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Yale Program on Financial Stability
Lessons Learned

James Wigand

By Sandra Ward

A finance specialist and longtime Federal Deposit Insurance Corporation (FDIC) executive, James Wigand served as Deputy Director, Franchise and Asset Marketing, at the FDIC from 1997 to 2010, a period encompassing the global financial crisis of 2007-09. Wigand oversaw the resolution of all insured-depository institutions during the crisis, arranging acquisitions of troubled banks or liquidating them. He also acted as liaison between the chairman and board of directors of the FDIC. In 2010, in the aftermath of the crisis, Wigand was named director of the newly created Office of Complex Financial Institutions at the FDIC, an office formed under the Dodd-Frank Act, and also served as senior advisor to the agency's chairman. This Lessons Learned is based on an interview with Wigand.

Actions send signals: Understanding market perceptions and the risk of contagion can help to avoid systemic risk.

When Lehman Brothers failed in mid-September 2008 it sent a strong signal that the government's approach to handling troubled institutions was changing, says Wigand. In earlier instances, the government had provided some sort of lifeline to flailing outfits: Bear Stearns, which received some aid from the New York Fed; Fannie Mae and Freddie Mac, which were put under government conservatorship; and AIG, which received assistance, also. Yet, it took the collapse of Washington Mutual a few weeks after Lehman went bust for investors to realize there was no cookie-cutter approach and there would be a limit to government assistance. Says Wigand,

> Washington Mutual's failure reinforced the perception that there was a change in how the government was dealing with these distressed financial companies. A signal was sent that clearly reinforced the fact that the government was not going to be bailing out institutions just to bail them out.

Investors reacted to the Washington Mutual case by revaluing assets at other banks, a process that quickly led to a reappraisal of Wachovia, whose loan portfolio resembled WaMu's, and an outflow of deposits that ultimately led to its acquisition by Wells Fargo. Wigand observes,

> Wachovia had purchased a thrift that had been located on the West Coast, and its footprint overlapped significantly with Washington Mutual's, so investors started thinking, ah, well, Wachovia looks an awful lot like Washington Mutual with respect to its single-family mortgage portfolio, so we're going to start having to think about the losses we are going to take on its unsecured debt. That, in turn, then created a need to have Wachovia either be acquired, raise capital, or otherwise be resolved. By

> itself, it really wasn't systemic, but it is illustrative of how a change in market perception can have an effect, particularly during a time of financial instability. And it's also illustrative of how market participants will look at an acquisition, in this case JPMorgan's acquisition of Washington Mutual, and use that information as a basis to reprice similar asset books.

Mind the gaps: The regulatory framework needs fixes to avert future calamity.

As banks transformed themselves in the 1980s and '90s into mega-financial enterprises offering a broad range of commercial, consumer, and investment banking services, circumventing the constraints established under the Glass-Steagall Act, the regulatory bodies overseeing them failed to keep pace with the changing nature of the business, notes Wigand.

Advances in technology, the rise in nonbank institutions, the so-called "shadow" banking system, and financial intermediaries operating without banking charters, pose serious risks, then and now, that need to be addressed, he says. The time to tackle the cracks in the regulatory system is now.

Observes Wigand,

> As the financial system continues to evolve, a gap may be in the works, and . . . there are now entities that are outside of regulation and that pose a risk to the financial system.
>
> The lesson learned by the gap in financial oversight that was created by not having authorities in place to deal with nonbank financial companies is it takes a long time to get something up and running. It may not be too premature to start thinking about how to deal with nonbank banks.

Improved interagency communications: Addressing crises through coordinated action.

Prior to the financial crisis, interagency communication among the various domestic regulators occurred occasionally but not regularly, says Wigand. Communication among global regulators was even more infrequent and tended to be typically formal, meet-and-greet sessions. That has changed for the better. Wigand notes,

> After the financial crisis, you had the creation of entities and bodies across regulatory agencies for the very purpose of communicating what one regulator was doing, and [how it was] looking at issues, hopefully in a way such that each regulator had an understanding of what the other regulator either was thinking or had to think about or the issues it was facing.

> Knowing what those are, if you are another regulator, is very important, because it helps frame both your understanding of what that other regulator has to do and then also what you might be able to do to facilitate making progress on whatever that issue might be.

On an international level, improved communication has resulted in a much better understanding of the authorities of the various regulatory bodies and of their missions, and interaction among global policymakers, says Wigand. That allows for greater insights into how to best handle crises and coordinate responses in the event of a crisis.

Wigand explains,

Prior to the financial crisis, I had gone to the Bank of England once with the chairman and the deputy to the chairman of the FDIC. It was basically a meet-and-greet visit. That was the only interaction I ever had with [officials at] the Bank of England. Then the financial crisis hit, and afterwards I had multiple meetings with them per year. The huge benefit of that was a much better understanding of what authorities the Bank of England had and how a failure would be ostensibly treated in the normal course of events, understanding there are always exceptions. Also, I had a better understanding on where we could coordinate, though fully recognizing that each regulator had to abide by, and conform with, what its authorities were.

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