitoring of problem institutions, those that were getting weaker, took on extra importance. Preparing the agency for potential bank failures took on extra importance and then understanding our insurance position, what we may have to pay for and our financing. The job itself didn't change except for the period that we'll get into at IndyMac where for a few months that was my main focus.

**YPFS:** **As I understand it, the FDIC and Sheila Bair and most likely yourself were growing very concerned about subprime lending and sounding some alarms before the crisis hit.**

Bovenzi: That's right. In 2004 we set up a risk committee to try to better analyze the risks in the financial system more systematically. We would bring in bank supervisors who were involved in certain markets, as well as economists, who had an overall market perspective. One of the areas that received a lot of focus was the housing market. We conducted one study done that looked at all of the metropolitan areas where housing prices were going up. This was an analysis of prices in 2004. It found there was an enormous number of areas where housing prices had risen so dramatically that they could be considered boom markets. So, the question came up: Would that mean there'd be a bust?

Based on historical trends, everybody said, 'Well no, instead of housing prices collapsing, the correction will just be a leveling out of prices over a period of years.'

What was different with the FDIC group that looked at this issue is that they concluded that this may not be the same as other periods in that there had been a lot of erosion in the lending standards. Subprime mortgages had increased 10-fold, lending standards had weakened, and all types of new instruments were out there. So maybe this time would be different, and there would be a bust.

We released that information to the public in 2004 or 2005 and it was picked up in the press. But nobody took it that seriously. You pretty much had everybody else saying, "Oh, don't worry about a bust." We were getting worried very early on and it was primarily due to subprime mortgages.

Later we started worrying about commercial real estate as well. We also set up a group to analyze how we handled bank failures. Did we need to change our policies or procedures? We ran some simulations and war games to help prepare the staff, which hadn't handled that many bank failures since the previous crisis in the 1980s. That was very helpful. Plus, we had a whole new board of directors around 2004-2005. Some of those war games helped familiarize them with the bank failure process as well, which also was very helpful.

**YPFS:** **Did preparing in that manner position you well when your concerns started to come to fruition?**

Bovenzi: It positioned us well, certainly, in some respects. What's important to understand is the distinction between the investment banks and the commercial banks. The FDIC's responsibility only extended to the commercial banks that were the insured depository institutions. There was a pretty well-structured failure resolution process in terms of legal authority and operational requirements that the FDIC was very familiar with. What turned out to be different was the size of some of the bank failures; the FDIC had never handled failures that big.

For small- or medium-sized banks, the bank closing process worked very efficiently. For larger commercial banks, it was something new. For investment banks, it was an entirely different process. It was a bankruptcy process that was not structured for speed and smoothness as was seen with Lehman's collapse. These distinctions meant there was a lot that turned out to be new, but the early preparation helped the FDIC enormously, so when the FDIC was dealing with Washington Mutual and Wachovia, those preparations were extremely helpful.

**YPFS: When did you start to coordinate with other government agencies? Did that not happen until late in the game when they came to you for the systemic risk authority?**

Bovenzi: There had been historical tensions. First, you think about the bank regulatory agencies: the Federal Reserve, the Office of Comptroller of the Currency, the FDIC and the Office of Thrift Supervision. You have four different government entities that were regulators of commercial banks, all supervising different subsets, some overlapping and some not. On top of all that, the FDIC is the deposit insurer and is responsible for picking up the bill and has to be concerned about all of these banks. The FDIC needs information about all of these institutions, particularly when they're getting in trouble. That information sharing wasn't always forthcoming, historically. As financial conditions worsened in 2008, there was better coordination. The FDIC organized weekly calls with the other bank regulatory agencies where senior people would go over what was happening with the worst problem bank cases, their status, and what kind of preparations might be needed.

In the crisis everybody worked better together, but as you probably know, there was a lot of tension. The principals didn't always agree. There were different philosophies on how things should be handled, particularly whether bailouts were necessary or not. There was tension but also constant back-and-forth over what the best steps should be. I think in some cases, as awkward as it was, the process got to better results than what any individual agency would have done by taking into account the various points of view that were being presented and coming up with overall programs.

So yes, there was tension and different viewpoints, but on balance while the agencies maybe should have been more prepared, they reacted well in dealing with the events that happened.

**YPFS:** **What was the mood at the time? When you see a problem of this magnitude, as it becomes apparent, how do the internal players feel?**

Bovenzi: It was the storm off in the horizon in 2007. You could see it coming, you would try to get ready, and you just didn't know what it would look like once it arrived. The Bear Stearns' collapse in March 2008 was the first sign. The FDIC wasn't directly involved in that since it was an investment bank. Our first significant test was IndyMac and that was a relatively small bank compared to what came later. I don't think anybody fully appreciated how bad it could get in September and October of 2008, that large institutions would start just collapsing one after the other as all of the weaknesses in the system became more apparent.

So, I give credit to the FDIC and others for trying to sound warnings on subprime mortgages and commercial real estate. The weakness was that none of us at the different agencies were looking much beyond our respective purviews.

The FDIC looked at insured depository institutions, but it didn't fully appreciate how all the collateralized debt obligations were being spread out to other types of financial institutions with high levels of concentration. We thought the risk outside of the insured banks would be more diversified.

There were things that were certainly missed by everybody. The weakening of regulatory standards over time also was a factor.

By the summer of 2008, the FDIC had dodged one bullet: Countrywide Financial, a $200 billion institution that was bought by Bank of America. It's potential failure was one that we had been paying attention to.

**YPFS:** **Did you have to get involved in that?**

Bovenzi: We did not. We get involved if a bank is closed or a buyer needs financial assistance from the FDIC. If the private sector says, "Yeah, we want to merge two institutions on our own," whatever regulatory agencies would be involved in the supervision of those institutions would be the ones determining if the merger made sense or not.

The FDIC didn't play a significant role in Bank of America's acquisition of Countrywide. It would have been the Office of Thrift Supervision for Countrywide and the Federal Reserve and the OCC for Bank of America looking at the terms of a merger like that. From our end, at the FDIC, it was one less worry.

The one that came along was IndyMac. It was only a $32 billion institution and so it wasn't major in the same sense as what came in September with the bigger ones. It was the first, though, and it was the biggest at the time. And it clearly had an effect on public awareness and reaction because nobody was thinking a commercial bank like that would fail.

**YPFS:** **Wasn't IndyMac started by a former Countrywide guy?**

Bovenzi: Yes.

**YPFS:** **When you started to see issues at Countrywide was it a knee-jerk reaction to look at IndyMac?**

Bovenzi: Each institution of a certain size we'd pay attention to what was going on and it was clear that IndyMac had the same kind of problems. Their loans weren't technically all subprime, they were more middle market, but they had all of the characteristics of weak lending standards. Most were no-doc loans, in which as a borrower you didn't have to verify your income or assets.

We had been paying close attention to IndyMac even though we weren't its direct supervisor. We were pushing for it to be placed on the problem bank list. That was where there was some tension with the Office of Thrift Supervision.

**YPFS:** **At some point, were other agencies pressuring the OTS? The OTS had lived through this before with the savings and loan crisis.**

Bovenzi: Yes. It was amazing to me they acted that way because we'd been down that road before. It didn't turn out well. You don't defer problems or put them off, you try to deal with them. Otherwise they just get worse. The FDIC was the agency that was pushing the OTS to say, 'Let's make IndyMac a problem institution, let's start planning for bank failure,' and that was on the verge of happening. Then Senator Schumer released a letter he sent to the regulators to the Wall Street Journal saying IndyMac, in effect, was failing. The next thing we knew there was a bank run, so there was no time to plan for an orderly failure.

**YPFS:** **Why do you think he did that? Did he feel like he himself was getting nowhere with the OTS?**

Bovenzi: I don't know. The bank would have failed anyways.

But the letter changed the timing and how we had to deal with it given that we had to act immediately. Normally, we're behind the scenes trying to find a buyer. There would be a bidding process and we would try to get a least-cost solution that is not disruptive. There wasn't time for that, so we had to take it over. The choices were either liquidate the bank, which would have been extremely disruptive and costly, or take control ourselves through the Conservatorship/Bridge Bank process until we could find a buyer. We chose the latter as being the only real option at that point in time.

**YPFS:** **This was your first time running a bank after you took it over? Had you done that before?**

Bovenzi: Not me personally. The FDIC had. It received legislative authority to run Bridge Banks, in effect an FDIC-owned bank, in the 1980s. It used that authority a few times with some of the larger Texas banks that failed to buy time to find buyers. It wasn't a perfect way of doing business because nobody likes the government taking over a private-sector entity. You've got to try to keep things calm until you can get the institution back into the private sector. Bridge Banks had been used before. We were familiar with them and we felt comfortable that we could manage the process.

**YPFS:** **Though you yourself had not run a bank before?**

Bovenzi: My career had been as a bank regulator.

**YPFS:** **What was that process like? Can you describe it?**

Bovenzi: It went so fast there wasn't enough time to get a former bank CEO in there or someone like that. You have to find out who's available, do they have conflicts or other issues and so forth. IndyMac was not a complicated bank, so it was not that hard to run compared to the much larger banks. This was a domestic bank that had mortgages and deposits. It wasn't a global bank. It didn't have tons of different activities. That would have been an entirely different situation.

**YPFS:** **What about the emotional aspect of dealing with people who had mortgages and accounts that they may have lost, and in many cases, did lose? What was that process like for you?**

Bovenzi: There was a large amount of uninsured money. IndyMac was paying the highest interest rates on deposits in the country. Thus, it attracted money from all over the country. Some people put in more than what the FDIC's deposit insurance would cover.

The first task on the weekend of a bank closure is to figure out which deposit accounts are insured, and which are not insured. Bank records don't indicate that. You would think they would, but they don't. So you run all the deposit accounts through an automated system. The system checks the names and addresses on the different accounts. Different types of accounts, (individual, joint, trust, etc.) have separate insurance coverage. You use the automated system to figure out as much as you can as quickly as you can. But you can't always figure everything out, so you put a hold on certain accounts until you can get enough information to figure out if the money is insured or not.

The insurance rules have since been simplified which helps, but there are things like that that happen and complicate matters. When the bank is reopened generally on Monday and somebody's coming to get their money and you say, "Well, we've got to hold this account for now until we figure out certain things, or no, we know that you had $200,000 in the account and you had $100,000 insured so you can have your $100,000 and you'll be getting some of the other $100,000 back later." Things like that are obviously upsetting.

The immediate problem is dealing with the people who've put money in the bank and want it back. The problem of people who owe money to the bank -in the form of mortgages or other types of loans- comes later.

**YPFS: The FDIC under Sheila Bair had been a big proponent of loan modifications as a solution. That was eventually put into action, correct?**

Bovenzi: Yes. We shut down the loan production offices that were around the country creating new mortgages that IndyMac would then package and sell. We stopped making new mortgages and focused on what to do with the existing ones.

IndyMac was a bigger problem than its $32 billion in size suggested because it serviced $184 billion in mortgages. It didn't own them, so it didn't have full control over what to do with them. We developed a new formula for how to determine if the loan should be foreclosed on or modified. By law, the FDIC has to maximize the value of its receivership so it can't give out subsidies. We can't say, "Hey, don't worry about making your payment," or anything like that. We have to figure out what's financially best for the bank's creditors rather than for the mortgage holders. But a lot of servicers didn't do that analysis correctly. We looked in more detail at the real costs of foreclosing on a home. Say your mortgage was in California and California has a process where you have to spend a year and a half to foreclose on somebody. How much money are you going to lose as an institution if you have to spend that kind of time going through the foreclosure process.

Sometimes after considering all of those foreclosure costs, it's in the bank's interest to give someone a loan modification. You discount what they have to pay back over time and it may be you're still going to make more than if you foreclosed on them. We set up our own formula for how to make those calculations. It varied state by state, depending on what the laws were, so that we could get a more realistic comparative cost calculation. Often, not always, but often, that meant offering somebody a discount, which would require they tell us, with verification, what their real income and assets were so we could work with them and figure out a better deal. The borrower would be better off, and we would collect more money to pay back the FDIC and the uninsured depositors than if we were to foreclose.

That's what we tried to do. We turned the whole focus of the servicing department around to try to do that. It was difficult because a lot of people that owe money on a mortgage don't want to respond to you if you call them. Even if you're the government. We started sending FedEx packages with the information and figured with FedEx they'd at least open it instead of just taking a letter and throwing it in the trash. We wanted to convey that we were actually trying to help.

The program we set up became the standard for other institutions to use to analyze when to foreclose versus when to give a loan modification. A lot of institutions either used it or built off it to get something similar. When other banks started failing and the FDIC set up partnerships, in effect, to manage mortgages, the partnerships adopted those programs as well. IndyMac was the start of a program that helped stop a number of unnecessary foreclosures.

**YPFS:** **Does that program stay in force once the sale of the bank occurs, or once a sale to a private buyer takes place? I'm thinking of the private equity group formed by Steve Mnuchin to buy IndyMac; it was heavily criticized for foreclosing on so many of those loans.**

Bovenzi: Yes, the FDIC would structure its sales processes in such a way that a buyer is agreeing to follow a certain modification process for analysis. That was built into most of the failure transactions where the FDIC was selling the institution to someone else.

That program doesn't mean there are no foreclosures, it just means you're trying to do the analysis correctly, so you don't just take the easy way out and say, "Let's foreclose on somebody," when the reality is that isn't necessarily the best financial option.

I don't know the answer to how Mnuchin and company managed their program after they purchased it from the FDIC since I was out of the picture at the point when we turned the institution over. I left the FDIC in 2009 and ethics rules dictated I couldn't work with anybody that I had been involved in business dealings with while at the FDIC.

**YPFS:** **I guess that's what I'm getting to: Once you sell something, it falls out of the purview of the FDIC? Who enforces the terms of that sale? When you handed over the keys to the bank and tens of thousands of foreclosures followed, did that surprise you? Could that have been foreseen? Was it inevitable?**

Bovenzi: I don't know that it surprised me. I don't know the numbers. I don't know if it was any dramatic increase over what would have happened otherwise. Certainly, foreclosures were to be expected. There are some cases where people are just not going to have the ability to pay even if you modify the loan, and so a loan modification doesn't make sense for everybody. The fact that there were foreclosures didn't surprise me. Whether they were excessive or not, I don't know the answer.

**YPFS:** **The IndyMac failure did lead to changes in regulations. For instance, it led to raising deposit insurance limits, did it not?**

Bovenzi: Yes. Along with other things that happened afterwards. By September, Freddie Mac and Fannie Mae were put into conservatorship by the government. Lehman Brothers failed. Washington Mutual was closed and sold to JPMorgan Chase. Wachovia was failing and eventually sold. AIG was collapsing.

These enormous institutions created a clear systemic risk to the financial system so we in the federal government were looking at all sorts of programs to reduce that risk. The most important thing you can do in that situation is to provide comfort to people. People get comforted if they know they're not going to lose money and if you can provide liquidity so people can keep borrowing. That can keep the economy going. A lot of programs were set up. One of them was to raise the deposit insurance limit from $100,000 to $250,000, at first temporarily and then permanently.

That helped a lot of depositors at IndyMac. It also took away some of the incentive for people to start runs on other banks. There were still runs on some banks because not everyone understands the deposit insurance rules, but that was one program that helped. There were a number of other systemwide programs put into place, including protecting existing money in money market mutual funds, which was outside of the FDIC's purview.

The FDIC set up the Temporary Liquidity Guarantee Program to provide extra deposit insurance on non-interest-bearing deposit accounts. We also provided some insurance coverage for other types of debt besides deposits, which was a first in the history of the FDIC. That benefited the larger banks who could borrow money in the capital markets. They would pay a fee to the FDIC and then the FDIC would guarantee the money would get paid back to whomever they borrowed it from. This helped keep the markets functioning.

There were a lot of programs like that during the second half of 2008, all trying to stabilize the system. Eventually in early 2009, when the stress tests were conducted and the government determined that the large banks had passed and could withstand the crisis, it provided the market with confidence in these institutions. That ultimately was the final step in calming the crisis.

**YPFS:** **What about too big to fail? Was IndyMac ever considered too big to fail?**

Bovenzi: We never considered IndyMac as too big to fail. We never considered bailing it out. Everything we learned from prior financial crises had led us toward the view that bail outs were bad. You don't bail out an institution unless you're going to have a systemic crisis result because of its failure.

In the '80s, the FDIC had protected all depositors, even in small bank failures. The agency was heavily criticized afterwards. Congress changed the law so that the FDIC had to do the transaction that was least costly, by law. That generally meant that uninsured depositors and other creditors would share in the loss with the FDIC. If you protected them, you were spending extra money, so almost by definition it's not the least costly approach for the FDIC unless an acquiring bank wants to cover that cost to make their customers happy.

The law kept changing over time to further limit the FDIC's ability to bail out anyone. By the time IndyMac occurred, there was no thought that this is a situation for a bail out. It just didn't rise to that level in our minds.

We didn't even feel that way with Washington Mutual, which was a $300 billion institution. It was not bailed out. It was closed and sold to JP Morgan Chase. JP Morgan Chase paid enough money to protect all of the uninsured depositors, but the debt holders in Washington Mutual all took heavy losses. They weren't bailed out and certainly shareholders weren't bailed out. They lost everything.

When we assessed the situation at Wachovia, we realized we couldn't do the same thing because it was an $800 billion institution and was much more complex than Washington Mutual. We really felt that things would spiral out of control if we didn't bail it out. We were ready to pay a buyer a certain amount of money to take over Wachovia and protect its creditors. Then, we didn't have to.

**YPFS:** **Initially, Citibank was going to buy it?**

Bovenzi: Yes.

**YPFS:** **Yet Citibank in the end really wasn't in very good shape itself, was it?**

Bovenzi: Right. This was another source of tension between the FDIC and Treasury. Tim Geithner was much more receptive to bail outs and of not requiring much from the institutions in trouble. At the FDIC, we were much less receptive to bail outs. Initially we weren't crazy about the idea of Citicorp being involved because it was weak itself, but most of the better conditioned large institutions had already purchased a weak one, so it was really down to Citicorp and Wells Fargo. To have some competition and lower our expected cost, we conducted a bidding process over the phone between the two institutions on a Sunday night.

We wanted to a get a solution before Monday morning in Asia. Citicorp had the better bid from our point of view. It was declared the winner. The FDIC was ready to sell Wachovia to Citi. In effect, Citi was saying, 'Look, we'll take the first $37 billion in losses and you, the FDIC, will cover any losses over that.' We didn't think the losses would reach $37 billion, so we thought that the deal wouldn't cost us anything.

Wells Fargo wanted to do the reverse. They said, 'FDIC, you take the first - I don't have the exact numbers right in front of me- say $20 billion in losses and we'll cover anything over that.' We would almost certainly have had enormous losses if we sold Wachovia to Wells Fargo.

So, we awarded the deal to Citi. Negotiating over the term sheet with Citi dragged on for a few days. That worked to their disadvantage. In the interim, Wells Fargo realized there was a tax break that could save them the amount of money they had wanted from the FDIC. Wells Fargo went directly to Wachovia and said, 'We'll buy you without any FDIC assistance and we'll pay your shareholders $7 a share rather than the $1 a share that Citi is going to pay you.'

Wachovia's Board of Directors said, 'Great, we'll take that deal.'

Geithner and Citi were furious. They asked the FDIC to stop the deal, noting we had declared Citi was the winner. We said, 'We have no reason to stop this. These are two open institutions that want to merge without any FDIC assistance so we don't really have a role here. If they want to do this, that's fine.'

Wachovia ended up going to Wells Fargo, but it was close in terms of how it played out.

**YPFS:** **Why would it matter to Treasury?**

Bovenzi: I think they thought they were solving two problems at once: the merger would help solidify Citi as well as Wachovia.

**YPFS:** **Had you ever been involved in negotiations that were on this level?**

Bovenzi: Not at this level. In the late '80s and early '90s I served as deputy to the FDIC chairman during the S&L crisis. We were creating the Resolution Trust Corporation, so I got a lot of experience then. There were many more bank failures then, but they were individually much smaller. They were all under the FDIC's and RTC's purview. Here it was on a much bigger scale. I hadn't been involved in something quite like this. I'd had other experiences which I think helped me, but yes, this was fairly unique.

**YPFS:** **When things were righted and things were getting back on track, we ended up with the Dodd-Frank Act and the Consumer Protection Act. How did the FDIC's authorities change and were those changes for the better**?

Bovenzi: Overall, the changes were much for the better. A lot happened, outside of Dodd-Frank as well. There was a clear focus on improving bank capital standards, particularly for the largest banks. That's been done and has been a tremendous positive. There was a clear focus on improving liquidity standards, also primarily for the larger banks. That too has been done. Again, a tremendous positive. Dodd-Frank had a large focus on resolution planning, trying to end Too Big to Fail, and with Title 1 and Title 2, it set up two different processes to deal with that. Title 1 through the bankruptcy process, which we alluded to earlier is not ideal for handling large financial institutions, so improvements there have been helpful.

A tremendous amount of effort has been put into efforts to work out bank closing-related operational issues that nobody was really prepared to handle easily for the very largest banks, like cross-border issues. How do you deal with different countries' legal systems when large banks fail? We saw with Lehman how it didn't work. Everybody grabbed all the assets and sold them all at once at firesale prices. Everybody lost money.

Dealing with issues like that and also what is insured and uninsured in these large banks and how do we figure that out? What about all these derivatives contracts? What about the fact that you don't necessarily want all those uninsured depositors to lose money? The plans ultimately came up with a system where for the very largest banks, they have to have enough debt that can be converted to capital to cover the losses if there's a bank failure so that they don't have to be bailed out. That is an enormously important development.

Banks are much less likely to get in trouble because of the higher capital and liquidity standards. And if they still were to get in trouble, there's debt that can be converted to capital to help cover the cost, meaning that the private sector is paying that cost rather than needing a tax payer bail out.

Those all are really important developments. The important thing will be to make sure that over time we don't weaken those standards - the capital standards and liquidity standards, and the resolution and planning standards. We want to try to avoid that as best as possible, in my view.

**YPFS:** **Some have been weakened, isn’t that the case?**

Bovenzi: Not substantially. They've been weakened around the edges. It is debatable as to whether they're improvements or not in some cases. To the other part of your question, what authorities did the FDIC lose? It lost the ability to unilaterally set up a systemwide program to insure more deposits or debt than what the law said it could absent a systemic risk determination by the key regulatory agencies. If the deposit insurance law says it's $250,000, now it's $250,000, unless Congress provides explicit authorization. The FDIC can no longer set up such a temporary program systemwide even if there is a systemic crisis and banks pay for it.

**YPFS:** **The FDIC had greater flexibility before?**

Bovenzi: Yes, it was controversial at the time. At the time of the crisis the FDIC could invoke the systemic risk exception, with the understanding that if certain programs weren't put in place it would risk the financial stability of the country.

Those exceptions had always been thought of as designed for one institution getting in trouble. For instance, if Citicorp needed to be protected to protect the financial system, you'd invoke the systemic risk exception which really required not just the approval of the FDIC Board of Directors, but the Federal Reserve Board's, and the Secretary of the Treasury after consultation with the President. During the crisis, everybody in that group of authority agreed. Then afterwards Congress said, 'We don't agree. You can't do those systemwide actions anymore unless we approve it.'

The Federal Reserve lost some of its authorities, as well.

**YPFS:** **So, Congress inserted itself into the process?**

Bovenzi: Yes. Yet, all of the other entities can act quickly, which is important in a crisis. That's not as easy for Congress to do.

**YPFS:** **When you look back, what are biggest lessons that came out of the global financial crisis? Can also speak to how the 2020 pandemic-driven crisis compares to the 2007-09 period?**

Bovenzi: There were a lot of lessons. It's important for regulatory agencies to have some independence from the political process so they can make decisions without being unduly influenced and less susceptible to influence. The FDIC gets its money from bank deposit insurance premiums, not from congressional appropriations, and that independence matters.

Some of the checks and balances in the regulatory process are helpful. I worry very much that a single bank regulator would be too autocratic and then either be susceptible to being unresponsive, unduly harsh or controlled by the banking industry. The checks and balances that I saw during this response to the crisis were helpful in getting to better solutions, despite the tension that was involved.

I think the career staffs at the agencies have an enormous amount to offer. They've got a historical viewpoint and are generally trying to stay away from the political process. They've just got to make sure they're open to new ideas and don't just rely on old methods. In the 2007-09 crisis there were different problems that needed different solutions. People had to be open minded.

**YPFS:** **What about the non-banks? A lot of the problems in 2007-09 seemed to stem from non-banks, which really didn't have much supervision. That's an area that's increased in size. Is that a concern for you, or how do you look at that issue?**

Bovenzi: The SEC, which oversees the investment banks, historically, wasn't the same kind of supervisor that the bank regulatory agencies were so it oversees investment banks differently. That area clearly showed itself to be a problem during the last crisis. Some of the insurance companies, for example, really shouldn't have been out there investing in subprime mortgages. There's more attention to that from the Federal Reserve now, looking at systemwide issues. That was one of the lessons: every agency was looking at its own territory and no one was looking at the bigger picture. Now, the Federal Reserve is supposed to do that.

We're seeing, more and more, in this current situation as banks get safer, or the largest banks, anyway, get safer, that some activities are going outside of the more regulated banking system. We don't know, for sure, how that's going to play out. You have non-banks making loans. They can borrow your funds from the marketplace and go out and make loans. If those loans go bad, whoever lent them the money isn't going to be covered by deposit insurance.

**YPFS:** **Are you referring to hedge funds?**

Bovenzi: To some extent. They're capable of looking after themselves in the sense of who they borrow their money from, so that's less a worry. But we're also seeing new Fintechs starting up and how that's going to get integrated with the banking system is still to be determined.

I think in terms of what's been going on lately, some of it reminds me of what was going on pre-2007 in the sense that there could be a lot of loan losses coming down the road. We're not seeing anything now. The bank statistics getting published look fine because you've got deferrals at the moment or time outs while we get through the virus issue, at least through year end. Once everybody has to start paying back money they owe, we'll see where the problems may be.

**YPFS:** **Where would these loan losses come from now? Commercial real estate? Where?**

Bovenzi: I would imagine commercial real estate would be at the top of the list given that nobody quite knows how it's going to play out for commercial real estate. Still, it's certainly not the same kind of crisis as before. The biggest banks are much better protected. There certainly could be bank failures around the country if there's not the kind of recovery we hope for.

If I were still at the FDIC, I'd be thinking the same way as back in 2007, that maybe there's some kind of storm coming. We don't know what it'll look like, and we hope it doesn't come. But we ought to be getting prepared just in case.

**YPFS:** **And do you see that happening?**

Bovenzi: I think it's happening. I certainly hope it's happening.

**YPFS:** **What are you doing now at Green Dot and how does that compare to your role as regulator? And how did your experience at IndyMac inform what you're doing now?**

Bovenzi: The first thing I did when I left the FDIC in 2009, I joined Oliver Wyman and did consulting work in financial services. In a sense, it tied very much into my experience. The private sector needed help in how to deal with government supervision and regulation and get it right. I spent 10 years or so doing that. I retired from Oliver Wyman in 2020.

A couple of years before that I got on the board of Green Dot Bank. Going on the board of a bank like this is nice in that I can help with big-picture issues of how to protect the institution and how to act in the best interest of customers.

The bank tries to serve the unbanked and underbanked and help get them into the financial system and, to me, it's a worthwhile mission.

**YPFS:** **When you retired from the FDIC was it because the crisis burned you out, or would you have most likely retired anyhow?**

Bovenzi: I was ready. I'd been at the FDIC 28 years and I felt the crisis was under control. This was after the stress tests and it seemed that there'd be some work through 2009 but it would be the more routine work handling some of the smaller bank failures that still remained. Oliver Wyman reached out to me. They needed help in understanding government regulation better. The timing worked out great and I was ready. I'd been through two financial crises at the FDIC and that was enough. I left in May 2009 and started at Oliver Wyman in June.

YPFS: At the FDIC, when you were the Chief Operating Officer and heading up administrative affairs, did you have trouble retaining staff during this time? Did you need to staff up? What happened with staffing at the FDIC at this time?

Bovenzi: Once you're in the crisis you don't really have trouble retaining the staff. They're going full speed. This is important stuff to do, and so staffers really feel they're playing an important role in accomplishing the mission of the agency. We did do some hiring leading up to the crisis but not a lot. We had hired so many during the S&L crisis and it took a long time to downsize. It was a very painful process, so we tried to be much less people-intensive this time around so we wouldn't have to go through the boom and bust of hiring and firing. Bank failures require work, but once they're done you don't need all those people. The FDIC is countercyclical in that regard. It can hire from the industry when there's a crisis because the industry is letting people go and they can go back to the industry after the crisis. To some extent, that happened during the financial crisis.

**YPFS: Thanks so much, John.**

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