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# The New Sheriffs of Wall Street

By Michael Scherer / Washington

A few weeks back, at an event to celebrate the role of women in finance, Treasury Secretary Timothy Geithner tried to get things started with a joke. He said he had recently come across a headline that asked, "What If Women Ran Wall Street?"

"Now that's an excellent question, but it's kind of a low bar," Geithner continued, deadpan amid rising laughter. "How, you might ask, could women *not* have done better?"

It is rarely noted that the financial wreckage littering our world is the creation, almost exclusively, of men, not women. And no wonder: to this day, each of the large banks, from Citigroup to Goldman Sachs, employs fewer than a handful of women in senior positions, and only 3% of *Fortune* 500 companies have a woman as CEO. Embarrassing tales of a testosterone-filled trading culture tumbled out of the what-went-wrong probes as the Great Recession took hold.

In itself, Geithner's joke was not extraordinary for Washington, where self-deprecating fare is the norm. But what happened next drove home a deeper point: the lectern in the marbled hall at the U.S. Treasury known as the Cash Room was cleared away so that a panel of women could take their seats. Among them was Sheila Bair, the chair of the Federal Deposit Insurance Corporation (FDIC) and one of the first federal regulators to publicly sound the alarm about the collapse three years ago. She sat next to Securities and Exchange Commission (SEC) chair Mary Schapiro, the first woman to hold that post and the deciding vote to initiate the agency's recent lawsuit against Goldman Sachs. Across the stage sat Elizabeth Warren, chair of the panel bird-dogging the Troubled Asset Relief Program (TARP) bank bailout and the chief advocate for new consumer-finance regulations that banks and their allies have spent millions to oppose. Suddenly, something else became clear: these women may not run Wall Street, but in this new era, they are telling Wall Street how to clean up its act.

The same is true all over Washington: three of the five SEC commissioners are women; the head of the White House Council of Economic Advisers is a mother of three; and in the Senate, women have been leading the charge for tougher regulations. Arkansas Senator Blanche Lincoln stunned the banks in April with tough derivatives regulations that she announced in a letter to a small group of mostly female Senators, who fought beside her to include the language in a final bill.

Unlike many of the men they oversee, the new sheriffs of Wall Street never aspired to eight-figure compensation packages or corporate suites. Bair, Schapiro and Warren all made their careers far from Manhattan, taking on new jobs during pregnancies and outhustling the men around them. But it is their willingness to break ranks and challenge the status quo that makes these increasingly powerful women different from their predecessors. As Washington gets down to the hard work of putting laws into place that are designed to prevent another crisis, they are shaping the way government will protect investors and consumers for the next generation. Under financial regulatory reform, which all three women support, both the SEC and the FDIC stand to win powerful new authority to limit and dismantle offenders. The Consumer Financial Protection Agency, a proposed body now working its way through the Senate, is the brainchild of Warren and is envisioned as a bulwark against what she calls the "tricks and traps" that banks hide in credit-card agreements and mortgages.

"Let's face it, women in the financial-services industry are outsiders," explains Warren when asked what unites her with Schapiro and Bair. "You see the world from a different point of view." Bair agrees. "There is a tendency — with some, not all — to value us less, whether it's our opinion or our work product," she says.

That's an attitude Wall Street's traders and their bosses would be wise to start shorting — and fast.

**The Bank Examiner**

Sheila Bair's Washington office overlooks Barack Obama's new White House basketball court, but her agency's roots reach back more than 70 years, to Franklin Roosevelt's days. The FDIC was created by Congress over the objections of the nation's biggest bankers in the 1930s so that the government would have the power to take over poorly run banks and safeguard the nest eggs of depositors. Banks have been delighted to slap that recognizable gold-and-black FDIC guarantee on their branch doors ever since, as long as the little New Deal agency doesn't meddle too much in their business.

Bair had hardly been named to the FDIC post by George W. Bush in 2006 when aides alerted her to a dangerous disintegration of lending standards across the banking industry — loans with hidden fees, poor documentation and explosive adjustable rates. Even though the regulation of these standards was the primary responsibility of the Federal Reserve, Bair authorized her staff to purchase a large industry database to confirm their suspicions. "It was just amazing to us what we saw," she says.

She began meeting with the banks, urging them privately in the spring of 2007 to renegotiate entire categories of loans to avoid massive foreclosures that could erode home values. The banks balked, so Bair went public. "We have a huge problem on our hands," she told bankers at a conference on Oct. 4 of that year. The response was hostile. "They were shocked and horrified," she says now. "I thought they were going to throw tomatoes at me."

Of course, Bair was right about the coming crisis: by the end of 2008, 25 banks had become insolvent and were taken over by the FDIC, including Washington Mutual, the largest bank to collapse in U.S. history. By the end of 2009, 140 more banks had failed. In private meetings with other regulators, Bair continued to hold a more populist line. She pushed her own plan for foreclosure prevention, resisted a proposal for the FDIC to backstop all bank debt and effectively bail out unsecured bondholders and clashed regularly with colleagues who held closer Wall Street ties, including then Treasury Secretary Henry Paulson and Geithner, who was running the New York Federal Reserve. Bair says now that much of the tension could have been avoided. "We generally worked well together, but there were times when I felt the guys kind of got in a room and made a decision and then called me in," she explains. "And when I would ask questions or push back, I was being 'difficult.'"

The ugly days of late 2008 were strewn with moments when Bair was criticized both privately and in the press for saying what others would not. On Sept. 9, Bair decided that she had to call the CEO of Washington Mutual to warn him of a disagreement over the bank's ratings. When John Reich, the head of that bank's primary regulator, the Office of Thrift Supervision, found out about the call, he e-mailed one of his male colleagues, writing, "I cannot believe the continuing audacity of this woman."

For Bair, such challenges are nothing new. She was born in Independence, Kans., the daughter of a Depression-era surgeon and a nurse who always shunned debt. In 1981 she went to Washington to work for Republican Senator Bob Dole, who became her most important mentor. "She was available 24/7," Dole says, with a clear sense of pride. "As my wife will tell you, more is expected of women." In 1990, Dole encouraged Bair to run for an open House seat in Kansas. She ran as a pro-choice Republican and lost narrowly. "Senator Dole told me the reason I lost was because I was a woman and I was unmarried," Bair recounted in May 2009, on accepting an award at Harvard University. "That made me all the more determined to take on new challenges."

That she has done. This year Bair's agency has quietly taken over 68 more banks, though she believes the wave of failures will peak in 2010. She is pushing Congress to place her agency in charge of liquidating nonbank financial firms like insurance companies, which proved to be the source of huge systemic dangers during the collapse. If she succeeds, she says she would be happy to leave when her term expires in 2011. The author of two children's books, she has already begun to think about her memoirs. "When I write my book, that should be the title," she quips. "*The Audacity of This Woman*."

**The Consumer Activist**

Like Bair, Elizabeth Warren comes from the central plains. She was born and raised in Norman, Okla., with three older brothers and a fierce competitive streak to match. She was the state's top debater at 16; at 19, she was married; at 22, she had her first child. She enrolled in law school at Rutgers and two years later went to work as one of two female summer associates at the oldest continuing law firm on Wall Street. She says, "I still remember one of the partners taking me aside and saying, 'You know, being a summer associate is all well and good, but take a deep breath. Try to figure out if you think these guys are ever going to make a woman partner.'"

Just as she remembers his words, she remembers the brushback stirring her competitive juices. "It made me think, I can do that." But her career led elsewhere, into bankruptcy law. In 1978, Congress passed a revamped bankruptcy code, making it easier for businesses and individuals to start anew. Warren was teaching law at the time in Houston and decided to investigate, initially expecting to find that the system was filled with sleazy debtors. She found instead that most bankruptcies resulted from job loss or illness at home, a situation made worse by banks that were increasingly learning to trap people in costly debt cycles.

How? Partly by just confusing them. "For Bank of America's credit card in 1980, the agreement was 700 words long," she says. "The average credit-card agreement by the mid-2000s was 30 pages long, and it was loaded with 'double-cycle billing' and 'LIBOR-linked' — terms no one understood." The effect, Warren concluded, was akin to predation, not just for those with bad credit but for the entire middle class, which she felt was being hollowed out by agreements many of its members didn't understand. Over time, her academic work began to spill over into activism. She appeared on *Dr. Phil*, giving financial advice to young families; met with bank executives; and with her daughter Amelia wrote a nonacademic book called *The Two-Income Trap*, which Barack Obama cited before his run for President.

A couple of months after Lehman Brothers collapsed in 2008, she was preparing a barbecue for her students at Harvard Law when the phone rang. "He's saying, 'This is Harry Reid,' " Warren remembers. "Who?" As part of the final wheeling and dealing that led to the passage of the $700?billion TARP, Congress demanded an oversight board. Reid asked Warren to skipper it.

Since then, Warren has wielded her clout like a cudgel, releasing monthly reports demanding more information from Treasury, better investment returns from the banks and greater efforts to help borrowers. Warren's relations with Treasury officials and the banks have often been strained, sometimes by the harshness of her panel's critiques. She remembers talking in early 2009 with an official on Capitol Hill — she won't say whom — who told her point-blank, "That's not what reports are supposed to look like." She asked, "Why not?" The reply: "The language is far too direct."

At about the same time, President Obama decided to adopt another of Warren's ideas, from a 2007 academic article: a new Consumer Financial Protection Agency that would be devoted to protecting customers from tricky financial products. Bair and Schapiro voiced their support for the agency, even as the U.S. Chamber of Commerce promptly announced a willingness to spend "whatever it takes" to defeat the proposal. At least $3 million in advertising later, the chamber's effort has had only marginal success, though the fight continues in the Senate.

In the meantime, Warren has become something of a public intellectual, always game for interviews with Jon Stewart, Charlie Rose and Bill Maher. Her rising fame has come with added pressure. "It gets me deeply anxious," she says. "Here's this one brief minute, just like the one minute on *Dr. Phil*. Will I say the thing that needs to be said? Will I get it right? Will Congress make the changes they need to make?" The longer the odds, it seems, the more determined she is to succeed.

**The Turnaround Artist**

Taped to the door of Mary Schapiro's office on the top floor of the SEC building is a piece of paper that reads, "How Does It Help Investors?" The maxim is meant not just as a lodestar for her agency but also as a repudiation of its recent past.

Schapiro was appointed to a first stint at the SEC in 1988, to fill what she said was called its "woman's seat." When President Obama picked her as the commission's chair in 2009, the agency was on its heels, stung for missing Bernie Madoff's Ponzi scheme and embarrassed by news reports that senior officials had used their work computers to view pornography. "The world really changed around the SEC, and I think the SEC didn't change with it," she says now, somewhat diplomatically. When she arrived at the agency, she was far more direct. "I've been called the Muammar Gaddafi of regulation," she told a reporter.

In her first year, Schapiro has added staff, restarted an in-house think tank to mine data for systemic risk and initiated rulemaking to rein in arcane trading practices that had given large institutions advantages over individual investors.

She did away with a rule that forced SEC investigators to get commission approval before proceeding with a case or negotiating settlements. Enforcement actions are up, as are fine collections, and in April she cast the deciding vote to bring charges against Goldman Sachs for alleged fraud — charges that have shaken the entire banking industry. To top off her first year, she also put out word to her staff: Anyone caught viewing porn at work would be "subject to termination." "You could call her a turnaround artist," says Elisse Walter, an SEC commissioner.

Born to a college librarian and an antiques dealer near Long Island's Great South Bay, Schapiro played three sports in high school and several more in college. Her academic focus at Franklin and Marshall College was the native culture of the Trobriand Islands off New Guinea. She started working as a lawyer at the Commodity Futures Trading Commission in 1980, just after the Hunt brothers had illegally tried to corner the global silver market. "I think it was the anthropologist in me that was fascinated by this idea that people thought they could control a world commodity," she recalls. "Here they were, causing extraordinary pain to lots of people."

In 1994, Robert Rubin, then President Clinton's economic czar, tapped Schapiro, then nine months pregnant, to take over the CFTC. Upon arriving, Schapiro promptly refused a request by Chicago traders to be exempted from federal regulations. Tom Donovan, then the head of the Chicago Board of Trade, struck back, announcing that he would not be "intimidated by some blond, 5-ft. 2-in. girl." Schapiro responded by telling a reporter, "I'm 5 ft. 5."

**Sisterhood Is Powerful**

In the mid-1990s, Schapiro was invited to Chicago to address a convention of commodities-and-derivatives traders. "Talk about a male-dominated industry," she recalls. "And standing up there, giving my maiden speech and searching the audience for just one or two women I could focus on, thinking there would be some empathy for the position I was in." The face she lighted on belonged to Bair, a fellow regulator and colleague who knew exactly what she was going through. "My favorite is when you are at a meeting and you say something, and it's just dead silence," Bair says. "Fifteen minutes later, some guy says exactly the same thing, and everybody is nodding their head."

All three women know these experiences, but they all have also noticed something else. "There are lots more women at the table now," Schapiro says. And the women have learned how to work together better. Around Washington, women call this "amplification," the extra juice that comes when powerful figures join forces to speak up against entrenched interests. As chairs of their commissions, both Bair and Schapiro have independently consulted with Warren in recent months for advice on consumer rights. They have largely spoken with a united voice on financial reform, and when they gathered in late April for a TIME photo shoot, they promptly huddled to strategize on arguments to head off bank lobbyists' efforts against the new derivatives regulation moving through the Senate. The measure, believed to be dead a few months ago, now looks likely to pass by the end of the month. The only question is whether it will have the teeth to prevent a repeat of the crisis of 2008. "Do you know how many little changes could be made in that statute to just cut the legs out from underneath it?" Warren asks.

There is something else that all three share, an experience that can happen on the street, in line at the airport, in the supermarket. Women will approach them, even though they don't have famous faces, to shake their hands, to thank them, to ask if they will take a photograph with young daughters or sons. "That's a powerful thing," says Schapiro. "I've had people lean out of car windows and yell, 'Keep it up, Elizabeth,' " adds Warren. "I can't go out in my sweats anymore," says Bair.

Those chance encounters mean that Tim Geithner isn't alone in asking the question, What if women, not men, were the real powers on Wall Street? With the arrival of Bair, Schapiro and Warren, we are finally getting an answer.