

Mac Alfriend

Senior Vice President, Supervision, Regulation and Credit

Richmond Fed career: 1969-2010

Interview conducted in October 2012

INTERVIEWER: So when did you start at the Fed?

ALFRIEND: I started at the Fed in 1969 -- on April Fools' Day.

INTERVIEWER: So, were you hired into Sup and Reg? Or what -- what was your first job that you had?

ALFRIEND: I was hired into Sup and Reg. You know, back then -- um, that was probably -- other than research, that's probably one of the few departments they actually did recruitment for.

And in research it was either the PhDs or the statistician types.

INTERVIEWER: Yeah. Yeah.

So, how did you find out about the job opening? Were you -- were you recruited directly or --

ALFRIEND: I had a -- I had a friend who was in, I guess you could call it -- worked for an employment agency.

And he had heard that the Fed was looking for people and he let me know something about it, so.

INTERVIEWER: Uh-huh. And the rest is history, as they say.

ALFRIEND: That's right.

INTERVIEWER: Yeah. So you clearly remember your first day, it being April Fools' Day.

What was the Bank like then?

ALFRIEND: Well, the Bank, of course was up at -- it was up at 8th and Franklin, which is now the Virginia Supreme Court. And I would characterize the

personality of the Bank being much like that building. It was very cold and hard looking and very serious. And I thought boy, these people, they take everything so serious around here.

I remember walking -- because we were up on the sixth floor, which was the top floor of the building, and as much as people might complain about cubicles these days, Supervision, there were a few offices for the senior-level people. But the rest of it were gray, metal desks

And I think there were like three rows, perfectly straight rows and perfectly straight columns and that was it. There were no walls. Just long rows of cold, metal desks.

INTERVIEWER: Yeah.

Did you even have your own telephone?

ALFRIEND: You know I don't think I did. I don't remember. I don't recall.

INTERVIEWER: Yeah, yeah.

So, you were hired into Sup and Reg, you were a bank examiner.

Um, describe a typical day.

ALFRIEND: Well, you know, it's -- it seem like the dark ages now, but back then we, you know, we did primarily the smaller community banks -- most of which, at that point, were in West Virginia.

So we would -- probably every Monday morning, three or four people to a car, you pack your big, old Samsonite suitcase and typewriters and head off to West Virginia for a week. And back then we did actually did surprise exams.

We always went in at the closing hour of the bank. The bank didn't know we were coming -- as opposed to now. And it -- a lot of the work we did is -- was very similar, or is very similar, to what auditors do now; actually verifying cash in the drawer --

And running ledgers to make sure that the balances are correct and that they agree with what's on the balance sheet of the bank or the income statement of the bank. So it was very tedious -- the first day was always very tedious.

INTERVIEWER: And I guess, too, thinking back, um, everything was -- was paper then.

ALFRIEND: Everything was paper. Most definitely, everything was paper. We used, even, manual adding machines to add everything up.

And, of course, if you didn't balance the first time, then you had to go back and call the tape back with somebody to find out where you are out.

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INTERVIEWER: I know, in internal audit, we were actually issued bank suitcases. Was that true --

ALFRIEND: Yes.

INTERVIEWER: -- in Sup and Reg?

ALFRIEND: Yeah. That was -- that was still true up until just a few years ago, they still did that.

And then everyone had, we called them detail bags. They were these big, brown bags that held, practically, a desk drawer of supplies in them and everyone had -- everybody had their little, brown bag in their suitcase.

INTERVIEWER: Uh-huh. Uh-huh. Yeah. Yeah.

And so you would head out on Monday and you'd wrap up on Friday?

ALFRIEND: Usually -- usually, Friday mornings. Sometimes we might get through on Thursday afternoon and come back Thursday night. But most of the time it was Friday morning before we finished up.

INTERVIEWER: Yeah.

In -- in those days, how -- for the -- the entry-level examiner -- how many weeks a year were you on the road?

ALFRIEND: Um, I would say probably you were on the road 80 percent of the time. Because, uh, as I mentioned earlier, most of the places were in West Virginia and you had to drive.

And there were very few exams that were local to Richmond or even that you could commute from Richmond to. And, unlike today, with improvements in technology, where we can do a lot of the work beforehand. And get information sent to us instead of having to do it when we get out there, so.

INTERVIEWER: Yeah.

What's your most memorable on-the-road story?

ALFRIEND: Um, a couple of them come to mind. I -- and this goes back to one of the things we were talking about before: a typical job. I can very well remember, and I was trying to think this morning and I can't remember what year it was, but even -- eventually even the small community banks went to computers.

And we had a couple of examiners one time, and this bank had gone to computers, you know, and we had all -- had all of the printouts. But regardless, I remember walking past a desk and there were two more senior examiners, senior meaning age wise, there and I -- they had out an adding machine and the computer printout. And I said what are you doing, and they said we're adding the computer printout to make sure it's correct. And I -- I -- I said do you realize that's the reason they use the computer. That it's not necessary to do that. And that was one of the jobs.

INTERVIEWER: You know, it's interesting, when you were talking about West Virginia; it made me -- made me think of something. But, uh, how has the business -- how did the business, Supervision, change over the years?

ALFRIEND: Well, I think it's changed in a number of ways. Number one, as we mentioned before, the technology has improved significantly and cut down on, uh, on our, what I would describe as manually -- labor intensive type work. And therefore, the examiners now have a better opportunity to occupy their minds and do the analysis of the data -- that they're looking at.

The other thing, as well, is getting the information in ahead of time. We no longer, and we haven't for years and years, do surprise exams. We -- they -- these days, for I would say the last 15 years, we always let the banker know when we were coming. In which case improved things quite a bit because we would do visits with the banker so that they could bring up areas that they really wanted us to take a hard look at -- because they didn't have time -- which we might not have known about before. And we can share information about what we see going on, regulatory wise, and they can tell us what's going on in the local community before we get there so that we can be better in tune to what some of the risks that they are seeing in their communities are. Those are probably two of the bigger areas.

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INTERVIEWER: What about the effect of, um, with the changes in the -- the branching laws in Virginia?

ALFRIEND: Well it led to a lot of consolidation. And that was the same time that you had hold -- holding companies being formed. So that there were many, many multi-bank holding companies, before they did away with the branching law, because in some states, particularly in Virginia, you -- you didn't have statewide branching.

You could only branch within that county. But until that law was changed. And West Virginia was one of the last ones that changed.

INTERVIEWER: I can't remember. When did it change in Virginia?

ALFRIEND: I'm going to say probably the late '70s, somewhere along there.

INTERVIEWER: Hm. Uh-huh. And West Virginia was later --

ALFRIEND: Much later.

INTERVIEWER: -- than that. Yeah. Hm. Much later than that, yeah. Hm.

Did you get involved much in the, uh, savings and loan --

ALFRIEND: We did.

INTERVIEWER: -- crisis, back in the '80s? The late '80s.

ALFRIEND: We were involved, to a certain extent, when it first broke in Ohio. You know, the -- the Cleveland Reserve Bank was trying to find help wherever they could get it to address the issue there and then it spread to Maryland -- and a little bit into Virginia and North Carolina. But our primary involvement was in Maryland for quite some time.

We had, what was described as, a war room set up both here in Richmond and in Baltimore -- to deal with the situation.

INTERVIEWER: So, what advice would you give a new examiner starting out --

ALFRIEND: You know, I started --

INTERVIEWER: -- given your -- your perspective?

ALFRIEND: I started several years ago, when we would have new people come in, sitting down one-on-one with them and talking about, not so much about what my expectations were, but getting -- trying to get to know the individual better -- and make them feel more at ease here.

Some of my advice that I would give to them is, you know, when you're out on an examination, it's really a learning experience, it's also a team experience, and that you can really learn from watching your peers and the older examiners and gather a great deal of information that's going to make it easier for you to do your job -- and you will be able to do your job much better by learning from those around you.

INTERVIEWER: Yeah.

You know, we've talked a little bit about technology in the institutions that you examined and how that, kind of, changed how you all did your work. What about the changes in technology at -- here, at the Fed, on how that affected how you did your work?

ALFRIEND: Yeah. The technology here was -- there were several areas that, you know, that allows us to get more -- to get the information from the bankers quicker and ahead of time. It's also allowed us to do modeling -- and look at different scenarios as to -- for risk areas as to -- we'd play "what if" games, with a lot of it and better understanding the economics behind a lot of risks that we're seeing, particularly in the larger institutions that relied, I'm not -- I'm not going to say exclusively, but very, um, technology driven and need that information.

If you ask me, it made our job much easier on the web.

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INTERVIEWER: Yeah. That -- that would be hard to do, some of that --

ALFRIEND: It --

INTERVIEWER: -- since you were number crunching with the adding machine.

ALFRIEND: It would be impossible to do some of the work that we have to do now, if we did not have that technology. "Impossible" might be a little strong but it's -- it's made our --

INTERVIEWER: Would not be possible if --

ALFRIEND: It made our work easier, but it's also complicated our world.

INTERVIEWER: Uh-huh.

Speaking of complicated world, um, thoughts you'd like to share about the, uh, the economic crisis that, kind of, occupied your last months here at the Fed.

ALFRIEND: The last three or four years.

INTERVIEWER: Yeah.

ALFRIEND: Um, it was -- well, it still is an interesting time. You know, and there -- you can point fingers at a number of people. Well, people: Congress, Washington, uh, politicians, and you know, a lot -- I'm not going to say that the regulators aren't without some blame. But, having said that, when you look at the background for the crisis, we had been through a period of time where there were no problems whatsoever.

And even when we saw areas where banks were getting a little heavy in particular areas, it was very difficult to make them understand that we thought they had too much concentration in real estate loans. Because that's the one area, particularly for community banks -- where they could make money. The larger banks had taken it away, the credit cards were taken away, auto lending had pretty much gone, so commercial and consumer lending, in terms of mortgages, were the places where they could make money.

But we saw heavy concentrations in commercial real estate, which has led to a lot of the problems for the community banks. It still is a -- and then there is the resulting legislation, the good old Dodd-Frank Bill, which -- there were pieces of the Dodd-Frank which were badly needed, but as Congress always tends to do, when they react to something, they overreact. And there is a lot in there that was totally unnecessary and it's really a burden to community banks in particular. It's a burden to the entire banking system. And, in my opinion, it's one of the reasons we have not seen the lending coming back as quickly as it is.

Or, for that matter, companies aren't rushing to do additional investments. There's a lot of cash sitting on balance sheets that's not being used.

INTERVIEWER: Uh-huh.

And since you brought it up, what do you think were the good parts of Dodd-Frank?

ALFRIEND: Um, I think that we needed to tighten up the capital rules significantly, but that was somewhat already in process with Basel II.

Um, Basel III, which will probably end up being Basel XII before it's all over with and finally settled; I think there is some good things in those

capital for the larger banks, for the community banks. I think Dodd-Frank pushes it down too far.

I do think that you need some of that capital measurement, to that degree, you know, a \$500 million dollar bank. I think that's probably the best -- best area.

The other thing I would say, they can -- and this was also in the works before Dodd-Frank, it's -- and that is that the System, the Federal Reserve System, is working better across the Districts -- to understand the risks that we're seeing with those.

And that was one thing that we had started doing before the crisis, but it intensified significantly during the crisis, that we need -- realized that we needed better working across Districts to understand what other Districts were seeing, what the evolving risk areas may be for the larger institutions.

INTERVIEWER: And I guess that's because we have institutions that cross Districts --

ALFRIEND: Right.

INTERVIEWER: -- that have involvement in --in multiple Districts. Yeah.

I can't remember. Did you -- did you come up through the community bank examination or did you -- did you branch over into the bank holding companies or?

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ALFRIEND: You know, when I started, we really only had community banks. We didn't have bank holding companies until about five or six years later that -- which is -- I had moved over to the holding companies, when we started working on those and doing exams or "inspections" as we call -- we called them inspections because the holding company law, as it was written, said that if the Fed did examinations of holding companies, they would charge for them. So we got around not charging by calling them inspections.

INTERVIEWER: It's amazing that -- the different ways that we have to express ourselves -
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ALFRIEND: Yes, yes.

INTERVIEWER: -- carefully. Yeah.

Um, how do you best want to be remembered at the Bank?

ALFRIEND:

I think there are two things. And, uh, one, I think, not only for Supervision, Regulation and Credit staff; but for the Bank staff itself, um, the System, for years, kind of worked in an isolated world. You know, there wasn't much discussion between Districts as to what was going on. And I think Richmond, when it came to bank supervision, was also -- always seen as a very good supervisor of community banks. But there wasn't a lot, um, of respect as far as taking a System-wide presence and playing a leadership role in the System. I think that was one thing that we tried to emphasize with our examiners over the last 10 years or so. That, yes, you need to be doing a good job at supervising your institutions, but you also need to look for opportunities to take a leadership role within the System. And I think that has enhanced the reputation of the Federal Reserve Bank of Richmond considerably, that they have come to see that we've got some of the best people in the System.

The other thing that we've tried to emphasize, and we started this probably, I'm going to say seven or eight years ago, back 2004 or '05, is having what we call "forums" with the community banks. We tried to do them around the District, in each District, and there was a lot of misgiving on the part of trade organizations when we started this, because they thought we were stepping into some of their area.

And we had to do training for a -- well, not training, a lot of explanations to them that what we were trying to do is build relationships with the banks and with the trade organizations so that, as I said earlier, we could get that mutual respect between the bankers and the Fed -- and everyone would have a better understanding of what we were trying to accomplish. And I think that really -- that's worked well.

INTERVIEWER:

One thing I thought of, and I don't know why, maybe just cause today looks like that day did, um, how did 9/11 affect, uh, Sup and Reg, from your local perspective and --

ALFRIEND:

From a global perspective, it, you know, particularly the first week or so was extremely difficult. There were extremely long days, well into midnight, one o'clock; particularly trying to understand what was going on in New York with the wire situation and transfers and when we could expect to get things up and running again and get some funds released to our institutions.

And there were a lot of phone calls between the large institutions in the Fifth District and us as to what they were seeing and what they needed. And I'll be honest. I don't think there was a real good understanding, on our part, not just the supervision part, of what the institutions -- the difficulties the institutions were having. I think it took us much too long a period of time to understand. I think, you know, 9/11 was like Tuesday morning; I think it was really Thursday night or Friday until we really had a good handle on this -- on the problems that the larger institutions were having.

INTERVIEWER: And was that, the larger institutions, nationwide, or was that just the ones in New York?

ALFRIEND: Nationwide.

INTERVIEWER: Nationwide.

ALFRIEND: Yeah.

INTERVIEWER: Yeah.

ALFRIEND: Yeah.

The Bank of America was having a lot of issues, as was, at that time, Wachovia.

INTERVIEWER: Yeah. Because basically everything just --

ALFRIEND: Everything was frozen.

INTERVIEWER: -- stopped. Uh-huh. Yeah. Yeah.

INTERVIEWER: Other thoughts you'd like to share?

ALFRIEND: I -- I think this finished product is going to be interesting to see.

INTERVIEWER: Yeah. Yeah.

I'm, uh, I think it's just so neat to hear everybody's stories. You know. And it -- it all shares a different perspective.

ALFRIEND: Yeah.

There's been a lot of changes in 43 years, now.

INTERVIEWER: Yeah.

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