

Dean's Executive Leadership Series - 2009-2010

Transcript of Presentation with Brian Moynihan, the President of Consumer and Small Business Banking with Bank of America – Part 1

About DELS: The Dean's Executive Leadership Series at the [Graziadio School of Business and Management](#) features in-depth audio or video interviews with today's top business practitioners and thought leaders. [Listen or subscribe](#) to the podcasts to hear their views and insight on the current challenges and opportunities facing the business community.

Start

Man 1: The Graziadio School of Business and Management at Pepperdine University proudly presents the Dean's Executive Leadership Series. This podcast invites top business practitioners and thought leaders to share their view on the real world of business.

Linda Livingstone: Well it is a privilege to be here in the Jonathan Club this evening. This is our first ever Dean's Executive Leadership Series in downtown Los Angeles. And by the turnout and the enthusiasm, I think that we will have to come back again in the future. But I'm Linda Livingstone. I am the Dean of the Graziadio School of Business and it's just really a privilege to be here for our Dean's Executive Leadership Series. I want to make a few introductions and then also tell you about a few things going on in the business school before I bring up our speaker this evening, which of course is the main event for the night. I first want to introduce Faye McClure who is with Farmers Insurance Group. She is a Pepperdine Alum and Farmers has generously sponsored this event for about three years now. So Faye, please stand. Thank you so much for your generosity.

<Applause>

Linda Livingstone: I would like to also introduce Steven Calvillo. Steven is our Chair of our Board of Visitors in the business school, an advisory board. He is also a member of the Graziadio family, so it's a pleasure to have you with us. Thank you Steven.

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<Applause>

Linda Livingstone: Now did any of you come to our Dean's Executive Leadership Series in the marina where we had Caroline Nahas with us?

<Applause>

Linda Livingstone: Well, Caroline is back. She had such a great time she decided to come back and join us again.

<Applause>

Linda Livingstone: So thank you for that. We're really glad to have you back, as a guest this time and an observer. We're not going to put you to work tonight, like we did last time. Well I want to tell you about a few things going on. Certainly we enjoyed this series and we have one more speaker this fall. In the series it will be Jim Gianopulos. He's going to join us on December 3rd. He is the President of Fox Film Entertainment and we will actually be going to Fox Studios for that event. So another venue, so put that on your calendars on December 3rd. It should be a fabulous event. A few things going on in the school. We've had some new rankings come out recently for the business school. You heard about a few of these if you were at our last event. But our Executive MBA Program was recently ranked by *Financial Times* as number 72 in the world and the 27th best Executive MBA Program in the United States. So we're very pleased about that.

<Applause>

Linda Livingstone: Our accelerated, 15 month, full time MBA program was noted by the *Wall Street Journal* as a hidden gem which put it in the top 20 and really the top seven US accelerated MBA programs, the top 20 programs in the world. And so again, really glad to see that for our full time MBA program. And then very recently, the *Leadership Excellence Magazine* that Warren Bennis does, rated our Executive Education Programs among the top 20, 17th in the country. And *Pink Magazine*, I don't know if any of you women read *Pink Magazine*? Maybe. Men may not. It's a women's magazine. But they listed seven schools in the country that are the best schools for women to get their MBA and we were one of the seven and we were in the company of Michigan, Wharton, Northwestern, NYU and some other schools like that. So we were really pleased because we take very seriously, the diversity we had

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and really the high percentage of women we have in our MBA program. So that was one we are quite pleased about.

Just a couple of things going on in terms of programs. We are just rolling out a new program called MBAs in Transition: MinT. It's a career support system. We realize we have a lot of folks both in our programs and alumni who are looking at new career opportunities, some voluntarily and some involuntarily. And this is a tool that you have access to. You can look for it on our website. It helps you think about job opportunities, best preparing yourself for that and it really supplements the support that our career staff can provide you as an alumni or as a student.

We have made some very significant changes in our entrepreneurship program as I know most of you are aware of. Just coming up on Friday, we are hosting our first ever Entrepreneurship Day. It's a day long activity where you really experience entrepreneurship from the idea conception all the way through to finding funding. And we have a variety of speakers and panels. We're hosting this on the Malibu Campus. I believe it's sold out, but you might be able to get yourself in if you want to. It's clearly been received very well by our students and alumni and certainly we're going to have to do more of those. So we're very excited about that event.

And then coming up in the spring, we will be hosting our Business Plan Competition. We have a new wrinkle to that this year. In the past you had to be a student to participate in the Business Plan Competition. This year, we are expanding or we're going to have two tracks, a student track and an alumni track. So if you would like to participate in that, again, go to our website information. We'll have about \$26,000 of prize money on each of those tracks. And so if you're interested in the entrepreneurial arena, look for that. Look for the opportunity to participate with us in the spring.

And then the last thing I want to mention before I introduce our guest this evening is the Pepperdine Private Capital Markets Project. This is a project we rolled out for the first time this year and we are looking for private company owners and capital professionals to complete an online questionnaire that helps us develop this research project more fully. We've had great press coverage around the country and around the world on the work that this is done, looking at how the private capital markets work, where people get funding, how they're viewing that market right now. So if you're a venture capitalist, someone in private equity, a lender, an attorney, anyone involved in the private capital markets area, you can go to our website at bschool.pepperdine.edu/privatecapital and complete that survey. And that would be really helpful to us as we further that project and use that to help that industry out even more in the future.

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As you can see, there's a lot going on in the school. We're very excited about the direction that we're going and all the activity that's occurring and part of that is this series where we bring in, really top business leaders from around the world. And we're especially privileged tonight to have with us Brian Moynihan who is the President of Consumer and Small Business Banking at Bank of America. And if you read anything about Brian's career, it's really been extraordinary. He's a lawyer by training, went to law school at Notre Dame, has been in the banking industry for many, many years, started out at Fleet Financial Group. Maybe I should say many years. That makes you sound older than you really are when I say many, many, many years. He started out at Fleet Financial Group, later Fleet Boston. They were acquired by Bank of America. His career since then have been with B of A and he's been very involved in a variety of their acquisitions, including the Merrill Lynch acquisition that took place recently. He's also on the Executive Committee of Black Rock, the world's largest publicly traded investment firm.

Beyond the many things he does for Bank of America, he is also very active in the community and is particularly supportive of youth-oriented charities, the Boys and Girls Club of Boston, United Way of Massachusetts and many others. Some comments about Mr. Moynihan. One individual said, "He is one of those people who can effectively envision strategy and execute." Another said, "He's a really smart guy and can just outwork anyone." And we're very pleased that he is actually the brother of one of our alumni, Kevin Moynihan, who is an alum of our Presidential Key Executive Program. Kevin, where are you sitting? Over here. So Kevin we're pleased to have you with us as well.

<Applause>

Linda Livingstone: So join me in welcoming Brian Moynihan, a really smart guy that will outwork the rest of us, so, Brian.

<Applause>

Brian Moynihan: Well you have me on East Coast time. So you're going to be able to outwork me today for sure. Thank you Linda and thank you for inviting me here. It's an honor to be here in Los Angeles and not on your campus but near your campus. Your school is an outstanding institution and you just heard Linda rattle off all the criteria about it in terms of its rankings and things, but also its values-based plans, its value-based training and things that are important to us. We are a values-based company and we can see how that fits with us. I want to welcome all of you, alumni, guests, some of my colleagues here from Bank of America who do great work for us, for our clients and do great work for our company.

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My brother Kevin and his wife Karen are here and it's been two Moynihans in the room. I am one of eight kids. We haven't started arguing yet. You're lucky.

<Laughter>

Brian Moynihan: But Kevin's been a great guy since he's a couple of years older than I am. And those of you who have an older brother that's 18 to 24 months older, you can understand growing up with Kevin has been a great experience and I learned a lot from him. The idea that the speakers are given here, is to speak about events that are both-- business knowledge is both applied and relevant, is what I'm told. So I'm going to try to do that a little bit tonight. Dean Livingstone told me I'm the first bank you've had in this. And if you think about the last two years, I've had a lot of experience applied to me obviously. It has been relevant. And so I'm going to try to share with you, just a couple thoughts.

One is about the state of the economy and what's going on, so that I can share with you what our company thinks and lessons about that. The second is talk a little about leadership in times of crisis. We have gone through an immense crisis for almost 30 months in our company, in our country, our economy and the world, that I've learned a lot and I hope to share with you and also in the question and answer, hear your thoughts about that. And third, I want to talk about the aftermath, what comes next as we think about the financial services system and what will happen and what might go on with regulatory change.

So the first thing is on the economy. The recovery is on the way and last week's numbers substantiate that. Real GDP, gross domestic product, rose at three and a half percent. Now that's the first increase we've had in several quarters. So technically, the recession's ended. Durable goods orders are up 20 percent plus, housing sales have risen 20 percent plus since the bottom. Prices are stabilizing. I know in some markets you say that and they look at you like you have two heads. But it is happening around the country. It's a real confirmation, these statistics and the statistics were out today. The economy is pulling out of the recession.

So now our debate has shifted: the shape of the recovery, what the strength of it is, what its duration will be and what its challenges are is what's on people's minds. Will it be V shaped, W shaped, a double dip? If you listen to CNBC in the morning, you can get 75 different things interpreted and I'm going to give you one more later of whatever letter or phrase the pundits might come up with. But the first thing I want acknowledge about the economy is, just because the recession may technically be over this quarter, doesn't mean that unemployment has peaked or that we're not due for a slow, steady trip through the yogurt as we say. Our experts call this recovery, they've added their new term, a "square root" recovery.

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So yes, we have another symbol to define it, which means that instead of a V, a sharp rebound or W, the dreaded double dip, we're are going to see something, a sluggish rebound gradually picking up steam over time.

And so what's the reason that we're going to be slugging so hard? The reason is pretty simple. The Americans are cautious. They are worried about the future and it's reflecting in their behavior. All of you can sit and think about, did you buy something this year that you would have bought two years ago? You can get people talk about the biggest bull market purchase they made, if you talk to them about the thing they bought in 2007 that they suddenly shake their head at. People slow down. Consumers and small businesses are pinching pennies. They're challenged by the need to reduce their debt and get their finances in order. Many are hanging on by their fingertips. Defaults on debt are at all time highs. In our credit card business, defaults have reached 14 percent. That is three to four times what the normal business year would be. In some of our small business lending, we've reached 20 percent, again, three or four times. The rate of default causes our industry to do what? Pull back and not lend, because the credit is difficult. The same concerns on the other hand, caused the borrowers to pull back also. They borrow less and they spend less and without an increase in spending behavior, without an increase in spending by business and consumers, the economy will be slow to recover.

Impacts of this are also felt on larger companies. They've battened down the hatches. Employment levels for those, the companies you work for and if I asked or took a poll, how many of your employers are hiring? And you get, how many are going to hold steady in their minds and you get a lot more hands, right? So larger companies are doing the same thing, they're holding on for the rebound. Now it could be a lot worse. We could believe that we're going to have a double dip which would be very dramatic. But the people who think about a double dip, we think are wrong at Bank of America because they fail to just count a couple things. The most important is the mass of stimulus that the government's put into the economy to try to drive it forward. When you take the size of the stimulus in the Fed programs, it's 18 percent of the GDP of our country.

Now you have to remember the size of our economy is big enough that the State of California is the fifth or sixth largest economy on its own. So think about something that's 18 percent. That's been massive. Add that to the zero interest rate policy of the Fed, confirmed today, where they're going to keep rates low for a long time. Add to that, the global stimulus that's gone on. Add to that the strength of the capital markets. We are busier in the capital markets than we've been in our history-- in our history, not this year, in some of the markets, so companies can refinance and raise capital. So what we're likely see is a rebound that stays fairly muted, that massive stimulus, that massive impact offset by the need for consumers and businesses to continue to prepare their balance sheets, continue to pull their leverage in.

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So netting out these factors leaves us with an economy that settles into a new trend, something different for America. We think growth next year is two, two and a half percent. That's a full percent less than the growth that we've had in the post-war economies on average. If we're right about that, we're going to be living with the effects of the excesses in the last couple of years for a long time. The hangover won't go away for two or three years.

So now I'm going to switch off the economy and hopefully talk about something a little more inspirational and talk about leadership in times of crisis. People often ask me about this. And as a senior executive in a company and with my leadership development programs that I'd speak to, people often ask you about how do you lead through a crisis? And I'd say, a good crisis is where an organization learns a lot, what works, what can be improved, the business practices at work, the public policy and regulatory tornado that starts to occur. They can all come together and impact your businesses. So you learn faster in a crisis than you learn at any time. It's like a football team on a Sunday and going through a couple tough games-- that they learn more from those games than they do from the easy ones.

So few observations or thoughts: First, leadership in a crisis requires leadership. Executives always have to balance between leadership and management. So what do I mean by leadership? Leadership is really when you look outside or when you think about motivating large groups of people or when you think about things that will affect the company and the customers from the outside in. We have to be careful in times of crisis to make sure we're leading and not managing too much. And what do I mean by managing? That's a day to day budget. Are you getting your numbers? Are you doing your things? And that's the difference. So leaders in times of crisis have to lead. You have to stretch your imagination. You have to look around the corner. You have to consider what might happen, not what is likely to happen, because "mights" can have a big import. You make sure your team is taking the field everyday and keeping their chin up and going out and doing their jobs. You make sure they continue to prepare for the next challenge, not the last.

Now my stock as an example in the last couple years, I had a capital markets business I took over in the fall of 2007. And for two years we had to sit there and say, where was the crisis going and trying to get ahead of it. So it started in things like CIVs, the acronyms we can hardly remember that started this, in CIVs and some of the subprime paper in those CIVs and some of the other things that went on in the CDOs. Then it moved to the money markets. Then it moved to corporate America's balance sheet, then it moved to the banking balance sheets. And so the question of the team was: How do we keep thinking about where it's going so we can get ahead of it as opposed to worry about where it was yesterday? So leaders lead. They look ahead. They look outside. They try to get impacts and insights from what's going on and they bring it to the organization. In times of crisis that is the key.

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The second thing to do in times of crisis, is to check your assumptions regularly. Crisis are hyperdynamic. They move quickly. What you do affects other people and they react, whether it's the public, whether it's your customers, whether it's your shareholders, whether it's Congress, whether it's regulators. The decision you may make in a context today, could change tomorrow and not be correct even though it was absolutely correct today. So give you an example of that, checking your assumptions. If you sat in 2006 and tried to tell people the housing prices could go as low as 35 or 40 percent lower than they were, people would have not listened. If you sat in the early 2007, they still wouldn't have not listened. All the way through '7 people believed it couldn't get this bad and in fact it did. But that's not even the point they missed. We missed the speed at which it was going to occur. And frankly we missed the implications of that occurrence, the social changes.

I've got some of my colleagues at work at the Home Loans Division right now and if you think about the loss mitigation, the modifications that they're trying to do, think about that social implication. It changed the game tremendously. So you've got to keep checking your assumptions, what was sort of a thoughtful process about the impact of house prices became a social issue about keeping people in their homes and the pace at which to move, is unpredictable. So in a crisis, constantly revisit your assumptions.

The third item is that leaders in crisis communicate, communicate, communicate. During a crisis, leaders must think about how to communicate and it's different than the normal process. Typically, a business manager will come up with an idea, get it packaged by his team and then roll it out. I have 100,000 people that work in my groups. So when we decide to do something, we have to be very careful it's very well orchestrated, because I've got a lot of great teammates who will do what we tell them to do. And sometimes, we don't tell them to do the right thing. And so you have to think about that. So normal times, you can think about that and roll something out six months in advance and think through that. In times of crisis that doesn't work.

And there's two things that come to a head in times of crisis about communication. First, the area that we're in with the communication vehicles we have today and the expectation of transparency and speed makes it very difficult to have that planned communication that I was talking about. The second is the companies are supposed to be flat. And what I mean by flat is flat with respect to communications. Every person in our company has the right to know and wants to know and wants to know what's happening now. And during a crisis this becomes acute. So during decision-making process that would typically involve business leaders and how to communicate to stakeholders, whether it's investors, or public or customers, those processes during a crisis can go on. But most importantly the question is, with respect to your associates and employees, how your management team has to help you communicate and own the message.

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And a phrase I use to describe is, I ask my management team to be the keepers of why. And what I mean by the keepers of why, is that they can explain to their teammates why we do things, not just what is happening or what we're doing, but why. And why is that so important? In the times of stress during a crisis, traditional bonds are challenged, including the loyalty of associates to the company. The pressure of an associate to have to explain to a customer what's going on, becomes acute. Our associates carry our brand into the market every day. And during a crisis, they get asked a lot more questions than they do before a crisis. So as you think about this applied to Bank of America and the lessons we learned in the last several quarters, you think about early this year when our stock price and our market cap drifted below \$20 billion from 200 billion. It's now back up to 150 billion thank God. But--

<Laughter>

Brian Moynihan: Our associates want to know why we're okay, not just that we could tell them we're okay. They want to know why our capital was sufficient. They want to know why we had the ratios, why we could survive, why we could do the <Inaudible> for our clients. And as we communicated that and as senior leaders communicated to the stream, our morale even in darkest times, kept improving. So the key is to communicate, communicate, communicate. And do it through your chain of command and make sure you have the keepers of the why, understanding the why and communicating the why. And that makes for a great company.

The fourth lesson that I've learned in times of crisis is to evaluate, decide, and then do it again. A dynamic situation makes you have to make decisions quickly and you won't have all the facts. It won't be like a business school case we get to think about it for six months. You have to continuously evaluate, which may even be deciding or deciding again, a question you decided yesterday, based on change and circumstances. You have to be flexible and you have to be nimble. So as we think about those leadership elements, I want to talk about the crisis we've all faced as an economy and as a country and as an institution, as an industry. The worse of the financial crisis is behind us. And with that happening, some people are inclined to overlook the significant improvisation and innovation that occurred during the crisis.

I don't believe we sometimes give ourselves enough credit, whether in industry or in government or in business or in regulatory environments for what we went through and what we're on the other side of. When push came to shove, the government and business leaders took bold and decisive action to save our economy and they did it without a strong template or framework to work from. It was either think outside the box or the economy could end up in the proverbial pine box. Yes, some decisions are going

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to be questioned in hindsight and it will continue to be for years to come. But on the big things, I think everyone got it pretty much right. Both the Bush Administration and the Obama Administration and Congress and the Fed, did a lot of things that helped preserve the economy. When the credit markets froze last fall in core companies and top rated companies could not fund themselves, they stepped in to provide liquidity. They stabilized the system and some of the things we could hardly remember. They guaranteed the money market funds. They guaranteed deposits. Those are things that if they had not done, the financial system would have shut down. Then they had TARP and TILE for the many other acronyms we've grown to appreciate. But they all had one goal, was to liquefy the markets so the economy could function.

Why do we want to liquefy the market? So the economy could function. Why do we want to do it? It's not that mysterious. Businesses needed credit and capital can keep producing products, employing people and keeping the economy going. To do all that, I think, took some serious leadership and a lot of risk. No one could predict whether the things they were going to do were going to work or whether the-- and these are all novel things that hadn't been tried before. So two and a half years and we're two and a half years in this crisis. It's easy to forget what it felt like then. So even the fact that we have the ability and a potential debate whether it's going to be a V shaped, a W shaped or a square root shaped recovery, that is a high quality problem at this point, to be able to debate the shape of the recovery.

So I want to recap. Leadership, leaders in crisis, some things for you to think about. One, you have to lead and you have to be careful to, what we say, overlead and undermanage at that point. Two, you have to check your assumptions often. Three, you have to communicate, communicate, communicate and make sure the keepers of the why are with you and communicate the why. And fourth, you have to evaluate, decide and do it again. Now this brings me to the last point, sort of the aftermath in where we are.

There are major shifts going on in the industry I've had the pleasure of serving in for my whole life. They're taking place to address some major issues and concerns that came out of the crisis. As we contemplate those changes, we have to make sure we keep in mind that we've got to make sure that we address the next battle, not the last battle. So when policy-makers talk about putting up early warning systems or regulating systemic risk, it's important for every party concerned to retain some humility. That's the natural limits that these preventive measures can have. Whatever regulation comes, the most important point, is to focus on what-- and this means every one of us-- what every one of us can do to make sure this doesn't happen again. To do that, we need to be introspective and say what have we learned?

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I always come back to a phrase which isn't that original. And what I've learned, is "all things in moderation." And many of you are going to tell me that your grandmother taught you that. But the reality is, it comes from a playwright named Terence, from two thousand years ago. So it's been around a long time and it's an adjective we should continue to live by. Just think of what people didn't think about at that time. In 2006 you hear people say that house price appreciation will go on in perpetuity. In 2006 and '7, on the corporate side, you could get that leverage could be stretched and there'll be over-financing to the maximum limits. In 2006 you could get people to say that financial institutions be leveraged at 50 to one or have two percent capital. In 2006 and '7 we set credit standards, yet assumed that the prices of whether it was homes or whether it was any other commodity were just going to keep going up and up and up.

So what was the key? The keys to the crisis were, we as an industry over-lent and customers over-borrowed. The second issue is, we had too much leverage in the financial system and we need to keep that down. The third issue is our practices, whether they're pay, capital, liquidity and other matters, concentrated risk-taking, too few people and encouraged too much risk. So as we go forward, we as a company and I personally support the efforts of our regulators and policy-makers to regulate the leverage, liquidity, the capital and the products that our business does, all with an effort to ensure that it won't happen again.

But most importantly, whatever regulation does come, it is still our responsibility, my responsibility and your responsibility to make sure this doesn't happen again. So that leaves me to stick to the phrase, "all things in moderation." And it's not a novel sentiment, it's one we have to keep in mind as we go forward. So to finish, I'd like to give another quote from Terence, our friendly poet from two thousand years ago. Terence said, "Where there is life, there's hope." In life, it's very apparent when I talk to some of the students here in a values-based business school like you all are in Pepperdine, you're going to produce quality business leaders. And that life, its vibrancy is great to see. And with that life, I get my hope. Thank you for inviting me tonight and I'd be happy to take questions.

<Applause>

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