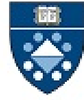

Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

Lessons Learned Oral History Project Interview

Interviewee Name and Crisis Position	Tim Clark[1] Senior Adviser, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System
Interviewer Name	Lynnley Browning Yale Program on Financial Stability
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Introduction:

The Yale Program on Financial Stability (YPFS) contacted Tim Clark by email to request an interview regarding Clark's time as a senior advisor in the Division of Banking Supervision and Regulation at the Board of Governors of the Federal Reserve System during the financial crisis of 2007-09.[2] Clark was a chief architect of the Federal Reserve's capital and liquidity stress tests. He was also one of the leaders behind the implementation of the Dodd-Frank Act and other reforms at the Federal Reserve, and ultimately served as Deputy Director of the Division for Supervision and Regulation.

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

Transcript:

YPFS: **If you had to think back to the single scariest day and event in the entire crisis, what would you point to and why?**

Clark: I would probably point to the day after the Lehman bankruptcy. It pointed to the level of uncertainty that existed, i.e., there were some surprise events associated with Lehman, particularly in the money markets. I'm forgetting the name of the fund now — there was it was one money market fund in particular that was hit pretty hard.[3] So, I would probably say Lehman and the reason

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[1] The opinions expressed during this interview are those of Mr. Clark, 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. Clark is available in the Yale Program on Financial Stability's *Journal of Financial Crises*.

[3] On Sept. 16, 2008, the Reserve Primary Fund, a money-market fund with $64.8 billion in assets, "broke the buck" when its net asset value fell to 97 cents per share. The fund had a $785 million allocation to short-term loans (commercial paper) issued by Lehman Brothers and when Lehman filed for bankruptcy the value of these loans became zero. The fund was only the second in history to break the buck and the rare event, which came one day after Lehman filed for Chapter 11 bankruptcy, further fueled panic and fears of economic and financial

being that it exposed the fragility of the system and how those fragilities were not understood.

YPFS: Do you recall where you were and the precise moment when you learned of the downfall of Lehman?

Clark: I was at home. I had led two teams of supervisors that did all the work on Fannie and Freddie that led up to others making the decision that they should be put in receivership. And I was given a little break after that because we'd been working for three months straight, so I was actually taking time off, relaxing on my couch at home in Connecticut.

YPFS: That must have been a momentary and false sense of peace.

Clark: It definitely was it did not last long! I remember thinking, "Okay, here we go. We had a moment of calm and now we have to announce that it's coming back."

YPFS: In your Brookings paper[4] you wrote, "We were concerned that we would not have enough financial power to address the growing list of challenges we faced and, perhaps more importantly, fearful the markets would start to believe that we were out of ammunition."

Clark: The 'we' in that is actually more of the Treasury folks that I wrote that paper with Lee Sachs and Matt Kabaker. But I think what they meant was that the markets and the public would be concerned that there wasn't enough government support at that point to keep things stable.

YPFS: Regarding the concept of fearing that the markets would start to think that Treasury was out of ammunition, was there a robust Plan B that went beyond the Legacy Loan Program if you had indeed run out of financial ammunition and the private sector hadn't stepped in?

Clark: A robust plan B, if there was one, I was not in the loop as to what it was. There were a lot of different things that people were talking about, there were a lot of different things that could have been done a lot of different ways. There were things to try like the Public Private Investment Program (PPIP) or other things that could possibly be ramped up to take some of the bad assets out of the system.

Obviously, that's not the way it really happened. Instead, we recapitalized the banks while they held most of the assets and wrote down a ton of them. So, I

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collapse. The fund experienced a severe run, suspended withdrawals and was forced to liquidate. https://www.investopedia.com/articles/economics/09/money-market-reserve-fund-meltdown.asp

[4] The Brookings paper, written with Matthew Kabaker and Lee Sachs, became Chapter 10, Bank Capital: Reviving the System of First Responders: Inside the U.S. Strategy For Fighting the 2007-2009 Global Financial Crisis. Ben S. Bernanke, Timothy F. Geithner, and Henry M. Paulson, Jr. with J. Nellie Liang. (2020)

guess I would say, I don't know if there was a one single Plan B. There were a lot of different ideas, and there were certainly other things that could have been tried, but the decision was made to try a few things at once. PPIP was never very big; I think it was $30 billion at its top peak. But they did set up the PPIP, and then we did the stress test and the push for private capital injections.

YPFS: **So, you tried multiple things at once — was it like a field experiment in real time to see what worked?**

Clark: The stress test is one of the things other than Fannie and Freddie that I was most deeply involved in. It was far from a foregone conclusion that it was going to actually inspire confidence, because we at the Federal Reserve were very clear that it had to be a real stress test. So, quite frankly, we didn't know what the outcome was going to be. And if we had tried to predetermine the outcome with a positive happy ending for the banks, that would obviously have massively undermined the credibility. So, we literally, I would say, did not know that that was going to work.

Which I think is part of why there were other things being launched and other things being discussed. And thank goodness, just to put a finishing point on that, if it had not been for the Treasury and the Capital Assistance Program (CAP), where they basically said, "We will provide any capital needs the stress test finds using convertible mandatory preferred," then I also think the stress test's credibility would have been massively undermined, because it would have been much harder to just let the chips fall if we didn't know what they were going to fall into. But at least we knew for sure that the worst thing that was going to happen here—and that's not to say it's a good outcome—was that the government would have to pump a bunch of money into the banks. From the supervisory perspective, it was not like we had to go into this as we did, appropriately uncertain at the outcome and also uncertain of what would happen to the banks if we exposed them as being overly weak and the private sector didn't provide capital.

YPFS: **You also wrote in your Brookings paper that "An undersized fiscal response, a financial system left to resolve itself, and a continued confidence deficit would make it more likely that losses would be higher, and that the system would require more capital." Firstly, how did you measure the confidence deficit, and how did that measurement get weighted against the concomitant undersized fiscal response and a financial system left to resolve itself?**

Clark: The confidence deficit, I think, could only be measured by the fact that we had no idea how bad things could be, and we had to know that no one else did either.

And to put another little point on that, the banks had been losing vastly more money than they ever thought they could lose. There's a great article about Citigroup[5], I where senior management people from the firm basically just come out and say, "We didn't even know we had these exposures that we're now losing tens of billions of dollars on." When that happens to one bank and then it happens to another bank, not only do the banks not trust themselves, but they also don't trust each other. So, the confidence deficit was, I would say, verging on total. Or put another way, uncertainty was so rampant it was hard to put a number on anything with any level of confidence.

YPFS: **Regarding indicators of a lack of confidence — you cited, for example, things that senior Wall Street bankers said in that New York Times story — what else were you looking at?**

Clark: Well, there was a very wide range of estimates of the size of the losses in the system, an extremely broad range. I don't remember them exactly, but there were some that were like, "It's a few hundred billion," and there were some that said it could be "as high as two trillion." So, when you have a range of estimated losses by people who are acting with massively less than complete information, and that range stretches from not really being much of a problem to possibly wiping out the entire capital base of the banking system, that puts you in a pretty precarious position, in terms of certainty.

YPFS: **You also wrote in the Brookings paper that as various agencies rolled out a general response plan, roughly over the course of six months, that the plan was "far from flawless, nor did it always seem just." What were the flaws and what concrete aspects of the plan did not seem just?**

Clark: Ask Matt and Lee that. But on the "doesn't seem just" side, I think it was that money was being put in the supported banks and their debt and shareholders and a lot more money went to that than to direct support of homeowners who were losing their homes.

So, I think it's pretty safe to say that the public reaction was, "Yeah, you're great, you're saving the banks but what about us?" That's probably the number one concern about the remedies, quote-unquote, what was "just" at that point in time. And it's one of the things that made it a pretty unpopular set of solutions as we know. And it is still, to this day, referred to as a giant bailout of Wall Street bankers. That's just my view of where we were. What was the most effective way to stave off complete collapse and I think the decision was made that, bang for the buck, it was to keep all the banks from collapsing. But that still left a lot of, millions of, people [homeowners] in a horrible situation.

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[5] "Citigroup Saw No Red Flags Even as It Made Bolder Bets" by Eric Dash and Julie Creswell. The New York Times, Nov. 22, 2008.

YPFS: **Was it truly a novel idea to make the private sector part of the funding solution and is it fair to credit Warren Buffett with that idea?**

Clark: I don't know if it's fair to credit Warren Buffett with that idea, I wasn't in any conversations with him, but I think that it was. There were a number of aspects of the way things were done that were definitely novel. It's a pretty risky thing to say, "We've got massive uncertainties, some of these banks are teetering on collapse, no one knows exactly which ones that might be or how many, but nonetheless we're going to get private money to come in and prop them up." That's not something that had been done anywhere else in that way, the way it was done in the US, so I guess it was pretty novel.

Such a strategy connects back to your very first point of the confidence deficit — one way to restore broader confidence is to show that there are private investors who have enough confidence that they're willing to put billions of dollars at risk.

YPFS: **But wasn't there the problem of making sure those private investors indeed did have enough confidence?**

Clark: Yes, exactly, and the Capital Assistance Program and the Supervisory Capital Assessment Program (SCAP)[6] were both big parts of establishing that confidence because, again, the Capital Assistance Program provided assurance that at least the government would be there if the private sector wasn't. So, you may recall that at the time, one of the things that had gotten out into the press was discussion of the possible need to nationalize huge US banks. I don't know how serious anyone ever got going down that path, but it certainly had got into the press. So, you're not going to put any money into a bank if you think a month from now the government's going to nationalize it. The CAP program provided a level of certainty that basically said, "We're not nationalizing, we're going to put in convertible preferred ... mandatorily convertible preferred. So yes, you could be diluted, but you will not be totally wiped out, because we're not going to nationalize these banks."

And then the stress test basically provided the second pillar of that which is, "This is what losses look like under a worse than expected scenario," and we can return that if you want. The reality kept getting worse while we were running the stress test. It got pretty close to it, in some cases, worse than the actual worst-case scenario.

YPFS: **Tell us more about that, please.**

Clark: I think the unemployment rate, actually, ended up worse than we had projected, or awfully close at least. The reality was that some key factors turned out to be worse than the stress test's most adverse scenario. And that

[6] The Supervisory Capital Assessment Program is the formal name of the stress test for banks.

was, obviously, very scary to us because the point of the test was supposed to be, "They can withstand something even worse than what was actually happening."

YPFS: **What were some of the key factors?**

Clark: I think the unemployment rate was a key one. I'd have to go back and look. I think it was the unemployment rate and the house price decline certainly continued to get bigger very rapidly. Everything was moving in the direction of being as bad as we were projecting.

However, the “saving grace” if you will (I probably shouldn’t use that term, but we were somewhat lucky), was that even though the economic environment was starting to look more and more like the most adverse scenario, the loss rates that we estimated in the stress test were worse than any two-year period ever, including the Great Depression. And so that supported the credibility of the test quite a bit, even if the scenario probably could have been more severe.

YPFS: **You use the term “saving grace” and, reluctantly, the word “luck.” Those aren't particularly economic concepts.**

Clark: Right, that's why I was saying I shouldn't use saving grace.

YPFS: **How do you understand those two concepts, and do they have any sort of relevancy for this crisis?**

Clark: So, the stress test was only one of the things that contributed to our pulling out of the crisis. I think that there was some positive activity in the markets and some positive indicators in the economy before the final results came out. So, again, I wouldn't call that luck but, there was some helpful coming together of events that all pointed in a potentially brighter direction.

YPFS: **What would have caused that helpful coming together of events?**

Clark: Yeah, it's a good question. I'm not sure that anyone's ever actually explained it, but I think, part of it was that there was some reduction in uncertainty that was coming out of the stress test, there was some reduction in uncertainty coming out of the CAP program, being the government’s standing behind the banks and not nationalizing them. There was some reduction in uncertainty just as time was going by. While some things were getting worse, not everything was.

YPFS: **If those helpful factors hadn't been present, what would have happened?**

Clark: Well, I'd like to believe that the investors, seeing where the banks stood relative to these incredibly severe losses that were estimated in the stress test,

still would have been comfortable stepping in and providing capital to the banks, remembering, of course, that they were getting in at a pretty low price.

YPFS: If the banks had not stepped in, what would have happened?

Clark: If the investors had not stepped in and provided capital to the banking system, then the government would have gotten into the banks via the mandatory convertible, or mandatory convertible preferred. I think that would have forestalled the collapse of the banks, but I think it would have been a tricky proposition, because at that point in time I'm not sure anyone in the private sector was particularly comfortable with what it meant for a bank to have a substantial share of its losses be the capital being provided by the government. For example, could there be restrictions on bonuses? Could the government take actions for reasons that didn't seem logical to the markets? I mean, government ownership is always a tricky situation in a market economy, and I think the more the government would have had to step in the more uncertainty that would have meant for individual banks.

YPFS: So, what ultimately do you think drove the solution? The market, per se, or the government?

Clark: I would have to say that this was a case where I don't know that the markets were in a position to forestall further deterioration without the role, a very strong role, of the government.

YPFS: Did this crisis change your view of the role of government in markets?

Clark: Well, I guess it changed my view of what the goal of banking regulations and supervision should be with respect to these gigantic, systemically important important banks. Pre-crisis there was a very longstanding, I'm going to call it Greenspanian view — he certainly wasn't alone — that market discipline and banks acting in their own self-interests would lead the banks to not take excess, unconstrained, risks and do stupid and dangerous things. And our system was pretty much running along with that view. Obviously, regulations existed, the key ones were pretty weak, almost nonexistent in the case of things like liquidity. And supervision was pretty laissez faire, a little light touch because, hey, the banks know better, and they have no desire or interest to put themselves out of business and destroy the world.

But where the thing got missed was that whether they had that interest or not, they had gotten so huge they had some serious challenges understanding their own risks and that they also faced incentives that were contrary to what would provide for a more stable financial system, primarily being to continue to provide as high a short-term return including distributions of capital to their shareholders. So yeah, it did. I think we all learned a lot about that and the result was a regulatory and supervisory regime that was put in place after the crisis that basically said, "We're going to explicitly require you to hold the

capital liquidity you need today to withstand even an uncertain, hypothetical event that may occur in the future, because if you don't do that, then you present too much of a risk of exacerbating any downturn into becoming a self-fulfilling crisis.

YPFS: **Does all of this suggest that, in the grand scheme of things, there is an inherent, hardwired risk built into capitalism itself?**

Clark: That's a big question and a really good one, very much spot on with what I was just talking about. I think that what we learned the hard way was that things that are taken for granted as being the basis of how our market economy works, which is back to the banking and financial sector, actually turned out to not really be the case. I don't know if that means there's something hardwired that's wrong with capitalism. I think we need to open our eyes to the assumptions about what a market economy does and doesn't do.

For example, the things that I was just talking about were certainly pretty much taken as received knowledge pre-crisis— That you have strong corporate governance inside these banks, that you would have a board of directors that was acting on behalf of their shareholders, and that they'd be acting on behalf of their long-term interests, not just making them happy by giving them dividends and increasing dividends every quarter, but actually knowing what's going on inside the bank and taking actions to keep their shareholders secure.

And I think what we learned is that actually wasn't what was happening. I'm not saying that's the case everywhere but the process through which shareholders were represented, protected, and served by boards of directors who were supposed to have a very strong understanding about what was going on in the bank and could take action to protect their shareholders by holding management of the bank accountable for certain things wasn't really happening. And that's a fundamental part of the assumptions upon which a market economy is based, that you have that strong corporate governance, that you have people acting in the interests of the shareholders and that the shareholders' interests are greater than the interests of bank management, and that you have active boards of directors who can powerfully represent those interests.

YPFS: **Let's go back to the issue of the private sector being a primary driver of the solution. If so many financial institutions and investors were in financial trouble, where was the deep pool of private capital going to come from to supplement TARP capital?**

Clark: Things were very bad, but there was still a lot of wealth existing in the world. Quite a bit of capital came from outside this country at various points in the crisis and a lot of the major shareholders and the biggest banks hadn't gone

bust — they still had available money. The question was whether they wanted to throw good money after bad if the banks were just going to collapse or get nationalized.

YPFS: **Let's talk more about the stress tests. What were the guiding formulas and assumptions? Is there a base stress test formula that holds to this day, or has the structure of markets since then shifted in ways that require the formula to be tweaked?**

Clark: I would say that, in terms of today's practices, what's really happened is the test have gotten much more sophisticated and information about the tests is much more available. "Sophisticated" may not be the best word, but what I mean is that a lot more time has been spent over the last ten years thinking about how to effectively run the tests, and there is much more information available about them.

The general idea, which is that the safety and the soundness of a gigantic banking organization rests upon its ability to withstand severely adverse conditions and continue to hold enough capital to operate, is the same today as it was then. But frankly, it was a little bit new at the time to measure that number, that capital need, using a hypothetical event.

That was, I think, a pretty important precedent coming out of the Supervisory Capital Assessment Program (SCAP), for the Federal Reserve to say that the banks were going to be required to raise their capital based on a hypothetical worse-than-expected outcome. A determination had to made that if they didn't do that, they would be unsafe and unsound, which is the key driving thing behind all supervision, the safety and soundness. And those were the grounds upon which we came to that conclusion. And that has lasted, and I think it's appropriate. So yeah, I'd say that's the most fundamental part of what drove it and that continues to this day.

YPFS: **At the Federal Reserve of Boston conference last July, were there any surprising or disconcerting assessments that emerged? Or was the takeaway that everything is working the way it should?**

Clark: Yeah, well there's still quite a few differences of opinion about how things should work and how things are going to work in the future. One of them is the extent to which the Federal Reserve should share with all of the banks, in advance and publicly, all of the key aspects of its modeling. In other words, the very specific details, exactly how do we come up with this number so the bank could essentially recreate it itself.

Lot of differences of opinion on that — some think that that puts the world in a dangerous position because it can lead to the banks, basically everyone, using the same models as the Federal Reserve and the banks not using their own models to think about their own risks. The result would be rather than

having a nice heterogeneous thinking that is most helpful and most conducive to a good outcome, everyone's just using the same measurement tool. I think the that would be dangerous.

Other things that they've talked about regarding the stress testing were whether or not they should put the scenarios out for public comment, because you know, if the Fed gets the scenario wrong, that's a really big deal. There is a whole list of issues. If you looked at what I wrote I ticked through them all because I disagree with almost every single one of them.

YPFS: **Given this diversity of opinion in how stress tests should be conducted, publicized, et cetera, what's the current state of play?**

Clark: Let me just say one other thing. One of the differences of opinion that gets discussed a lot and that certainly came up in Boston is that there's a difference between utilizing stress testing as a crisis management tool and utilizing stress testing as a "normal time supervisory and regulatory capital adequacy measurement." So, we've just sort of shifted from what we did in the crisis to how it's used today.

YPFS: **In the debate between being open and heterogeneous and putting the stress test formulas out there and keeping it more inside and closer to the vest, how are things actually operating today?**

Clark: There haven't been a whole lot of changes. The Fed is putting out more information, but they haven't disclosed quite as much information as I think the banks would like. There was some proposal from the Federal Reserve about something called stress capital buffer, but they have not finalized that rule,[7] it was out for comment. My role here was basically design and execution and oversight of the stress tests. I stayed out of the political aspects.

YPFS: **Obviously there was endogenous and exogenous pressure, both inside the government and outside the government on the design of the stress test. Can you talk about the sources of that pressure and how it shaped the outcome of the test?**

Clark: I'm not sure I would refer to it as pressure in the sense that it was something that was taken into consideration in the design of the test. It was clear that different parties favored different outcomes. But from the Federal Reserve standpoint and our standpoint, those of us who were putting this together, there was really only one main goal, and that was to maximize the credibility

[7] The stress test capital buffer was adopted in 2020 and applies to bank holding companies and U.S. intermediate holding companies with $100 billion or more in total consolidated assets. The stress capital buffer (SCB) requirement, which is determined from the supervisory stress test results, is at least 2.5 percent. See 12 C.F.R. § 225.8(f) for rules on the SCB requirement calculation. https://www.federalreserve.gov/publications/large-bank-capital-requirements-20210805.htm

of the test so that the results were actually seen as providing information that did, in fact, reduce uncertainty.

Whether that led to greater confidence in the banks or simply a better understanding of how bad things were, the number-one goal was credibility. It was really credibility, credibility, credibility from our perspective. We had to do everything we could to resist any "pressure" and to focus on getting something out there that would be seen as credible and a reasonable view — the best-informed view at the time — of the condition of the banks.

YPFS: **Regarding confidence and credibility, was there any sort of algorithmic way of measuring that? How did you measure confidence and how did you measure credibility?**

Clark: [Laughs] Honestly you can't really measure that from the inside. You basically have to do everything you can to ensure that you are doing it in the most credible way possible and then, frankly, hope that it is seen as in fact credible. And then the secondary point is, having been seen as credible, if it is, then whether it inspires confidence or just less uncertainty its nothing you can control.

YPFS: **Were confidence and credibility measured in qualitative terms?**

Clark: I would measure confidence in the banking system post the stress test by the fact that, of the ten banks that needed and were required to raise capital, nine of them got all of it from the private sector. That, to me, is the measure of confidence. The private sector was willing to invest in these banks based on what they learned about the banks from the results of the stress test.

And again, credibility — you can't jerry-rig it. It has to be credible to others, not to you, so you can't know that's going to happen until such time as others see what you've done. What you can do is try to minimize every opportunity for the credibility to be questioned or undermined by running the test in a way that maintains the independence of the Federal Reserve in the process and puts out as clear a set of information as you can describing what you did, why you did it and what the results were.

YPFS: **Do you recall what moment, if any, credibility seemed most under threat during the stress tests?**

Clark: Well, that's a good one. I was going to jokingly say that it was the moment that Dick Kovacevich at Wells Fargo said that the stress test was "asinine," but since most people thought that he was kind of an ass, I don't think anyone really cared what he said about it. We certainly didn't.

It's to be expected that there's going to be a lot of public commentary from both directions, the result of which may be to undermine credibility of the test.

I do think that for me, when I saw stories that basically implied that it was going to be an easy stress test and that the results had been predetermined was probably when I got the most concerned that we weren't communicating clearly enough to people that the results had not been predetermined and that it was not going to be an easy stress test.

So, it wasn't really one particular event, there were stories, there was the famous Saturday Night Live skit about Tim Geithner saying, "We're going to give the stress test, but everybody passes." So, there was a lot of talk like that. There was some concern that that could undermine the public's confidence in what we're doing but, again, we couldn't really worry about that. We had to just do it, do it the best we could.

YPFS: **You wrote in your Brookings paper that you had not counted on the degree and extent to which banks didn't have the risk measurement information they needed to estimate their potential losses under stress, and I remember being somewhat surprised when I read that because it made me think, "If the banks were pretty much flying blindly, how could you trust the data and results they were providing?"**

Clark: Right, so that's a really good question. Even though we'd already seen that the banks were losing money in places that they had never predicted or expected that they could, I think we were all still quite surprised when we gave the banks the scenario and asked them to run just a quickie on how it actually worked.

So, the banks got the scenario and they also got something called the indicative loss range, where we basically said, "This is what we think your losses are likely to be under this scenario. If your estimates come out either above or below, anywhere above or below this range, you need to explain to us why and provide compelling analytical evidence as to why we should accept that.

YPFS: **Did any major banks come back above or below that threshold and did any of those banks have what you thought were creative responses?**

Clark: Well, there were definitely a lot of creative responses, and I think what we learned was that banks had, in some cases, for some types of loan portfolios, a very hard time explaining how they came up with their loss estimates at all, regardless of whether they were above or below our range. And in fact, in the end, quite a bit more of the tests involved us taking what we got from the banks and designing our own further internal techniques to get comfortable with the final estimates that were used in the stress test.

YPFS: **But how could you be comfortable with the raw data the banks were providing?**

Clark: Well, that's my point. There was an extent to which you couldn't be. Now we did go back with a lot of data requests, and we ended up getting more data along the way but … as has been widely documented, the extent to which the banks didn't have the data we would've expected them to have to be able to come up with these estimates was a surprise. So, we had to sort of go, "Okay, what's the second-best method for measuring this."

YPFS: So, were the banks just kind of making things up, or reverse engineering on the fly?

Clark: I don't know if I'd say they were making things up, but I'll tell you something which is just a little anecdote. An interesting type of — let's call it a game theory event — that came out of this was because every bank wanted to look better than its competitive bank. No one wanted to be the bottom, right?

So, banks that have small portfolios, almost to the point of immateriality, in some cases had very large loss estimates, and in some cases banks that had more material portfolios would have lower loss estimates.

If a bank can say I'm going to lose 40% of my credit card portfolio and it's not going to cost me anything, why not?

In a sense, I'm competing with my fellow bank because I don't want to be the worst, and I also want the Fed to think that I'm taking this seriously and doing a credible job, and so if I have a portfolio that's not really going to impact me very much, it doesn't hurt me a bit to estimate a huge loss rate. And that loss rate may get in the head of the supervisors when they're looking at another bank when they have a huge portfolio in that area. And if it'll certainly cast aspersions on my competitor bank who may be predicting that they're going to lose 5% on their huge credit card portfolio, and it will be material.

I don't know that they were thinking this, but I do recall a few anecdotes where it was like, "Huh, why is it that many of the ones with the smallest portfolios have the highest loss rates?"

If you're trying to get something across for people in the future who find themselves in this situation, I think it is the credibility aspect, and to be very careful not to say, "We're doing this to inspire confidence," but to say, "We're doing this to reduce uncertainty."

Because you can't predict whether your results are going to make people confident. What you can predict is if you do a good job, it might make them more comfortable that they understand how bad things might be.

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