Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

Lessons Learned Oral History Project Interview

Interviewee Name and Crisis Position	Michael Silva[1] Chief of Staff, New York Fed
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Introduction

The Yale Program on Financial Stability (YPFS) contacted Michael Silva by email to request an interview regarding his time as chief of staff to then-New York Fed President Timothy Geithner during the financial crisis of 2007-09.[2] Silva started at the FRBNY as a law clerk and worked his way up over more than two decades. He was chief of staff for FRBNY president Timothy Geithner from 2006 to 2009, including the early stages of the crisis. As such, was critical in the coordination of personnel and information during the GFC, specifically during the period when the FRBNY was mitigating funding issues in the bank sector, including the bail out Bear Sterns, organizing bank purchases and lending facilities for other banks, the failure of Lehman Brothers, and the rescue of AIG.

When Geithner became Obama's treasury Secretary in 2009, Silva became chief of staff to his successor, William Dudley, until 2013. Since leaving the New York Fed, Silva has been in the private sector as a regulatory and compliance officer at GE Capital, DLA Piper and most recently UBS.

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

Transcript

YPFS: **Do you have any kind of caveat or acknowledgement you need to make before we start chatting?**

Silva: No, I do not.

YPFS: **So, since this is an oral history, I thought we should probably start with a little narrative.**

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

Silva: I was chief of staff for Tim Geithner, who was then president of the New York Fed. After the great financial crisis, when I was finished being chief of staff to the president, I went to the supervisory side of the house, to help with implementation of all the new standards, and I was the first senior supervisor officer for Goldman Sachs. But during the great financial crisis, I was chief of staff for Tim Geithner. I took that role in the spring of 2006, so I had it for a couple of years, as we began to approach the crisis. As Tim, I think very perceptively, became increasingly concerned by things like CDOs, skyrocketing home prices and people constantly refinancing, he convened a number of meetings on these things, which I attended with him. The economists and the bank supervisors, PhDs and very experienced, made very compelling arguments for why this was not something that we needed to worry about; it was market forces at play and they would gradually correct things at some point.

Tim was skeptical at that and kept probing at it. I was very skeptical of it, and this is perhaps one of the biggest personal lessons I learned in the financial crisis had have subsequently used a number of times. I was a lawyer; I wasn't an experienced bank examiner. I certainly wasn't a PhD economist. I said, "Well, they're the experts," and I deferred to them, even though my common sense was telling me otherwise. My common sense was telling me that which cannot continue forever will come to a stop. There were a number of other times, during the crisis, where our supervisors and our economists, with all the best intentions, were wrong. What I took away from the crisis was: I am no longer intimidated by experts. Just because somebody's an expert in something, if they say something that doesn't make sense to me, I am much more inclined to challenge it. And that has actually served me well on a couple of occasions since the great financial crisis.

YPFS: So, from your vantage point, when did you see the first signs of the housing bubble? You wrote somewhere that Bear Stearns was batting practice for the fall.

Silva: Yes. By then, the bubble was in full swing. Tim became quite concerned about it much sooner than that. Bear was March of 2008, but I would say certainly by mid-2007, we were concerned about the housing bubble at some level, and things like CDOs, and did people really understand these things. I would say certainly by late January and February of 2008, we were very alert to the fact that a number of the investment banks were borrowing overnight on the short term basis and using an increasing amount of mortgage backed collateral that was slowly becoming less and less reliable. But the investment banks, not having the deposits to fund themselves, were funding themselves increasingly with these short-term loans. We were increasingly concerned that if the housing market bubble there did pop, and this collateral suddenly did decrease in value, you could very easily suddenly have a number of financial

institutions that weren't able to borrow as readily on an overnight basis. And of course, that's exactly what ended up happening to Bear Stearns.

Our Open Market operations staff--the trading staff that implements monetary policy, makes emergency loans, and makes regular overnight loans to the banks--talks to the market. So, we were hearing market rumors several weeks in advance of Bear Stearns. People were becoming increasingly concerned about the amount of subprime collateral that it was using, and we started asking the SEC about that, because at the time, we had no authority over Bear Stearns whatsoever. The SEC assured us that they'd been talking to Bear, and that Bear felt its liquidity situation was sound, and that it was confident people would continue to lend to it.

I forget the exact date, but Tuesday of the week that Bear failed, we were hearing very loud signals in the market that they were backing away from Bear. And sure enough, it was Thursday night, and I was on my way home, and Tim Geithner called me on my cell and said, "Mike, the CEO of Bear Stearns just called me and told me he's not going to be able to open in the morning. The chairman of the SEC has also called me and advised of the same," He instructed me to please summon the management committee, have everyone return to the bank and meet him there as soon as I could.

And that's how it came to be that at midnight, we were all convened. Maybe it was more like 11 o'clock in Tim's office, listening to the SEC officers explain to us that that night, all the usual hedge fund lenders and the pension funds and other people that provide short term funding had decided en masse to stop lending to Bear, and it wasn't going to be able to open in the morning. And then essentially said, "Now, let us know how this comes out."

Now, a story I like to tell about that night, that I think emphasizes a number of things. As I was listening to this, along with other senior officers, the officer in charge of supervision, the senior economist and so forth, I'm chief of staff, so my job is to think ahead. So, I called the equivalent of the supervision group chief operating officer, and I said, "Hey, it looks like Bear Stearns is not going to be able to open in the morning. I think you're going to need to scramble a team to get over there, to give us a viability assessment and an assessment as to whether they have anything to lend against." And he said, "Sure, where's Bear Stearns?" And I said, "I don't know. Google it."

The reason I like to tell that story is it emphasizes that now, it's midnight. Asia markets are already trading, and they're smelling blood in the water. They know something's going on. We'd just been informed that a major financial institution may not be able to open in the morning, and we have no idea what the consequences of that might be because we don't know how much money it owes the payment system. This is a very serious situation, and at least some of us don't even know where Bear Stearns is. And this was a direct result of

how gerrymandered our regulatory system was prior to, and unfortunately, still. We had no insight into Bear Stearns, even though they were, as it turns out, systemically important.

YPFS: **A lot of the interviews have touched on the difficulty of having good oversight of regulation when there were so many agencies, like the blind men touching the elephant, and it sounds like they're weren't very good lines of communication leading to the crisis. Was that the case? And thinking forward, has that been, in any way, remediated since?**

Silva: The answer to both your questions is yes. Before the crisis, yes, it was a big problem. After the crisis, yes, it got better because fear will do that; near-disaster will do that. But going into the crisis, the OCC, SEC, FDIC, (were) all very territorial. And the SEC in particular did not like us prying into the safety and soundness of the investment banks, and the investment banks certainly didn't like that. Remember, the SEC, it's a securities regulator. As you know, its role was primarily to ensure an even playing field, making sure all the necessary information for investors is disclosed, making sure that all the participants and securities transactions are properly registered. They were not, at that time, a prudential regulator that goes in and actually looks at the liquidity and capital and internal controls of financial institutions, to assess its safety and soundness.

So, while they checked thoroughly, to make sure Bear Stearns was dealing fairly with its counter parties and its clients, they did not have the capability to check firsthand and really drill down on how safe and sound they were. A good example of that was that evening, when we were asking the SEC officials, "What's Bear Stearns' liquidity?" They handed us a report, and they said, "Here it is." We looked at it, and it was a report prepared by Bear Stearns. Now, we were a little taken aback by that, because as prudential regulators, we never rely on what the firm says. We rely on doing our own work. So, we expected them to hand us an SEC report, reporting on what the SEC had found, after reviewing Bear's books. But the SEC didn't do that. It relied on Bear to tell it. And that's not what a prudential regulator does.

But unfortunately, prior to the crisis, as I say, the SEC didn't like us poking around the investment banks. And the investment banks sure wanted nothing to do with this thing called the Fed because they knew that Fed regulations are very burdensome, and they spent a lot of money lobbying to not be regulated prudentially by the Fed or anyone else.

YPFS: **It almost shows like Bear was applying for one of those No-Doc loans or Low-Doc loans. They were saying how much they had in hand, and you had to take their word for it.**

Silva: Yes, basically. And that's why, when we were informed that they couldn't open in the morning, we didn't automatically lend the money. We sent our own people into that bank, 1:00, 2:00 in the morning, to examine its books directly and to tell us two things. One: How much money does Bear owe into the financial system that morning? When the system opens, how much money does Bear owe in counterparts because that tells us how much of a hole Bear would leave in the payment system. As you may be aware, about $4 trillion a day that cycles through our electronic payment system called Fedwire. But the average dollar on Fedwire changes hands, at least back then, 300 to 400 times a day. And that means that if Bear Stearns, for instance, doesn't pay out the $40 billion that it owes to its counterparties in the morning, those counterparties suddenly don't have $40 billion that they were supposed to pay to other institutions downstream. And suddenly, you can have firms who aren't getting money they expect to get, have to start selling things, to raise money in order to meet their own obligations. And if you have too many firms selling things at the same time, you have more sellers than buyers, you get a classic negative asset spiral. So, figuring out how big of a hole Bear was going to leave in the payment system told us a lot about whether we cared if Bear would open or not. Because if it was going to leave a small hole, then we don't care. And we're going to let you fail because that's what happens when you don't manage yourself well.

The second thing that team had to tell us is: If we do care, if the hole is big enough, does Bear have enough collateral for us to lend against to get them through the day? Because we're not going to give money away. The Fed never has, never will give money away, despite public perception. We only lend against collateral, especially back then. Now, it's a little different, but back then, especially. So even if they were going to leave a big hole in the payment system, we still might not have lent to them if they didn't have adequate collateral. So, we put our own team in there, and I was calling them all the time, saying, "Hey, we're desperate to know: What's the size, what's the hole, and are they viable?"

The initial conclusion was that they owed about $38 billion into the financial system, and that's not a very big number, as things go. It's all in Tim's book, but my recollection is that by about three o'clock, we realized that there were these other things called derivatives, credit derivatives, that had been written on Bear Stearns. And they had been taken out, not just by people that Bear owed money to, but by people who were betting Bear would fail or others who were betting it wouldn't. Basically, they were playing the ponies; they weren't protecting themselves against money that Bear owed them. We began to realize that the size of those credit default swaps that might be triggered if Bear went down was quite a bit larger than $38 billion. In fact, so large we weren't quite sure how big it was.

So suddenly, we're faced with the possibility that if this institution doesn't open, it may trigger obligations that cause a whole bunch of other intuitions and parties to have to sell a lot of assets, to raise the money necessary to cover the CDS obligation. And that's another form of getting a negative asset spiral going.

Now fortunately, just as we began to realize this feels kind of risky to let these guys fail, this could very well trigger a larger crisis, we also could tell, all right, it does have enough collateral for us to support it through Friday. It's a lot of subprime collateral, which the markets don't want, but we at the Fed are more comfortable accepting because if we accepted that collateral and Bear defaulted, we wouldn't necessarily need to liquidate the collateral right away. We could just sit on it indefinitely until its value came back. So, for us, we could accept the risk of lower quality collateral that other counterparties might not be willing to take. So, it was determined that yes, we could lend to Bear Stearns safely. So, the decision was made.

I remember we woke up the chairman. Of course, I woke up Tim again about 2:30, to tell him it was looking like there was maybe a bigger hole than we thought. And then we woke up the chairman, and then we started waking up governors, because to initiate our emergency authority under Section 13 (3) of the Federal Reserve Act, to lend to a non-bank, which Bear was, required the approval of the board of governors. That's not something we could just do on our own.

So we're in the early morning hours, explaining to a bunch of sleepy governors why suddenly, for the first time since the Great Depression, they should vote to invoke the Fed's emergency authority under Section 13 (3) of the Federal Reserve Act, to lend to a non-financial institution. They agreed and about 7:30 in the morning, we ended up making a loan to Bear Stearns that allowed them to open up and pay out their obligations into the financial system. And they got through the day. So, they made it through Friday, and that brought us to Friday night.

YPFS: They go through the day Friday, and that's when they started the matchmaking the sale of Bear Stearns?

Silva: Correct. And there were a number of initially interested parties. The party that ended up staying interested, as we all know now, was their own banker, JP Morgan, because Morgan knew them best and Jamie Dimon knew a deal when he saw a deal. As you know, the initial bargain he struck was a very good one for JP, they were going to pay just two dollars a share for Bear.

But long story short, yes, over the week, there's a lot of drama that went on over that weekend in the negotiations, which included the Fed ultimately taking responsibility for, I think it was about $30 billion of Bear assets that JP

didn't want to acquire. But JP did end up acquiring them, and on Sunday night, that was announced to the financial industry in a conference call. Jamie Dimon himself got on the call and told the leaders of all the other big financial houses that JP had acquired Bear Stearns and was standing behind all its obligations, so please continue to deal with Bear Stearns.

And that's what happened. On Monday, Bear Stearns opened, and people dealt with it, and the crisis was averted. That's where I like to say we thought we had dodged a bullet, but it would subsequently turn out that that was just batting practice for the fall.

YPFS: **Then you had Lehman Brothers come in in September with a similar situation.**

Silva: Very similar. Throughout the summer, most of the other investment banks did a pretty good job of raising collateral and most strategic partners and improving their viability as a borrower. But one institution struggled, and that was Lehman. Dick Fuld, he did try to raise capital. He did try to find a strategic partner, but he didn't find people who were willing to give him the terms he thought that Lehman deserved. As a result, the market gradually lost more and more confidence in Lehman, until suddenly, in September, the same thing happened to Lehman that had happened to Bear Stearns. Which is one night, everybody decided "Well, we don't think we have the confidence to lend to Lehman Brothers." And once again, we got the call.

Now, this time was different in a very important way. Going back to the night of Bear Stearns, when we put a team into Bear Stearns, sometime later that morning, Tim told me: "Mike, I'm not going to get surprised like this again. I'm not going to rely on the SEC anymore to tell me the condition of these investment banks. I want our own people in these investment banks right now." And I had to say to him, "Sir, we don't have any authority over the investment banks. We can't put our people in the investment banks."

Tim is a lovely guy. Nicest guy in the world, and generally very easy to deal with, but this is one of the few times he got short with me. And he said, "Mike, what part of I want our people in every investment bank do you not understand?" And I said, "Okay."

So, I called the bank supervision group, and I said, "You've got to put people in every investment bank." And they said, "Mike, we can't put our people in investment banks." And I said, "What part of I want people in every investment bank do you not..." I said, "Listen, Tim wants them." And here's what happened: We sent our people to Goldman (Sachs) and to Morgan (Stanley) and to the other investment banks in the early morning. And guess what? They were welcomed with open arms. And that told us these people were nervous themselves.

So, our people, at the same time we supported Bear Stearns, on the same day we established the lending facility for the other investment banks where, again, using our 13 (3) emergency lending authority. And pursuant to this story, it's called the PDCF, Primary Dealer Credit Facility. We would stand ready to lend to the investment banks. They had to have investment grade collateral, but they had to accept our people examining their books and records, so that we would have confidence and firsthand knowledge of their liquidity position. So, this time, when people stopped lending to Lehman, we are not as surprised, because we were watching the situation firsthand, from inside Lehman this time. We weren't there on a full prudential basis. We only had limited insight, but we did have at least some direct insight.

This time, we knew in advance this problem was coming, and we also knew two things. One: It would be a severe blow to the financial system if Lehman failed. It would leave a big hole. And two: We were pretty certain Lehman was not viable, meaning it didn't have enough collateral for the Fed to support it. And that is why, on that Friday night, we convened the leaders of all the big financial houses--I was the one, me and my team were the ones that had to do that--at the New York Fed. Secretary Paulson flew up, and he and Tim met with these CEOs and told them: "Guys, this time you're going to have to support Lehman. We are not supporting Lehman. You guys are going to have to figure this out, so get to it. You're going to have to combine your resources," kind of like LTCM (Long Term Capital Management), and they went to work.

Unfortunately, they very quickly, by late Saturday, I guess, came to the same conclusion we had, which was that Lehman wasn't viable. They were reluctant to support it, which was disappointing to us. But we thought there was a plan B. We thought that Barclays was very interested in acquiring it. But as you now know from many different sources, we were very surprised to find out on Sunday from the UK regulators that they weren't going to allow Barclay's to acquire Lehman Brothers. So, by Sunday afternoon, it was apparent that the conglomerate, as we called it, wasn't going to support Lehman, and there wasn't going to be a buyer for Lehman. Bank of America had considered buying Lehman, but it instead decided to buy Merrill Lynch.

So, by late Sunday, we knew we weren't going to support Lehman because it wasn't viable, and we don't give money away. The other market participants weren't going to support it, and nobody was going to buy it. We made the decision that we were going to have to let it go, and that's what we did. We informed Dick Fuld that we wouldn't be providing support. He, as we know, found that very difficult to understand and accept, but we stuck by it.

YPFS: **At what point did it become clear that what was brewing was not the average economic cycle, that we were looking at something more significant?**

Silva: Yes. There was such a moment. Lehman declared bankruptcy early Monday, and the markets opened, and the markets were way down. I think they finished off, I forget, something close to 900 points, which back then was a very large drop. (Still is, but especially back then.) However, most of that drop was related to the fact that investors were now worried that AIG might be failing, and that's a separate story, which we can talk about. But essentially, we got through Monday and Tuesday without the financial system melting down. And we were thinking, okay, we got this right. We let them fail. We were pretty sure that wouldn't melt the financial system down, and in fact, it hasn't.

But then on Tuesday night, we got word that a money market fund, the Reserve (Primary) Fund, had bet a bunch of money that we were going to support Lehman, and of course, we didn't. So now that bet had turned out to be worthless. And they lost something like $380 million? I forget the exact amount they lost, but it was, in the scheme of things, not very much. However, it did cause them to break the buck. The money market fund could no longer pay a dollar back to its investors, for every dollar. Initially, we thought, well, that's not such a problem, that's what happens. Money market funds are not guaranteed. The investors and them know that, this money market fund made a bad bet, and now it was not in a position to pay the dollar.

I guess it was on Wednesday, when it really became apparent that this was not just a normal market displacement. This was going to rapidly turn into a market collapse. We got word that people were withdrawing money, not just from money market funds that had exposure to the financial system, but they were withdrawing money from all money market funds. Money market funds are the primary purchasers of commercial paper, and commercial paper is how corporate America funds itself. That's how it borrows money short term to pay payroll and to pay suppliers.

Now, suddenly, it's not just financial firms at risk. It's GE. It's Caterpillar. It's Boeing. This thing which had been a financial crisis had now jumped to the real economy. And people were basically not lending to anybody. And the financial system was completely locking up, and we had no idea what to do. Central banks were well-versed at supporting financial institutions. No central bank had ever been called upon to support entire markets. In this case, the collateralized lending market.

Thank gosh, Tim had gotten us started on doing some contingency planning around this. But that moment was really scary. I know that's when I was the most scared. I remember the meeting, as this became apparent to us that this whole thing was melting down. I remember looking out from the New York Fed over Wall Street and seeing all these people walking around with no idea that the financial system was about to crash, and we had no idea what to do about it.

Now, this is when we were very fortunate as a country to have Tim Geithner and Ben Bernanke and Hank Paulson sitting in their seats, because they worked together really well. They were real professionals, very knowledgeable, not like... well, the current administration has a lot of people in different agencies that are, I don't think, that qualified. But these guys were really qualified. They worked; they were great public servants. Tim, in particular, was really brilliant. Anyway, we came up with these market facilities, backstop facilities, the alphabet soup of facilities, commercial paper funding facility and the TALF. There's a whole alphabet soup of support facilities we came up with. It took time and a tremendous amount of work, and there were a lot of scary moments, but as we put these facilities in place, the markets gradually, over time, began to unlock. It took well into 2009, really.

YPFS: Is it true you worked for 42 days, basically living out of your office?

Silva: I was at the New York Fed for 42 days. Now remember, I was chief of staff, so my job was to be the coordinator. As chief of staff, I had a bedroom at the New York Fed. The president, the CEO, the Chief Operating Officer, and chief of staff. There's three bedrooms at the New York Fed. Most people don't know about this. So, I adopted a schedule of working for about six or seven hours at a time, and then I'd go sleep for two. And then I'd get up, and I'd get up for six or seven more, and then I'd sleep for two. And then I'd work for six or seven more, I'd sleep for two. I found out that on that cycle, I could basically work indefinitely, and did, because this was a 24-hour, seven-day-a-week operation, putting all these facilities in place and keeping track of everything that was going on, and it went on for months.

So yes, I didn't leave the bank for 42 days, but I did have a bedroom. The job of chief of staff is basically to kind of make sure everything is happening. Tim once said I had a very responsible job. I was responsible for everything that went wrong.

YPFS: Well, you got some practice living on lockdown.

Silva: I did, yes. Now, I had previously, actually, been assigned for several months in Baghdad after the invasion, to help the central bank of Iraq. So, I was used to living under even more difficult circumstances.

YPFS: Which one was worse, this or Iraq?

Silva: Well, Iraq was physically harder, and also substantively harder, in that you were being shot at and there was no rule of law. It was really hard to figure out how to get things done, so it was frustrating. It was physically harder, dangerous, and frustrating. But the financial crisis was definitely much scarier because, like I say, it was touch-and-go for a while there, as to whether the entire system was going to melt down. And you were living right at the center

of that. Thank gosh for people like Meg McConnell, Kevin Stiroh, Pat Parkinson, and probably other people you've taken histories from. These are the people who actually came up with these great ideas.

YPFS: **You were riding herd over all of that.**

Silva: I wouldn't say riding herd, per se. I was the troubleshooter. I was the guy who connected people, who just made sure that things were happening. I was the guy in the background, making sure the right people were on the calls and coordinating Tim's schedule. The catcher, right?

YPFS: **Speaking of lawlessness, what was the difficulty, in terms of fashioning some regulations to prevent this from happening before it happened, and later on, fashioning some kind of relief, especially for the homeowners who were caught in the middle of all of this meltdown?**

Silva: Another lesson I learned from the financial crisis is that financial regulation, support facilities and things like this, are very blunt instruments. It's very difficult for a central bank, but especially for political entities, like the Congress, to operate with great precision. And homeowners, for instance, are very complicated to sort out which ones really do need assistance and have been treated unfairly, from those that perhaps can still take care of themselves and are responsible for where they got themselves into. Coming up with a fair program for homeowners that protected those that needed and deserved to be protected, without rewarding those that shouldn't be rewarded, that was all in the political realm, and Congress is a very blunt instrument. It does not come up with finesse.

In terms of implementing post-financial crisis regulation, again, political forces came into play. I thought we would, at a minimum, come out of the crisis with fewer regulators because I thought it was obvious that that was a disaster. But instead, we came out with more regulators. There was another one added, the CFPB. I was amazed by that, but once politics kicked in over things like which homeowners will be supported and which won't, and whether regulators will be consolidated or not, then it's really out of the hands of policymakers and it's into the hands of politicians. And politics, like I said, is very blunt instrument.

YPFS: **One of the public perceptions that kind of lingered after the crisis was that the government bailed out the bankers and movements like Occupy Wall Street Now, we have the COVID pandemic. Can you draw some parallels about what we're seeing now, in terms of the PPP and the foreclosure moratorium? How does what we learned from the financial crisis relate** to the recession that sprang up after the pandemic broke out?

Silva: Well, I think you are absolutely correct that there's something of a straight line between the situations. You're right. Unfortunately, to prevent the financial

crisis from becoming worse, we had to rescue the very people who started the thing. Their houses were on fire, and we had to put out the fire, or else the fire would spread to other people's houses. So, we used our water--our funding, our liquidity--to put out the fire on their houses. That was tremendously unfair, in one sense, even though it protected the greater good. But I think it did start to highlight this increasing inequality in America that's only gotten worse since, especially economic inequality.

I think it gradually turned itself into deep-seated anger that had probably been brewing even before the crisis. And that anger, on the right, at least, eventually resulted in the election of Donald Trump. Our country, at least from my point of view, is more divided and unequal now than it's been in my lifetime. Wealth is even more concentrated than it was before the financial crisis. Economic opportunity is even more scarce.

YPFS: **Something you wrote in 2018, said that we were due for another financial crisis. I'm sure you weren't expecting what we're seeing this year, but what's your assessment of what the government has done in response to the COVID pandemic? Any lessons from the global financial crisis that would apply here?**

Silva: Well, first, let me say you're right. I did say, about 2018, 2019, we were due. And frankly, I was saying that, basically because financial stress occurs, on average, about every eight to 12 years. So, it always is a different trigger. The Asia crisis was different from the Mexico bailout crisis, was different from the dot com bubble. I was making that prediction, just basically on the fact that it'd been a while. This time, the crisis was triggered by maybe the worst trigger we've ever had, COVID. Because not only it has shut down the economy on an unprecedented scale, which has created unprecedented pressure on our financial system. Fortunately, the Fed had a playbook from the 2008 crisis; 2008, it turns out, was batting practice for 2020. Because all the facilities, you see the Fed right now operating to support markets, are all basically modeled on the facilities that were developed in 2008. So, a lot of this stuff was right off the shelf.

So personally, I'm proud of the Fed's response. But again, you can't use monetary policy indefinitely as a tool for this. You have to get fiscal policy involved. You have to pass real stimulus from the Congress. I call it Fed money, funny money, because it just creates, just types it in, whereas fiscal spending is real spending. That's spending tax receipts, real money, not this temporary stuff that the Fed creates or extinguishes. And there, the Congress better get their act together soon because this economy, I call it the zombie economy. It'd dead, but it's still walking around because it's propped up by the Fed market support facilities and the fiscal stimulus that the Congress has provided so far but is rapidly lapsing. And if we don't get people back to work soon, this whole thing could collapse in something worse than the Great Depression, possibly.

YPFS: **So, if this is prolonged, are we facing the possibility of another 2008?**

Silva: We're facing the possibility of another 1929, of a depression. A full-scale crash in the economy, in the worst-case scenario. Now hopefully, we're going to get some combination of a vaccine and a treatment by early 2021 that's going to hopefully, by the spring, allow things to more or less go back to normal. Hopefully, there'll still be enough businesses surviving by then. We just don't know. There's a wave of defaults coming, especially from small businesses. You get enough of those in a consumer-driven economy, and inevitably, the result is pretty severe, and potentially a depression.

YPFS: **To wrap up, if you were trying to write a memo to your younger public servant self, listing what you learned, what would be on your PowerPoint slides?**

Silva: Well, the biggest point is easy, which is don't trust the experts. If your gut tells you that this doesn't make sense, have the courage to keep pushing back. With all due respect to my economist friends who I have great respect for, economics is based on a lot of theory that goes out the window when people get scared. The economic theory doesn't account for fear and stupidity and greed.

And, when the Reserve Fund broke the buck, the economists thought, "Well, that's not going to be such a big deal because it's just one small little fund." Well, guess what? That small, little fund that lost $38 million dollars turned out to be when the dyke almost broke. That was a tiny, little. So again, they were wrong. So, number one: Don't be intimidated by the experts.

Number two: Frankly, don't underestimate how stupid and greedy people can be. These CEOs that were running these institutions at the time, they all knew that they were putting themselves in very precarious situations. There are some famous stories out of Merrill Lynch, where the CEO said, "Yeah, I know it's dangerous, but if we stop dancing, then we'll fall behind the others, in terms of profitability." I was very disappointed at that. I was very disappointed that our financial leaders didn't support Lehman Brothers. These were a bunch of American financial leaders who didn't step up. And I bet now, they wish they had. Because for just about 80, no more than $100 billion spread among the 20 of them, they could have come out of this looking like heroes and avoided Dodd Frank and avoided all this extra capital. But instead, they looked at their very short-term interests, and guess what happened? The whole thing blew up, they lost a lot of money, they had to raise a lot more capital. It's cost them trillions of dollars all together because they didn't want to spend $80 billion or $100 billion that night.

So, number two is don't underestimate how stupid and greedy people can be. Not just the financial leaders, but also investors. Economists like to think people invest rationally. No, that's not the case at all, I think.

And then the final point is when stuff starts to go wrong, you've got to respond fast and hard. Overwhelming fire power to nip everything in the bud. Don't take chances because things can get out of control real fast. I think I would have pushed harder now, not that I had a big vote, but I did have a good seat. I would have said, "Are we sure that the markets will survive Lehman going down? Are we absolutely sure?" Because our economists thought yeah, the markets will survive this, and they were right, right up to the moment the Reserve Fund broke the buck.

Don't play with fire, I guess is what I'm saying. We're playing with fire again right now, with respect to COVID. We're not just playing with fire, we're playing with Napalm now, between the public health crisis and the public tensions, potential constitutional tension, contested election. It's just an immensely dangerous situation.

YPFS: **But very often, you can't separate what are financial decisions from what are political factors.**

Silva: Right. I agree.

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