

Book Review: A banker's take on Bull By The Horns

Get past the slaps for some serious history

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Bull By The Horns: Fighting To Save Main Street From Wall Street And Wall Street From Itself. By Sheila Bair, former FDIC Chairman, Free Press. 388 pp.

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Reviewed by Ed O'Leary.

Ed has been writing the weekly "Talking Credit" blog for ababj.com since October 2008. Ed spent more than 40 years in commercial credit, community bank leadership, and related banking activities and now consults, including expert witness work. You can read his full biography in any edition of "Talking Credit." Previously he reviewed Optimizing Distressed Loan Books: Practical Solutions for Dealing with Non-Performing Loans.

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An earlier review of this book, by former examiner and now Bankers Toolbox consultant Michelle Lucci, can be read [here](#).

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There is much here that will bug bankers, frankly, and Bair gets direct, even personal, about industry regulators, the industry's trade associations, her thoughts on leading corporate personalities, and this country's political leaders. Bankers who can look beyond her personal views and occasional biases will find some serious food for reflection in this book.

Based on my many conversations with bankers and industry participants in the last few years, many, if not most, consider the events of 2008 and 2009 among the most difficult of modern economic times for our financial system. Usually, as one veteran bank supervisor told me recently, "Liquidity problems are precipitated by asset quality issues that ultimately pointed to ultimate insolvency of a bank. In 2008, for the first time in a long working career, I thought that some banks might actually collapse for liquidity reasons alone, unrelated to asset quality issues." By any standard, the last few years have been extraordinary for the banking industry.

FDIC is a government agency born out of economic need to shore up our banking system in the depths of the Great Depression. It has served us well in the intervening almost 80 years. And it served us well during the difficult period we have just come through. Perhaps when more definitive

histories of the last few years are written, Sheila Bair's tenure will be best remembered for her defense of a strong insurance fund that contributed substantially to keeping the problems contained. Her influence in shaping the outcomes of important components of financial reform and reregulation are important too, but more difficult to objectively assess in the near term.

Why you should read Bull By The Horns

“Put bluntly: How could

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--reviewer Ed O'Leary

Sheila Bair served as chairman of the Federal Deposit Insurance Corporation between 2006 and 2011, having been appointed to her term by President George W. Bush. A Kansas native, Bair graduated from KU Law School and was recruited by Senator Bob Dole as a member of his Washington staff in 1981. She also ran for public office, a House of Representatives seat in Kansas in 1990, losing her bid by a narrow margin. She served as an Assistant Secretary of the Treasury for Financial Affairs in the early 1990s and immediately prior to her appointment to FDIC, was on the faculty of the University of Massachusetts in Amherst.

Her background, in other words, provided a solid understanding of legislative workings and an appreciation of the challenges and opportunities of functioning in the upper levels of government as a political appointee.

To me, the best part of her book were the solid recommendations she makes that are divided into three broad categories:

- Steps that will make our financial institutions work better.

- Steps that will make our financial regulators work better,

- Steps that will make the financial system work better.

By the time the reader comes to these recommendation, Chairman Bair has set out the groundwork carefully and well for a proper understanding of her views.

Sheila Bair was occasionally a controversial person as FDIC chair. (Some will see that as an understatement.) I suppose that's part of the territory of leading a systemically important government agency but it's also, her detractors observed, a function of her occasionally contentious personality and her political savvy. "Ambitious" is a word often ascribed to her and her behaviors.

However, I don't think that her reputation, whatever any of us may judge it to be, in any way detracts from her message of telling of her experiences as she saw them and then sharing her views on how to improve things. Each is not very meaningful without the other; in combination, they tell a powerful and compelling story of legislative and bureaucratic success well as the challenges and difficulties.

It's a story of "sausage making," especially to those of us with a keen interest and longtime experience in the banking industry.

A story with
vulnerable livestock

An attorney friend of mine is fond of reminding his colleagues, "Every sacrifice requires a goat." Bair's tale has many goats. There are three truly memorable ones in a large cast of often familiar characters.

Foremost is Secretary
of the Treasury Timothy Geithner.

Geithner still occupies his cabinet position, at this writing, so he won't likely get to tell his side of the story for many more months. It seems clear that these two individuals did not like each other and were not always able to work harmoniously and cooperatively. To Bair, Geithner was a persistent advocate of the "big banks" such as Citi and Bank of America. Her version of the political machinations of the Treasury to influence the outcome of certain events, including the selective withholding of information until the last minute, are interesting indications of the environment of long knives so prevalent in Washington today.

I think that this demeans Geithner and the high office he holds. But it also affords a fascinating insight into how government policy is formed, shaped, and altered. We won't all agree on the outcomes or the means but there are very few of us who will not enjoy the description of the fray.

Bair's specific issues with Geithner are primarily centered on his partiality toward big banks and bailouts. She illustrates these conflicts with him vividly in the negotiations around the three federal bailouts of Citibank and the outcome of the negotiations on who was to become the ultimate acquirer of Wachovia Bank--Citi or Wells Fargo. The chapter of the book devoted specifically to the Wachovia negotiations is particularly interesting and reflects just how jittery and unsettled the financial markets appeared to have been at the time Wachovia nearly collapsed from toxic assets acquired in its merger with Golden West.

Another "goat" receiving Bair's attention is Vikram Pandit, the recently ousted CEO of Citigroup.

Bair's criticism of Pandit centers on his lack of commercial banking experience and his proclivity to seek refuge in government bailouts during the height of the banking crisis.

I happened to be working at home the day that Pandit's resignation was announced and was paying a low level of attention to the banter of the talking heads on CNBC. Bair was extensively interviewed that morning on the network and her tone and candor quickly caught my attention. While her comments on the air were considerably more modulated than those in the book, what is clear from both the interview and Bull By The Horns are her linking of the issue of "Too Big To Fail" to the inherent complexity of the largest institutions. More on this perennial controversy below.

Interestingly, Bair's comments on her relationships with Senator Chris Dodd and Representative Barney Frank, chairman of their chambers' banking committees, were largely complimentary and positive. She supports the Dodd-Frank Act reforms, though she would have liked to have seen greater structural changes in the way that bank supervisory agencies function and interact with each other.

Bair was generally critical of John Dugan, the Comptroller of the Currency, for his proclivity, shared with Secretary Geithner, to bail out the big banks and to perpetuate a banking structure that favors the very largest institutions.

One remarkable recommendation she makes is to abolish the OCC. That's a separate topic and not particularly a mainstream idea of the book, except for its relationship to her strong aversion to the concept of a single banking regulator. To Bair, a degree of "competition" among the supervisory community is healthy and with her primary reference point as her aversion to "big bank" sympathies regarding regulation and TBTF, she makes a compelling point.

Past the personalities,
a policy treatise

As a reader with industry experience, I found Bair's attitudes against the strong tendencies of the supervisory community to favor bailing out mega-institutions that are deemed too big to fail to be her most important contribution to the current discussion. While TBTF has not been eliminated as a valid economic concern or political issue, considerable progress has been made in the last few years in limiting costs and risks to the taxpayers.

Complexity, rather than size, should drive the outcome of the debate-that's her main point on this topic. She believes that the highly complex business models of the very largest institutions are the enemy of supervisory simplicity and consistency.

One interesting point she makes is that shareholder return is probably the most widely used indicator of banking efficiency. If this is really indicative of consistently superior performance, then the very biggest banks should have the advantage in that one metric. That they do not is, to Bair, a sign that the economic justification of highly complex business models simply cannot consistently be made.

As I noted earlier, I think Bair's recommendations--or at least most of them--should be taken very seriously. Here is what I think are the best:

- Raise capital requirements on banks. That's coming, in part with Basel III, and Bair can claim a fair share of the credit for that.

- Maintain the ban on bailouts and continue to refine approaches for resolving mega-bank resolutions.

- Break up the very largest institutions. She argues that they are too complex to efficiently supervise and regulate. Mistakes here will be very expensive.

- Require securitizers to retain a degree of risk.

- Require the presence of an insurable interest for all credit default swaps.

- Restructure the Financial Stability Oversight Council. Make its head independent of the current regulatory structure and streamline its composition.

- Abolish government-sponsored enterprises like Fannie Mae and Freddie.

- Reduce the national debt.

An evolutionary read of recent history

As a survivor of previous economic crises and many years as a problem loan workout specialist, I've been a keen observer of bank supervisory attitudes and practices.

I lived through the tough stance of the OCC in the 1980s and into the 1990s and in hindsight, agree with OCC examiners that many banking practitioners didn't fully understand or appreciate the accumulated risks that banks and the banking system had undertaken. That happened again in the later part of the last decade and is probably something that will recur every generation or so.

I began reading Bull by the Horns having a vaguely formed distrust of Sheila Bair's views of the Great Recession and a suspicion about how well the regulatory authorities performed over the last credit downturn and the years leading up to it. In some respects I was not disabused of my biases--but I have come to appreciate Sheila Bair's actions as head of the FDIC during a tumultuous time except in one key respect.

Anecdotally, we have all heard (and some have directly experienced) the heavy hand of supervisory activity as the magnitude of the banking crisis unfolded.

Some of this was inevitable--as some of the responsibility belongs with the examiners themselves who were late to seeing the risks.

But the memory of the anecdotes of those experiencing the heavy hand during the last few years, especially by the field examiners of FDIC, is strangely at variance with how Bair portrays in her activities as head of the agency.

Put bluntly: How could someone who apparently was so consistently "right" at the national level in the difficult negotiations and the horse trading over the issues at stake have permitted such amateurish and wrongheaded behaviors by her examiners to impact the community banking industry?

The damage to the community banking system seems to some degree to have been preventable and unnecessary. That's probably the next significant tale of the Great Recession to be told.

Even Bair refers to the unfortunate notion that there may be banks too small to save. What's especially sad to me is the prevalence of the idea that bigger is always better.

It's an idea that's progressively destroying the business models of many community banks, institutions that provide so much to the local communities. I think Bair agrees with this too. Why else would anyone recommend the abolition of OCC?

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Readers, have you read Bull By The Horns yourself? Tell us what you thought of the book in the comment section below.

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