9-1-2022

Lessons Learned: John Bovenzi

John Bovenzi

Sandra Ward

Journal of Financial Crises

Volume 4 | Issue 3

2022

Lessons Learned: John Bovenzi

Sandra Ward

Recommended Citation

Ward, Sandra (2022) "Lessons Learned: John Bovenzi," *Journal of Financial Crises*: Vol. 4 : Iss. 3, 189-191.
Available at: https://elischolar.library.yale.edu/journal-of-financial-crises/vol4/iss3/5

Yale Program on Financial Stability Lessons Learned

John Bovenzi

By Sandra Ward

As a deputy to the chairman of the Federal Deposit Insurance Corporation (FDIC) and in his role as chief operating officer of the agency, John Bovenzi provided policy advice and oversaw the agency's operations, including business lines, bank supervision, bank closings, deposit insurance, and administrative affairs. Bovenzi's most notable role during the Global Financial Crisis was manning the helm of mortgage lender IndyMac after the FDIC took it over in July 2008 to position it for a sale. This abstract is based on an interview with Bovenzi conducted on December 2, 2020; the full transcript may be accessed here.

Understand the risks: Early and ongoing analysis allows for a better response.

Aiming for a better sense of the systemic risks lurking in the financial system, the FDIC had the foresight to establish a risk committee as early as 2004. The committee was made up of regional bank supervisors and economists. Housing quickly became a focus, based on a dramatic runup in prices. While many market observers underplayed concerns presented by the housing boom based on historical trends, the FDIC group drew different conclusions. Noted Bovenzi:

> The FDIC group that looked at this issue concluded . . . that this may not be the same as other periods in that there had been a lot of erosion in the lending standards. Subprime mortgages had increased 10-fold, lending standards had weakened, and all types of new instruments were out there. So maybe this time would be different, and there would be a bust.

Armed with those insights, the group turned its attentions to commercial real estate as well. It also established a group to examine how the agency handled bank failures to determine whether new policies and procedures might be needed. Said Bovenzi:

> We ran some simulations and war games to help prepare the staff, which hadn't handled that many bank failures since the previous crisis in the 1980s. That was very helpful. Plus, we had a whole new board of directors around 2004-05. Some of those war games helped familiarize them with the bank failure process as well, which was also very helpful.

As it turned out, the magnitude of the crisis couldn't have been foreseen in its entirety and presented new challenges despite all the preparation. Bovenzi reflected:

> What turned out to be different was the size of some of the bank failures; the FDIC had never handled failures that big.
>
> For small- or medium-sized banks, the bank-closing process worked very efficiently. For larger commercial banks, it was something new. For investment banks, it was an

> entirely different process. It was a bankruptcy process that was not structured for speed and smoothness as was seen with Lehman's collapse. These distinctions meant there was a lot that turned out to be new, but the early preparation helped the FDIC enormously.

Better together: Coordinating with other agencies led to improved outcomes.

Historical tensions and a lack of communication among the different regulatory agencies overseeing commercial banks threatened to undermine the response to the financial crisis early on. Yet as conditions worsened in 2008, coordination improved, Bovenzi shared.

> The FDIC organized weekly calls with the other bank regulatory agencies where senior people would go over what was happening with the worst problem bank cases, their status, and what kind of preparations might be needed.
>
> In the crisis, everybody worked better together, but . . . the principals didn't always agree. There were different philosophies on how things should be handled, particularly whether bailouts were necessary or not. There was tension but also constant back-and-forth over what the best steps should be. In some cases, as awkward as it was, the process got to better results than what any individual agency would have done by taking into account the various points of view that were being presented and coming up with overall programs.

Communicate: Reassuring the public and institutions helps to stabilize conditions.

Faced with the collapse of once mighty and iconic financial institutions, Fannie Mae, Freddie Mac, and Lehman Brothers among them, regulators need to move quickly to calm the public and reassure public markets and private institutions that financial conditions were under control. Bovenzi observed:

> The most important thing you can do in that situation is to provide comfort to people. People get comforted if they know they're not going to lose money and if you can provide liquidity so people can keep borrowing. That can keep the economy going. A lot of programs were set up. One of them was to raise the deposit insurance limit from $100,000 to $250,000, at first temporarily and then permanently.
>
> That helped a lot of depositors at IndyMac. It also took away some of the incentive for people to start runs on other banks.
>
> The FDIC set up the Temporary Liquidity Guarantee Program to provide extra deposit insurance on non-interest-bearing deposit accounts. We also provided some insurance coverage for other types of debt besides deposits, which was a first in the history of the FDIC. That benefited the larger banks who could borrow money in the capital markets.
>
> There were a lot of programs like that during the second half of 2008, all trying to stabilize the system.

Bovenzi noted that by early 2009, such programs combined with financial stress tests imposed on the large banks resulted in boosting confidence in the system and calming the crisis.

Dated: September 2022

YPFS Lessons Learned No. 2020-14