

Chapter 1

“God’s Work” at the Fed

Unlike a lot of people on Wall Street, I have no pedigree. No Ivy League degree, no prep schools, no internships arranged by a well-placed uncle. In fact, my whole family is a collection of immigrants and outsiders. On my father’s side, my great-grandfather came from Odessa, Russia. In 1905, during the pogroms in that city, his brother was killed by a Cossack guard. My great-grandfather ended up strangling the guard before sneaking out of the country. He arrived in the United States at age thirty-seven, and his last name, Koretzky, was cut down to Kerr. A year later, he was able to arrange for several other family members to get out of Russia, as well, including his son, my grandfather. They entered the United States through Ellis Island in 1906, and for a while the family was so poor that the oldest son had to leave school at age twelve to sell flypaper on the street corners of South Philly.

My mom was raised in an Orthodox Jewish immigrant family in Baltimore, with very traditional values. Her father emigrated from Gomel, then part of Russia, in 1907, also via Ellis Island. Her mother

died of cancer when she was just three, and she grew up in her aunt's house. My mom was an original thinker, into sushi and yoga before either one became fashionable. I often came home to find her upside down, doing a headstand in a corner of the house. My parents split up when I was three years old, and although most people in her family never left the Baltimore area, she settled in Washington, DC. It's only forty miles away, but it might as well have been a different planet to her family. She worked at the local TV station to support her life as a single mom with three kids. She remarried when I was five, in 1968, to the person she considered her soul mate. My mother and stepdad met at a bridge tournament where they discovered that they both enjoyed the same brand of cheap Scotch.

My stepdad—who raised me along with my mom—also immigrated to the United States, and his story is also that of an outsider. He grew up in Romania in the 1930s, and during his childhood, he watched his country go from a Romanian monarchy, to dysfunctional democracy, to dictatorship, to a Nazi takeover, and then to Communist rule after World War II. When he was seventeen, my stepdad tried to escape from the country, because of violent threats against Romanian Jews.

His goal was to get to Palestine—which was then controlled by the British. He had the equivalent of \$350, money he had made by selling cigarettes, gum, and candy on the black market. His first escape attempt failed—he made it across the border to Hungary but was captured by the secret police and sent back to Romania. On his second attempt, he was again caught. On the third attempt, as with my great-grandfather, he had to kill someone in self-defense (in this case, a Romanian guard) in order to finally make it out.

In 1948, he went to Palestine to fight for the Jews' new homeland. When I was a child, I remember him telling me that he would gladly have given his life if he knew it would have resulted in a Jewish state. That willingness to trade personal sacrifice for patriotic goals really resonated with me. It wasn't just about getting ahead and taking care of yourself—there were larger principles at work.

Not that this got in the way of his willingness to hustle a little bit. He was street smart and spoke eight languages, in part from his dealings on the black market. For a while, he smuggled watches across the border from Switzerland into Italy. When he later wrote a memoir of this time in his life, he remembered having hundreds of them

strapped to his body under his clothes, so many that he ticked like a time bomb.

He served in the Israeli navy and later the merchant marine, and he got into the United States by jumping ship in Florida, later becoming a citizen. By the mid-1960s, he landed in the Washington, DC, area, where he started and ran an aluminum-siding business. He had changed his last name after his escape from Romania; at the time of his move to Florida, he was known as “May’ami,” which was an anglicized version of the Hebrew phrase “to my nation.” In Florida, people called him “Mike Miami,” so he changed his name to Mayo. When I was growing up, every year on the first day of school I had to explain that the last name that I used wasn’t Kerr but Mayo.

My stepdad told me constantly as a kid that World War III with Russia was an absolute certainty. He slept with a handgun by his bed his entire life. I would wake up to hear him screaming profanities at his sales rep, every curse word in the book, demanding that the rep bring in more leads. I was astonished one day to find out that this salesperson was a woman, Vickie, who was good at her job and continued to work for my stepdad for years despite the daily shouting matches.

When he opened a Romanian restaurant with my mother in 1981 called the Vagabond in Bethesda, Maryland, he was comfortable speaking Spanish to the busboys and English to the customers and could hold his own in political discussions with the diplomats who came in. As my mom put it to a restaurant reviewer once, “He can speak, read, sing, and cook fluently in eight languages.” My stepdad did all the cooking at this restaurant, including recipes his mother used to make, and the place once won “Best Duck” in the restaurant section of *Washingtonian Magazine*. He loved vodka and cigars, and, really, he just loved life. He used to say that he didn’t want to wait to be an *alter kocker*, which is Yiddish and translates roughly to “old fart,” before he could enjoy himself. Once when he was traveling in France, some people said to him in French—thinking that he couldn’t understand—that his giant cigar looked like a prick. “Yes,” he shot back in perfect French, “but it doesn’t taste like one.”



When it came time for me to pick a college, I went with the University of Maryland for my bachelor’s degree, because the couple

of people in my family who had attended college went there. Later I got an MBA at George Washington University at night while working full time. Both schools were good experiences—Maryland’s math department was in the top twenty in the country when I was there; GWU had a respectable business program—but neither one makes the doors fly open on Wall Street.

I know this because my early attempts to get a job there fell flat. I still have the rejection letters, every one of them. Prudential: “We have considered your background and, although it is impressive, we find that our current staffing requirements are not consistent with your objectives and abilities.” Goldman Sachs: “If we do not contact you directly, you can assume that there are no appropriate openings available.” I like looking through this folder of initial rejections, because some of the firms in there don’t exist anymore—Drexel Burnham, Kidder Peabody, Bankers Trust. But at the time I was crushed. I didn’t get one interview.

During this time, I was working at IBM, where I stayed for only a few years, just long enough to realize that a corporate culture like that wasn’t for me. I remember the old-timers wearing lapel pins that showed the number of years they’d been at the company—twenty-five years, thirty years. My friends and I would keep our IBM ID tags on when we went to the bars at night, thinking (incorrectly) that they would impress the ladies.

As the Wall Street rejections continued to pile up, I took a job at the Federal Reserve in Washington, DC, where I first learned to analyze bank deals. The salary represented a pay cut from IBM. I’d be a “GSer,” referring to the government service pay scale, something that everyone in my family had always regarded suspiciously, given their natural mistrust of bureaucrats. I tried explaining that staffers at the Fed aren’t technically in the GS system, but that didn’t cut it. Still, I wouldn’t trade my time there for anything. It was at the Fed that my thoughts on the banking industry took shape and where I learned about the crucial role that objective analysis plays as a check and balance on the sector.

I worked there in the late 1980s and early 1990s. Alan Greenspan was the Fed chairman, but this was before he became a cult figure in the financial markets, and at the time his predecessor, Paul Volcker, had

left a lasting impression at the agency. To this day, Paul Volcker is my hero—the six-foot-seven iconoclast who was willing to raise interest rates in the early 1980s in order to stop inflation. That measure led to a necessary but painful slowdown in the economy, with temporarily higher unemployment and interest rates as high as 20 percent. It drew fierce protests—farmers drove their tractors in front of the Fed’s headquarters in the Eccles building on C Street in Washington, and one congressman wanted Volcker impeached—but it successfully ended the stagflation of the prior decade. Volcker was willing to take hard, necessary steps, a rarity for many public figures at that level. When his term ended in 1987, President Reagan would replace him and bring in Greenspan.

Since the financial crisis, history has come back to Volcker. Greenspan’s legacy became tarnished by the 1998 bailout of hedge fund Long-Term Capital Management, which represented a shift in the Fed’s strategy. It signaled to the market that if conditions got bad enough, the Fed would step in to save floundering banks. This strategy carried through to the Internet bubble and post-Greenspan to the crisis in 2007 and 2008, when unusual policy actions protected the banks and others from their own mistakes.

After the latest financial crisis and the real estate debacle, Volcker looks increasingly correct about the need for effective regulation. I respect him most because he never bought into the line—invariably offered by bankers—that regulators should do what’s best for the banks because that will do the most good for the country.

Volcker always took the opposite approach: The goal of the Federal Reserve, and of all outsiders with any kind of oversight role on the financial system, isn’t just to help the banking industry. It’s not to strip away any regulation or constraint and turn Wall Street into a casino. Instead, it’s to ensure that the banking industry remains stable and helps our economy thrive. Volcker was an outsider, and he argued for a big, bold line between the public sector and the private sector that it regulates. Investor and philanthropist George Soros, a friend of Volcker’s, once called him “the exemplary public servant—he embodies that old idea of civic virtue.”

That was his legacy at the Fed when I was there, and we believed that. Civic virtue. Detachment from the companies we were overseeing.

Lloyd Blankfein, the CEO of Goldman Sachs, said in a notorious 2009 interview that he thought the firm was doing “God’s work,” and he was promptly ripped to shreds in the press for it. But during my time at the Fed, we genuinely believed that we were performing a valuable public service: protecting the banking system for the benefit of our country. We weren’t getting rich—administrative assistants on Wall Street at the time made more than the average Fed employee—but we were performing a crucial function in the economy and helping the country advance. This was partly a reflection of the times. It was the tail end of the Cold War, when, after all my stepdad’s warnings, World War III had never happened. America had won, and we proved that capitalism was the better economic system. America had a meritocracy that allowed people to rise up through their own talents and efforts. And by harnessing that desire, capitalism could do amazing things. It could direct money to the most productive avenues in order to create wealth and raise living standards. It could transform nations and defeat tyrants. But it needed some checks and balances to function optimally.



My first few months at the Fed were like Marine Corps boot camp. I was part of a class of two dozen wide-eyed junior regulators, meeting daily in a classroom in nearby Foggy Bottom. I learned to write reports that made a clear argument for whether a deal should be approved or not. Don’t hedge, don’t waste anyone’s time. Clarify your argument and substantiate it. In our early training, we got lectures from FBI investigators about fraud—I remember one story about what it was like to nab embezzlers or people running other long-term scams. When you finally arrest them, the FBI investigator told us, they’re almost relieved. “It’s like pulling a knife out of their back,” he said. Another finance expert talked to us about the typical growth rate of banks and how some exceptionally rapid growth in the industry shouldn’t be celebrated but questioned. “If something grows like a weed, maybe it is a weed,” he said. That quote would come back to me when I watched home loans at big banks grow through the roof from the late 1990s to the late 2000s.

More than anything, we were grounded in the basics of bank finance, specifically bank financial statements, which show items differently than the rest of the corporate world. Money is the product that banks sell—loans, deposits, and securities—as opposed to goods and services. Instead of millions of iPods in inventory, you see millions of loans to companies and individuals. In other industries, loans are typically liabilities because as a borrower you’re on the hook to pay that money back. But banks are lenders, meaning that loans are assets. The more loans a bank makes—assuming it has done its homework and reasonably believes that the loans went to reliable, upstanding people who are going to pay them back—the better off that bank is.

As complicated as high-level finance has become in the past decade, at its core, banking is a simple business. Bankers borrow money at a certain interest rate, mostly as customer deposits, then lend it out at a higher rate, and they get to keep the difference. For a long time banks operated on the 3-6-3 rule: Borrow at 3 percent, lend at 6 percent, and be on the golf course by 3 P.M. From the 1940s through the late 1960s, this was the guiding principle. Banks were closer to utilities—very reliable and without big boom-and-bust scenarios. There were some laws in place, like Glass-Steagall, which came about after the 1929 crash and prevented consumer banks and investment banks from being owned and operated by the same company. This ensured that traditional banks, which took relatively limited amounts of risk with customer deposits by making loans, were separate from investment banks, which were using their own capital to take greater risks. Those rules were like governors on a car engine—they helped prevent banks from growing too fast, and they kept the overall industry reasonably safe. They also limited bank returns, which is why bankers wanted them overturned.

When I arrived at the Fed, the country had just gone through the savings and loan (S&L) crisis of the late 1980s—the first financial problem I understood as an adult, though it wouldn’t be the last. In fact, it shows how many banking crises boil down to the same fundamental problems. S&Ls, also known as thrifts, are a narrower form of traditional banks that mostly take deposits from individuals and make loans for people to buy homes. The crisis happened because small local thrifts got too big, too fast, by expanding outside these core areas. The S&L

failures cost the taxpayers since their deposits were insured like ordinary bank deposits, meaning that the government paid back depositors when the S&Ls couldn't.

Ineffective changes in regulation were at the heart of the problem. Thrifts, which were not under direct Fed supervision, were always less regulated than conventional banks, and the rules became even more lax after Congress passed several pieces of legislation in the early 1980s. These greatly expanded the types of loans that thrifts could make and the interest rates they could pay depositors above prior tight interest rate ceilings. If a bank or thrift wanted more deposits, it could offer more interest and watch the deposits flow in. This is exactly what happened, but the deposits were of the volatile type, "hot money," because these deposits tend to chase the highest rates and can't be relied on in tough times.

Similarly, banks can always make more loans if they find less stable borrowers or offer unusually attractive terms. In this case, S&Ls made more loans for risky construction projects, things like fast-food franchises, wind farms, and casinos. The safer loans of the time, residential mortgages, declined from 80 percent of the total in 1982 to 56 percent by 1986, and banks replaced them with riskier loans funded by hot-money deposits. Over the next four years, from 1982 to 1986, the thrift industry posted ridiculous growth, with loans and other assets doubling to \$1.2 billion, a potential recipe for disaster.

For a while, real estate boomed, and everyone in banking—not just the thrifts—wanted a piece of that growth. The economy was humming. Demand for office space went up, rents were pushed higher, construction flourished, and banks actively looked for builders that they could lend to, creating a virtuous cycle. Yet expansion like that isn't sustainable, because it's driven by an excess supply of financing that outpaced the underlying growth in the economy and population. By the late 1980s, as it became clear that actual demand for office space was much lower than supply, real estate developers started having problems paying back the loans. When credit started to turn bad, thrifts and many banks were unprepared for the losses. The problems started in the United States and then spread around the world. (If this all sounds familiar, it should.) About 1,000 S&Ls went out of business, and the final cost of the crisis was \$160 billion, including \$132 billion from federal taxpayers. From that point on, the mistakes the banks and thrifts made were

variations of the same theme—some combination of regulatory changes and overheated growth—and would have even bigger consequences.

The S&L crisis was the dark side of capitalism, and it showed that without some checks and balances on the system, the potential for excesses could weaken it from within. Capital could be misdirected—frittered away or destroyed—and not only would an opportunity be lost, but people’s lives would be devastated. That was our function at the Fed: to monitor the financial system and prevent similar catastrophes from happening again. We didn’t have the money of Wall Street, but we had power.

This balance was the subject of discussions that my friend and Fed colleague Hank and I used to have during our early-morning runs. Making our way down Constitution Avenue to the Lincoln Memorial, we would debate who was more powerful: Fed chairman Alan Greenspan or Citicorp CEO John Reed. I would stress that the Fed chairman held more power, since his control of monetary policy would determine the strength of the economy and could even swing national elections. As we ran up the steps of the Lincoln Memorial to touch the wall and then back down again, Hank would say that John Reed could move billions of dollars with a phone call and do so without all of the second-guessing by government underlings.

Around the Reflecting Pool we would press on, past the Jefferson Memorial. I told him that I had once seen a fax in the office that laid out the money Citicorp needed to raise to meet the government’s capital requirements. “See?” I said. “Greenspan calls the shots for John Reed!” Hank huffed something about the strength of the CEO during periods when banks were healthier as we slowed to a jog in front of the Grecian columns of the Fed headquarters at the Eccles building, one of Washington’s Beaux Arts landmarks. Little did I know that this concept—the relative clout between regulators and the private sector—would continue to play out for the next two decades, particularly in periods of crisis.



During my time at the Fed, I worked in the merger-approval division or, as we answered the phone, “Applications.” Two banks that wanted to merge had to get clearance from the Fed. Usually that happened at

one of the twelve Fed regional banks around the country, but if there were any unusual circumstances—for example, if one of the banks was foreign owned, or particularly large—it would be handled in Washington.

I looked at hundreds of deals in my time there. In one twelve-month period, I analyzed 119 deals. If we thought a merger might be more risky than we were comfortable with, we would go back to the bank and say that management had to make some changes to the deal terms. Often the banks had to set aside more capital—meaning they needed a bigger fund of reserves in case something should go wrong down the road. As we saw it, we were defending the country, in a way. As the banking industry became more integrated, we were establishing international capital standards, and this was going to make the system safer. In the end, it would be just a little bit better for everybody.

The Fed had extremely high standards, so every report had to be perfect, down to the last word and statistic. Literally, my boss would read my reports and move the word “however” to another part of the sentence, perhaps simply to send a signal to me about the scrutiny of our work. The logic needed to be perfect, too, laid out as concisely as possible so as not to waste the time of anybody reading it and also to uphold legal scrutiny in the unlikely but still possible scenario that the Fed was sued over one of these decisions. It was as if I were required to write an A+ paper every time.

Most of my work would be reviewed by my bosses and then filed away with a stamp TO RECORDS, where it was likely never read again. I imagined the warehouse scene at the end of *Raiders of the Lost Ark*, with crates of old reports piled to the ceiling. I was one of about ten people in DC reviewing merger applications, and the job involved some tedium and little visibility. I was conscious that we didn’t have many resources. There’s a daily trade newspaper in the industry, called *American Banker*, and because it’s expensive, we weren’t allowed to get individual subscriptions at the Fed. Instead, a single copy would get circulated around, with a distribution list ranking names in order of seniority. By the time it got to me, it was three and a half weeks old.

But the money, or lack of it, was less important than working with those who had responsibility, authority, and power—the people who set policy for the national economy. We ate breakfast in the Fed cafeteria,

with wall-to-wall windows looking toward Constitution Avenue, one block south, and to the monuments of the Mall beyond. In the distance were the Washington Monument and the Lincoln Memorial, symbols that inspired and reminded us about the importance of the work we were doing. A regular group of people met for breakfast most mornings. I used to run to work from my apartment in the Adams Morgan neighborhood of Washington, where I had pinned up a photo of Alan Greenspan torn from a cover story about him in *The Economist* magazine. I often left home early so that I’d have time to use the gym at the Fed and then get a giant plate of eggs and pancakes, smothered in butter and syrup. (I ate terribly in those days.)

There was a strong sense that we were on the outside and that this was a healthy separation of bankers from federal agencies. I remember one of the mornings after the investment bank Drexel Burnham failed in 1990. People at the breakfast table talked about how the lights had been on late in the building the night before and how pizzas had been delivered. Drexel had been running commercials about how it helped communities—part of a campaign to polish its image—and I made a joke about how I wondered whether it was now part of the United Way. Maybe I could donate to the fund, I said, drawing some laughs. We talked about how some people involved in that fiasco must have lost a lot of money, but the people at that table knew nobody on Wall Street. We were like the cops patrolling outside an upscale party at the Plaza. It doesn’t matter how the party ends—the lives of the people standing outside the doors aren’t going to change much.

Some mornings, a few of the Fed’s power players would join us. Bill Taylor came by many days. He was the senior regulator, overseeing major financial crises—one of his biggest was the shutdown of the Bank of Credit and Commerce International—and he reported directly to Greenspan. When Greenspan testified before Congress, Taylor was the person behind him, whispering into his ear. On the mornings when Taylor sat down to eat breakfast with us, the table practically trembled. I remember a conversation in which one of Taylor’s junior staff came to him at the breakfast table and asked about a pending bank deal. “Tell them to raise more capital or the answer is no,” Taylor said, then turned back to his coffee. We felt like we were batboys in the dugout at Yankee stadium.

Bill Taylor was a culture carrier for the institution, and he had very high standards. Once, when a snowstorm was headed toward DC and most of the government was expecting a day off, Taylor said that the people at our department would all be at work the next day no matter what. Someone asked him why. "Because we're not wimps," he said.

He also set the tone for the Fed as a whole, favoring straightforward logic over nuance. In another discussion, when somebody in Congress suggested relaxing the size of loans that a bank could make from 15 percent to 25 percent of its total size, there was a big theoretical debate among various PhDs and staffers, until Taylor entered and gave the rationale for opposing this move: "Because then it could only take four loans to make a bank fail whereas now it takes seven." In other words, there was a presumption that banks would push the boundaries and get into trouble, a perennial race to the bottom in terms of standards, and so they needed rules to prevent them from doing so. End of debate.

From humble roots as a Chicago bank examiner, Taylor rose to lead all the examiners, and relayed his confidence to those under him. He instilled a spirit of purpose to our job. In a Fed publication in 1990, he said, "We have been able to challenge the people and they have responded magnificently. They sense it as their duty. They are prepared to make sacrifices and most importantly have a tremendous desire and ability to perform. They are the force. I would take them anywhere." How could you not want to give your all for a leader like that?



I made it into the Fed's main conference room on exactly two occasions, when one of my cases, a bank in Kansas called Cedar Vale, had a broader issue that required that my work be reviewed, discussed, and voted on by the Board of Governors of the Fed, which included the Fed chairman and six other governors. This meant that I would be at the board table with none other than Alan Greenspan himself. I was one year into the job.

To this point, I'd had little interaction with the top people. Once, when I had reserved the Fed's tennis court after work, I arrived to find Alan Greenspan still playing with one of the Fed governors, a man named Wayne Angell. They had the slot immediately before me,

and Greenspan asked if he could stay to finish his match. I wanted to say, “Only if you tell me what you’re going to do with interest rates,” but instead I simply nodded politely. Another time, a year or so later, I would see him at a backyard barbecue hosted by Taylor. Greenspan arrived wearing long checkered slacks, and his guest was Barbara Walters. Later, near the end of my time at the Fed, I called his office to ask for a photo of myself with him. He obliged with an auto-graphed photo inscribed “Good luck, Mike, Best Wishes. Regards, Alan Greenspan.” My joke later on would be that the chairman had the same picture in his office, with my best wishes.

But the board meeting would be the first time I had any professional contact with people of this caliber. I was told that the discussion about Cedar Vale could take any direction. The seven governors, including Greenspan, would take a vote on whether to approve the merger or not. They might ask me questions. They might not. They may use the results of the Cedar Vale bank case to set policy for the rest of the 12,000 banks we regulated. Or not. They could ask about the meaning of a word in a sentence, or even highlight a typo.

With two days’ notice, we found out that “it was time.” I got ready, meticulously preparing my notes and selecting my best dark blue suit to get pressed. I got a haircut and shined my shoes. If nothing else, I was going to look good. On the day of the meeting, instead of entering the boardroom directly, I waited along with my managers in the anteroom while the board discussed other business. Prior to this, my biggest presentation was when I had helped get a friend elected as an officer in my college fraternity by giving a speech complete with charts and graphs.

After a few minutes, the secretary of the board—and a regular at the breakfast table—said, “Now, the Cedar Vale case.” My boss showed me my chair, and he sat next to me, both of us at the foot of the long, rectangular table. The space where the Fed governors meet is awe-inspiring. It looks like God’s conference room. The ceiling is two stories high, with a massive chandelier in the middle, suspended over a twenty-seven-foot conference table made of Honduran mahogany. Despite a couple of renovations, the room still holds the original design of the architect who created the Eccles building, back in the 1930s. During World War II, a couple of key strategy meetings between the United

States and the British were held here, as it was one of the most secure sites in Washington. These days, the Fed conference room is where the Federal Open Market Committee meets to set interest rates.

All of my senior managers were seated on the right side, including Bill Taylor in the middle, and the lawyers on the left. The Fed governors were split on both sides at the far end, and Chairman Greenspan was at the head. I was ready with numbers about ratios, trends, totals, and details of the merger proposal. The main issue under debate was whether Cedar Vale met the Fed's guidelines to buy another bank and whether it was using too much debt for the purchase. The discussion went back and forth, with a few governors asking different questions. In prior months on other proposals, some of my analyst colleagues said that they had answered a couple of questions during their own ordeals. In my case, I would like to think that I could have made a difference. I would also like to think that I could have even answered a question. Yet I simply sat there for six terrifying minutes without saying a word.

At one point, the tennis-playing governor, Wayne Angell, spoke up about applying big bank guidelines to this much smaller bank in Kansas, which had the potential to increase the likelihood that the deal would be approved. The room was quiet for a moment. I was specifically asked about how a big bank ratio applied to this smaller bank, and I had no idea of the answer—with the secretary, six Fed governors, and Chairman Greenspan himself looking to me for the answer.

Taylor spoke up and saved me. "Why is this necessary?" he asked. There was a bit more back-and-forth, and finally Chairman Greenspan decided they would take up the discussion in a future board meeting. That meant another report that I had to prepare with a senior colleague and a very thorough background check to make sure that Angell had no ties to the Cedar Vale bank in the past. He was born and educated in Kansas; his dissertation was titled "The History of Commercial Banking in Kansas." I was told to search through all the documents related to this case, going back years and years, from a range of sources, for any mention of Governor Angell. In other words, was he so close to the situation that he should recuse himself? We found no evidence, but I certainly did check.

At the next meeting a few weeks later—same seating arrangement with me at the far end of the table from Chairman Greenspan, same nerves, same intense preparation, both professional and regarding personal grooming—Angell conceded. Taylor’s regulatory position held firm. Cedar Vale bank would have to do more to get its merger approved by the Fed (though ultimately it was denied). On the way back to our offices, Taylor’s only words to me were “Much ado about nothing” as he strode briskly to his next task.



To me, these individuals were the equivalent of Plato’s fictitious Men of Silver, soldiers of the public interest who looked not for money or fame but only to serve. My perception of their sense of duty, however, would soften in time, especially years later. Ernie Patrikis, longtime chief counsel and a thirty-year veteran at the New York Fed, took a job at the insurance giant AIG in 1999, where his salary presumably increased by an order of magnitude. He was at that company for eight years, part of which he spent trying to help AIG deal with its massive regulatory problems.

The head of the New York Fed took a job at the big investment bank Goldman Sachs and later had a well-publicized affair with the head of the Boston Fed. The New York position is incredibly powerful—that bank does not report directly to DC, so the person who runs that is generally considered the second most powerful in the agency, behind only the chairman. As for Angell, the governor who raised issues during my Cedar Vale case, he eventually quit to take a job at investment bank Bear Stearns. He began making predictions about the direction of interest rates just months after leaving the Fed, and his initial calls were so accurate that they raised eyebrows and triggered an investigation about possible leaked information. (The investigation turned up no wrongdoing.)

These people could not be blamed for wanting to make more money. I felt those aspirations myself, and would soon pursue them with my own career on Wall Street, though beginning at a much lower level. But to me these moves made the Fed’s Men of Silver appear

merely mortal. It was as if the system offered such powerful incentives and temptations that no one could resist.

As for Taylor, he remained true until his early death in 1992 at age fifty-three. His track record at the Fed earned him the top spot at another agency, the Federal Deposit Insurance Corporation, where he took a substantial pay cut. The FDIC was insolvent at the time, but he managed to rescue the organization and build its reserves to protect against future bank losses. (Bankers hated the move, predictably enough, because it increased their costs and hurt earnings.) That success may have been a stepping-stone to bigger posts if not for his untimely end, less than four years after I sat with him in the Fed conference room to talk about the Cedar Vale case. Would Bill Taylor have sold out to cash in on his years of public service, as so many others did? Or would he have continued representing higher noble interests? I'd like to think he would have steadfastly held to the ideals of public service, stayed away from the revolving door between the private and public sectors, and remained a civic leader to the very end.