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YPFS Lessons Learned Oral History Project: An Interview with Matthew Rutherford

Matthew Rutherford

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Lessons Learned Oral History Project Interview

Interviewee Name and Crisis Position	Matthew Rutherford[1] Deputy Assistant Secretary for Federal Finance, Treasury Department
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Introduction:

The Yale Program on Financial Stability (YPFS) interviewed Matthew Rutherford regarding his time as deputy assistant secretary for federal finance at the US Department of the Treasury in 2009–2012.[2] During his tenure, Rutherford generated reports on the status of mortgage-backed securities wind-downs purchased by the Treasury to stabilize financial and housing markets under the Housing and Economic Recovery Act (HERA).

Before joining Treasury, Rutherford was the Federal Reserve Bank of New York liaison to the department, and on assignment from NYFRB, he helped establish the Treasury's Markets Room to advise senior officials. The Markets Room maintained relationships with market participants, completed daily real time analysis and tracked market trends, and interacted with key regulatory institutions. Rutherford became assistant secretary for financial markets in 2012, advising the secretary on domestic finance and responsible for Treasury's management of public debt. After leaving Treasury in 2015, Rutherford joined the investment firm Bracebridge Capital.

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

Transcript

YPFS: **We normally give you an opportunity if there is any disclaimer or any statement you wish to make regarding your opinions on this interview, this will be the time.**

Rutherford: No, I'm good.

YPFS: **This being an oral history, why don't we start with a little bit of narrative? What were you working on in late 2007 and early 2008, as the**

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

financial crisis was becoming apparent? Were you already at Treasury or were you still with the New York Fed?

Rutherford: In the beginning of the financial crisis, if you date it back to the summer of 2007, August of 2007 specifically, I was at the Federal Reserve Bank of New York in the Markets Group. I was the debt management liaison from the New York Fed Markets Group to the Treasury Department. As you know, the New York Fed is the fiscal agent of the Treasury Department. Especially at that point in time, the Debt Management Group at the Treasury was a relatively small group that didn't have a lot of markets experience or resources to follow markets. So, at the New York Fed, which obviously conducts the auctions for the Treasury Department, et cetera, we provided quite a bit of input and advice on debt management strategy, and market functioning specifically in the Treasury market.

So I did that for the first bit of the financial crisis up until right around Bear Stearns, and then right after Bear Stearns, I went to the Treasury Department. A Markets Group had been set up by a guy named Mike Schetzel, who was at the New York Fed. He had been down at the Treasury for about six months and had started to put together a markets group down there. I replaced him just after Bear Stearns and then started providing policymakers at the time with market intelligence and more or less acting as a liaison between the two institutions. At first my job was primarily to provide market intelligence, but as things started to heat up I was acting as sort of an in-between between the two institutions, which obviously were intertwined throughout the entire crisis.

YPFS: What were the discussions that were going on, first at the New York Fed, and then at Treasury as 2007 went into 2008?

Rutherford: In the beginning of the crisis at the New York Fed there was a lot of conversation around how to quell funding pressures that were popping up throughout the entire financial system. I guess the canary in the coal mine on some of this stuff was that there were a bunch of funding vehicles that Wall Street utilized that issued short-term paper to buy longer-term assets. As people started feeling queasy about rolling over that paper, the assets needed to be sold. So, a lot of the discussions at first were around how to provide funding to banks that had a bunch of off-balance-sheet vehicles that were under stress. A lot of the conversations around things like the Term Auction Facility, which tried to reduce some of the stigma to take money, which is basically the discount window. I think that came out in December or thereabouts. I think we narrowed the rate in between the discount window rate, relative to the Fed funds corridor.

A lot of those initial conversations really were around: How do you get funding into the system? And it proved to be really difficult obviously because you had all this off-balance-sheet stuff, so it was very tricky.

YPFS: Liquidity was an issue in those early discussions?

Rutherford: Yes. The Treasury market was under quite a bit of stress too. I remember in the very beginning of the crisis, you'd have Treasury bills that would move a hundred basis points in a given day. It usually doesn't move more than a few, but there would be days where Treasury bills would rocket around a hundred basis points. So, trying to understand the need for safe collateral and just understanding if the Treasury market actually functioning in a normal fashion or not.

YPFS: So what was the level of alarm among the policy makers before Bear Stearns ran into trouble?

Rutherford: I think it was extremely high. I remember going back to, I don't know if it was late 2007 or early 2008, Geithner started holding these like four o'clock or 4:15 meetings every day. Were just 30 people around a round table coming up with ideas of how to address the situation and reporting in the level of anxiety and market stress that were being seen on a day-to-day basis. It was an all hands on deck situation, pre Bear Stearns. I mean, it was not Bear Stearns happened and everyone was surprised. We knew that we had a pretty difficult situation on our hands.

YPFS: And how did that then evolve throughout 2008, as you went from the crisis of Bear to the collapse of Lehman Brothers and the crisis at AIG and the subsequent market crash?

Rutherford: Well, I guess transitioning over to the Washington side of things, when I got down to Washington—which was right after Bear Stearns as I mentioned—I knew that Neel Kashkari had written a memo that he called the "Break the Glass" memo. It was different options that the federal government could use to address the banks. I think that the attitude then was, "This feels a little theoretical, but maybe not. This is a very tenuous situation. Oh God, I hope we never have to use this, because we don't have these powers. We'd have to go to Congress in order to do anything." I can't remember everything that was on the memo, but things like put equity into banks. Obviously, the Federal government doesn't really have the authority to do such a thing without congressional approval.

I think that leading up to Lehman Brothers, though, the difficult thing was that up until about mid-July, when HERA passed—which is the Housing Economic Recovery Act, which was basically the thing that gave the Treasury authority to put money into the GSEs [government-sponsored enterprises] and to buy mortgages—Treasury had no authority to do anything. So, they were just basically a bystander. I think the senior leadership of Treasury had a lot of anxiety about what was going on, but it was very difficult for them because they had no tools. So, they were kind of a bystander.

The thing that changed was that GSE legislation. I think it was July 13th or something like that, and at that point, that's when things started to obviously heat up. And then obviously we got TARP, which gave the Treasury a ton of authority.

YPFS: **Didn't HERA also put Fannie Mae and Freddie Mac in conservatorship, or was that a different legislation?**

Rutherford: No, that was the legislation that allowed for that. It gave the Treasury Department the authority to put Fannie and Freddie into conservatorship. Fannie and Freddie weren't put into conservatorship until September, though. So, starting at the end of July, the Treasury started working with Morgan Stanley on a plan, basically, of what to do. And the big bankers at Morgan Stanley were over the wall and basically worked with David Nason, Jeremiah Norton, and a few other people to devise a plan of what to do in the event that there's a run on the GSEs. So that was just the authority. It wasn't the actual event.

YPFS: **Was there a real concern that there might be some panic and a run on GSEs?**

Rutherford: Yes, for sure. I mean, Hank Paulson would stop down every morning and ask about what was happening with the GSEs.

YPFS: **In some conversations with people at the SEC, they said something similar, that they could see things happening, but they had no statutory authority. They could basically just do things out of agreement with the broker dealers to staunch whatever was coming. Was the fact that we had a presidential campaign also a factor in all of this?**

Rutherford: I mean, the people that I worked with at the Treasury were so overwhelmingly committed to getting the thing right that it was too busy to worry about the election. The one area where I remember the election coming into play was that there was a very senior person at Treasury who I remember the weekend of Lehman Brothers, on Friday, was walking down the stairs at the Treasury Department and said, "Hank Paulson just received calls from John McCain and Barack Obama and said, 'Don't bail them out.'" And I'll never forget that. That was obviously a political event insofar as the two candidates go; I don't even know if it's true, but it was the chief of staff, so I assume it was.

YPFS: **Part of the legacy of the crisis was a belief that that we saw in the Occupy Wall Street movement that the government had stepped in to help Wall Street, instead of rescuing homeowners. And then in September, you**

came up with the mortgage-backed securities [MBS] purchase program. So, can you talk a little bit about the rationale for this facility?

Rutherford: We were given that authority, I think it was part of HERA. I'm almost positive it was. But again, as you said, this is 13 years ago. I can't remember if there was a specific number, if it was $250 billion or $300 billion that we were allowed to buy, but it was something like that. And I remember thinking two things: One, it wasn't nearly enough. Maybe not a rounding error, but it was way too small to deal with the problems at hand. And two, I didn't feel like the program was being deployed in a way that was, even with its ammunition, being deployed in a way that was aggressive at all.

YPFS: Why not?

Rutherford: I know I was advocating for the Fed to buy mortgages. We needed someone with an unlimited balance sheet, like the Fed, to actually buy mortgages. The Treasury thing was a nice thing. I ended up managing that thing for the next few years. It was a nice-to-have, but it wasn't the solution to our problems.

YPFS: So, it was too small for the need?

Rutherford: For sure.

YPFS: So, what was it meant to do?

Rutherford: Well, I think it was sort of ill-defined. I think that was a problem. You'd have to check my numbers on this, but I think it was $250 billion—$250 billion wasn't enough to contain spreads. So, you couldn't outline that as your objective because you'd fail, because it's just not enough. So, I think it had a more ill-defined role that was something like "to assist in market functioning" or something like that. And it certainly helped, don't get me wrong, but it was never a program that was going to lower mortgage rates to people in this country, let's put it that way.

YPFS: So how could it have been made better? I mean, I guess for starters make it bigger.

Rutherford: I think you would have had to make it quite a bit bigger, yeah. Yeah, I think it's as simple as that.

YPFS: And should it have been run out of Treasury? Or as you said, should it have been run out of the Fed?

Rutherford: I'm sort of agnostic. Agency mortgages and debt are part of their traditional open market operations. So, I have no problem with the Fed buying mortgages. I think that's a totally reasonable thing to do.

YPFS: **Why didn't they, then?**

Rutherford: They did. I think they started buying three weeks later, but it wasn't immediate. I think the Fed thing was more reactive, I believe, insofar as it happened after Lehman.

YPFS: **Was there any pushback against the MBS purchase program, any concern about supporting these investors? You mentioned talk from the campaigns about not bailing people out, but what were the discussions around that sort of a moral hazard?**

Rutherford: I think the conversation around the GSEs was quite a bit different than moral hazard around banks, because, as you know, this was... Talk about a poorly defined mission. The GSEs were given what was perceived to be full faith and credit of the United States government guarantee. The stuff was held all over the world, so it was underpinning everything from collateral agreement and derivatives contracts to big reserve managers who had significant holdings. When I started running the debt management office, I used to get an earful from the central bank in China, three years after all of this, about what a disaster the GSEs has been. Obviously, that was just political pressure that they were receiving from their higher ups about: "You bought several hundreds of billions of dollars of this stuff, and almost lost quite a bit of money." But obviously in the end that didn't happen.

I think that the GSE thing was so important, they were close enough to the treasury securities in terms of the function they play in the financial system, that I don't really remember there being a whole bunch of hand wringing around moral hazard.

YPFS: **So, it was more of a matter of budgeting for that operation.**

Rutherford: Exactly. There's bunch of moral hazard conversations around housing. How do you bail out people that didn't put anything down and their home value dropped 25%? But this was different. This was a generic security that everyone thought had a government wrapper on it, and then suddenly it was questioned. And that was a disaster, given the role they play in the financial system.

YPFS: **There was a lot of talk about the full faith of the US government. We saw downgrades of the United States debt during this process. So was that all part of the discussion: Don't mess with the rating of the US government debt?**

Rutherford: We definitely weren't worried about the rating of the debt. I think that Treasuries performed the way you expect them to in that crisis, and especially once the Fed started buying Treasury securities. I don't recall there being a big scare in the heat of the moment. I think in the years that followed certainly it became a political thing, the amount of debt outstanding, et cetera. And then as you referenced, in 2011 the US got downgraded. But in the middle of the crisis, I don't remember that being a huge problem. That was a really big problem in 2020. The Treasury market did not function as you would have expected given what was going on in the world, so that's a whole separate conversation. But during the financial crisis they played the role as a safe haven.

YPFS: **Getting back to 2008, the crisis came to a head with Lehman in September, at the same time you were about to launch. The launch of the MBS program came in and right about the same time as Lehman and AIG and the stock market crashed. So how were the discussions evolving, especially around the role of regulators?**

Rutherford: Well the regulatory thing was a real problem. I guess this is my opinion, but OFHEO [Office of Federal Housing Enterprise Oversight] was very difficult in terms of the type of oversight they played to the GSEs. I had to deal with the Office of Thrift Supervision some, which I was never particularly impressed by. And we had two different market regulators, one of which had a pretty big role, the SEC; to this day it still does not have any sort of financial stability mandate, which at times in the past has proved difficult. I think that there's no easy answer to these questions politically. But if you were going to devise a regulatory system, I guarantee you, you would not devise it the way it's structured today.

YPFS: **I know the SEC was sort of on deregulatory mode before the crisis, or at least a concern about not stifling the markets with regulation. Was there any such a concern at Treasury? Did they have a more hands-off approach towards the financial system before the crisis?**

Rutherford: I just don't remember there being a lot of input from the SEC, frankly. Even though they had a pretty good on paper view into some of the things that were happening at broker-dealers, I don't remember them having a huge seat at the table. But that might've been a function of what I was doing. They were not real muscular, how's that?

YPFS: **A number of studies like the Financial Crisis Inquiry Commission came to the conclusion that this fragmented regulation and difficulty coordinating among the various regulators had played a role in the crisis, both in limiting the visibility before everything blew up and later in responding once things hit the crisis stage. Is that criticism fair? What could have been done differently?**

Rutherford: I definitely think it's fair. I'm not sure it would have really changed the course of history tremendously, but it certainly would have helped if it was more streamlined. If you remember, the Federal Reserve started to put people [examiners] in the broker dealers. I think we had some sort of agreement with the SEC. I can't remember how all of this worked, but we had people monitoring their liquidity. Why couldn't we just get that from the SEC? I never quite understood that. But yes, I think that criticism is absolutely fair. You would never devise a system the way it was devised back then. In Dodd-Frank we tried to consolidate, and it's politically very hard.

YPFS: Some of Dodd-Frank has been rolled back to a degree, so what can be done going forward?

Rutherford: Well, first of all, I think what happened in 2020 was a pretty resounding success for the government in addressing a financial crisis. Obviously, a lot of what was rolled out was a template. They used the template of 2008, as well as a bunch of new programs, which obviously was hugely important. And I would argue from a public health perspective, we probably handled COVID extremely poorly. From a financial crisis perspective, we get an A+.

I give credit to Treasury and the Fed last year on that front. I do think that it seems like there's more coordination across the agencies. For a while there, I was the deputy doing Financial Stability Oversight Council (FSOC), and I think that helps to some extent. I have less of an insight into how the international aspect of all of this worked out last time. But again, things like the swap lines, et cetera, just getting dollar funds to where they are needed very rapidly, I think was very helpful.

It also helps that the same people were around 13 years ago that were doing it this time and have long memories. So perhaps if this had happened 75 years from now, we would have a different outcome, but it just happened so rapidly after the last one that seemed like it was very useful.

YPFS: Yes, it's surprising to see people like Janet Yellen back, back in the wheelhouse.

Rutherford: Exactly. Right.

YPFS: And there were a number of structures, as you said, like FSOC that have proved their value since. You also in 2009 established the Treasury Markets Room as an advisory on policy for officials. Can you explain a little bit about the rationale behind setting up the group?

Rutherford: Yeah, there was no one at the Treasury Department that did that. I think they had a markets group in the 90s, and I think in 2000 or 2001 for budget reasons or something, they cut it. So, there was no one that was looking after markets. It's hard to respond to what's happening in the world if you don't have a good sense of what's actually happening in the financial system. There were a bunch of voracious consumers of what that group was putting together. If you're calling from the Treasury Department at the New York Fed, you can get a senior person on the phone and tell you exactly what's happening at a specific financial institution or whatnot. They will be very open with you in most cases. So, you were able to get a pretty good sense of what's happening.

YPFS: **In 2008, we were at a real-time communications moment with digital media exploding, and also a lot of investors going digital as well. So how did that factor into the discussions?**

Rutherford: The hallmark of a financial panic in the past was people lining up outside of a bank, and obviously you didn't see that really in 2008. We were monitoring things like money market mutual outflows in any given day. So, the hardest part, or the most important thing that you can do in a role like that is to gather as much data as possible. And if you're the government, it's easier to get than if you're in my current role. So, I thought of it as very important to make sure you could pull as much data as you could possibly get to show to policymakers.

YPFS: **Now as we fast forward to 2010, 2011, you were working on the wind down of a number of programs, including the MBS program, and you put out some statements showing how it had been effective, even returned more cash than the government invested in it. How did it ultimately work out? It sounds like going in, it was a little less than you expected, but did it ultimately achieve what it was supposed to, or were there any surprises, shortcomings?**

Rutherford: We sort of changed the goal of the program once the Fed basically came out with their trillions of dollars of bond buying. I think their pretty explicit goal was to move mortgage spreads lower. We started trying to provide liquidity to a different part of the agency mortgage market, the specified pool market, which was under some liquidity strain. It's a smaller corner of the mortgage market. We were trying to provide liquidity there, and I think that was successful and played a smaller role than the Fed, obviously, in sort of correcting or alleviating the strain in the mortgage market.

So, in that sense it was successful. I'm not sure that was the original intent of the program. Well, I know it's not the original intent of the program.

YPFS: **Right. So, what were your takeaways? What would you have done differently if you were to go back?**

Rutherford: Obviously, aside from making it bigger in the beginning. But the Fed got there quickly, so that's not that important. I think that the facts on the ground changed. So, the Fed was a big buyer. They were moving mortgage spreads lower. We had a pot of $250 billion or whatever it was (I'll have to go back and look) and we became more of a market functioning player. We were trying to alleviate some of those strains.

YPFS: **So just rounding things out: If you were going to write a memo to your younger public servant self, what would be the top bullet points, the slides you would make sure to put in your PowerPoint?**

Rutherford: That's a good question. I would say: enjoy it while it lasts. It's such a unique experience. And remember as much as you can for posterity reasons. I was really fortunate to be able to see some really intense things and learn from some great people about leadership. And I think hopefully I downloaded a lot of those characteristics into how I hold myself professionally today.

YPFS: **And "go big early" from the policy perspective?**

Rutherford: Yeah, for sure. Which is what we did in 2020.

YPFS: **And it also looks like addressing that regulatory patchwork should be a priority for future reference. And communication. Was there much of a priority in terms of establishing lines of communication between the various regulators back then?**

Rutherford: I think we were trying. Yeah, for sure. But it wasn't perfect, and it could have been better. I think that's right.

YPFS: **Anything else that comes to mind that we haven't discussed?**

Rutherford: No, not really. It's fun thinking about this stuff of 13 years ago. I appreciate you asking me.

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