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UNITED STATES OF AMERICA
FEDERAL DEPOSIT INSURANCE CORPORATION

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BOARD OF DIRECTORS

+ + + + +

MEETING
CLOSED SESSION

+ + + + +

MONDAY
SEPTEMBER 29, 2008

+ + + + +

The Board convened at 6:00 a.m. in the Federal Deposit Insurance Corporation Board Room at 550 17th Street, N.W., Washington, D.C., Sheila C. Bair, Chairman, presiding.

PRESENT:

SHEILA C. BAIR, Chairman

MARTIN J. GRUENBERG, Vice Chairman

THOMAS J. CURRY, Director

JOHN C. DUGAN, Comptroller of the Currency

JOHN M. REICH, Director, Office of Thrift
Supervision

STAFF PRESENT:

Miguel Bran
John H. Corston
Herbert J. Held
Jim Wigand

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P R O C E E D I N G S

1
2 CHAIRMAN BAIR: Okay. I have no
3 gavel, so we'll just begin this morning the
4 meeting.

5 (laughter.)

6 CHAIRMAN BAIR: Okay. I'd like
7 to call the meeting to order. I need a
8 Sunshine motion.

9 MR. : I move.

10 CHAIRMAN BAIR: May I have a
11 second? I'll second. All in favor, say aye.

12 [Chorus of ayes]

13 CHAIRMAN BAIR: The motion's
14 agreed to. No summary agenda. There's one
15 item on the discussion agenda. It is a
16 memorandum and resolution relating to
17 Wachovia Bank, National Association,
18 Charlotte, North Carolina, and its affiliate
19 insured depository institutions.

20 Jim Wigand, John Corston, Miguel
21 Bran and Herb Held will present the case.

22 MR. WIGAND: Good morning, Madam

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1 Chairman, members of the Board. We're here
2 to present a recommendation that the Board
3 find that the respective failure of Wachovia
4 Corporation and its affiliates, banks and
5 thrifts, would have serious adverse effects
6 on economic conditions and financial
7 stability. Its failure would seriously and
8 negatively affect already-disrupted credit
9 markets, including short-term interbank
10 lending, counterparty relationships and
11 qualified financial contract markets, and
12 bank senior subordinated debt markets and
13 would further disrupt the related markets and
14 derivative products in other markets.

15 Staff recommends that the Board
16 accept the bid of Citigroup as the least
17 costly available method, mitigating systemic
18 risk, and that the Board authorize staff to
19 take all steps needed to implement this
20 decision.

21 Based on preliminary information,
22 staff estimates that there will be no

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1 expected loss to the Deposit Insurance Fund
2 for this transaction.

3 MR. CORSTON: Wachovia Bank is a
4 nationally-chartered bank. It's wholly-owned
5 by Wachovia Corporation. The bank is the
6 fourth largest bank in the country and is the
7 predominant legal entity within Wachovia
8 Corporation representing 83 percent of
9 consolidated holding company assets. The
10 insured legal entities of Wachovia
11 Corporation consist of three national banks
12 and two federal savings banks. The bank
13 operates approximately 3400 banking centers
14 in 21 states.

15 The risk profile of the bank is
16 declining rapidly because of deteriorating
17 liquidity and poor quality assets, and
18 liquidity has reached crisis proportions.

19 The company's rapidly
20 deteriorating financial condition is due
21 largely to its portfolio of pay option ARM
22 products, commercial real estate portfolio,

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1 and weakened liquidity position.

2 On Friday, September 26, market
3 acceptance of Wachovia liability ceased as
4 the company's stock plunged, credit default
5 swap spreads widened, some parties declined
6 to advance the bank overnight funds, and
7 counterparties advised that they would
8 require greater collateralization on any
9 transactions with the bank.

10 Unless the bank immediately
11 attracts a merger partner, the FDIC and other
12 regulators project the bank will likely be
13 unable to pay obligations or meet expected
14 deposit outputs.

15 Miguel.

16 MR. BRAN: Thanks, John. Staff
17 recommends the Board find the least-cost
18 resolution of Wachovia and its affiliate
19 banks and thrifts, and they'd have serious
20 adverse effects on economic conditions and
21 financial stability, and would seriously
22 disrupt an already moribund credit market.

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1 The least-costly resolution would
2 likely be a purchase and assumption after the
3 FDIC was appointed receiver. I'd like to
4 first describe some of the economic and
5 financial circumstances we find ourselves in
6 in September 2008.

7 Short-term funding mechanisms in
8 interbank lending are under considerable
9 strain. This pressure is increasing
10 following the failure of Lehman Brothers, the
11 difficulties of AIG, the closing of WaMu.
12 Libor has jumped a 100 basis points in the
13 last three weeks. Commercial paper rates
14 have risen dramatically. And this has all
15 led to a strained liquidity position for many
16 banks and has resulted in downward pressure
17 on stock prices and upward pressure on credit
18 default swap prices.

19 All of these effects would likely
20 cause investors to rise sharply their
21 assessments of the risks of investing in
22 similar, albeit smaller regional banks,

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1 making it much less likely that those
2 institutions would be able to raise capital
3 and other funding.

4 The potential also exists for the
5 harm to extend to the broader economy. It
6 could undermine business and household
7 confidence and also cause banks to become
8 less willing to lend to businesses and
9 households.

10 If the systemic risk exception
11 were invoked, staff believes that the
12 transaction described --

13 [Teleconference is interrupted.]

14 MR. : [inaudible] is now
15 joining.

16 CHAIRMAN BAIR: Who joined?

17 MS. : Hello. This is Julie
18 Williams [ph].

19 CHAIRMAN BAIR: okay.

20 MR. BRAN: -- described in this
21 Board case would avoid all or most of the
22 adverse impacts discussed previously. Use of

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1 the systemic risk exception may involve cost.

2 The FDIC could suffer some losses from
3 protection of certain asset pools, although
4 the expectation is not. The size of the
5 losses is not known and, as described by Mr.
6 Wigand, is likely to be zero.

7 In addition, moral hazard will be
8 exacerbated and the potential for market
9 discipline in the future would be reduced for
10 the very largest depository institutions.

11 In conclusion, staff believes the
12 imposition of a least-cost resolution on
13 Wachovia would almost surely have major
14 systemic effects. Both financial stability
15 and overall economic condition would likely
16 be adversely affected for the reasons already
17 discussed.

18 Staff believes we have
19 recommended the least-costly alternative, one
20 where equity holders take significant losses,
21 albeit not wiped out. A least-cost
22 resolution that protects most creditors would

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1 best ameliorate the adverse effects of a
2 failure on financial markets and the real
3 economy.

4 In creating the systemic risk
5 exception, the Congress clearly envisioned
6 that circumstances could arise in which the
7 exception should be used. In view of the
8 current intense financial strains which have
9 already seriously impaired the functioning of
10 the financial system and the likely
11 consequences for the financial system and the
12 economy of a least-cost resolution of the
13 fourth largest commercial bank in the United
14 States, staff believes that the circumstances
15 such as Congress envisioned are clearly
16 present and that invocation of the systemic
17 risk exception is justified. Thank you.

18 Herb.

19 MR. HELD: An electronic data
20 room was established by the bank in order to
21 allow potential buyers to perform due
22 diligence. However, there were no proposals

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1 submitted on an open basis.

2 On September 28th, the FDIC staff
3 began discussions with Citigroup and Wells
4 Fargo, both of which submitted bids the same
5 day. Both bids sought open bank assistance
6 from the FDIC.

7 The Wells Fargo bid required the
8 FDIC to cover potential losses on a pool of
9 up to \$137.3 billion in assets, of which 80.7
10 billion has been funded. Wells Fargo would
11 assume the first \$2 billion of losses, and
12 thereafter, losses would be shared, 80
13 percent for FDIC and 20 percent for Wells.

14 Our analysis of this proposal
15 estimated the cost to be between 5.6 and 7.2
16 billion dollars. Our exposure in the
17 transaction was capped at \$20 billion net.

18 The Citi bid, Citigroup bid
19 requested that FDIC provide loss-share (audio
20 drops for about a second) on a \$312 billion
21 pool. Losses would be shared first. The
22 first \$30 billion of losses would be absorbed

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1 by Citigroup. Then Citigroup would absorb \$4
2 billion in losses a year for the next three
3 years and after that, FDIC would absorb all
4 the losses. These would be partially offset
5 or, we think, wholly offset by \$12 billion of
6 preferred stock transference, which FDIC
7 would receive at the closing of the
8 transaction.

9 We -- our analysis of the (audio
10 breakup) group portfolio indicates that
11 losses range between 35 and (audio breakup)
12 billion dollars. And even under the most
13 severe scenario, there would be no cost to
14 the DIF fund.

15 In addition, Wachovia Corporation
16 itself submitted a proposal for open-bank
17 assistance, and it required a pool of \$200
18 billion of loans to have credit protection
19 from the FDIC, and the Wachovia would cover
20 the first \$25 billion in losses, and the FDIC
21 would receive \$10 billion in preferred stock
22 and warrants.

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1 Based on our analysis, the
2 proposal from Citigroup is no cost, and is
3 clearly the better of these proposals.

4 MR. : Now just for a point
5 of clarification, that is making an
6 assumption of the estimated high-end loss of
7 the range of losses. It would appear that
8 the cushion available with the transaction
9 with City would still not result in a loss to
10 the Deposit Insurance Fund, but, you know,
11 once again, you know, we have the range of
12 estimates there, and the point estimate is
13 certainly within the range of the absorption
14 amount (audio breakup) provided by Citi.

15 CHAIRMAN BAIR: Okay. Thank you.

16 Vice Chairman Gruenberg.

17 VICE CHAIRMAN GRUENBERG: Thank
18 you, Madam Chairman. I will say, this is a
19 momentous proposal that's being placed before
20 the Board. It will be the first exercise by
21 the Board of the systemic risk exception that
22 was provided in the Federal Deposit Insurance

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1 Corporation Improvement Act of 1991.

2 It is a decision, it seems to me,
3 we reach reluctantly, and in some sense, we
4 don't have a desirable option in front of us,
5 but among the options available, this is
6 perhaps the best.

7 So it's the least bad, perhaps,
8 of a set of undesirable options, and in that
9 regard we're facing extraordinary times, and
10 this is the appropriate action for us to take
11 at this time, and I'm prepared to support
12 this case.

13 CHAIRMAN BAIR: Thank you.

14 Director Curry.

15 DIRECTOR CURRY: I agree with the
16 vice chairman. It's -- sadly, all the
17 elements of the systemic risk has seemed to
18 be amply supported by the case and the
19 circumstances both at Wachovia, and external
20 conditions within the economy at large. So I
21 am also prepared to vote in favor of this.

22 CHAIRMAN BAIR: Director Dugan.

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1 DIRECTOR DUGAN: Thank you, Madam
2 Chairman. I think these are absolutely
3 extraordinary time. I think it's remarkable
4 that we've come to this situation where an
5 institution like Wachovia, which, in many
6 ways, is a quite viable, attractive
7 franchise, just couldn't withstand the
8 liquidity shock that it was facing because of
9 the extraordinary circumstances in markets.
10 I think that this is a clear example of the
11 need for the systemic risk exception,
12 certainly with the view of the Federal
13 Reserve and Treasury Department, and
14 discussions that we've had over the weekend,
15 I don't think we have any choice. I'd say I
16 want to commend staff. I think they did a
17 very good job of putting this together in a
18 very short period of time, and I think among
19 the competing offers, this was the best
20 option, and one that (audio breakup) no cost
21 to the FDIC fund. It certainly helps them,
22 and I support the resolution.

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1 CHAIRMAN BAIR: Director Reich.

2 DIRECTOR REICH: Thank you, Madam
3 Chairman. There's a lot that I don't know,
4 unfortunately. I heard staff indicate that
5 equity holders would take significant losses,
6 though not wiped out, and I guess I'd like to
7 know what, what that means. Could somebody -
8 -

9 CHAIRMAN BAIR: Do you want to
10 take that, Jim.

11 MR. WIGAND: The proposal that
12 Citicorp is tendering, and of course it has
13 to be approved by the shareholders of
14 Wachovia, is for a dollar per share purchase
15 price of the stock.

16 MR. POLAKOFF: What does the FDI
17 Act require with respect to treatment of
18 equity holders?

19 MR. : John Thomas is coming
20 to the table.

21 MR. THOMAS: It requires that
22 (audio breakup) probably not benefit equity

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1 holders unless there is a systemic
2 determination. That's why a systemic
3 determination is necessary in this case in
4 order to do this transaction.

5 I would add, I think in addition
6 to the dollar a share, there would be some
7 assets left behind in the holding company,
8 but the --

9 MR. WIGAND: That's correct.

10 MR. THOMAS: -- bulk of its debt
11 would be assumed. I think Citi's guessing
12 about \$2 or 2.60 a share value for stock.
13 That's their guess. It's not ours.

14 MR. : And what about the
15 debt holders, the subordinated debt, senior
16 debt?

17 MR. : In all cases the
18 senior subordinated debt holders are being
19 assumed in the transaction.

20 MR. POLAKOFF: How do we -- what
21 do we think we're doing, or how will
22 litigation risk be affected -- now I'm

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1 thinking of WaMu -- equity and debt holders
2 that were wiped out. Are we -- do we run the
3 risk of increased litigation risk for --

4 MR. : No one has a right, a
5 legal right to a systemic risk determination
6 and being bailed out. I think the answer is
7 this does not change that risk. It may
8 change the risk whether someone sues. It
9 will not change the risk where there's any
10 significant loss, risk of loss in that
11 litigation. Any time somebody sees money,
12 you may get a law suit; but it does not
13 change the legal risk.

14 MR. : Is there any exposure
15 to the industry for a special assessment?

16 MR. : If it turns out that
17 the transaction actually does cost more than
18 a simple closing of the institutions here
19 would cost, and right now it looks like a
20 zero cost -- our best estimate, zero cost.
21 If that's true, there'll be no special
22 assessment. If it turns out that there is a

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1 cost from doing the systemic finding, and
2 doing the transaction this way, then the
3 industry would be assessed, and they're
4 assessed based on assets minus equity rather
5 than on deposits.

6 CHAIRMAN BAIR: Treasury's also
7 agreed if there are any losses attendant with
8 this transaction, they will separately fund
9 those, so that our cash balance wouldn't be
10 depleted in any way, and hopefully our
11 reserve balance*.. I guess that's still "up
12 in the air." What do they -- as an
13 accounting matter we could do that.

14 MR. : Does that -- when you
15 say that they would separately fund the
16 losses, does that mean that the industry
17 would not be assessed, or --

18 CHAIRMAN BAIR: No.
19 Unfortunately, with our statute, there's a
20 special assessment for any costs associated,
21 or losses associated with a systemic risk
22 exception. But the usual rule for Treasury

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1 is that we have to spend down our entire
2 balance before the will allow us to borrow
3 from them. In this case, they've agreed to
4 fund any, any losses that we might suffer in
5 connection with this transaction, so that we
6 would not have to -- it would not deplete our
7 cash balance.

8 I don't think that's going to
9 happen. I think that the -- at least given -
10 -I think staff is right, that it's probably
11 remote that we will suffer any losses under
12 this, given the sizeable first loss position
13 that Citi has taken.

14 But it was important to me,
15 especially since Treasury are the ones
16 vigorously pushing this, that they agree to
17 separately fund those losses if we do incur
18 them. And we're trying, we're still trying
19 to determine whether they could give us some
20 type of language that would allow us not to
21 have to reserve against those losses if they
22 should occur.

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1 In other words, they would just
2 fund them immediately as they occurred so it
3 wouldn't impact our DIF balance. But we're
4 not talking about that. We haven't worked
5 that out yet.

6 MR. : Are we anticipating
7 any other possibility of a large failure
8 within the next couple weeks?

9 CHAIRMAN BAIR: Well, I know John
10 Dugan, he might have some thoughts on that.
11 We're watching that Citi closely. I think we
12 need to have more discussions with OCC. I'm
13 not aware on the staff. John, do you have
14 anything?

15 DIRECTOR DUGAN: What I would say
16 is if it happens, it will be a liquidity-
17 based issue, not a capital-based issue like
18 this one, and it'll depend on how markets
19 react, and we'll -- institutions have been
20 taking precautions but in the financial storm
21 that we're in, it's difficult to predict what
22 direction it will take for the particular

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1 institution which Sheila just mentioned or
2 other institutions, whether supervised by us
3 or others.

4 CHAIRMAN BAIR: Okay. Any more
5 questions, John?

6 MR. : I think that's it,
7 Sheila. Thank you.

8 CHAIRMAN BAIR: Thank you.

9 Well, i think this is, you know,
10 as Marty said, one option of a lot of not-
11 very-good options. I would note for the
12 record, that both the Treasury and the
13 Federal Reserve Board "weighed in" early on
14 for us to provide a systemic risk exception.

15 In fact, the Federal Reserve Board, several
16 hours ago, voted on a systemic risk exception
17 before we'd even acted. So they clearly,
18 both pressed for this, and I know it was
19 important to the OCC as well.

20 I have acquiesced in that
21 decision based on the input of my colleagues,
22 and the fact the statute gives multiple

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1 decision makers a say in this process.

2 I'm not completely comfortable
3 with it but we need to move forward with
4 something, clearly, because this institution
5 is in a tenuous situation.

6 I would like to very much thank
7 and commend the staff for really going above
8 and beyond a very -- you know, usual
9 challenges of the job. We did not really
10 know, until 5:00 o'clock yesterday afternoon,
11 that this was not going to get done on an
12 open bank and assisted basis, and it really
13 put us in a bind. So it is what it is,
14 markets move quickly, and we just take the
15 balls as they come, or pitched at us. But it
16 was a very difficult night and a resolution
17 that is a resolution, and we needed a
18 resolution that, whether it's the best
19 resolution I don't know.

20 So with that, I will -- may I
21 have a motion with respect to Wachovia Bank.

22 MR. : I move.

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1 CHAIRMAN BAIR: And may I have a
2 second.

3 MR. : Second.

4 CHAIRMAN BAIR: All in favor say
5 aye.

6 [Chorus of ayes]

7 CHAIRMAN BAIR: The motion's
8 agreed to. That concludes the discussion
9 agenda. Thank you, gentlemen, for all
10 getting up so early, and John, in your case
11 staying up all night. And if there's no more
12 business, we'll conclude the meeting. Thank
13 you.

14 (Whereupon, the closed meeting
15 was concluded)

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