Lead Left Interview – Kathryn Dick

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This week we chat with Kathryn Dick, Managing Director, Promontory Financial Group. Kathy advises clients on regulatory issues, risk management, and capital market activities. Prior to Promontory, Kathy had a 26-year tenure at the Office of the Controller of the Currency.

The Lead Left: Kathy, you've had an extensive career in bank regulations. How did you get started?

Kathryn Dick: Well, I graduated from college in the early 1980's with a degree in developmental psychology. But I was twenty-two and needed a job! Spending four years getting a PhD and then facing an uncertain employment outlook didn't appeal to me. I did have an aptitude for finance, so I jumped into an MBA program and planned for a career in banking. Unfortunately, it was 1983 when I graduated and the recession – the LatAm and Texas crises – was hitting the banks hard. It was tough finding banking jobs. I followed a lead about bank examiner jobs at the OCC, which was appealing because it is an independent agency of the U.S. Treasury. When I went to the library (remember there was no internet in those days) and discovered that the agency had an office in London, I took the job. I worked for ten years covering little banks in Minnesota and large regional banks in the Midwest and New York.

TLL: You also had an interest in the functioning of the capital markets.

KD: Yes, and that meant working on structural models banks were developing to manage risk , manage their balance sheets and ultimately sell as products to customers. In my early days at the OCC, the traditional examiner career path focused on assessing credit risk by looking through loan files. I was part of a small cadre of examiners who focused our attention on securities activities and innovative risk management products. In the early 1990's the emerging issue was derivatives, so I moved to Washington DC to help build the OCC's large bank supervision program and quarterly monitoring of bank derivatives activities that is still used today.

After a few years in DC, I moved to London (remember the library!) and was responsible for supervising the European offices of the largest US banks. So I was involved with a number of global issues under review by the Basel Committee and other standard setters. At that time, the challenge was regulatory compliance across different jurisdictions in Europe. My job was to make sure our US banks complied with US rules and regulations as well as the broad range of requirements in various European countries. Just as I got comfortable in that position, Gene Ludwig, then Comptroller of the Currency, (with whom I work now) brought me back to the US to lead the capital markets division of the OCC.

TLL: Could you give our readers an idea of what the OCC actually does?

KD: The OCC's role is to protect the safety and soundness of the national banks. There are very few large state banks. The FDIC insures deposits, the Federal Reserve primarily oversees bank holding companies and all three agencies have some systemic responsibilities. Only the OCC reports to the Treasury Department, but it is important to understand that the OCC is an independent agency and therefore the examiners have to operate without any political control or interference.

TLL: What role did the OCC play during the credit crisis?

KD: As you recall, some of the early concerns came from outside the U.S. commercial banking system. I was the OCC's representative to the President's Working Group on Financial Markets and we worked with other financial regulators to evaluate exposures that were often between large commercial bank and investment banks, as well as asset managers.

TLL: It was a global matter as well.

KD: It was even more difficult to get a handle on some of the global exposures as problems emerged outside the US. Ten years later the agencies are still focused on trying to improve the international coordination required when supervising large, global financial institutions.

TLL: What lessons were learned? Was there a paradigm shift in terms of risk management?

KD: The biggest change was the emphasis on stress testing. Many banks weren't willing to look honestly at bad or worst-case scenarios. For commercial real estate, yes. But not leveraged loans. Banks didn't manage their pipeline of underwritten deals well. They didn't believe the party would stop.

TLL: What was the solution?

KD: From an overall regulatory perspective, a critical ingredient was having enough bank capital for buffers to withstand the stress.

TLL: What is the OCC's responsibility for monitoring leveraged loans?

KD: Before the crisis some banks distributing loans didn't care about credit quality, because they knew they could sell them. The first hint of what was to come in the leveraged guidance came in 2008 when the OCC issued their annual underwriting survey and said to the industry that underwriting standards for originated loans had to be "reasonably consistent" whether the loan was originated to hold or sell. In other words they couldn't package and sell junk – all loans originated by a bank needed to be "pass" credits.

To be continued the week of February 15

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