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Fed's Bies Resigns After Five Years at Central Bank (Update3)

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Feb. 9 (Bloomberg) -- Susan Bies, Federal Reserve Chairman Ben S. Bernanke's point person on banking, resigned after five years, leaving the Fed without a commercial banker or woman on its Board of Governors.

Bies, 59, always sided with the majority on interest-rate decisions. She won't attend the March meeting of the Federal Open Market Committee, the Fed said in a statement. Her departure opens a second vacancy on the seven-member Board of Governors and means more than half of the Fed's 19 policy makers will have arrived or left since the start of 2006.

Bies, who combined expertise from 22 years at Tennessee's biggest bank and a stint as an academic economist, leaves as the Fed and other regulators note a rising toll on lenders from subprime mortgages gone bad. Bies has also been trying to implement new rules on capital reserves that the largest U.S. banks say put them at a competitive disadvantage.

"It's a big loss," said Mark Tenhundfeld, director of the regulatory policy office at the American Bankers Association in Washington. "We would hope that a banker would take her place."

Bies has been commuting to Washington from South Carolina, where her husband lives. She plans to spend more time with her family, the Fed said. In a letter to President George W. Bush, Bies wrote that her Fed service has been "very rewarding."

Her resignation is effective March 30. Bies's successor will be nominated by the White House and must be confirmed by the Senate. Her term didn't expire until 2012.

Fed Departures

Mark Olson, another former commercial banker, left the Fed last June to head the Public Company Accounting Oversight Board, and Bush has yet to replace him. Roger Ferguson, who quit as Fed vice chairman last year, was also considered an expert on banking policy. Kevin Warsh, a new governor appointed in 2006, worked as an investment banker at Morgan Stanley.

The Fed did add commercial-banking experience yesterday, as the Atlanta reserve bank filled its vacant presidency, appointing former Citigroup Inc. executive Dennis Lockhart. The heads of the Boston and Chicago Fed banks are also retiring this year.

Last year saw plenty of Fed personnel change as well, with Bernanke, a former economics professor, taking office along with three governors and one of the 12 bank presidents. Donald Kohn, who has worked in the Fed system since 1970 and succeeded Ferguson as vice chairman, has the longest Fed experience of anyone on the board now.

Housing Woes

Bies's departure comes as regulators and economists worry that the housing market slump, increased reliance on risky mortgages and rising loan delinquency rates are combining to put more people at risk of losing their homes. Yesterday, HSBC Holdings Plc shook up management and tightened lending policies after losses from U.S. home loans climbed.

Bies on Jan. 11 urged U.S. banks to strengthen mortgage underwriting standards to ensure borrowers relying on non-traditional loans are shielded against default if the housing market declines.

Another part of Bies's duties was the Fed's efforts to implement the so-called Basel II accord, which aims to make banks' capital requirements more sensitive to the risks. Large U.S. banks have been at odds with regulators for months over whether their overseas rivals face less stringent standards.

'Tougher Job'

"Basel was a much tougher job than I think she realized," said Edward Kane, a finance professor at Boston College. "The Federal Reserve found that it couldn't deliver on its promises to very large institutions. It ended up being somewhat of an embarrassment to the Fed that they couldn't implement it as they had expected to."

Bies's public statements on the economy and monetary policy have largely reflected the consensus of her colleagues. The public won't get a detailed picture of her participation in rate decisions until 2008, when the Fed will release transcripts of meetings from 2002, her first full year on the board.

Most recently, on Jan. 18, Bies said in a speech in Arizona that said "strong" U.S. economic growth means there's a risk inflation may not slow as central bankers are forecasting. "I would like to see something lower" on inflation rates, Bies said. "The risks are still there that inflation may go up."

Chicago Branches

A native of Buffalo, New York, Bies's interests in banking, economics and the Fed have been entwined since her graduate-school days at Northwestern University in Evanston, Illinois. With a fellowship from the Chicago Fed bank, Bies researched and wrote her dissertation on the spread of bank branches in the city and surrounding suburbs, earning her Ph.D. in 1972.

Meantime, Bies had begun her career in 1970 as a regional banking economist at the St. Louis Fed. There, her skills impressed Ronald Terry, chief executive officer of First Tennessee Bank, who dealt with the district bank on mergers. The lender later became First Horizon National Corp.

Later in the decade, when she and her husband moved to Memphis, Terry successfully recruited Bies, who had been teaching. She started at First Tennessee in 1979 as an economist. It took five years for her to become chief financial officer.

Bies then became executive vice president of risk management, serving in that position from 1995 until her Fed appointment. Her involvement with several industry groups helped raise her national profile.

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