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# YPFS Lessons Learned Oral History Project: An Interview with Christopher Spoth

Christopher Spoth

Sandra Ward

Yale SCHOOL OF MANAGEMENT
*Program on Financial Stability*

# Lessons Learned Oral History Project Interview

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| **Interviewee Name and Crisis Position** | Christopher Spoth[1]<br>Senior Deputy Director, Division of Supervision and Consumer Protection, FDIC |
| **Interviewer Name** | Sandra Ward (Contractor)<br>Yale Program on Financial Stability |
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**Introduction:**

The Yale Program on Financial Stability (YPFS) contacted Chris Spoth by email to request an interview regarding Spoth's time as Senior Deputy Director, Supervision and Consumer Protection, FDIC from 2006 through his retirement from the agency in 2012, following a 32-year career.[2]

As the deputy head of the division, Spoth led examinations, enforcement actions, problem bank remediation and failures, applications, and consumer protection and anti-money laundering efforts. He played a leading role in overseeing bank closures and restructurings of some of the nation's largest banks during the Great Financial Crisis and was on the front lines of fast-moving policy discussions and developments designed to instill confidence and shore up the then-fragile financial system.

Spoth worked directly with the chairman and deputy chairman of the FDIC. His working relationships extended to other FDIC board members, Federal Reserve governors, the Office of the Comptroller of the Currency, senior Treasury officials, and Congress.

Prior FDIC positions included regional director - New York; deputy regional director – Atlanta; and assistant director in the international department.

On leaving the FDIC, Spoth served as managing director at Deloitte & Touche LLP, advising financial institutions on regulatory matters before starting his own consultancy, Kirkwood Advisory LLC in 2019. He also serves as an independent director at Barclays US LLC and at GMO-Z.com Trust Co.

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

**Transcript:**

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

**YPFS:** **What did your role entail at the FDIC and what were you doing prior to being elevated into that role?**

Spoth: My role was a new position created right after Sheila Bair became chairman of the FDIC. It was 2006 and just the beginning of what became the financial crisis. It was clear, at the time, that we were going to transition from a very healthy financial sector, and particularly the banking sector, into one that would be less so. There was coming stress and I think that's why the position was created. The role was to help pivot the FDIC supervisory strategy toward reacting quickly in the event of a serious downturn. Typically, the FDIC relied on annual bank examinations supplemented with offsite monitoring, but in a period of crisis information we knew that information from those sources would quickly become stale and therefore insufficient to initiate timely regulatory action.

**YPFS:** **Had you served in this capacity in some way or another, in supervision prior to this, and that's why you were elevated to this new position?**

Spoth: Yes. I had been the acting director, supervision from the summer of 2005 until February 2006. My permanent position at the time was regional director for supervision in the New York regional office.

John Bovenzi tapped me to come down to Washington to fill in temporarily as acting director in 2005. There were two of us that were going to do that, and the other person ended up leaving the FDIC, so I was there for a longer period.

This was at the end of the George W. Bush administration, when the FDIC was addressing the effects of Hurricane Katrina on the operations of hundreds of banks that had their offices destroyed along the Gulf Coast. As the FDIC senior bank supervisor, I worked to address the crisis with peers at the other bank regulatory agencies and was a spokesman for the group in meetings with the U.S. Treasury Secretary.

My experience as acting division director for supervision aligned well with the senior deputy director position created later. That included the ability to contribute to crisis resolution and develop professional working relationship with the heads of other bank regulatory agencies.

**YPFS:** **When you were named senior deputy director, you mentioned you could sense there were coming stresses in the system. What's your recollection? When did those stresses first start showing themselves?**

Spoth: That was 2007. The stress in the subprime mortgage market was underway already, and the concern at the time was about how significant the effect would be. The question was around whether subprime would have limited impact on the banking system and economy or was it going to be a larger impact of possibly systemic concern. There are lots of people that were quoted with different views at that time, prominently FDIC Chair Sheila Bair and Federal Reserve Chair Ben Bernanke.

**YPFS:** **Bernanke downplayed the threat of the problems in the subprime market.**

Spoth: I would say the Federal Reserve was reacting in real time. There were many public figures trying to figure out what was going to be the impact. It's probably not dissimilar from public figures making comments at the beginning of the coronavirus pandemic. Ben Bernanke’s quotes are what they are, but I wouldn’t say that followed through as inaction by the Federal Reserve, but rather a reaction as the situation worsened. Sheila Bair, who was the person that brought me back to Washington, was prominent in her concerns about subprime mortgage markets.

**YPFS:** **She was very early in voicing concerns. When you recall those days, can you recall some of the discussions and how you chose to proceed? Did you have to put anything special in place at the time, or were you just observing? Can you walk us through how that works?**

Spoth: We discussed the FDIC supervisory program at the top levels of the agency including at the board level. Those discussions enabled us to quickly pivot our supervisory program to address issues in a timely fashion, and I should add that this pivot included the bank failure resolution processes. I was the lead operations person supporting Sheila, John Bovenzi and others who were asking the question, "How are we going to adapt our supervisory program and operationalize it for what could be coming down the pike. The pivot was toward addressing systemic risk. First the subprime problem hit the mortgage markets and the savings and loan and thrift industry. Quickly, the risk was transmitted through the commercial banking world, including the investment banks, large U.S. banks, global banks, insurance companies, money market funds as well as the community banks. As thing evolved, it was unclear how large the impact would be. However, it was clear that the supervisory process of regular annual examination and other activities would be insufficient, because the information provided by those sources would be stale in a fast-paced crisis, and similarly would provide insufficient tools the initiate the regulator corrective actions that would be needed.

There were rules and regulations around annual exams, so you could have exams that were 18 months old, or even longer if you count the processing time after the exam is completed. You could have an institution that was judged as sound and well regarded. However, in a rapidly escalating crisis, that supervisory information becomes stale and irrelevant for addressing conditions for large numbers of institutions. As a supervisor, you also rely on offsite analysis through financial disclosures and other information that you're tracking quarterly. That too becomes stale fast, in a crisis. Overall, just before the crisis we had a situation where banks and thrifts were identified as performing strongly considering their asset quality, earnings, and capital levels, with almost no bank failures. That scenario obviously reversed itself quickly as the financial crisis unfolded.

The question became how to pivot the supervisory process such that the examination ratings for banks and thrifts would reflect current conditions. This would enable corrective regulatory action aimed at individual institutions. Ratings drive corrective programs, including demands to raise capital liquidity, change management, restrict growth, and broker deposits. All those sorts of things are driven by what you can know about institutions or characteristics of groups of institutions. Importantly, current information provides the supervisory data needed to make accurate assessments of the industry in aggregate, thereby enabling policy makers and the legislature to take well-informed action. My job, as I saw it, was to figure that out. I wouldn't, in any way, say it was an observer role.

That started right when I took over my new position, and it rolled up in real time, all the way through the peak in problem banks years later, 2010 or so. Meanwhile, systemic risk and problems were emerging across the financial sector, including within the global banks, investment banks, insurers, and money market funds. As an operating person, you approach a crisis by planning what you are going to do about it while it's happening. Then you ask, can you possibly think ahead? What's it going to look like at three months or six months?

Regulatory attention had to become bifurcated with attention paid to individual troubled institutions as well as to broad programs changes to deal with the sudden collapse of liquidity markets and the impacts on the global financial system including the insured depositories that were subsidiaries of large non-banking companies. That's how the situation evolved. I became the point person in the FDIC to deal with other agencies handling the crises. Deborah Bailey was a key counterpart at the Federal Reserve. The agency heads turned to us to operationalize programs and policies and to lead large resolution/assistance transactions that developed over weekends.

**YPFS:** **You first started seeing some of these stresses in the thrift industry. Are you referring to IndyMac? At what point did you and your colleagues at the FDIC say this is spiraling into a new dimension. What was the point at which it really sunk in this was a grave problem for the global financial system?**

Spoth: IndyMac certainly was a challenging experience at the FDIC, but that wasn't until 2008.

We're talking about 2006 and '07. Countrywide Financial, a very sizable thrift and mortgage company that had side-by-side different legal entities, was having very serious problems that were very public. OTS (Office of Thrift Supervision) supervised it.

After well-publicized problems in August 2007 it was about to default on its debt, commercial paper. Notably, GE Capital was Triple-A rated, AIG was Triple-A rated, all these companies were dependent on rolling over capital in the form of short-term, commercial paper. Some advocated that a solution to solve Countrywide's funding problem was to have large amounts of FDIC deposits replace the non-deposit funding, including commercial paper, that was being withdrawn by the market. Insured deposits were still available because of the FDIC, but if the institution eventually failed the potentially very large loss would be absorbed by the FDIC insurance fund. Eventually, rather than replacing the commercial paper with FDIC deposits, Countrywide drew on the backup bank lines of credit that supported the commercial paper. This was a big, early indicator of what was going on.

I can't remember the timeline around Downey Financial and a some of the other large thrifts, but if you fast forward, you come to IndyMac, a very challenging failure for the FDIC to handle. The point I want to make is it wasn't a sudden thing when IndyMac came up. There was an escalation of how bad it was becoming. Eventually, Bank of America came to the rescue of Countrywide by buying it. Fast-forward to IndyMac which failed and had no buyer waiting in the wings. It came dangerously close to a disorderly failure sparked by untimely comments by public officials.

**YPFS:** **In some of these instances, it seems, there were institutions where maybe there was no clear supervisor, or parts of the institution were out of the realm of supervision? We'll come back to this whole notion of non-banks versus banks and the rise of the non-bank sector. But were questions of supervisory authority being sounded strongly at this time?**

Spoth: The first institutions to fail, as they related to the insured depositories, were the non-bank mortgage companies. You could look back to Century. I wouldn't say they were unregulated, but they didn't have a federal regulator as do thrift holding companies or commercial banks or bank holding companies. They had state regulators in place to supervise their business.

Countrywide, was a thrift holding company, sitting over an FSB (Federal Savings Bank), which was, in rough terms, half the organization in insured deposits. And you had a mortgage originator sitting beside it all under one organization. In that scenario, you had OTS as supervisor of the holding company. Indirectly, they would be overseeing the mortgage company because they had the holding company, just like the Federal Reserve had the bank holding company structure over the commercial banking sector.

**YPFS:** **It seems to be an ongoing issue with how U.S. companies or financial companies structured themselves that makes supervising them more difficult.**

Spoth: We are jumping way, way ahead now, but post-crisis the Dodd-Frank Act mitigates some of those gaps with Title 1 for resolution and recovery planning. Part of it addresses the gaps in supervision and who is going to be around to resolve some of those issues. That played out in real time. I haven't brought up AIG yet, but as the financial industry generally went into rapid crisis, AIG was one of those institutions. They owned a thrift that OTS was supervising, which was one thing, but OTS had also taken on a role supervising the parent company from a global perspective.

At the FDIC, we had the industrial loan companies that were insured deposit taking subsidiaries of companies such as Bear Stearns, Lehman Brothers, Morgan Stanley, Goldman Sachs, CIT, American Express and General Motors.

Early on, my job was to figure out what to do with these captured subsidiaries while their parent companies were in financial distress or outright collapse. We had a clear approach to that. We had a way of dealing with that at the FDIC, which was to ringfence the insured subsidiary so that it would have its own capital, liquidity and management and not become a funding source for the larger parent in financial distress.

**YPFS:** **Were these gaps known and being punted down the road, or were they just coming to light at this time? What was the feeling in the room? Was it a known issue that people didn't really seem to think was that important and suddenly here it was presenting huge, complicated issues for everybody?**

Spoth: The gaps in the federal supervisory framework were known. For example, there is no federal regulator overseeing the parent of an FDIC-insured industrial loan company. At the FDIC, we were aware that the parent company of an FDIC-supervised and -insured industrial loan company could be a source of strength or a source of weakness for its insured industrial loan company, and we had a supervisory approach to deal with that risk.

What happened to some industrial loan companies, and it happened to the largest U.S. bank holding companies at the same time, is that market-based funding was withdrawn thus creating severe liquidity conditions. It was a very fast financial collapse due in part to uncertainty when it came to the inability to value assets, mostly mortgage securitizations, and the elimination of liquidity, including for Triple-A rated entities like AIG and later GE Capital.

**YPFS:** **Let's talk about Washington Mutual. That seemed to represent a new threshold in the crisis. Can you talk about the collapse of Washington**

**Mutual and when you first became aware that there were problems there and how you went about trying to save it?**

Spoth: I'm going to speak about it in general terms. I know there's some pretty good public records, including in the Financial Inquiry Commission Report, as I recall, on when it was emerging as a problem, when it was identified by the regulators, and there was considerable back and forth with the FDIC's role in so-called back up authority. The same thing happened at IndyMac. One could foresee that WaMu would be impacted as the subprime mortgage crisis evolved, including by looking at IndyMac collapsing a couple of months before and, before that, Countrywide. In the absence of some favorable turn along the way, you could see the large thrifts falling one after the other.

The FDIC was intentionally looking for a long time at Washington Mutual for a couple of reasons. One, because of the sheer size of it. There would have been a lot of concern by any number of stakeholders about whether the FDIC had the scale to resolve Washington Mutual or not. I was very heavily involved in all of that and so were the agency heads.

**YPFS: I know it's been written about elsewhere in the public record, but you were intimately involved. Can you speak about some of the negotiations surrounding Washington Mutual?**

Spoth: The OTS had the primary role. Scott Polakoff was the head of supervision there. Sandra Thompson, my counterpart, had several deputies. John Corston's role was leading large bank supervision at the time through FDIC. An important role was held by Stan Ivey, the regional director in San Francisco for the FDIC. The question they confronted was implementing a program across that spectrum to try to understand how Washington Mutual might avoid failure or get it into a position that it could fail orderly. What's interesting that people forget is that Washington Mutual had raised private capital earlier in the crisis. I think from TPG. They had a first right of refusal to inject more capital over somebody else or a dilution type structure. I remember calling them and saying, 'Well, do you plan to contribute capital to this at some point or will you stand aside if somebody else comes in?'

As its failure was becoming more likely I was trying to get the CAMELS (Capital adequacy, asset quality, management, earnings, liquidity, and sensitivity) rating of the institution correct. You had to rely on OTS. But if the FDIC felt differently, there was the so-called back up authority to downgrade the institution and initiate an enforcement action itself. Some of that never came to pass, but there's a clear public record on the interagency debates at the time.

Later, at an appropriate time, I'd try to get FDIC and other institutions access to a due diligence room at WaMu to facilitate it raising capital itself, or to facilitate due diligence by potential acquiring institutions. The FDIC needed access to a due diligence room to prepare itself in the event of failure. Several of us at the FDIC had to get involved.

Preceding its failure, the FDIC was actively assessing the prospects that Washington Mutual would be able to raise capital or more likely sell itself before failure. There was a new CEO at the very end of Washington Mutual's time as a going concern and I recall talking to him about what institutions he was talking with to acquire the bank. All normal supervisory questions: Are you talking to any potential buyer? If so, whom? The questions would follow one after the other to figure out how substantive the discussions were and then we would make supervisory contacts to verify if any financial institution was going to come in and buy it. I would talk to the institutions, including the acquiring one, to find out if their interest was in an open bank deal. The same thing occurred -without my personal involvement- at Lehman Brothers. Is somebody going to buy this, or do we have to unwind it? Those conversations go on behind the scenes. At the FDIC, we wanted to arrange an orderly resolution if a failure is inevitable. Once an institution says I'm not going to buy it, then you turn the discussion over to the resolution staff to prepare for a potential bank failure transaction. You never want to disrupt an open bank solution where one might exist.

**YPFS:** **Was it easy to work with the OTS and the OCC? I would think people would have questioned the credibility of these agencies because they clearly hadn't been monitoring the banks closely. How was that for somebody like yourself, who was very engaged in supervision, working with an agency that seemed to let some of this go on without any oversight?**

Spoth: The crisis was coming on fast. Regulators were trying their best to update the condition of the institutions they regulated, and it was challenging. We had our own challenges at the FDIC. I was talking about downgrading institutions in a timely manner and taking corrective actions. Those are hard actions to take.

I want to be respectful of the other regulators and of the role of the OCC, particularly. I had a generally good working relationship with them and individuals there. When we had productive conversations about the condition of individual banks, especially those with a high probability of failure. There were pragmatic people that were there. However, conversations about the exam ratings for certain large institutions was challenging.

It was more difficult with the OTS, but I wouldn't want to say they weren't working hard. There were some interagency challenges that I would just characterize as unfortunate conversations going back and forth. One of the challenges to supervision is that you don't want to be too slow to respond, because unnecessary delay can make it more difficult to raise capital, change management, or sell an institution. It might not be possible to achieve those actions in some cases, but if you don't try early enough, it becomes progressively harder to do.

**YPFS:** **In the case of Washington Mutual, JPMorgan appeared to rescue it. Was that something brokered by the FDIC, or it was just the FDIC encouraging those kinds of conversations to take place?**

Spoth: The transaction was handled by the lead FDIC resolutions person. My counterpart in resolutions was Jim Wigand.

The FDIC is always trying to resolve an institution in the least costly way as the statute requires, and do it with the least disruption possible. The core mission of the FDIC is to maintain confidence in the banking system. In WaMu's case, Jim Wigand and his team, the division of resolutions, brokered the failed bank resolution in a very traditional way. We were appointed receiver by OTS and proceeded to sell it to JPMorgan Chase. JPMorgan Chase had to make a bid for it and our resolutions people processed it. I was on the other side of that, trying to take regulatory steps to avert the failure.

**YPFS:** **You're on one side seeing how you may avert a failure, but at some point, you hand it off to the resolution group?**

Spoth: That's a very important distinction to be made. It's not lost on anyone at the FDIC that these are dual roles. One as a supervisor that can take the enforcement actions, assign examination ratings, generate the rating for insured deposit premiums and all of that. Then there's the other side - resolutions - that sells a failed institution. It's never lost on the FDIC that if the supervisors mishandle their role, it could cause the bank failure that you're trying to avoid. That's why the bidding process and the dates of a failure are secret and always as confidential.

When we at the FDIC would invite bidders to do due diligence and clear them to make a bid, all of that is extraordinarily confidential in the public realm. Outside of banking it would be like an M&A transaction. You don't want to drive markets with what you're doing behind the scenes. That's how Jim and I would have been working together. The resolutions people would have to know what's coming down the line for failures so that they can logistically prepare and be ready to invite due diligence by prospective bidders when a failure is imminent.

**YPFS:** **In your estimation, everything was done that could have been done? Was there anything that might've changed the outcome for Washington Mutual?**

Spoth: I don't see anything that could have changed the outcome. Within the realm of what the federal bank supervision people could do, I don't think you could do anything different unless it was around the timing of when we took action to downgrade the exam rating or achieve access to the due diligence room.

**YPFS:** **WaMu's failure came just a few weeks after Lehman failed. Did that inform how WaMu would play out or how it would be handled? Were there any lessons from that Lehman bankruptcy or are they really considered quite separate events?**

Spoth: They were separate. In the demise of WaMu, its credit and mortgage problems were the root cause of its problems, but the precipitating events that drove the timing of WaMu's collapse was liquidity. We were watching its liquidity daily. Every day they were losing $10 million or something along those lines. It wasn't stopping and there wasn't an end in sight.

The liquidity markets weren't going to come back soon after Lehman Brothers, such that the WaMus of the world would stabilize from a liquidity perspective. Otherwise, Lehman and WaMu were separate and distinct events that were on different tracks. Lehman was mostly an investment bank with a different business model than a thrift like WaMu and not regulated as a bank or thrift.

**YPFS:** **The FDIC, in 2011, put out a report suggesting that Lehman wouldn't have failed, if the Dodd-Frank Act reforms were in place. Were you involved in that report? What was the point of that report? How was it received?**

Spoth: I have no recollection of being involved in that report.

**YPFS:** **Are you familiar with it though?**

Spoth: I went back and looked at it in the context of this interview. It's about the ability of the FDIC to resolve an entity in a Title II Resolution.

**YPFS:** **The point was under the right circumstances with the right legislation in place, the FDIC might've been able to save Lehman or prevent a Lehman failure?**

Spoth: The FDIC, as I understand it, was making the case that the Dodd-Frank orderly resolution framework could have worked in the case of Lehman Brothers. I don't think I was involved in the conversations about it. I think the context was that they could have conducted an orderly resolution in the event there was not a buyer. All the potential buyers had fallen to the wayside for Lehman Brothers. The FDIC position was that it could have been unwound under Title II and averted the systemic risks that came after.

**YPFS:** **We've touched on this topic a bit previously, but can you talk about working with other agencies? From what I've been gleaning from people, there weren't a lot of interagency communications pre-crisis. During the**

**crisis that obviously had to change. Can you speak to how smooth that process was, especially when there'd be so many egos involved?**

Spoth: There was always interagency dialogue and conversations at all levels across the FDIC, the OTS, the Federal Reserve, and the OCC. There are whole frameworks under which ordinary ongoing business conversations are conducted at every level. It happens some at the bank examiner level. It certainly happens at the regional director level and it crosses over to the states as well, where they're the supervisor. For example, there are frameworks for doing things like resolving rating differences. There's a very strong governance structure around interagency communications on bank failures, all of which were ordinary and rarely argumentative. If there is an argument, it is almost always carried on in an orderly way.

In a systemic crisis, the pace of interagency dialogue and level of the participants necessarily changes. That is particularly the case when decisions that need to be made raise policy questions that need to be resolved or are precedent setting. The heads of operations and supervision like myself and Deborah Bailey would have to have a direct dialogue seemingly 24 hours a day and over weekends to make recommendations to agency heads about supervisory matters.

**YPFS: You're saying prior to the crisis, operationally, the senior level or middle managers were constantly in communication, and it was only during the crisis, when the dynamics changed, that agency heads engaged in more dialogue?**

Spoth: Yes. I would say that because of the nature of the crisis and at the speed it was occurring, agency heads had to involve themselves in what otherwise would have been operational matters. If the scale of the problem is low and ordinary regional, field people handle it. As the problem gets bigger, every governance structure for an organization would have an escalation path up to what is the ultimate decision maker at FDIC.

You were talking about the personalities involved. I had no problem dealing with any of the people that we're talking about. It was an intense environment.

**YPFS: Let's move to the auto industry bailout talks. You seem to be heavily involved in those. How did those differ from your usual supervisory conversations?**

Spoth: I'll start at the end. You end up having conversations with Tim Geithner, Secretary of the Treasury, and with his staff about the role of the FDIC. The reason the FDIC was involved in the auto bailout is because General Motors owned, although it had been restructured, a captive finance subsidiary which was an FDIC insured depository, GMAC. Today that's Ally Financial. That's how the FDIC came to be involved in the conversation about what the government was trying to do to mitigate the collapse of GM and Chrysler. The FDIC supervised the automobile finance arm of General Motors. General Motors also owned a federal savings bank subsidiary that was involved in mortgage finance that had to be unwound in the financial crisis.

The FDIC's stake in those conversations was to mitigate undue risk to FDIC of the potential collapse of GMAC, the automobile finance company, and the mortgage company. There had been a corporate restructuring at General Motors as its financial condition progressively weakened, and some of its legal entity subsidiaries became bankruptcy remote from the parent. The U.S. Treasury came to FDIC because in the so-called bailout General Motors and the Treasury wanted GMAC, the FDIC insured entity, to finance vehicles sales on a larger scale than existed at GMAC at the time and to do so in a severely stressed economy. Steve Rattner's job at Treasury was to resolve General Motors in a deal that had become described as the auto bailout.

**YPFS:** **It seemed the FDIC did not get a lot of respect in those talks. It seemed as if decisions were being made at other agencies and they just expected the FDIC to go along with them without any resistance or challenges. So, how would you characterize those dynamics?**

Spoth: Steve Rattner published a book on his role in the auto bailout. Whether he and his team respected the FDIC position or not requires a level of judgment that I don't want to go into. They respected the agency enough to have regular conversations with us about GMAC Financial. I had long, ongoing conversations with the Treasury, and what the FDIC expectations were. From an operating person's perspective, you have the obvious pending collapse of the automobile manufacturers because sales, as I recall, were running down from 16 or 17 million units to 10 million. Further, there was obvious stress on the model of financing automobile sales through securitizations.

The FDIC was monitoring the condition of GMAC Financial in a deteriorated economic environment involving where consumers were troubled (e.g., mortgages) and auto sales are plummeting. We were being asked to consider, like had been the case earlier in Countrywide, moving funding that was otherwise difficult or impossible to obtain into an insured depository whose parent/partner was in severe financial distress. Further, there were questions about the credit risk on GMAC's books because of weakened consumer conditions due to mortgage stress, unemployment, among other issues. GMAC also funded dealer inventory known as floor plan loans. I remember being told by Treasury officials that floor plan loans are without risk. Yet, the inventory was sitting unsold on car dealer lots all over the country, with the risk mitigation plan being proposed that the dealers could put those cars back and be paid in cash for the inventory by the manufacturer, who itself was going bankrupt. It was very challenging to get through those conversations. I certainly appreciated and still appreciate the challenge of the Treasury having to organize a bailout of the manufacturer in that scenario.

They took a different approach to Chrysler Financial, which was unwound. If you look at it from that scenario in a stressed environment, at what would be the risk to the FDIC as compared to the risk of the Treasury of the automobile bailout, you have statutory roles that have to be dealt with. One thing to guard against would be if GMAC Financial post-bailout failed with a loss to the insurance fund, because in that scenario, all other institutions who paid into the insurance fund would be required to rebuild the fund through increased premiums.

**YPFS: Ultimately, it was well arranged, correct? And the FDIC wasn't impacted negatively by the auto industry bailout?**

Spoth: That's correct, but I would say that it took high level negotiations to arrange the structure that worked. For example, Mr. Rattner's book describes a meeting that included myself and Steve Rattner in a so-called one-plus-one meeting with Secretary Geithner and Sheila Bair. When we left that meeting, the FDIC position was well understood, and the transactions went through with GMAC Financial on sound footing with adequate capital on its balance sheet to fund the growth that the Treasury thought was needed to finance General Motors sales and floor plans.

**YPFS: Would you look forward to sitting in a room negotiating with Steve Rattner again?**

Spoth: It's unfortunate the way he described the negotiations in his book. There were major issues to be resolved at both the Treasury and the FDIC. The process and possibly even the final structure involving GMAC and the FDIC may not have been what Steve wished but once we met with the Secretary, the matters were resolved in manner satisfactory to the FDIC. Whether he was offended or not in the process is his issue. I had no problem participating in the negotiations.

**YPFS: What are the biggest lessons you've learned from the crisis?**

Spoth: The biggest lesson is the inter-connectedness in financial markets, particularly in the capital markets, and the challenge of that inter-connectedness impacting the safety nets of the Federal Reserve through its lending regimes and the FDIC through its depository insurance program. The root cause of crises seems to always be in in credit risk. This time we saw how quickly that can move into the capital markets and become a liquidity crisis across firms.

Another lesson, in particular, is that the legal entity structure of a large financial institution, including capital and liquidity positioning and booking models, can create impediments to an orderly resolution under stress. Another lesson revolves around contagion across counterparty financial firms when one or more key institutions is in danger of collapsing. Lastly, an important lesson is that the regulators should retain skilled people who can identify and resolve problems in a complex financial arena. For example, the bank regulatory stress testing programs for capital and liquidity are lessons well learned, but those are areas where expert staff needs to be retained over time.

**YPFS:** **On this point, what about lessons learned about non-banks and how to best supervise and regulate them?**

Spoth: The fragility of non-bank financial institutions to financial risk including liquidity has been learned, but I don't know if the supervision aspect has been solved. Take as an example that most mortgage servicing is conducted by non-banks. The states are addressing this issue, but I don't know if it is solved from a stability standpoint. There were also lessons learned about the money market funds breaking the buck under stress, but I am not sure that is solved. Problems arose in both mortgage servicing and money market funds when the coronavirus pandemic erupted.

**YPFS:** **Any other issues that have popped up in the pandemic period that parallel the global financial crisis and the Great Recession?**

Spoth: Parallels early in the pandemic compared to the great recession included stress on liquidity and credit risk concerns. One thing that is clear so far is that the banking sector is much better able to withstand stress. Institutions globally have more capital and more liquidity than they did before. Their legal entity structure and governance has changed dramatically since the financial crisis days for the better. Risk management in particular has evidently improved,

**YPFS:** **What else would be on the mind of regulators?**

Spoth: An issue that might be on the mind of the regulators now is the operational resiliency of firms. On the one hand, firms are operating well with few people in the office, and in some respects that validates the operational resilience and disaster recovery of firms. On the other hand, there are increases in cyber security events and probably increasing levels of operational risk tied to technology.

**YPFS:** **Thanks so much, Chris.**