



## Departing Fed governor says she's ready for break from tumult

*Banker and Portsmouth native talks about serving as central bank governor*

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WASHINGTON -- The work started half an hour into her term on the Federal Reserve's Board of Governors.

After taking the oath of office in August 2008, Elizabeth A. "Betsy" Duke whisked into her first meeting of the Federal Open Market Committee with Fed Chairman Ben Bernanke and her new colleagues.

The Portsmouth native and former TowneBank executive didn't know it at the time, but the nation's worst economic meltdown since the Great Depression was unfolding.

Within six weeks, home lending giants Fannie Mae and Freddie Mac would fall into conservatorship, the venerable Lehman Brothers investment banking firm would fail, and she would make what she calls the most dramatic decision of her Fed career.

In September of that year, the governors weighed whether to loan \$85 billion in taxpayer dollars to the insurance heavyweight AIG. The vote had to be unanimous or the proposal would die. The financial press was filled with talk of a market collapse if the bailout faltered.

It didn't.

Five years has passed, and Duke believes economic recovery is sustainable – in part because of actions by the nation's central bank.

But she won't weigh in on any more decisions.

Last week, the former stage actress and part-time teller sat in her office and reflected on her Fed tenure, which wrapped up when she left the post at the end of last week.

"I still don't know what the Fed is like in normal times," said Duke, 61, who plans to spend time at the seashore, on the golf course and with her family when she returns home to Virginia Beach.

In the throes of the meltdown, Duke and her colleagues didn't have time for the deliberative pace used in a stable economy.

Gone were the days of preparing weeks ahead for meetings. Everything was changing so rapidly, she said, the governors had to get much of the information they used to make decisions in real time.

"It seems like it's been just one huge decision after another," she said. "It's been pretty stressful all the way through."

**The seal of the** Federal Reserve is implanted in the floor outside the boardroom where the governors hold meetings.

A vast map of the United States with defined Fed districts hangs on the wall at the far end of the room.

It gives a sense of the reach of the Fed, whose moves on interest rates and money supply can spur or stifle job creation and business expansion across the United States – and beyond.

The 12 members of the Open Market Committee – seven Fed governors and five Federal Reserve District presidents – make up one of the most powerful bodies in the world.

Duke's office sits down a long corridor. It's quiet inside – but so was the rest of the Fed that Monday morning.

The work environment is quiet, Duke said.

She was accustomed to the hustle and bustle of her former employer – heads popping in and out of her TowneBank office all day – but in Washington, she felt far more isolated from her colleagues.

It's rare when someone drops in to chat, she said.

The halls of the heavily guarded Fed aren't packed with lobbyists, activists and others, as they are in Congress. The quiet is a necessity for the politically independent governors.

"I could have read from the time I opened my eyes until the time I closed them, and I still wouldn't have finished all the memos, papers, data and articles I wanted to read," Duke said.

She's ready for a break after five "tumultuous" years, but she'll miss being a part of big decisions the board has yet to make – such as when to pull back on the quantitative-easing stimulus program, the current round of which is dubbed QE3, that was used to prop up the housing market. The program also has been credited as a major factor in the stock market's resurgence.

While citing the AIG bailout vote as the most difficult decision during her tenure, Duke declined to elaborate.

Her reticence may be due to a lawsuit filed by a company run by former AIG CEO Hank Greenberg that claims the bailout shortchanged AIG shareholders by tens of billions of dollars. In an unusual move, a judge has ordered Bernanke to testify. Ordinarily, Fed governors are spared from having to do so in civil cases.

Duke also was tight-lipped about speculation that the Fed will soon end quantitative easing. She had nothing to say either about political wrangling to replace Bernanke, who many believe will step down when his term ends in January.

**Duke's official** term ended in January 2012, but she stayed on the board under a policy that lets governors serve until they are replaced. Her annual salary has been \$179,700.

Long before joining the Fed, Duke acted in dinner theater and worked as a bank teller.

She never fathomed she'd wind up serving on the board of America's central bank.

Before her nomination to the Fed by President George W. Bush, Duke was chief operating officer for TowneBank, the largest independent bank based in Hampton Roads.

She had held executive roles at other institutions, including the former Wachovia Bank and the former Bank of Tidewater, which was based in Virginia Beach. Along the way, she earned an MBA from Old Dominion University.

Colleagues have described her as affable yet straightforward, and trustworthy.

She was the first female chair of the American Bankers Association, which she headed from 2004 to 2005.

And she's the only member of the Fed to hail from Hampton Roads, according to Duke and Fed researchers.

Her background in community banking is unusual – three of the other governors are economists and three are attorneys.

But it proved to be indispensable, she said, because the economic meltdown centered on lending, particularly for marginal home loans packaged by the billions into what are known as mortgage-backed securities.

This summer, The Wall Street Journal published an analysis of more than 700 economic predictions made in speeches and testimony by 14 Fed leaders between 2009 and 2012. Duke ranked third in accuracy, behind Vice Chairwoman Janet Yellen and Richard Fisher, the Dallas Fed president. Yellen is one of the front-runners to replace Bernanke.

"What I think helped me in decision-making here ... was an understanding of the banking system, of lending, of small businesses and how they operate – a lot of on-the-ground anecdotal information," Duke said.

The Fed may not have gotten all the details right, she said, but "ultimately history will show that we reacted as well as we possibly could have."

Duke and Bernanke often aligned on policy matters, and his open and receptive demeanor set a tone that made working on tough subjects easier, she said.

"I don't really have the words to express how much admiration I have for him — and respect," Duke said. "I guess I now know how people feel about their leaders when they come out of battle."