Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

Lessons Learned Oral History Project Interview

Interviewee Name and Crisis Position	Deborah Perelmuter [1], Senior Vice President, Federal Reserve Bank of New York
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Introduction:

The Yale Program on Financial Stability (YPFS) reached out to Deborah Perelmuter to request an interview regarding her time as senior vice president at the Federal Reserve Bank of New York (FRBNY) and specifically her work as co-head of Capital Markets Analysis and Trading (CMAT) within the Markets Group, in the years covering the Global Financial Crisis of 2008-09.[2]

Perelmuter began working at the FRBNY in 1984, and, in 2008, along with her responsibilities in CMAT, was tasked with setting up the operational details of the Term Securities Lending Facility ("TSLF"), which loaned US Treasuries to primary dealers against less-liquid securities, in an auction-style format, in order to provide liquidity to that subset of financial institutions. She later (2011-13) became senior financial stability adviser within the Office of the Director in the Research and Statistics Group of the FRBNY.

In January 2010, Perelmuter was appointed to a new position in the FRBNY Communications Group, charged with improving the Bank's overall communications and transparency. She is currently on leave from the FRBNY.

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

Transcript

YPSF: **If you have any caveats or disclaimers, this would be a good time, now that we're recording, to add them to the record.**

Perelmuter: My standard warning is that I am no longer at the Federal Reserve. I haven't had access to confidential data in a good seven years, and anything that I would

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

say does not reflect the views of the Federal Reserve Bank of New York or the Federal Reserve System. They're purely my views. I am looking at what happened as I remember it and those related views .

YPSF: **Since we're doing an oral history, can you tell us a little bit about what you were doing in late 2007, early 2008, in the early days when we were hearing about the potential housing crisis, but Bear Stearns hadn't hit crisis stage yet? What were you working on and what were the discussions you were party to around the health of the financial system?**

Perelmuter: Well, we could see a lot of the (credit/funding) spreads widening in the European markets versus the US markets. It (funding difficulty) was clear to us even in 2007 and probably even before. We could see the housing crisis starting to look like it could be a problem, should certain (adverse) conditions occur. At the Fed, we're paid to be skeptical about everything.

On the trading desks, I was in charge of our Capital Markets Analysis and Trading [CMAT] area, along with Trish Mosser. We were responsible for all the analysis that went to the FOMC [Federal Open Market Committee] and to our own president, [Timothy] Geithner, and all the operations on both the foreign exchange and the domestic side, and support for managing reserves. We had a positive funds rate, and it was our job on behalf of the FOMC, as their operating arm, to hit a particular target for of the federal funds rate so we had to actively manage reserves [in the banking system].

In 2007, towards about July or August, there was a mini-crisis in Europe where dollars were needed, and the European banks were doing everything they could to get them. We really needed to add reserves to the banking system so banks could be liquid and lend to the foreign entities. In the federal funds market, these banks had US branches. We were adding money through the banking system, doing a larger amount of repo transactions. In the repo transactions, the Fed is adding bank reserves to the banking system and taking in collateral, so it's collateralized lending. We did that as a normal operating practice.

We had to increase that (the amount lent through repo operations), but at the same time, when you increase the amount of reserves that are going into the banking system, the funds rate will start to fall, because there's going to be more supply than demand, or just greater supply than expected. We had to manage a funds rate, so we had to do something on the other side to be able to drain reserves, so we could adhere to the mission and manage the funds rate at the same time we're seeing all these (liquidity) spreads go out and more demand for funding

We were having a lot of daily meetings about what could possibly be going on, that there was a rush for dollars overseas. There are the beginnings of hedge funds and some asset managers having (funding) difficulty. They were having difficulty financing their (subprime) mortgages. All of a sudden, money started to dry up a little bit in 2007. It was noticed in credit spreads around the world.

Obviously, we didn't expect it to become a worldwide panic. But what we try to do at the Fed is manage the reserves at the same time that we keep an eye out for when spreads are looking abnormal, try to analyze what is going on and then what would be possible policy actions should there be any sort of pressures building in other markets. That was going on in 2007. I was in charge of the trading desk and also was coming off of a stint managing the staff charged with day-to-day management of the domestic reserves necessary to manage the federal funds rate. We did the RPs [repos], and we did all the analysis of reserves in the banking system: how much was on our balance sheet, how much was adding reserves, how much was draining reserves.

YPSF: **When did the severity of what was happening become clear? Was that when Bear Stearns became critical?**

Perelmuter: It was before Bear. In 2007, while we were adding reserves to the banking system, while the federal funds rate was starting to go higher and higher (given the worldwide demand for dollars) there was a liquidity pullback from banks not lending to each other. As the funds rate went higher, banks did have access to the Fed's discount window. A discount window is a standing facility that banks can use to borrow funds from the Fed when they're running short on reserves and they are in good financial standing. The idea with the discount window is that banks should use that to fill any funding gaps. Well, when banks come to the discount window and their names become public, it may lead to rumors that the borrowers have funding problems.

Banks were hesitant to borrow from the discount window because they feared that their name would come out into the banking system, into the general news. If somebody gets wind of the fact that X bank borrowed, even if they borrowed because they had to cover some delivery that was delayed and they were going to get it the next day—they weren't in any financial trouble, they just needed to balance their books for the day—if that news came out, they thought other financial institutions would withhold funding. Once you lose your (access to) liquidity, you pretty much lose the game, which is what happened with Lehman Brothers and Bear. When funding starts pulling away, you're done.

That sounds like everything's really tenuous, but when the system functions normally, the system works. But when your name gets out there for the wrong reason, or somebody feels like you are not a good credit risk, you're done. What we were trying to do at the Fed was encourage banks to borrow, saying: "It's here, come and borrow." Instead, they were willing to pay rates much higher than the market rate, say 10%, 12%, and more in the market because they didn't want to come to the Fed to borrow. We did not announce the names of banks who borrowed, but the numbers would show if anyone did. There would be a blip up from zero borrowing to maybe $20 million in borrowing to $300 million in borrowings. Everybody would try to fish around and figure out who that was. It wasn't a good feeling for anybody.

I'm trying to remember the exact timing, but it was well before Bear that our discount window operations came up with a different way of lending to financial institutions, which was the Term Auction Facility [TAF]. That was a facility where we would auction discount window loans (for various terms ranging from 24 to 84 days) to banks. To me, it was really an interesting psychological, sociological experiment because we were lending the same—collateralized funding to banks, albeit for term versus overnight. These were the same loans, but we were putting it out in an auction-style format saying: "Hey everybody come." So, a lot of banks would come and borrow from that, but it was seen more as: "This is another way to get funds." We were able to turn the discount window into something that was positive, rather than negative. It was very interesting to all of us that it worked this way. And it did. (Other central banks offered similar programs in their countries/currencies.)

YPSF: **It sounds like you were managing perception more than anything else. You were using the same resources you had.**

Perelmuter: Exactly, you're exactly right. This is my view of it. You see that nobody is borrowing; the money is there, and the funds rate is getting out of control, just going higher and higher because banks would rather pay a higher rate in the market than actually fill their end-of-day needs at the Fed. We needed to encourage lending in some way. This was a facility that I don't think had been used before. I think we set up something like this around Y2K, but never had to use it.

It's interesting, because we set up a lot of facilities around Y2K that we never ended up using to any extent. Then we had to use some of these things after 9/11. So, when 2008 came up, we didn't have to do a wholesale re-creation, at least at the beginning of it. We had a lot of tools that we just dusted off that we'd never used. For that, we were somewhat more prepared to be able to turn to a Term Auction Facility, turn the discount window into something like that.

TAF was able to help the banks out, and again we wouldn't lend to any bank that didn't have the proper collateral. At that point, these were only depository institutions, so it wasn't Bear or Lehman or Merrill or any of those nonbanks that were ineligible to borrow. It had to be a bank. As you get toward 2008 and the housing crisis is heating up, dealers and banks are having difficulty financing their mortgage-backed securities at the same time as mortgage-backed securities were being more securitized, put into these off-balance-sheet items being sold to, as they say, municipalities in small European countries, for instance. Everything was packaged and was being moved off-balance sheet. These were not areas that we were primarily managing in terms of our bank supervision. A lot of this was referred to as the shadow banking system and also was referred to as part of the subprime or housing crisis.

I'm not really up on whether or not these kinds of things still exist or whether they're still unregulated, but these were unregulated areas at the time. The securitization spread a lot of the risk around the world. Financial institutions would set up these tranches that were seen as AAA, even though they threw in—I don't want to use the word garbage, but they threw in stuff that was not exactly investment grade—but when you average it out, a credit rating agency may have rated it at AAA.

This is one of my personal views: That the ratings agencies didn't get enough criticism on what they were doing. We talked a lot about the ratings agencies, but I personally felt that they had a lot to do with the credit issues, the liquidity issues in the markets, because they were classifying things as higher rated than perhaps they were. Or securities were highly rated, but there were a lot of other things in there, and people were stuck holding the bag.

In the shadow banking system, you had all these assets that were being packaged, sold and then repackaged and sold again. A municipality anywhere would say, "Well we're allowed to invest in AAA, so we've got these things that are AAA." But all of a sudden, they're not AAA, and this municipality is without these funds, because nobody will then take them off their hands. They have to write them down, and all of sudden you've got some small town outside the US, for instance, that doesn't have any money (as their collateral is virtually worthless)

This was going on all over the place. It was happening in mortgage companies around the US. The average individual was told that housing prices never go down. You've seen all the movies, *The Big Short* and all that kind of stuff. It was happening. Basically, there were a lot of these mortgages that were not going to get paid off.

You distill it all the way down to what we're looking at, at the Fed, and we're seeing that banks start losing confidence in other banks. Banks were not lending to other banks. Banks were not lending to broker-dealers. Broker-dealers weren't lending to each other. All of a sudden, the only game in town is the Fed. I likened it to hub-and-spoke, where typically banks lend to each other, and the Fed is just there in case somebody runs short. Well, in this case, nobody trusted anybody, so the Fed had to be in the middle. The Fed would loan money to one bank and then take in loans from another bank. We were the central clearing among all the banks.

I'm going on and on too far about this, but the basic idea was that we needed to get money out to the banking system. By 2008, this Term Securities Lending Facility [TSLF] was introduced, as well as the Primary Dealer Credit Facility [PDCF]. Our feedback and the data show that banks would not lend to broker-dealers for whatever reason. Broker-dealers had to come to us, and the only thing we were permitted to do was these repos. We couldn't continue to add money because it would impede our ability to manage the funds rate. The federal funds rate was not yet at zero. We didn't go down to zero I don't think until after AIG and Lehman. We still had to manage a positive funds rate.

This is in the weeds, but it's actually important. At that time, the Fed didn't pay interest on bank reserves. So, banks were holding reserves at the Fed, but we weren't paying any interest on them. There was no incentive, but banks felt they had to hold them there because they didn't want to lend them elsewhere. They weren't lending them to broker-dealers who would have paid for those reserves to be able to finance their mortgage-backed securities, finance their agency securities, and finance their Treasuries (and other types of assets).

The TSLF was an idea I had prior to March [2008]. I was trying to market this idea back in January and February, because I felt that it was important that primary dealers were able to finance themselves. I thought they were at a grave disadvantage to banks, with the caveat that the Fed did regulate and supervise the banks. We did not regulate or supervise the primary dealers. So that's where it gets into a little bit of a conundrum with the Fed and FOMC. How can we lend them anything if we really don't regulate and know how they're doing? And the Federal Reserve Act did not permit that except under "unusual and exigent circumstances (of Section 13(3) of the Act)."

When it came to 2008 and the TSLF, my view had been: "We need to be able to do things other than repos. Right now, we will loan money against collateral. We were adding reserves, and then on the other side we had to sell securities. It just didn't make any sense. Why don't we lend them securities versus securities, instead of lending them money?" What the primary dealers really needed was money. How could they get liquidity? They could do so if they had general collateral Treasuries, the risk-free of all risk-free [securities]. If they had general collateral Treasuries and we held around a trillion of them, why should we hold them when we could lend them out?

So, we came up with this idea that we lend out general collateral to the primary dealers and they would give us their mortgage-backed and Federal agency securities, the same collateral accepted for our RP lending operations, highly rated, of course. We took them in our open-market operations for repos. Why wouldn't we take them and instead of giving money, give out our general collateral securities, to the extent that we had them? And $1 trillion at that time was real money. I tried to push it, but it kept getting put lower on the priority scale given everything else going on. We were all in this small group that met with Geithner every morning, and maybe it was complicated and didn't solve immediate problems.

I was down at the Board of Governors in Washington for another meeting, and I knew the vice chairman at that time. I knew him back when he was head of monetary affairs; we had a good relationship, so I just asked if I could go to see him. I went and I told him about this TSLF idea, and he said that he now understood it better. He then would talk to other people on the committee and talk to Tim Geithner. I brought it up again, and they said: "Now put together some term sheets, put together how you think it would work and we'll present it to the FOMC." That's what happened in March.

I can say I thought it was great because it was original, but it was a way to solve the problem of: How can we add liquidity to primary dealers at the same time as not add reserves to the banking system? To be able just to do a swap of securities and not have any impact on the funds rate was really important to the FOMC as well. So, we did that.

YPSF: **In the conference call transcript, Bill Dudley mentioned there were concerns about creating a moral hazard, that the broker dealers would be enticed into having less liquidity under normal circumstances because they had this backup, whether they should pair the TSLF with some prudential regulation. Did that go any further?**

Perelmuter: Well, TSLF did grow into a facility that expanded the types of collateral we took, not just our regular RP-eligible securities, but securities equivalent to the lesser-quality we allowed Fed-supervised banks to pledge at the discount window. That's where the moral hazard came in. This all sort of fed into the Dodd-Frank legislation a couple years later regarding what the Fed was allowed to lend and to whom along with who gets to regulate, who will be in charge of regulating banks and also non-banks. The early thought was the banks had been doing so badly, the Fed shouldn't be doing any of this. Then all of a sudden after Dodd-Frank, the Fed was not only supervising and regulating the banks, but they created a class of financial institutions which could include insurance companies or broker dealers that were called Systemically Important Financial Institutions, SIFIs; then the Fed was responsible for supervising them.

We did the exact same thing we did with banks, where we put people inside an institution. We watched them all day. They had liquidity ratios; they had all the same regulations the banks had. That did come afterwards, when there was agreement that: "It's not only banks that are systemically important but also large broker dealers and large insurance companies." Some may have tried to prove that they weren't systemically important, by breaking themselves up, for instance. But it did turn out, I believe, that firms like GE Capital, the rejiggered AIG, Goldman (Sachs)—all those companies became classified as systemically important and then became regulated by the Fed. That did happen afterwards.

In terms of the moral hazard, there is that thought. It came from back in the 80's. Back in the '87 crash, the first thing that Chairman [Alan] Greenspan said after the crash was something on the order of: “The Fed is here. We are open and operating and will lend liquidity as much as is needed.” It might have happened in years past, but it was pretty well documented in 1987. I think the beginning of moral hazard was really that if something happens in the market, the Fed will always be there to provide liquidity. Is that bad? Is that good?

What we tried to do during the crisis was provide liquidity at a price. Most of the liquidity facilities that we built cost the dealers or the banks money and it cost them more than it would have had they been in normal conditions. The commercial paper facility, for example, had higher costs with the Fed as the backstop; if everything was running normally, you wouldn't need it. In some cases, at the mere announcement that the Fed was ready to purchase commercial paper, the money market funds who owned commercial paper would be confident that the Fed would be there, so they wouldn’t need it.

Did it cause moral hazard? Any time you do something to help, it's going to be somewhat of a moral hazard. Then again, I wasn't involved in regulations at all, not with Dodd-Frank nor with other regulatory changes, but this is my thought about it. They were given higher liquidity ratios. They were given many more hoops to go through. They were given these stress tests that they had to pass before they were allowed to issue securities or before they were able pay dividends. So yeah, these kinds of things did happen. I think because they did happen, maybe it will stave off any further crisis.

The idea is that each of these systemically important financial institutions had liquidity barriers. I think they're always fighting about whether they should be smaller, but they have pretty rigid liquidity barriers and they have to take pretty rigid stress tests. Those that aren't systemically important—either because they didn't want to be and restructured themselves accordingly and also because they became less risky—if something happens to them, they should be able to fail. It was this thing about "too big to fail," so systemically important institutions had to pass a lot more tests, jump through a lot more hoops than say, a smaller investment bank or a smaller bank.

YPSF: **Tim Geithner did bring up the possibility of legal action if you turned down an institution for liquidity and it later failed. This was six months before Lehman went through the same scenario. There's also a lot of conversation among the governors in the transcripts about a slippery slope where the Fed would end up propping up all kinds of financial assets. So, what were the discussions there? How big was the concern**

that the Fed would end up being in charge of just keeping the entire system afloat and the consequences if something failed?

Perelmuter: I tried to look back on the transcripts, but I hadn't focused as much on Tim Geithner feeling that there was going to be legal consequences, because he was one of the first saying things like: No idea is a bad idea, let's just see what works. He was pretty incredible in terms of how he managed us, where anyone could come with an idea and he would say: "All right—24 hours, show me how this would work." We would do things and he didn't seem to me as concerned about the lawsuits. He was more like: "Let's get this thing under control and I'll deal with this later."

Our general counsel [Tom Baxter] and the general counsel at the Board of Governors, Mr. [Scott] Alvarez, were very concerned with everything we did, making sure every "I" was dotted, and "T" was crossed, which is their job. When it came down to it, in 2008 to 2010 or '11 or '12, we or the government—whoever ended up throwing money into this—received every dollar back plus interest. I don't know whether that will be the same with the pandemic, but then we really were only lending to those who could pay us back. Bear Stearns did not have the ability to pay us back. They actually failed before the first TSLF. While the securities lending facility had them in mind, it wasn't really to lend to them, but it was to make sure that others didn't end up with that same fate.

In the case of other primary dealers at the time, they had plenty of collateral—real collateral, triple-A collateral—but stuff that they were having difficulty financing in the market. So, we didn't have as much of an issue. However, we could have, and, not mentioning any names, but we did turn down, we did say "No" to some, based on what we knew about their condition. But it didn't become public, and we really did have a fiduciary responsibility. We needed to manage the liquidity provision and also manage the balance sheet.

When it came to the too-big-to-fail stuff in September, I'm going to plead a little ignorance here because of a side story. During this whole thing, everybody was working 24/7, literally in the building or at home, but mostly in the building, sleeping there or going wherever. I was in charge of this area; we had a lot of people. I said: "You know, if you have your vacation, take it, because it's all going to be here when you get back. It's a marathon not a sprint," and all those catch phrases. People would take their five days and probably still be on their computers. So, it came time for my vacation, and I was taking four days off around, what were those days in September? And I wasn't there.

I took it, because I had said to everybody else: "Things will be here when you get back." I thought to myself, things will be here when I get back. I'm telling you, four days later, things were not there. They really were not there. It was a whole new world. I was on the phone the whole time. People were busy.

Everybody knew how to handle everything. That's why I'm going to say, when we start talking about AIG and Lehman, I am more peripheral when they decided on one and not the other. Although when I come to think of it, I agree with the decisions. I don't think there was another way to go.

YPSF: **As far back as July when the FOMC was discussing extending and enhancing those liquidity facilities, they seem to be divided. Then a couple of months later we got Lehman and AIG and Countrywide and all these different institutions going like dominoes.**

Perelmuter: And in July and August, Fannie and Freddie were having issues. I think it was August (actually early September) that Fannie and Freddie were put into conservatorship. That wasn't actually a really good time for mortgages at that point. There was no feeling in the New York Fed that things were getting much better. In terms of institutions, there was a lot of scrambling about: if somebody's next, who's next after that? How do we see whether or not who can merge with whom? All these things happened within three or four days. You come back and Merrill is with BofA, and many other mergers happened.

But with Lehman, it's probably in all the books now. I don't think I'm speaking out of turn. They were having a lot of problems for months and months and months. There were conversations with them about trying to raise capital and their CEO/Chairman—it's all documented it's all so old—kept saying, "No, we don't need to. I got this." We were pretty much on them: "You have to do this. You have to do this. You have to do this (raise capital)." And they weren't doing it. I wasn't there that week, but I can pretty much imagine that they had every opportunity to shore up their finances, and they had a leader who was saying, "I got this."

It wasn't out of spite or anything; it was that they had no collateral. Many didn't believe us when we said something about their having no eligible collateral: "Oh, they had nothing?" But they had nothing that they could give us of value, unlike AIG, which did have a lot of businesses that had value. People argue, "Oh you saved AIG but let Lehman go." It was a matter of who had the ability to succeed afterward, who had things of value. AIG had its tentacles into every business. They were in insurance. They were the definition of systemically important. "Too big to fail" was kind of a bad term, but in that case they were kind of too big to fail. At Lehman, a lot of people got laid off, financial dislocations really happened, and it was really pretty bad, but the world didn't fall apart.

YPSF: **Is it safe to say that stopping a panic became a major driver of decisions there? In the conference call transcripts, there seems to be a sense that the Fed was going to get a lot of blow-back from any actions that it took.**

Perelmuter: At that point, things became more focused towards supervision. What we were doing in Markets was then coming up with a lot of these facilities and focusing on monetary policy objectives then we started increasing our purchases of securities. Then the FOMC at that point lowered interest rates toward near zero. That was a first; that hadn't happened. For the silver lining, we were then able to pay interest on reserves, so we could expand our balance sheet to infinity, and not have any impact on the funds rate. Even if the funds rate wasn't zero, even if it was 3% or whatever, because we paid interest on reserves, banks could hold their reserves at the Fed. So that all happened around the same time (late) in 2008.

It was fortuitous that we'd already been given the ability to pay interest on reserves maybe two years earlier. We had until about 2010 or 2011 to work out the details. All of a sudden, it's: "No, you're working out the details for tomorrow." That happened pretty quickly. It was very fortuitous, and it's something that's really a big part of how they manage interest rates and monetary policy today. That just sort of happened in the middle of everything else going on and proved particularly helpful in managing a near-zero interest rate policy by the end of 2008.

YPSF: You mentioned the expansion of the liquidity and lending facilities. It went from TSLF and the primary dealer to others—commercial paper, money markets. They were extended several times throughout 2009 and '10. Where's the disconnect there? Was there an underestimation initially of the need and severity of the problems or was it mostly just an excess of caution from the regulators in terms of not stepping too heavily into the system?

Perelmuter: It's the latter. Whenever we do something, we like to put an end date on it. We like to see how it's going and reserve the right to extend it. In many cases we've done things where we didn't have to extend it. In some cases, it was just a mere announcement effect. We would set up the program, but it wasn't really used. For some of these—I think it was TARP, which also included the Treasury Department funding—we had to be pretty careful. Especially when Treasury money was being used, because that could cause some greater congressional blowback, because that is seen as appropriated taxpayer money, even though everything we're doing is taxpayer money.

I don't think it was underestimated. I think what happens is we start these programs in the hopes that it's going to help right the ship. So, you don't need to have a really long end date. With some of the other programs we were holding longer-term securities, so they really had to stay around for a while. Some of the AIG and Maiden Lane facilities were holding AIG assets and had to try to sell some of them off; a lot of them were longer term assets, so that program stayed for a really long time. I don't know the date, but it was well after the crisis was over.

YPSF: **Having survived 2008 and 2009, in 2010 you're appointed to this new communications group. It seems officials at the Fed felt that they were being scapegoated, that the public often did not perceive their actions in the best light. Is that part of the dynamic that led to this focus on transparency?**

Perelmuter: Yeah, well there was a Communications Group before. What I had an issue with, and a lot of people did, is: everybody was really too busy doing and not busy explaining. There was a reason for that—there wasn't really time. We tried to get more of the parameters of what we were doing to the media, and our media people were really quite good.

What the blowback was—and to me was unfortunate and I would hear in my own house—"Hey Fed, you're saving Wall Street but you're not saving Main Street." I thought it was really lost that the Fed generally does its business through Wall Street banks, and Wall Street banks then make things available to Main Street. In this case, it did work. The commercial paper facility was such that corporations, Main Street companies, felt like they could issue commercial paper. Because they needed to pay their workers. They need to buy inventory. Without this market—without Wall Street functioning, without paper changing hands—you have no market.

I thought it was important, once all this died down, to explain this to anybody who would listen. Believe me, I talked to everybody about how Wall Street then could translate to Main Street and that these were actually set up to make sure that Main Street could then be able to do what they needed to do to stay in business. Because Main Street can't exist without banks, and the banks can't exist without liquidity. Until banks trusted each other they weren't going to have the liquidity, not until the Fed was there to help the banks.

At that time—and I think it's probably different now looking at the pandemic—we really wanted to stay away from lending directly to an individual corporation. It was: How can we make sure the banks are liquid and lending to these institutions, or how can the mutual funds make sure they own commercial paper that is issued by these smaller firms, because there will be a backstop if we can't sell this commercial paper. I've tried to boil it down to hopefully understandable chunks so that I could explain. I would explain to professors. I'd explain to students. I'd explain to businesspeople. To a lot of naysayers.

I started off with surveys of: "Do you think the Fed overstepped its bounds? Why do you think it overstepped its bounds?" Then came down to why this impacted Main Street through these channels and why it makes it much more difficult to then target a particular Main Street institution. I also said that fiscal policy is really geared towards the taxing, the spending, the targeting of particular sectors. The Fed is not their target. What we try to do is what we're created to do, which was to create liquidity in the banking system, manage interest rates, which then flows through.

YPSF: And how did you execute on those initiatives?

Perelmuter: I got myself invited to a lot of places. We made it known that it was in existence. Also, we started cataloging our senior people, where they were going, who they were talking to, making sure that it was being branched out. If there was a missing piece, if our president was speaking in upstate New York, we wanted to make sure that he was going and talking to areas that would have some influence or needed understanding.

They did more press briefings after that. The New York Fed invited the press in, I think it was quarterly, and just had these lunches where they asked questions. There was probably more time for that, but it was really important that we had more briefings. Since then, you see every FOMC has a press conference. Some might say that's too much, but it started off when there were no press conferences. The statement would come out and then correspondents on, say, CNBC or others would come out and say, "All right, this is what I think they mean." So, the press conferences started. We (the FOMC) also started to have longer statements and the statements started to have more information, not only on what was happening, but more forward guidance.

A whole lot of things happened at the same time. I had been doing this markets thing for about 25 years, and I did a lot of speaking. Having been there that long and knowing the people that work there, I got pretty frustrated that I would hear, and we would see in the papers, that we were listed below the IRS in terms of agencies that you trust. We did everything we could to do "the right thing for the right reasons." There were no back channels; there was nothing like that. It was: How can we solve this problem within our mandate? Then if we have to step out of our mandate, we have to ask the FOMC and perhaps the FOMC has to ask the Treasury Department, which in some cases was the least-used FRA [Federal Reserve Act] Section 13(3) lending. It was a lot of hoops to jump through just to do things that were outside of our purview.

When Dodd-Frank came, they actually took away the ability to lend directly to private corporations—individuals, corporations, and partnerships—FRA Section 13(3) lending. It used to be you had to be under "unusual and exigent circumstances," which is what we called the 2008 meltdown. But after that, I believe, that whole nomenclature (process) went away. There was no more "unusual and exigent circumstances' that empowered the Fed. If something like that happened, we had to ask the Secretary of the Treasury.

I think that happened during this latest pandemic. When they [the Fed] wanted to do these same kinds of things that they had done in 2008-09, they actually had to get the Treasury to say yes, which of course they did. The Fed really was the only organization that when something happens, it can have facilities up and running in (something like) two days; whereas, Treasury would take a lot longer. We can just do it. They would say yes. Just from my Monday morning quarterbacking, sitting on the couch looking at this, it felt to me like the Fed had so many professionals that have lived through a lot of these things (crises) that they can get this stuff together really quickly. I wasn't surprised that the Fed was back in "business." Although there were a lot of things, I think there's more moral hazard associated with what they are doing now than what was going on in 2008. We were in a pretty bad place, so can't fault anybody for doing everything they could.

YPSF: Many of the same concerns from the Global Financial Crisis are surfacing again with the COVID pandemic: the moral hazards and the slippery slope, but also the price tag. What would you suggest to decision makers today? How can they address the crisis without causing another Occupy movement to arise and another social crisis?

Perelmuter: It's a hard one. Right now, they just keep buying securities, adding money to the banking system. One of the things that I've faulted or would fault the Fed on and actually did so after 2008, was that we loaned a lot of money to banks. It may have been collateralized, but they put it right back to the Fed and we didn't tell them that they had to lend it. We were lending money out and it was coming right back to us. I thought that there should have been something attached to the loans that said these have to be lent out. What was going on, is this money's going right back into the Fed and the Fed pays interest on reserves. Should we pay less on reserves so their holding it at the Fed really doesn't get them much? There should be something attached when we're doing special lending programs. The banks can't just go and put the money back into the Fed.

I'm not in the meetings right now, and I don't know if they've done that. I can't say. To me, it would have more bang for the buck if the buck was going and circulating through the banking system. There has been a good deal of fiscal policy stimulus, with the unemployment money and all the other stimulus checks, but for individual institutions, I think banks should have been given more of a: "You have to lend this out." The banking system is not in bad shape. This is not a financial crisis. This is a crisis that hit the pocketbooks of Americans. Last I checked, the banks were not in any trouble.

YPSF: Summing up, if you were going to write a memo to your younger public servant self, what would be the top points in terms of recommendations? What would you say are the biggest lessons that you learned from the financial crisis?

Perelmuter: Well, don't take a vacation in September. I don't want to say we did everything right, my younger self, but I thought that the way we made decisions was really quite amazing. You never know what the crisis is going to be, so it's hard to write a letter to say: "Well if we could do this differently...." No crisis is the same. Liquidity is important. Take as many ideas as you can, flesh them out, and see which ones you think are going to be the best. Don't sit idly by.

Also, like any old adage, when you see something, say something. It's something that we really did do starting from 2006, 2007. Bill Dudley was chief economist at Goldman Sachs; when he started in the Fed as head of the Markets Group in 2006, the first thing he said was: "There's an issue going on in the housing market." We were already thinking that, but at least to have somebody come in, in the Fed, and just really start a laser-like focus on it.

It's more that if you see something, say something. After that, there were a lot of different meetings. There were meetings that happened every day. We were constantly monitoring every spread known to man. We spread out, we grew the number of people that were following different asset classes, and I think that was the right thing to do. To take the eye off the ball when things are good is the wrong time to do that.

As I think back on it, always have people who have the right ethics in mind, the right mission in mind and are free with giving information to each other to do better. That sounds very kumbaya, but it was a pretty amazing place. With every situation being different, it's really about being open-minded and continuing to be open minded.

YPSF: **Any additional points or learnings you want to share?**

Perelmuter: I guess the point was to continue to be as transparent as possible, to answer questions when asked and even answer questions before they're asked. Don't go back to the ’80s, where it was great for the Fed to be as opaque and in the weeds as possible. It's a pretty important institution in the US economy. I think more schools should be teaching about it so that when something happens they're not saying, "Who is this Fed, and why are they there?"

We continually have to say that to Congress because Congress is continually saying, "Who is the Fed? Why are they there? Why aren't we watching over them more than we are?" An independent Fed, when it comes down to it, is probably the best model one could have. If it becomes less independent, and it becomes more political, there are many things that could befall you (not the least of which would be inflationary tendencies). The Fed would then lose its ability to be nimble and flexible. While you have oversight, it should still be an independent organization. Hopefully that continues, as long as we don't lose the public trust—which is why communications and transparency are important. That would be my closing, my parting thoughts.

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