Gaining experience, building perspective

With a career that spanned nearly four decades at the Federal Reserve Bank of Kansas City, Tom Hoenig played a unique role in the sweeping changes that took place in our nation's economy, financial system and central bank.

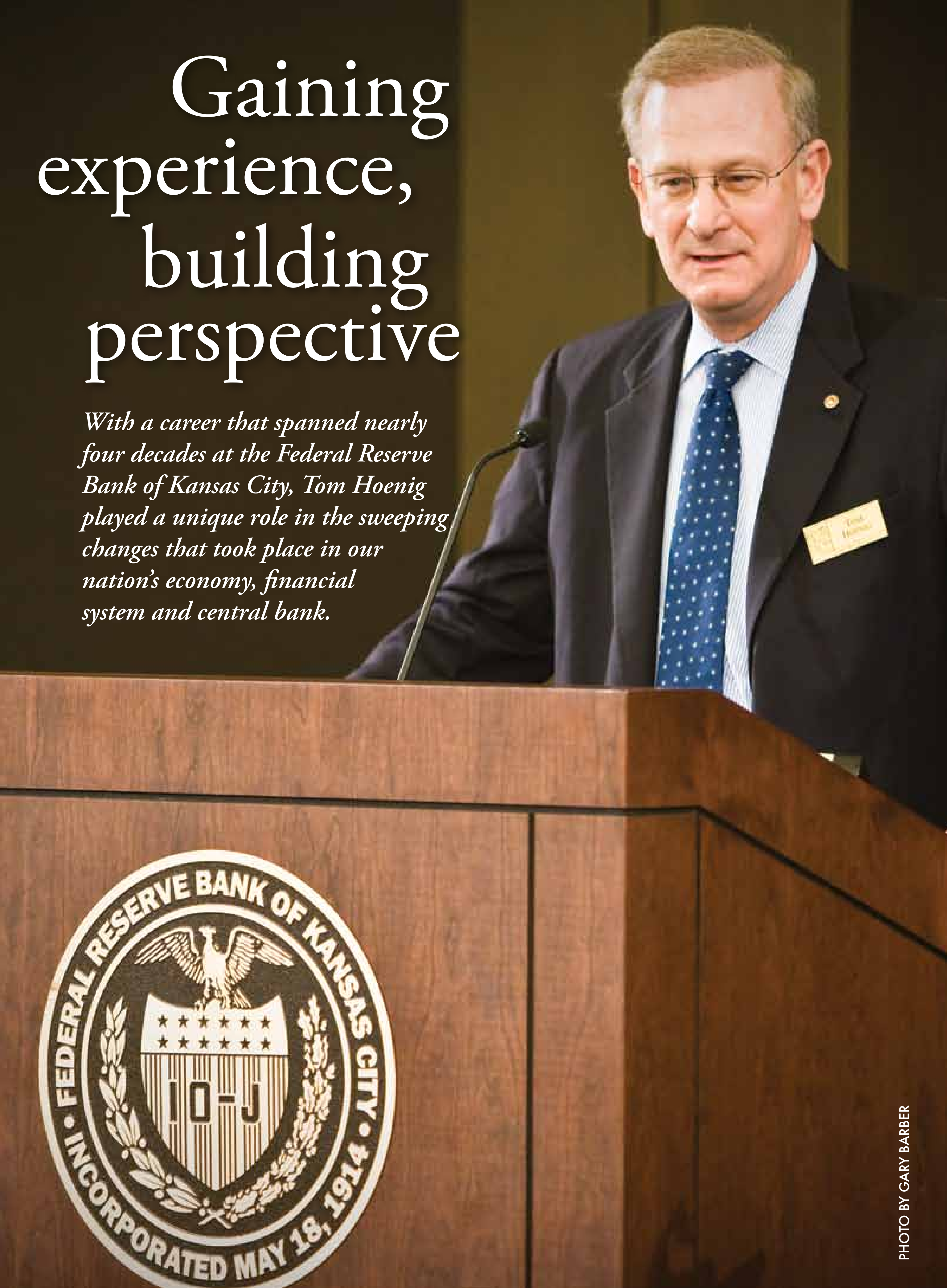


PHOTO BY GARY BARBER

July 28, 1975
Hoenig is promoted to manager of Bank Studies and Structure.

March 1, 1976
Roger Guffey becomes president of the Federal Reserve Bank of Kansas City, succeeding George Clay.

Aug. 1, 1973
Thomas M. Hoenig joins the Federal Reserve Bank of Kansas City as an economist in the Bank Supervision and Structure Division. The Board of Governors is chaired by **Arthur Burns**.

1973 • 1974 • 1975 • 1976 • 1977

July 1973
The Board of Governors voted by a 4-3 margin to deny a request by BankAmerica to acquire GAC Finance Inc. to create the world's largest non governmental bank with the 16th-largest finance company in the United States. By the end of August a new plan was submitted and the Board approved it. BankAmerica ended up putting the GAC Finance unit up for sale a decade later amid a slumping financial performance.

August 1973
A *Wall Street Journal* editorial says rising interest rates are a sign of the steepening costs of fighting inflation that had been fostered by a period of easy money.

November 1973
U.S. economy enters a **recession**.

Oct. 8, 1974
President Gerald Ford says that **inflation** is "public enemy number one" in his "Whip Inflation Now" speech. Supporters begin wearing red buttons featuring the acronym "WIN" while critics wore the buttons upside down and said they stood for, among other things, "No Immediate Miracles."

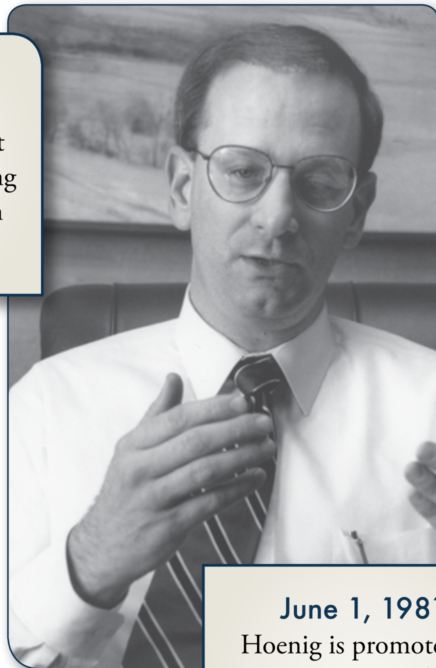
March 1975
U.S. economy emerges from **recession**.

Oct. 12, 1977
President Jimmy Carter signs the **Community Reinvestment Act**, designed to encourage lending to low- and moderate-income communities. Community Affairs offices are later established at each Federal Reserve Bank.

"At the start of the 1980s, we were told that oil prices could only go higher, farmland was a solid investment because 'they aren't making any more of it,' and housing and stock markets would continue to climb. Of course, if you were involved in business or banking (at that time) … you will recall that several of the financial decisions made on those speculative forecasts created their own sets of problems, some reaching far beyond local banks."—Thomas Hoenig, "This Time It's Different (Or Is It?)," Oct. 30, 2006, Tucson, Ariz.

May 18, 1978
The Federal Reserve Bank of Kansas City hosts the symposium "World Agricultural Trade: The Potential for Growth" in Kansas City. The event is the first in the annual **economic symposium** series.

Feb. 1, 1979
Hoenig is appointed assistant vice president in charge of the Holding Company Supervision Department.

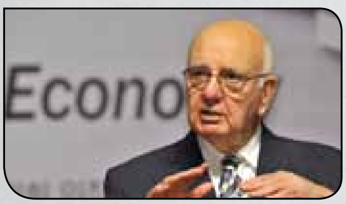


June 1, 1981
Hoenig is promoted to vice president of the Holding Company Supervision Department.

1978 • • • • • • • • **1979** • • • • • • • • **1980** • • • • • • • • **1981**

March 8, 1978
G. William Miller becomes Federal Reserve chairman.

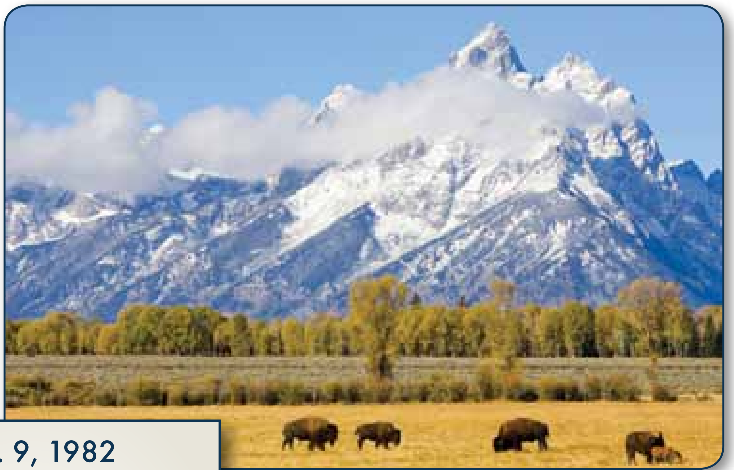
Aug. 6, 1979
Paul Volcker becomes Federal Reserve chairman.



Oct. 6, 1979
The Federal Open Market Committee **(FOMC)**, in a key move in the fight against inflation, announces a change in policy to begin targeting the money supply instead of the federal funds rate.

1980
Inflation hits 13.5 percent in the United States. It is the highest level since 1947.

April 1980
Oil prices hit then-record $39.50 per barrel ($103.76 adjusted for inflation). By mid-1986, prices were back below $10 a barrel.

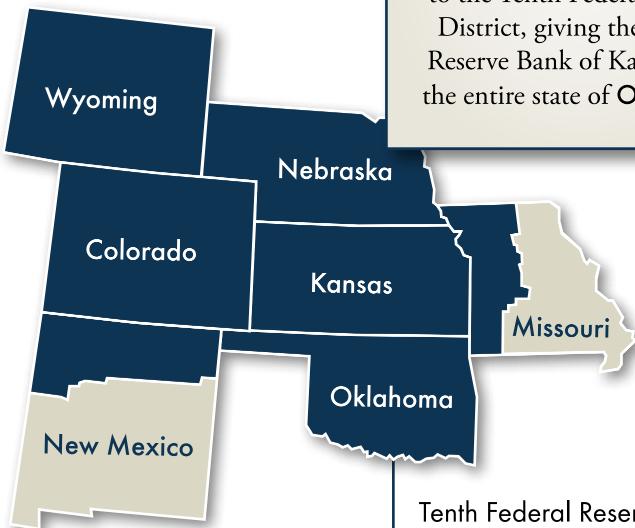


Aug. 9, 1982

The **economic policy symposium** convenes for the first time in its now-traditional home of Jackson Hole, Wyo., with the theme "Monetary Policy Issues in the 1980s."

May 21, 1984

Eight counties in southeastern Oklahoma are moved from the Eleventh Federal Reserve District to the Tenth Federal Reserve District, giving the Federal Reserve Bank of Kansas City the entire state of **Oklahoma**.



Tenth Federal Reserve District

1982 • **1983** • **1984** • **1985**

July 5, 1982

Oklahoma City's **Penn Square Bank fails**. Although it was a small institution, it had sold energy loan participations to numerous larger banks that suffered the consequences.

November 1982

U.S. economy exits a **recession**.

May 1984

Continental Illinois National Bank and Trust Company, the nation's seventh-largest bank by deposits, collapses and is put through a resolution process. The events are seen as originating the concept that a financial institution could be considered **too big to fail** without doing substantial harm to the nation's financial system.

Penn Square:
Big problems from a small bank

When Oklahoma's Penn Square Bank failed in the summer of 1982, it was not only a precursor of things to come for numerous banks across the Midwest and the Plains, but it also showed how the failure of a single but well-connected institution, regardless of its size, could introduce turmoil to the nation's banking system.

And it was also an important event in the career of the man who would later become president of the Federal Reserve Bank of Kansas City.

Formed as a small one-office bank in 1960, Penn Square was purchased in 1975 by a holding company created by one of its former presidents. A year later, it formed a loan department for oil and gas lending.

"From the beginning, the bank failed to document loans properly," the Federal Deposit Insurance Corporation (FDIC) wrote in a later analysis of the bank's failure. "In addition, it based repayment on collateral value rather than on the ability of the borrower to repay, and collateral documentation deficiencies were common."

The problem was compounded by the bank's numerous relationships with other financial institutions. Although the Office of the Comptroller of the Currency (OCC) limited how much credit Penn Square could extend to an individual borrower, the bank would still make the loan and then sell off loan participations to some of the nation's largest banks nationwide, spanning from New York City to Seattle.

Why would the big institutions become involved with a small energy lender? That's where the money was.

The United States was in an oil crisis where prices soared and supplies dwindled. In oil-rich states, though, it was a boom. Penn Square's balance sheet swelled from $62 million in assets in 1977 to $520 million only five years later when it was servicing $2 billion in loans.

"Energy lending was the hottest ticket in banking then," Tom Hoenig recalled during a 2006 speech. "(I)n the race to stake out a position, none of these major banks (that bought loan participations) paid any real attention to Penn Square's loan underwriting and administration or did much in the way of their own due diligence. In many cases, the loan participations were bought on blind faith and unlimited optimism."

Although the OCC examinations voiced concerns about Penn Square's loan concentrations as early as 1977 and had bank officials sign agreements as early as 1980 to make changes, the issue came to a head in the spring and summer of 1982. With oil prices sinking, Penn Square's eventual failure started to become apparent.

As a part of its lender-of-last-resort function, the Kansas City Fed had extended credit through its Discount Window to Penn Square to keep the bank operational through the Independence Day holiday weekend. Meanwhile, Hoenig, who was then a vice president at the Kansas City Fed with responsibility for the Discount Window, spent the weekend talking with Fed staff in Oklahoma City to get information on Penn Square's loans and losses.

Ultimately, the Kansas City Fed called in its outstanding loan, and the FDIC declared Penn Square insolvent.

The impact was not limited to the bank in the Oklahoma mall. More than 50 banks had bought participations in Penn Square loans. Among those banks, Continental Illinois, then the nation's seventh-largest bank, collapsed two years later due, in part, to its exposure to Penn Square, and Seattle-First, with a push from Penn Square, was later declared insolvent.

Penn Square was only the beginning. By the end of the 1980s crisis, 350 Tenth District banks would fail or receive assistance.

June 1, 1986
Hoenig assumes full responsibility for the Supervision and Structure Division and becomes a member of the Reserve Bank's Management Committee.

June 12, 1986
The new **Omaha Branch** building is dedicated.

Jan. 1, 1986
Hoenig is named senior vice president in charge of examination, inspection and supervision activities in the Tenth District.

Nov. 16, 1989
The Federal Reserve System and Federal Reserve Banks celebrate their 75th anniversary.

1986 • • • • • 1987 • • • • • 1988 • • • • • 1989 • • • • • 1990

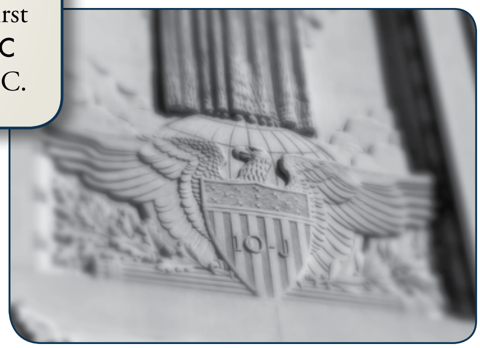
Aug. 8, 1987
Alan Greenspan becomes Federal Reserve chairman.

Oct. 19, 1987
Known as **Black Monday,** markets worldwide tumble and the Dow Jones Industrial Average sheds more than 20 percent of its value, falling 508 points to 1,738.74.

1989
The number of **financial institution failures** in the late 1980s and early 1990s peaks as total of 533 banks and savings and loans fail. From 1988 through 1992, an average of one bank or S&L failed in the United States every day. In the Tenth Federal Reserve District, more than 300 banks failed during the 1980s, or about 11 percent of the District's 1980 banking population.

July 1990
U.S. economy **enters a recession.**

Oct. 1, 1991
Hoenig takes office as president of the Federal Reserve Bank of Kansas City, spending his first day on the job at an **FOMC** meeting in Washington, D.C.



Aug. 13, 1991
The Reserve Bank's Board of Directors announces that Hoenig will be the **eighth president** of the Federal Reserve Bank of Kansas City.

1991 • 1992 • 1993 • 1994

March 1991
U.S. economy **exits a recession.**

March 10, 1993
Federal Reserve Bank presidents are called to testify before the **Senate Banking Committee** on their role as members of the Federal Open Market Committee, including voting on monetary policy.

December 1994
Devaluation of the Mexican peso starts the **peso crisis.**

"What I am suggesting is for us to focus on the issue of systemic risk by placing an emphasis on efforts to strengthen the ability of the financial system to cope with the failure of individual institutions."
— Thomas Hoenig, "Rethinking Financial Regulation," Feb. 2, 1996, Davos, Switzerland

March 25, 1999
In a speech titled "Financial Industry **Megamergers** and Policy Challenges," President Hoenig warns about the dangers being created by a wave of financial services sector mergers.

Feb. 2, 1996
In a speech titled "Rethinking Financial Regulation," President Hoenig focuses on issues such as **systemic risk** and the moral hazard created by the safety net available to banks.

1995 · 1996 · 1997 · 1998

1996
The **Check Processing Control System**, which automates check balancing and proof processes, is introduced, improving efficiency in payments.

July 1997
Thailand's baht currency collapses, beginning the **Asian financial crisis.**

April 6, 1998
Citicorp and Travelers Group announce their merger. The joining of the massive bank and the financial services firm creates the world's largest financial services organization under the Citigroup banner. Although laws in place since the Great Depression blocked banks from entering businesses such as those done by Travelers, Citigroup officials say they are confident those laws will be overturned, which happens the following year.

Aug. 17, 1998
The **Russian government** devalues the ruble and defaults on its debt.

Sept. 23, 1998
The Federal Reserve Bank of New York organizes a **bailout** of the hedge fund Long-Term Capital Management. Critics said the New York Fed's role in the bailout risked creating moral hazard.

"The easing of monetary policy during the past year has provided substantial liquidity to the financial system. In a recession, this is appropriate, as increased liquidity and lower borrowing costs help stimulate spending and assist in relieving financial stress for consumers and businesses. With the real cost of short-term borrowing near zero, however, going forward there is a risk that credit availability will become too easy. If so, one result could be an undesirable increase in the debt burden of households and businesses. Another possible outcome is a speculative increase in asset prices fueled by easy credit availability."
— Thomas Hoenig, "The Economy in 2002: A Challenging Time for Monetary Policy," April 26, 2002, Omaha, Neb.

January 2002
The Federal Reserve Bank of Kansas City announces it is at work on a **new headquarters** project in Kansas City.

Apr. 26, 2002
In a speech titled "The Economy in 2002: A Challenging Time for Monetary Policy," President Hoenig warns about the risks created by **exceptionally low interest rates.**

1999 2000 2001 2002

Nov. 12, 1999
The **Gramm-Leach-Bliley Act** is signed into law, allowing firms to offer commercial banking, investment banking, insurance underwriting and brokerage services.

March 10, 2000
The **dot-com bubble** reaches its height with the Nasdaq peaking at 5,048.62—more than double what it had been a year earlier. The index begins a dramatic fall soon after. On Dec. 31, 2000, the index is down to 2,470.52 and 1,335.51 a year after that.

April 2000
U.S. **unemployment falls** to 3.8 percent—its lowest level since December 1969.

Aug. 30, 2002
Chairman Greenspan defends the Fed's actions during the dot-com bubble, saying "the notion that a well-timed incremental tightening could have been calibrated to prevent the late 1990s bubble is almost surely an illusion."

Oct. 30, 2006
In a speech titled “This Time It’s Different (Or Is It?),” President Hoenig notes **similarities** between the current environment and the period prior to the 1980s banking crisis.

June 6, 2005
Groundbreaking on the new Kansas City **headquarters** at 1 Memorial Drive.

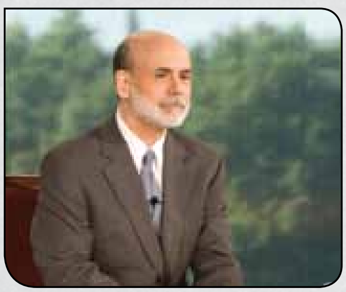
2003 · 2004 · 2005 · 2006 · 2007

June 25, 2003
The **FOMC** lowers its federal funds rate target to 1 percent, its lowest level since 1958, saying the economy had not shown sustainable growth and that the risk of deflation outweighs the risk of inflation. The rate stays at 1 percent until June 2004.

2004
The **Check Clearing for the 21st Century Act** takes effect, allowing the use of electronic image transfer for checks instead of shipping the original paper.

U.S. **homeownership peaks** at nearly 70 percent.

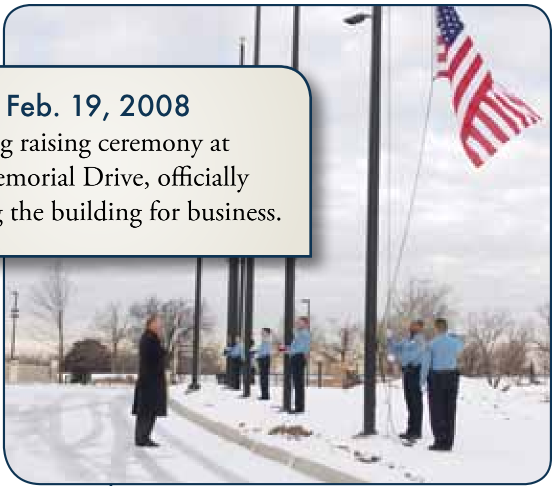
Feb. 1, 2006
Ben Bernanke becomes Federal Reserve chairman.



Mid-2006
A key index of U.S. **home prices**, the Case-Shiller Home Price Index, sets an all-time high.

Feb. 7, 2007
Pittsburgh, Penn.-based Metropolitan Savings Bank fails. It is the first failure of an FDIC-insured bank in almost three years. Two more banks failed in 2007.

Aug. 10, 2007
Amid growing concerns about **subprime mortgages** that included the failure of two large lenders, the Federal Reserve announces it “will provide reserves as necessary” to promote trading in the federal funds market, noting that “in current circumstances, depository institutions may experience unusual funding needs because of dislocations of money and credit markets.”

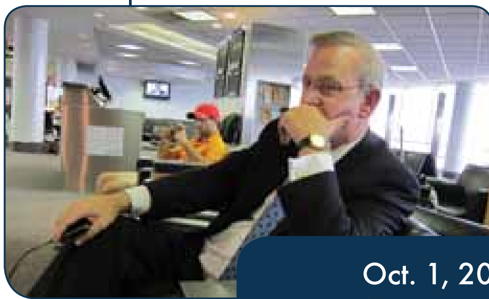


Feb. 19, 2008
Flag raising ceremony at 1 Memorial Drive, officially opening the building for business.

Jan. 25, 2008
Kansas City, Mo.-based Douglas National Bank fails. It is the first failure of a bank in the Tenth Federal Reserve District since 1999 and the first failure of a Kansas City-area bank since 1994. Nationwide, 25 banks fail in 2008, 140 in 2009 and 157 in 2010.

March 6, 2009
President Hoenig delivers the speech **"Too Big Has Failed"** in Omaha, Neb.

2010
President Hoenig **dissents** to each of the FOMC's eight policy votes, disagreeing with the majority opinion of holding the federal funds rate at 0 to 0.25 percent for an "extended period."



Oct. 1, 2011
Mandatory retirement of President Tom Hoenig.

March 25, 2011
Kansas City Fed Board forms a **search committee** for President Hoenig's successor

2008 • 2009 • 2010 • 2011

Oct. 9, 2007
The Dow Jones Industrial Average hits its **all-time high** of 14,164.53.

December 2007
The U.S. economy enters a **recession**.

Sept. 15, 2008
Lehman Brothers Holdings Inc. files for bankruptcy protection.

Oct. 3, 2008
President George W. Bush signs the Emergency Economic Stabilization Act of 2008 into law, establishing the $700 billion **Troubled Asset Relief Program** (TARP). It is one of several special programs undertaken by the Treasury and the Federal Reserve.

Dec. 16, 2008
The **FOMC** lowers the federal funds rate target to 0 to 0.25 percent in the fight against the recession and the financial crisis.

June 2009
The **recession** officially ends, according to the National Bureau of Economic Research.

October 2009
U.S. **unemployment** hits 10.1 percent—the highest level since June 1983.

July 21, 2010
The Dodd-Frank Wall Street Reform and Consumer Protection Act is signed by President Barack Obama.

Late 2010
U.S. **homeownership** reaches the lowest level in 13 years.