Podcast Script
Episode 1: Overview

Moderator Introduction	**Diane:** Hello, my name is Diane Ellis. I am Director of the Division of Insurance and Research at the Federal Deposit Insurance Corporation, or FDIC. Welcome to the first in a series of podcasts that will cover the FDIC's recent study: *Crisis and Response: An FDIC History, 2008-2013*.
Introduction of Fred Carns	I am pleased to be joined by Fred Carns, Principal Advisor in the Division of Insurance and Research and co-director of the *Crisis and Response* study. Welcome Fred. **Fred:** Thanks Diane.
The FDIC's Unique Perspective on the Crisis	**Diane:** Many books have already been written about the financial crisis. **Fred:** That's right, but what makes *Crisis and Response* different from other studies is that it provides the FDIC's unique historical perspective on the crisis—a crisis so severe that it contributed to the failure of hundreds of banks, the foreclosure of millions of homes, and a shortfall in U.S. economic output of an estimated $10 trillion dollars. **Diane:** The financial crisis that began in 2008 required the FDIC and other policymakers to take unprecedented actions to restore financial stability. **Fred:** The devastating effects the financial crisis had on asset prices and economic activity also posed historic challenges to the FDIC's ability to carry out its core functions of supervising banks, managing the deposit insurance fund, and resolving failed institutions. This diverse combination of authorities allowed the FDIC to play a unique role during the crisis years.

The Purpose of the Study	**Diane:** So that's what makes our book different from others. It's our perspective given our unique role. Maybe I should say a few words about the purpose of the study, which was twofold. First, we wanted to document—in an objective and factual way—what occurred, why it occurred, and what the FDIC did in response to these events. And, we wanted to create an account that the next generations will find valuable in dealing with future financial crises.
The Timing of the Study	**Fred:** And as far as the timing of the study, we felt that the time was right for a comprehensive look back at the FDIC's experience during the crisis. Enough time has passed to see the consequences of the crisis diminish, and for financial markets and FDIC-insured institutions to largely recover from it. Also, many of the executives and staff who dealt firsthand with the crisis are still with the FDIC. **Diane:** And only they can provide a firsthand account of how risks were analyzed and how policies were developed and implemented to restore financial stability. The many FDIC contributors to the study are identified by name in the Acknowledgements section of the book, which is available online at fdic.gov. Finally, the 10^{th} anniversary of the financial crisis seemed to us like a good time to engage in an informed discussion of the crisis and the FDIC's response.
Brief Plan for Today's Podcast	**Diane:** Today, we will provide some background on the FDIC, its functions and its history, that will provide a foundation for our next podcast, the *Origins of the Crisis*. We encourage our listeners to tune in to that and other upcoming podcasts in this series where you'll learn why most experts didn't foresee a crisis of the magnitude we experienced ten years ago.
Summary of the FDIC's History and	**Diane:** So Fred, to kick off the discussion, I wonder if you would please provide a brief

Functions	summary of the FDIC's history and its core functions. **Fred:** Certainly. The FDIC is the world's oldest sovereign deposit insurer, founded in 1933. It was created with the express purpose of addressing the problem of bank runs, which had historically contributed to bouts of financial instability before federal deposit insurance was introduced in the U.S. And it has been extraordinarily successful in preventing instability due to bank runs. **Diane:** That's right as we often say, no insured depositor has ever lost a penny of insured deposits since the FDIC was created. **Fred:** That's right. And the FDIC has a unique combination of functions. It is the regulator for most community banks and the large majority of all banks. The FDIC is also responsible for managing the Deposit Insurance Fund, and assessing insurance premiums on all banks. And finally, the FDIC is responsible for resolving all insured institutions that fail, minimizing the costs of failure, and managing failed bank assets.
Organization of the Study	**Diane:** You and I both have some familiarity with deposit insurers around the world and I think it's fair to say that the FDIC is unique among other deposit insurers as well given its range of authorities. So Fred, this unique range of authorities affected the way that we structured the study, can you explain a little bit more about that? **Fred:** Yes, I would be happy to. The study is organized around two distinct but interrelated crises: a systemic financial crisis, which we mentioned earlier, and a banking crisis.

The first part of the study discusses the financial crisis.

At the highest level, a systemic financial crisis reflects a general lack of confidence in financial instruments, markets, and institutions.

Diane:

And we certainly saw that during 2008 in the fall of 2008 this took the form of runs but it wasn't runs on bank deposits which the FDIC was created to prevent. It was more runs on other financial instruments on the outside of banks.

Fred:

That's right. The collapse of the housing market meant that, in 2008, many of the largest financial institutions suffered catastrophic losses in their portfolios of mortgage-related assets, and these losses resulted in severe liquidity shortages. Credit markets essentially froze, and the whole financial system was starved for liquidity. Several firms considered to be systemically important became severely undercapitalized, so that the system itself was endangered.

Diane:

I remember hearing anecdotes about how large corporations couldn't roll over their commercial paper which meant they couldn't make payroll or stock inventory. We also heard anecdotes about goods sitting on the docks because banks wouldn't issue letters of credit. This was a really scary time.

Fred:
It was a very scary time.

The overarching goal of the FDIC and other financial regulators is to prevent that sort of crisis. And that's what Part 1 of the study is about—the experience of the financial crisis and the FDIC's role in helping the financial system recover. Specifically, we discuss the successful Temporary Liquidity Guarantee Program—or TLGP—and the several instances of open bank assistance that the FDIC provided to systemically important financial institutions.

Diane:

But the story doesn't end there. Part 2 of the study focuses on what we call the banking crisis, which was a direct consequence of the financial crisis, and the impact it had on asset prices and the real economy.

	Fred: That’s right. Almost 1,800 institutions became “problem banks” after 2007— these are the banks with the lowest supervisory rating— and almost a third of them failed. Most of these were community banks, but the number also includes the largest single bank failure in FDIC history, Washington Mutual, with more than $300 billion in assets, as well as the costliest single failure in FDIC history, IndyMac, which imposed losses of about $12 billion on the Deposit Insurance Fund. **Diane:** These developments put enormous stress on the FDIC’s traditional functions of bank supervision, deposit insurance, and bank resolution. And that’s really a theme that I think shows up in the book particularly in part 2. How rapidly this crisis evolved much more rapidly than the banking crisis of the late 80s and 1990s. I think any reader as they go through these chapters will see that in many ways we were just always playing catch-up. **Fred:** So Part 2 of the study devotes a chapter to each of these core functions of the FDIC. It also discusses the challenges of the banking crisis and describes the FDIC’s efforts to respond to these challenges.
What Is the Intended Audience for the Study, and for this Podcast?	**Diane:** So Fred, I mentioned earlier that the study is intended to be objective and factual. That’s something we really strived for I think throughout the book to just sort of state the facts. **Fred:** It is certainly not a tell-all, so anyone looking for that will be disappointed. **Diane:** Alright so, given that disappointment, what audiences do you think will be most interested in this historical account? **Fred:** I think the audience would include anyone with a general interest in banking and finance. We had in mind financial regulators, policy makers, legislators, and foreign

	authorities who will face similar crises in the future. You can see this in the heavy emphasis on lessons learned from our experience which appears throughout the volume. **Diane:** And you know, I think I would add scholars and researchers to that list as well. The study identifies many interesting areas for further research, some of which we may want to take up or which other scholars may want to take on. And many questions about how best to evaluate the effectiveness of policies and practices employed during these crises. **Fred:** I suspect that the audience would also include anyone looking for a reference that provides a valuable account of really an extraordinary period in U.S. financial history.
The Magnitudes Involved (Lest We Forget)	**Diane:** Yes, it was. So Fred, before we move on to Episode 2 *Origins of the Crisis* is there any additional background you think we should provide? **Fred:** Well, seeing that it has been about ten years since the height of the crisis, I think it is worth reminding our listeners about the <u>sheer magnitude</u> of the effects on the financial system, on the U.S. economy, and on the FDIC's operations. Even though we both lived through it, the numbers are still hard to believe. • In the ten years leading up to their 2006 peak, U.S. home prices more than doubled. • In some of the fastest growing markets, such as south Florida and southern California, prices more than tripled. • Then, home prices fell by about a third in the 20 largest markets and by much more in some of these former "boom" markets.

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- Almost 10 million home foreclosures were begun between 2008 and 2012.

- And the number of unemployed Americans more than doubled between 2007 and 2009, to more than 15 million people.

Diane:

And the effects on the banking sector were severe as well.

- More than 500 banks failed after 2007.

- And the net worth of the FDIC's Deposit Insurance Fund fell from 53 billion dollars in 2007 to a negative 20 billion in 2009.

- But no one should worry. The fund balance has recovered and now we are at an all-time highs.

Fred:

Before the crisis, it was difficult to imagine effects of these magnitudes.

Now, ten years after the crisis, it's important that these enormous consequences are not forgotten.

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Diane:

That's right and thank you, Fred.

Coming up next will be a discussion of *Origins of the Crisis*.

We will explore the sequence of events that led to these unimaginable developments, and discuss how the FDIC did in anticipating and preparing for the looming crisis.

On behalf of my podcast discussant, Fred Carns, this is Diane Ellis. Thank you for joining us for Episode 1 of *Crisis and Response: An FDIC History, 2008 – 2013*.

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