Regional Oral History Office
The Bancroft Library

University of California
Berkeley, California

Richard M. Rosenberg

THE FATHER OF BANK MARKETING: WELLS FARGO BANK, 1960-1982;
BANK OF AMERICA, 1987-1996

Interviews conducted by
Germaine LaBerge
in 1996 and 1997

Since 1954 the Regional Oral History Office has been interviewing leading participants in or well-placed witnesses to major events in the development of Northern California, the West, and the nation. Oral History is a method of collecting historical information through tape-recorded interviews between a narrator with firsthand knowledge of historically significant events and a well-informed interviewer, with the goal of preserving substantive additions to the historical record. The tape recording is transcribed, lightly edited for continuity and clarity, and reviewed by the interviewee. The corrected manuscript is indexed, bound with photographs and illustrative materials, and placed in The Bancroft Library at the University of California, Berkeley, and in other research collections for scholarly use. Because it is primary material, oral history is not intended to present the final, verified, or complete narrative of events. It is a spoken account, offered by the interviewee in response to questioning, and as such it is reflective, partisan, deeply involved, and irreplaceable.

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Copy No. 1

Richard M. Rosenberg, CEO of Bank of America

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Richard M. Rosenberg—Interview History

The American banking industry in the latter half of the twentieth century transformed itself--responding to government regulations, economic seesaws, and consumer needs. The story of that transformation is best told in the words of those intimately involved as key players and catalysts for the changes. Richard Rosenberg, aptly dubbed the Father of Bank Marketing, describes his long career (Wells Fargo Bank, Crocker Bank, Seafirst, and Bank of America, 1960-1996) in the oral history which follows; in doing so, he preserves this unique business history for researchers of the twenty-first century.

The Regional Oral History Office (ROHO) at the University of California, Berkeley, invited Rosenberg to record his memoir shortly after he retired as CEO of BankAmerica in 1996. He responded with typical enthusiasm and we began the series of nine interviews (eighteen tape hours) in September 1996, finishing in March 1997. The oral history covers Dick Rosenberg's full life, starting in Fall River, Massachusetts, 1930, in the midst of the Depression; his childhood and education; pivotal U.S. Navy experience; a significant date with Barbara Cohen; and subsequent business and legal education.

Colleagues, friends and journalists have described Richard Rosenberg in various ways: a human dynamo, vibrant, a team player, a man steeped in strong social and ethical values, a quick study, a visionary leader. I found in him all these attributes and more when I visited his office on the 11th floor (retired officers' suite) of BankAmerica in San Francisco for the interviews. He has retained his Boston accent and speaks rapidly with expressive hand gestures and an easy laugh. Speaking informally, he traced his banking career from 1960 on, covering subjects such as credit cards, ATMs, advertising, marketing, technology, mergers, deregulation, and more. In addition, he answered questions about his many outside interests, including California water issues, football, and work with many charitable institutions.

The tapes were transcribed and lightly edited at ROHO. Mr. Rosenberg made very few changes, maintaining the conversational tone of the interview. In preparing the final version, a table of contents and index were added. Some newspaper articles and other illustrative material are deposited at The Bancroft Library. Readers should know that Richard Rosenberg recorded these interviews in 1996-1997, while David Coulter was CEO of BankAmerica, well before the merger with NationsBank. The oral history reflects the pre-North Carolina story of BankAmerica. An after-the-merger assessment would have been a valuable and interesting addition, but budgetary and time constraints ultimately ruled.

Many thanks to the Bank of America Foundation for funding this interview. I am also grateful to A.W. Clausen, CEO (retired), and Duncan Knowles, retired head of Specialized Communications and Heritage Programs, both of whom provided valuable background information and support.

The Regional Oral History Office, a division of The Bancroft Library, was established in 1954 to augment through tape-recorded memoirs the Library's materials on the history of California and the West. Copies of all interviews are available for research use in The Bancroft Library and in the UCLA Department of Special Collections. Tapes of the interviews are also available for listening in The Bancroft Library. The Regional Oral History Office is under the direction of Richard Cándida Smith, and the administrative direction of Charles B. Faulhaber, James D. Hart Director of The Bancroft Library, University of California, Berkeley.

Germaine LaBerge, Interviewer
Regional Oral History Office

Berkeley, California
November 2004

INTERVIEW WITH RICHARD M. ROSENBERG

I. CHILDHOOD, FAMILY BACKGROUND, AND EDUCATION, 1930-1952

Fall River, Massachusetts

[Interview 1: September 12, 1996] ##[1]

LaBerge: We always like to start with the beginning to find out people's roots and their motivations. I know you were born in Fall River, Massachusetts, but why don't you tell me the circumstances and your family background?

Rosenberg: Surely. As you mentioned, I was born in Fall River, Massachusetts. Fall River is a very poor city. It's a city which was a very major textile manufacturing center. Virtually all of the textile mills were in the process of moving to South Carolina and North Carolina during my early childhood days.

My family was not very well off. My father was an apparel salesman. I was an only child, born in the midst of the Depression, probably an only child because that's all my parents thought they could afford, if they could afford even me. So consequently, I grew up in the lower middle class in a city in which many of my classmates were really quite affluent, because when the textile mills began to move to South Carolina and North Carolina, garment manufacturing moved into the city and some of the garment manufacturers actually were doing quite well in spaces that were once textile mills.

So in some respects, the fact that I was literally poor, not by poverty standards, but poor in a city in which many were affluent, probably had some impact on my future life.

LaBerge: Did you go to public schools?

Rosenberg: Yes. The public schools ironically were very good. I say ironically because the school system was so poor, they could not afford new textbooks and, therefore, regardless of whether you were going to go on to college or you were going to work in a textile mill,

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1. This symbol indicates that a tape side has begun or ended. A guide to the tapes follows the table of contents.

you got a very good high school education including four years of English, and at least three years of mathematics, including algebra and trigonometry, simply because the school system could not afford the new modern textbooks such as "adapting to life." So I've always thought that both the elementary school education and the high school education in Fall River was actually really quite good, if not excellent.

Sports and Books

LaBerge: What did you like to do as a child? I'm thinking of even before high school, as far as hobbies or outside activities.

Rosenberg: Well, I was always very interested in athletics. I played baseball, football, basketball and soccer. Fall River is a city that is very heavily Portuguese. It was about 60 percent Portuguese when I was growing up; it's probably about 85 percent Portuguese now. *National Geographic* actually did a story some years ago about "Little Portugal in America," about Fall River.

So I played a lot of soccer. I never saw a soccer game again for years and years after I left Fall River, but because there were so many Portuguese, we played soccer in both elementary school and junior high school, but I was always interested in athletics. I played almost all sports except tennis, which was looked upon as, quote, a "sissy" game, so I never picked up a tennis racket until I came to California, where tennis was an acceptable sport.

LaBerge: What about reading? What did you like to read, and did you like to read as a child?

Rosenberg: Yes, I read--it's hard to remember exactly what I read, but I certainly enjoyed reading. One of the real treats that I can remember--a certain treat from a childhood that I don't think I would characterize as a happy childhood, was when an uncle gave me a set of classics. By classics, I'm referring to books like *Treasure Island*, which is the one I can remember most vividly, and *Twenty Thousand Leagues Under the Sea*. Those were books that I enjoyed reading tremendously. So yes, I did enjoy reading, always read almost everything that I got my hands on, although if it was a choice of reading or playing baseball, basketball, or soccer, I would have chosen the athletics over the reading.

I was a Boy Scout, was a Boy Scout with about twenty-four merit badges, and made Life Scout; did not make Eagle, as I did not get my lifesaving merit badge, but had all the merit badges for Eagle except lifesaving. I went to Boy Scout camp, as a matter of fact, and so I was an active Boy Scout.

LaBerge: How did your parents encourage you as far as Boy Scouts or school, or what kind of influence do you think that they had on you?

Rosenberg: Well, I've often tried to reconstruct that, and they obviously must have had some influence, but I can remember zero encouragement, zero advice, zero recommendations, zero guidance from either of my parents. I can remember a pride, I guess, but I cannot remember any guidance, recommendations, anything of that nature from my parents. The only advice I can remember in all the years of my association with my parents was my father's recommendation or advice when I went to the navy, which was that you would often be called upon to work--work is the way he termed it--at strange hours, so try and learn how to sleep at any time that you're not working. And that is the sum total of the advice that I received from my parents throughout my entire life.

Influences: Emily Kimberly Johnson

LaBerge: Wow. Well, who were your influences?

Rosenberg: I can't--

LaBerge: Any uncles--like you mentioned your uncle?

Rosenberg: At that early stage, I can't remember any influence at all, to be honest. The first influence that I can remember was when I was graduating from college. Of course, I was working going through college because I couldn't afford it otherwise. I worked for a very socially prominent but also very bright woman who ran public relations for the Massachusetts Heart Association. This period was during the Korean War, and given her social circle, there was only one military branch and that was the navy. That was probably the first significant personal influence I can ever remember affecting me was when she said, "Well, of course you're going to the navy."

LaBerge: What was her name, do you remember?

Rosenberg: Emily Kimberly Johnson.

LaBerge: How were you connected with the Massachusetts Heart Association?

Rosenberg: I worked for them for three years when I was not in class doing a variety of public relations activities, ranging from managing seventy-five female volunteers every night at the Ice Capades or Ice Follies who would collect money in plastic hearts, to doing news releases, to doing special projects. The job was associated with a journalism type of a job in that it was a public relations job, planning special events, actually writing news releases, writing feature stories, writing brochures. And Emily Kimberly Johnson was the director of public relations for the Massachusetts Heart Association.

Family Background

LaBerge: Well, getting back just to your family background, can you give me the names of your parents and maybe a little bit about where they came from or where your grandparents came from?

Rosenberg: Sure. My father's name is Charles. He married at age forty-four or forty-five--to my mother, so he was already certainly quite old to have a child. He was a successful retailer until the Depression came, lost his job, which was in a major retail operation, then had a series of small retail shops, all of which failed. During the war, he worked in the shipyards in New York City, when we lost our house and moved in with my mother's parents.

She was one of about four or five sisters and brothers--brother, I guess. She married, by those days, I guess, rather late. She was about twenty-seven or twenty-eight.

LaBerge: What was her name?

Rosenberg: Betty Peck.

LaBerge: And from New York?

Rosenberg: Originally from Russia. My father was born in the United States, but she was born in Russia, I guess, and came here at about two years old, I would say. And came directly to Fall River, apparently, where my grandfather had a grocery store.

LaBerge: So did you get to know your grandparents?

Rosenberg: Yes.

LaBerge: Both sides?

Rosenberg: Just on my mother's side.

LaBerge: Were they still in Fall River when you were growing up?

Rosenberg: Yes. Virtually the entire family, with the exception of one of my mother's brothers, lived in Fall River. He lived in New York.

LaBerge: So were there a lot of family gatherings, and cousins, and things of that nature?

Rosenberg: No, not really. There were not really very many family gatherings, probably for several reasons. One, they couldn't afford to travel very much. This is a digression, but there's a fascinating group over in Emeryville called the Age Wave group, I don't know if you're familiar with it?

LaBerge: No.

Rosenberg: I'll give you a tape of a speech by the president of the group, some of their work about the demographics of older people relate peripherally to your question. At that age, a grandfather probably only knew twenty-five people, outside of his family. They didn't travel, and the telephone was in very limited use at that time.

But at any rate, one, there were not many family gatherings because there was not much money to have a gathering, and two, I think there was always an estrangement between my mother's side of the family and my father's side of the family, who were more successful. My father's brother was probably the most respected attorney in New Bedford, which is a sister city to Fall River, and his name was always being bandied about as being considered to be selected for judge. So there was an inferiority complex, if you will, on the part of Mother's side of the family with Father's side of the family. So there was very little interchange.

LaBerge: Is this the uncle who gave you the books?

Rosenberg: No. One of my mother's younger sisters married a man from Germany who came in 1937 or '38, escaped from Hitler. He had come from an extremely well-educated, extremely affluent family in Germany. He did not have much money--had no money here, actually, had lost everything to Hitler, but had come from a very extraordinary--not extraordinary, but extraordinary by our family standards--educational background and affluence, and he was the one who gave me the books.

LaBerge: Well, tell me about what you did during the war, because you were still a young boy. You just mentioned that you had lived with your mother's parents.

Rosenberg: Well, this was for a relatively short period, in the period probably 1941 to 1944, when I would have been about eleven to fourteen. In that period of time, my father left to go to New York to find a job in the shipyard, because literally, almost everything that he had touched after he lost his job in the Depression, failed, I think he lost his spirit, after all those setbacks. So he went to New York to work in the shipyards, which he did during the war. We lived with my grandmother and grandfather, as a matter of fact.

Now, after the war, he came back to Fall River and I guess tried something else again, and I guess I would have been about fourteen or so. Through that high school period, he worked for somebody else as a salesman.

LaBerge: But what was that experience like for you, to live with your grandparents?

Rosenberg: Well, it was a continuation of what I think was, in many respects, a very difficult entire childhood, in that you weren't really real poor, you never missed a meal--don't let me overstate it--you never missed a meal, but in many respects, you were always feeling as a second-class citizen in that community in which we lived. Ironically, there were really poor people in that community, but because they were not of the same "social strata," you tended to ignore that fact. So the first real period of having--skipping ahead--when I felt absolutely not only equal but could feel that merit would prevail, was the navy. The navy was probably the most important influence and experience in my life.

College Decision: Suffolk University

LaBerge: Okay, you mentioned that before. We're going to get there, but I think we'd better do some more of this before. Had you always thought you were going to go on to college?

Rosenberg: No.

LaBerge: How did that come about?

Rosenberg: Well, in my senior year when everybody else was planning to go to college, I didn't see how I could ever afford college, and I was too proud to apply for scholarships. Because in that kind of environment, the one thing I can remember is trying to always keep my own pride, in spite of the fact that we had virtually nothing compared to all of my contemporaries. Sadly, I equated a scholarship based on need as welfare. In Fall River, we may have had good textbooks, but we certainly couldn't afford the luxury of very good guidance counselors.

So I didn't see, one, how I could afford to go, and two, I wasn't going to apply for a scholarship, because scholarships would have had to demonstrate the need, and I was not about to dare expose my soul to this scrutiny. Probably part of this was the impact of having a father who had to leave the city to find enough money to send home something, and to have to go live with a grandfather and grandmother.

But when everyone else was going off to college after high school, I said, well, maybe I could do it and work at the same time. But obviously, most colleges, then as now, would expect you to apply long before graduation. Suffolk University did not have that requirement, so I went off to Suffolk. Suffolk also had great hours in which you could actually work--it really was geared to a person such as myself who had to work, and so they were quite flexible in their hours, although I still think they maintained very good academic standards. But they were very flexible as far as hours were concerned.

Jobs

LaBerge: So had you had jobs growing up, too?

Rosenberg: Yes.

LaBerge: What kind?

Rosenberg: Oh, I worked in a textile mill, I worked in retail stores doing donkey work, if you will--making boxes, running errands, making bank deposits. My first exposure to a bank, I guess, or a deposit in a bank, was working in a retail store where one of my responsibilities was making the bank deposit every day. By making the bank deposit, don't let me again overstate it: it was carrying the money to the bank, not actually making up the deposit slip. [laughter]

LaBerge: I know that you were interested in journalism even when you were in high school and you worked for the paper.

Rosenberg: Yes, I was the sports editor of the newspaper, and I was feature editor of the newspaper. I was the sports editor of the yearbook. Yes, even at that age, I was--I had always had an interest in journalism and had always been involved in one form or another of writing.

LaBerge: So when you went off to college, did you know that's what you were going to do?

Rosenberg: Well, journalism seemed like the most logical thing, so I majored in journalism.

LaBerge: And did you live in Boston, or did you live at home?

Rosenberg: No, I lived in Boston.

LaBerge: In an apartment, or what was the arrangement?

Rosenberg: An apartment, with roommates, not necessarily--in fact, in most cases, not from Suffolk. Suffolk was a school then and probably today, not to the same extent, but probably to a significant extent, is a commuter school. But the opportunity to get away from Fall River was overwhelming. Fall River is only about fifty miles from Boston, and today you can do it from Boston in thirty-five minutes, but of course, in those days, the roads were not as good and it was a two-hour trip. But in theory, I suppose I could have still lived at home. But no, it was impossible to do and still work. But Boston--Suffolk was characterized by being a commuter school, and therefore, if you were going to find roommates, you found them most times from outside of Suffolk.

Massachusetts Heart Association

LaBerge: And did you always work at the Massachusetts Heart Association, or did you have other jobs?

Rosenberg: I probably had--I must have had, in my freshman year, another job, because I worked for the heart association for about three years. But I did that virtually the whole time. This was a great job, because there were great people I was working for. The Massachusetts Heart Association was a nonprofit, but because of the Peter Bent Brigham and the great teaching hospitals of Boston, which at that time and probably to a large extent today are still the centers of cardiovascular research, the Massachusetts Heart Association occupied a special niche in the nonprofit world. They attracted people like [Emily] Johnson, they attracted people like Margaret Taylor, who was their executive director, and so there were really very, very high quality people.

And to find a job that had some relationship to what I was doing and was still fun was an enormous experience. I worked very hard for them. During campaign time, you worked nights and weekends. The pay was probably slightly better than minimum wage, and for a college student, it was fantastic. The associations of the people in the heart association were always extraordinary to me. I mean, years later, when Peg Taylor was a woman of seventy-five or something, and by that time I guess I was already a senior vice president at Wells Fargo, she actually came to San Francisco, and it was one of the great joys of my life to be able to take this woman out to dinner.

So yes, I know I worked there three years, and I must have had another job, I must have, but which I cannot remember, in my freshman year.

LaBerge: Yes. But what a great experience. I mean, so different than working on the assembly line.

Summers in the Catskills

Rosenberg: Oh, yes. It was a terrific experience. Now, of course, I had to make a lot of money in the summers, so almost every summer, I worked in the Catskills. I am one of the great salad men--I still am--as a matter of fact, you're looking at a Business Week Executive Chef of the Year contest honorable mention winner. The first prize was a week in Paris and a week in London, eating at the finest restaurants; the second prize was a week in Paris eating at the finest restaurants; and third prize, my prize, was an apron that says "Executive Chef." [laughter] But my corned beef and cabbage cooked in beer is one of the great dishes.

But up in the Catskills, actually, I worked many years, and I started that actually in high school. You would average probably about $1,000 a summer, and since it was virtually all tips, there were no taxes. And they fed you and housed you, and so it was net-net-net.

LaBerge: Were you a cook, or were you a waiter?

Rosenberg: There were a couple of years I served as head salad man in a hotel, but I worked, I guess, probably about six summers up there, and probably four summers, I was a waiter. I don't know if you're a basketball fan, but Bob Cousey may be a name you remember. Bob Cousey was the great star of the Celtics. Bob Cousey was my bus boy one year, and I can remember when Cousey was coaching the Cincinnati Royals in the--and we were at the Oakland Coliseum one time, and my son was about ten or twelve or something, my older boy. He went down and introduced himself to Cousey, and I don't know whether Cousey remembered me or not, but he certainly pretended he did, and he said, "Your dad was the best waiter we ever had." [laughter]

LaBerge: Oh, it's great!

Rosenberg: Cousey, of course, is probably one of the greatest stars that ever played in the NBA.

But at any rate, in the summers, I always worked in the Catskills.

LaBerge: Which resort was it?

Rosenberg: Well, I worked at several. I worked at Tamarack Lodge, I worked at Naponach Country Club. These were all around Ellenville, New York.

LaBerge: So obviously, you've kept up the cooking interest, if you entered this contest.

Rosenberg: [laughs] Very--I have not had a lot of time to do it. It's another one of those things, quote, "I'm going to do in retirement," which at the current rate, I will never get around to.

Religious Background

LaBerge: Well, before we go on to the navy, what about your religious background, and what influence that's had?

Rosenberg: Well, I am Jewish. I went to Hebrew school, I was bar mitzvah'd, I went to Sunday school, all through Sunday school, was confirmed. I've never changed from Judaism, but I was never really active after I got out of high school. Fall River is a very interesting city in that it is overwhelmingly Catholic because of the Portuguese and the French influence, and there is a small but very affluent Jewish population. That's what I was referring to before, that the Jews who came to Fall River by and large--there are always exceptions, like our family--but, by and large, had done extraordinarily well, and consequently, that was where this sort of second-class citizen grew up.

Because there were really sharp religious lines, most of your friends were drawn from your own religion. Although I did play basketball for the Catholic Youth Organization, and a good many of my friends, and some of whom I have actually kept in contact with years and years thereafter, were Catholics. It was still a city in which there were sharp religious lines.

I sort of had totally given up on organized religion until I got married. My wife felt much more strongly oriented toward Judaism. After we got married, I became more involved in religion. But growing up, I clearly went through all of the "chairs" of religion that a young Jewish kid would do, ranging as I say from the six years of Hebrew school after school, which was fitted in around working after school.

LaBerge: That's a lot.

Rosenberg: And then, of course, Sunday school every Sunday until you were confirmed. In subsequent years, after we got married, I went back to belonging to an organized temple in Marin County, and actually, I was the vice president of the temple then.

Journalism Teacher and Deadlines

LaBerge: Any memorable class--

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Rosenberg: In high school, the only really memorable teacher I had was probably my journalism teacher, and I don't recall him as being a mental giant. He was just a nice, decent guy who understood deadlines and beginning on time and ending on time. People around here [Bank of America] know that when I ran the place, that the meetings always began on time and they always ended on time, and if you weren't on time, it was just too bad. It was a whole new revelation to them, that the meetings begin exactly at the time called. [laughs] And, obviously, probably more of that came out of the navy, but part of that probably came out of the journalism teacher, who understood deadlines.

And the other aspect of it was that he was such a decent human being, to me and to my wife, who was actually the editor of the high school paper several years afterwards in Fall River. He was sort of the common thread when we were no longer dating--as I said, I think I told you, I dated her in my junior prom in high school and never took her on another date again--

LaBerge: Right.

Rosenberg: We, during that seven-year hiatus, occasionally we would see each other at Christmas at John's house, at this journalism teacher's house.

LaBerge: John--?

Rosenberg: Crowley. I can say that--there are a couple of faces I can conjure up out of the past, but I can't truly say that I felt influenced by any high school teacher, or any college professor, for that matter.

II. U.S. NAVY, 1952-1959

Officer Training School, Newport, Rhode Island

LaBerge: What prompted you to go into the navy? Was there a draft then, or--?

Rosenberg: Well, everyone was going to go into the service. I mean, it was Korea.

LaBerge: Oh, that's right.

Rosenberg: It was a different war than Vietnam. It was a war in which--my bias shows through--that everybody had to go, and--

LaBerge: Right, that the country believed in.

Rosenberg: Right, instead of what happened in Vietnam. But what led me to the navy, frankly, was Emily Kimberly Johnson, who just took it for granted that everyone with any brains would go in the navy. I mean, it was unheard of not to go. And I had not planned on going into the navy. I figured I would be drafted and do my two years. But when Emily expected me to go into the navy, there wasn't any question I was going to go to the navy.

LaBerge: So you went a different route and went through officer training school?

Rosenberg: Yes, then I applied for officer training school, and ended up being accepted. And as I say, it was truly the first meritocracy that I had ever found, where it really didn't make any difference--. For example, one of my proudest achievements was, at OCS, in spite of the fact that there were six academic courses every day, and there was a test every day in every subject, you also had the usual--you were actually a seaman second class while you were going through Newport, and you also did all of the menial things. I remember when I became in charge of one-half of all of the Venetian blind cleaners on one barracks, and I actually got a great guy who was a Rhodes scholar, but was our urinal specialist. [laughter]

But I brought him into my Venetian blind team--I ended up again as one of the editors of the publication that we produced. I mean, that place was so tough that you produced a yearbook in four months. But if you look at the quality of the people who graduated at that point in that class, I mean, they were--as I say, our urinal specialist, he had his bachelor's from Princeton and he was a master's from Oxford, and--.

But we were also proud of, in addition to the academics--other achievements, I was in charge of eight people cleaning Venetian blinds, that was my first management feat.

LaBerge: So all of this took place, the classroom period--a six-month or one-year--

Rosenberg: Four months. Because we had a somewhat unusual time period, it was slightly longer than four months. The navy rarely did this, but because this class started in October and we graduated in March--normally, it's four months straight through, but they actually gave us I think three weeks off at Christmas. It was an unusual period of time, principally because I think they were having a hard time keeping instructors there over the Christmas period. But it was a four-month course.

LaBerge: Okay. In Newport?

Rosenberg: In Newport, Rhode Island. And I think the assistant chief of personnel, an Admiral Holloway, who came down and talked, probably summarized it best: that in four months, we had given you a smattering of what you need to know. But we hope we've picked all the right people when we came in. The class was 1,100; we graduated 700. You washed out people very fast. He said what it was OCS tried was to give you enough that you could go to the fleet and not be an embarrassment, but if we had picked the right people, the people we sent to the fleet could perform. But you were obviously going to learn in the fleet, not in the four months of navigation, gunnery, operations, and other instruction in the classroom, that we have been able to impart to you in four months. But if we've chosen the right people, we've done our job here in further finding the right people, then we've done our job.

LaBerge: So where were you sent from there?

Rosenberg: From there, I went for five more weeks of amphibious warfare training in Coronado, and then went to the ship, which was at that time in Pearl Harbor on its way out to the Far East.

But that was my introduction to California. I graduated from Newport, where the ultimate irony was to go to the navy and be closer to home than anyplace I had been in years.

LaBerge: I realize that, because I did that trip last year, and it is, it's about thirty minutes, isn't it?

Rosenberg: Oh, yes. That's sixteen miles. That was the ultimate irony. But Newport in the winter is absolutely no fun, because the cold wind comes off the bay, Naragansett Bay, and just goes right through you as you march to your breakfast at six o'clock in the morning. And then suddenly to put on an officer's uniform and go to Coronado, California, I thought I had died and gone to heaven. Coronado after Newport was just--what a joy. What an absolute joy.

LaBerge: You weren't there very long either, were you?

Rosenberg: In Coronado?

LaBerge: Yes.

Rosenberg: No, I was there about five weeks, five or six weeks. But it was just an absolute treat.

Duty in Asia

LaBerge: You went to Pearl Harbor, and how did you get to Vietnam from there?

Rosenberg: My ship operated for two years off Korea, and then in Japan--this would have been '53. Then of course in '54, the French finally gave up the ghost at Dien Bien Phu, and we had, as a nation the choice of supporting the French, which Admiral Radford argued for, that we should support the French with full force military effort, or just draw the line at South Vietnam, evacuate those who wanted to flee from Ho Chi Minh. And so we went down to Vietnam to evacuate. We were due to come home. Two-year tours. Nowadays, you only do about a six-month tour, but you did about two-year tours then, and we were just about due to come home after two years when, I guess it must have been [President Dwight D.] Eisenhower--let's see, '54, it was probably Eisenhower--I guess Eisenhower made the decision we were not going to support full-fledged military effort, but we would support the south, and we would take out of the north those who wanted to leave the north.

LaBerge: And that's what you were doing?

Rosenberg: Yes. As a digression, the definitive book on Vietnam is a book called *A Bright Shining Lie* by Neil Sheehan[1] who won the Pulitzer Prize for it. I met Sheehan a few months ago, a year ago, interesting story.

LaBerge: We like digressions. You can digress as much as you want.

Aside on the Golden Plate Award Winners

Rosenberg: Well, where I met Sheehan was--I don't know if you've ever heard of something called the Golden Plate award?

LaBerge: No.

Rosenberg: The Golden Plate award, on its face sounds absurd. I had gotten a letter from Lou Holtz, who was the football coach at [University of] Notre Dame who I know, peripherally, and he said, "You're going to get something in the mail, an invitation, that you've been

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1. Neil Sheehan, A Bright Shining Lie: John Paul Vann and America in Vietnam (New York: Random House, 1988).

selected for something, and I know this is a thing that--just with the name, that this would be the first thing you would throw in the wastebasket." And of course, he was right. The first thing I would throw away, "You've been selected for the Golden Plate award." He said, "But I encourage you to read those who have gone before and who your class is." I said, "Okay." And this invitation came from the American Academy of Achievement, and it's an interesting operation.

They select about twenty people every year, and they hold the awards in a different city every year, and they give you something called a Golden Plate award. It is the most eclectic group. In my class, it ranged from Charles Kuralt, to the Judd mother and daughter, to Twyla Tharp, to Jim Woolser, who was head of the CIA at that point, to Sumner Redstone, to me.

They bring in 400 high school seniors every year, and that's, of course, the real attraction. If you've been selected for that class, you get six minutes to tell your life story, and then the kids get four minutes--you get six minutes for an oral history. [laughter] And then the kids get to go at you for four minutes.

I can remember one of the individuals was receiving an award, one of the Pritzkers--the Pritzkers own the Hyatt chain, among other things. They are among the wealthiest people in the United States. One of the Pritzker kids was in my class. Most of the stories being told were rags to riches, stories like me, or from being poor, to now you're chairman of the Bank of America. Pritzker said, "Well, I want to tell you something: I wasn't born poor." [laughter] "But if you think it's easy--." So he was a refreshing change from all the rest of us who were rags to riches stories.

But at any rate, the appeal, of course, is the kids. The way this thing works is, you get there Thursday night, and you have Thursday and Friday, and Saturday night is a black-tie banquet in which you don't sit with the kids, but all the other meals are all open seating. You sit with the kids and you really get insight into--now, these are not ordinary high school seniors, but nevertheless, they're still seniors in high school, so you get a real insight into that generation.

But the real attraction of this is, once you've been selected, you can come back every year thereafter. You pay your own way after that first year. So, for example, George Lucas from *Star Wars* goes every year. He was selected the year he did *Star Wars*. And Neil Sheehan was selected the year he got the Pulitzer Prize. I had never seen so many Nobel Prize winners, incidentally, at one banquet. I mean, there were at least eight. Another person who was in my class was Rudy Marcus, who had won the Nobel Prize in chemistry that year. At the banquet, as I say, that night, there were I think six or eight Nobel Prize winners.

But Sheehan goes back every year, and so I got to chat with him about Vietnam, because obviously, it's an area of great interest to me. He has written another book. He went back to Vietnam and has written another book which is not very good.

LaBerge: Is this the one that was just recently published?

Rosenberg: About two years ago, yes. But his real incredible piece of work is *A Bright Shining Lie*, which is the one he won the Pulitzer Prize for.

LaBerge: The American Academy of Achievement award is really something. Who puts it on? Who funds it?

Rosenberg: Well, I have never been able to figure out--they ask you for a contribution afterwards, but I've never really been able to figure out where all this money comes from. There are people who really believe in it. Dennis Washington, who has just taken over Morrison-Knudsen construction company--MK as you may have read went into bankruptcy. Another fellow who supports it with substantial money is Steve Wynn from the Mirage and Treasure Island in Las Vegas.

LaBerge: So do you intend to go back every year?

Rosenberg: I really wanted to--I have gone back one year--this was in Maryland. Tom Clancy was the host that year. We intended to go back this year to Sun Valley, but I had to go to London for the bank, and so I didn't go back this year. But yes, I would like to go back every year. First of all, it's kind of fun to see who they selected, and it's also fun to be with these kids.

Navy's Influence

LaBerge: That's great. Well, more on the navy. What did you do in Korea?

Rosenberg: Well, I think the reason the navy, as I say, was such a powerful influence on me, was the fact that--I don't know how much you know about the navy, but when you finally achieve designation as an officer of the deck underway, it's probably the highest achievement of a line deck officer, who's not an engineering officer. It's probably the epitome of what you can do forgetting the rank. And there were forty-two officers on that first ship that I served on; I served on two ships, actually. I was one of the four officers designated officer of the deck underway.

And for a kid twenty-one years old, it is probably the greatest responsibility you ever have for the rest of your life. When I went--when I was CEO of BofA and there were 94,000 people working for me around the world, it was not really as much responsibility as when you're standing OOD [officer of the deck underway] all alone at night--I mean, all alone at night: you are it, because the captain is sleeping in his cabin--there are four or five other officers on the bridge, but it is your ship, and you're steaming 1,000 yards in darkened ship condition from another ship. If you go right instead of going left, and you've got 1,500 marines on board that ship, or 1,500 refugees fleeing from Ho Chi Minh, you could cause a few serious situations for a lot of people.

I always have felt that that responsibility and that authority, frankly, was greater than anything I've ever had, or will ever have for the rest of my life. So in subsequent years, when I've had to manage people or lead people--and I have a very big argument on that subject alone, about whether you lead or manage--but it will never again be as significant as I had at twenty-one years old in the navy.

LaBerge: Because you really had people's lives at stake there.

Rosenberg: That's right.

LaBerge: How long were--

Rosenberg: Well, I guess I qualified at a pretty rapid pace. I guess I qualified as OOD at about eight months. We had on this first ship, a captain was actually small in stature, and therefore small man syndrome in some respects, and he--not small in mind; he was bright enough, quite bright enough. In fact, I've never met a dumb navy captain or admiral. But he was somewhat paranoid, and I think probably it came as a result of his height. Although interestingly enough, the most recent chief of naval operations who has just committed suicide [Boorda] was only five-foot-four.

But of the four people who qualified for officer of the deck underway, three of the same four were the only people he qualified to stand--to be in the cryptography room. So my memory of that ship, among other good memories, was that I was always tired. [laughter] In that if you get off watch at night, and then a message that couldn't wait until the morning came in and it was your turn on those four hours in the cryptography room, they would wake you up at night to decode a message, when we had forty officers on board that ship.

And as a result, frankly, of that kind of action, of only qualifying four officers for officers of the deck underway, and then three of the same four were the cryptography officers, it taught me another very important management lesson: if you cannot allow people to achieve for whatever reason, either because you're legally blocked or your own personality blocks their promotion, whether they are men or women, they are actually going to deteriorate, not get better. They're not going to get any better after they've once reached the level of expectation that they should be qualified. And if they are qualified, and you don't qualify them, or you don't promote them, or in civilian life, move them to the appropriate position, they're not going to get any better. They're going to get worse, which is exactly what happened.

So there were all kinds of great lessons. As I say, I always thought the navy had great management skills, and I still believe it.

LaBerge: Did you ever think of staying in the navy?

Rosenberg: Yes, as a matter of fact, my wife and I talked about it a lot, because I actually extended two years. I actually spent over five years in the navy, and I could have spent three. I spent five and a half, and I theoretically only owed them three and a half after OCS, the officer candidate school. And I think had it not been for the fact that, particularly in those days, you would go away for a long time, I might have stayed. I liked it a lot, it was the true meritocracy.

Discrimination and Status

Rosenberg: What always amused me was the fact that there is a theory that, and particularly in those days, that Jews could not be in the navy officer ranks, were just not welcome and could not advance, but I was always promoted ahead of my class. The American Jewish Committee has singled out about four or five industries that were particularly in their view hostile to Jewish people: utilities, commercial banking, the navy, and a couple of others, I guess. And years later, they came to me, because I have always--up until this last go-around in which at the BofA there was not time to almost do anything extraneous, I have always participated in Jewish community activities. They came to me, and I told them, "I'm not a very good example for you." And I've always felt to some extent, it's a self-fulfilling prophecy: because you believe it, you don't go to work for a commercial bank or you don't go into navy officer school.

LaBerge: Or you don't work for a utility.

Rosenberg: And therefore, if you look at the numbers, the numbers are abysmal. But is it because of the discrimination, or is it because no Jews enter that field? I'm not so naive as not to say that there wasn't discrinimation years ago, but it was just like the navy. In the navy, there clearly was discrimination against blacks. But when the navy finally decided that it was not going to discriminate any more, there was no organization, to my knowledge, that ever made the same extraordinary efforts to make sure there was no discrimination. They had discriminated; there wasn't any question. But once they made up their mind that this was over, it was over. And there was zero tolerance for discrimination once they decided it was over.

LaBerge: Isn't that amazing, that they would pick out the navy more than the army? But I guess this is something I don't understand: Emily Johnson, who thought the navy was the only thing. I didn't realize that the navy had that high status.

Rosenberg: Oh, yes, navy--it's probably still true to this day, although it's not as extreme as it was earlier. But if you were to look at both World War II and Korea--it would be an interesting research study; maybe it was only perception and not reality, but I really think it was reality as well. And you would go to Princeton, and you would go to Yale or those kind of schools, and look at where its graduates went when they went to the military, I think you would find totally disproportionate numbers in the navy as contrasted to the army.

And frankly, I guess it may actually be a carry-over even from the U.K. You always hear of the princes, when they're not sleeping with some other woman, they are in the navy. Well, Prince Philip, I guess, is navy; Prince Charles is navy; Prince Andrew is navy. And I think it is probably true--well, it clearly was true, I think, in the United States. Maybe it was only perception and not reality. I think it actually is reality, and maybe less so today. Probably a lot less so today. But it certainly carried through from World War II to Korea and to Vietnam. Now, maybe it's a different world today as the downsizing has been dramatic.

LaBerge: Well, now, you stayed in the navy for many years, is that right? Or as a reserve?

Rosenberg: Yes, then I stayed as a reserve officer--I actually stayed in the reserves for another fifteen years, and retired as a commander.

Legal Experience on Board Ship

LaBerge: When you came back from Korea and Vietnam, where were you stationed?

Rosenberg: Well, when I came back from Korea and Vietnam, and maybe this is why I ultimately went to law school, when we were in Hong Kong, we had a chief gunner's mate on board the ship who had had an exemplary record for twenty years, and apparently he had gotten some bad liquor or something and just went berserk and beat up the shore patrol and destroyed the shore patrol wagon in Hong Kong. So in the Commander Naval Philippines area, which Hong Kong is actually a part of, you put a finger on a shore patrolman, and it is an automatic general court-martial offense. However, he was the only chief gunner's mate we had on board ship, so the captain of the ship pleaded with the admiral who ran that area that, let us keep him on the ship, we'll try him on the ship under special court martial. You can't try a general court martial on board a ship. And the captain asked for a special court martial until they can send us out another chief gunner's mate, because we didn't have another chief gunner's mate. And so I guess, reluctantly, this was allowed.

This chief came to me one night and he said, "I need a defense counsel." And of course, on board ship, generally, the trial counsel, the prosecuting attorney--or the plaintiff, as we would call it in civilian life--knows about as much as defense counsel, which is about nothing since almost no navy officer had any legal training. So I said yes. I discovered that--they had all these sworn statements from him of how he had beaten up all the shore patrolmen and all the rest of it. And by now, of course, we're 300 or 400 miles from Hong Kong when we finally go to trial, steaming off Okinawa or somewhere. And I had read, which I never realized before, that you can't use sworn statements. You have to have a deposition, and a deposition means that you have to have the right to cross-examine the witness.

So we go to trial, and they introduce all these sworn statements, and I say, "I object."

LaBerge: And you had read this in a little handbook?

Rosenberg: The navy gives you this big red book, the *Uniform Code of Military Justice*. So I read about depositions in the book, and I said, "I object. Look right here. I didn't have the right to cross-examine these witnesses who--." And the court said, "Sounds right to us, so okay, that is dismissed."

And then, of course, they still had him for destroying military property, which was the shore patrol truck. But the chief had given me all these repair receipts, and it turned out there wasn't enough navy in Hong Kong to justify a truck for the navy, so this truck was actually borrowed from the embassy. So although it was U.S. government property, it was State Department, not military property. So I read in the book that the charges have to be specific, so I said, "I move for dismissal of the charge in that this is a charge of destroying military property, and this is State Department property." So the court doesn't know any more than you know. That's why general court martials are not held on board ships, because on board ship you've got people with all kinds of skills, but they're not lawyers. The court said, "Certainly sounds right to us."

And of course, the trial counsel didn't know enough to be able to amend the complaint, so the whole thing was dismissed. Of course, the captain has to explain this to the admiral. So he called me into his quarters, and he said, "Okay, wise guy. As long as I'm on this ship and as long as you're on this ship, you are going to be the permanent trial counsel," (which is the prosecutor) "for the rest of our careers together on board this ship."

<u>Trial Counsel for Marijuana Cases</u>

LaBerge: This is wonderful. Okay, so you're the permanent trial counsel.

Rosenberg: So shortly before we left Japan, we discovered about fifty or sixty people on board ship had been smoking marijuana. Now, they probably had one marijuana cigarette, and there were maybe four or five ringleaders who really deserved some punishment, but there were about fifty kids who had smoked marijuana once. But we had to try them all, and I was the permanent trial counsel.

So I said to the captain, "We don't even have room for the trials. We're carrying marines. We can't give up the wardroom," which is where you eat, "because we're eating practically around the clock, because we're carrying marines home." He said, "That's all right. You'll use my cabin, and I'll use the sea cabin." I said, "Well, does this mean I don't stand officer of the deck watches going home?" "Oh, no," he said, "you'll do this in addition."

In the navy you can actually use marine officers or navy officers as a court. I went to the first kid, and I said, "If you confess and testify against the next person--" I said, "I'll try you in front of the navy officers; otherwise, I'll try you in front of marine officers." So the kid says, "Okay, I'll take the navy officers." So I got about sixty convictions by having one person testify against the next person--I got all sixty convictions between Yokosuka, Japan, and San Diego.

And then when we got to San Diego, the legal staff from what's called Commandant Eleventh Naval District came on board and said, "You can't do what you did." So they reversed all sixty of my convictions, which was probably just right, because the kids were just scared to death. They had one marijuana cigarette.

LaBerge: Because what did that mean if they were convicted?

Rosenberg: Well, it probably would have meant six months in a brig, loss of pay, and all that. So it was actually the perfect solution, but it was really funny to have gotten sixty convictions and sixty reversals.

Anyway, at that point, I wanted to go to a destroyer in the Atlantic, and I was clearly, even at that age, I was kind of a fair-haired boy in the navy, at least on that ship. So, the captain made a deal with me. He said, "I know you live in Fall River. The navy justice school, which teaches navy law, which you don't know anything about, obviously, is at Newport, Rhode Island. It's a seven-week school. Take the seven weeks, and then come back to the ship. But I'd really like you back on this ship, rather than going to a destroyer in the Mediterranean," which is what I really wanted to do.

Naval Justice School

Rosenberg: So I made a deal with him and I went to Newport and to the justice school.

LaBerge: So that you could continue to be counsel?

Rosenberg: No, that was a deal so I could go home and go to the East Coast, because Newport, as I told you before, is practically next door to Fall River.

About three weeks into the school, I discovered that the ship that I was on was going to be decommissioned. The navy has something called a detailer, and I went to the detailer in Washington and said, "Gee, as long as the ship is going to be decommissioned, I'd like a destroyer in the Mediterranean." He said, "You want a destroyer in the Mediterranean? Everybody that comes off of two years in Asia on a ship wants shore duty." I said, "Well, I'm not married, and I'd really love to go to the Mediterranean." He said, "Oh, sure, I'll be happy to put you on a destroyer in the Mediterranean."

So when I got back to San Diego, and I discovered that the second person in command, who is called the executive officer, had gotten command of his own ship, and he said to me, "Dick, you're going to come aboard as my operations officer," which was quite something, for at that time, I was still, I think, a junior lieutenant. Maybe I had just made lieutenant. I said, "I really appreciate your choice, I'm flattered and all that, but I stopped in Washington and asked for a destroyer in the Mediterranean." He said, "Well, I'm sorry. I asked for you and Lafferty, and Reynolds," and Reynolds comes into this story years later when my wife was fired as a library commissioner, but "you and Lafferty and Reynolds all asked for destroyers in the Mediterranean, and Lafferty and Reynolds are regular navy, and you're a reserve. So I got you."

So I served on a second ship, the *Catamount*. The *Catamount* was a ship that was going to be the first ship involved in what were the second set of tests at Bikini, when the first of the hydrogen bombs were going to be set off. But the ship was going to be in Bikini for about almost fifteen months. And at that point, I only had about seven months or eight months to do in the navy to complete my tour. So the navy did not want to send anyone into Bikini who was going to come out before the tests were completed.

Because of its mission to carry the first scientists in the area, every day someone would fly in with briefcases chained to their wrists and they would turn them over to me, because I was still there for a couple of months before they were to sail to Bikini. As operations officer, I had what at that time was higher than a top-secret security clearance. It was called Q clearance material, which was all atomic energy clearance. There were only a couple of people on the ship with Q clearances. I was the custodian, if you will, of the experimental material that was going to be used in the Bikini tests.

But anyway, they got me off the ship just before it sailed. Since I had only six months to do, they offered me anywhere I wanted to go within limits. I believe they were pleased to send me to New York, which is what they did, because when you leave they pay your transportation to where you come in, and I came in in Boston. So this was a cheap way of paying termination transportation. There was an assignment on Eastern Sea Frontier staff in New York, and that's where I went, to New York. In effect, my last six months of the tour were spent in New York.

LaBerge: Where in New York?

Rosenberg: At 90 Church Street, right in downtown Manhattan. But the way I stayed the extra two years was during that period of time--we probably don't have time for that story.

Cancellation of European Assignments

LaBerge: Okay. Should we do that the next time?

Rosenberg: Yes. Or I could probably quickly finish it up.

During that six-month period, I got a letter from the navy, really almost immediately after I got to New York, saying in effect, "You've had fabulous fitness reports, and if you stay with us two more years, we'll send you anywhere in the world. If you stay with us one more year, we'll send you anywhere in the United States." I had just gotten married, and I had spent a lot of time in Asia, as I mentioned, and my wife had actually been in Germany and France for the American Friends rebuilding brick walls. So we decided--and don't ask me why--we decided we'd take Oslo, Norway. Because we didn't have any kids, and we figured, Gee, the navy's going to pay for two years in Europe. But anyway, we selected Oslo, Norway, and we went to Berlitz and got Norwegian records.

About three weeks later, I got a letter from the navy saying, "We've made a terrible mistake, that the officer scheduled to retire in Oslo is retiring the following June, but we have this marvelous job for you in Paris teaching harbor defense at the French Naval War College." And actually, Paris was not all that attractive on a lieutenant's salary. But I said to Barbara, "Isn't that strange? I've never had any minesweeping experience, and they want me to teach harbor defense. But if they want me to teach harbor defense, I can teach harbor defense."

So we turned in the Berlitz Norwegian records for French records--and about two or three weeks later, I get a letter from the navy saying, "We've made a terrible mistake." All Military Assistance Advisory Group, MAAG, assignments, have to go to the chief of naval operations, and they said, "You've had no minesweeping experience. Why would we have you teaching harbor defense? But we have this wonderful job for you in Heidelberg, Germany, in which you're the only naval officer in Germany assigned to the army. You're liaison to the army, your boss is in London, you'll travel significantly."

Well, Heidelberg was not exactly where we would have chosen, but still, our boss was in London, we'd travel everywhere and all this. So I said, "Okay."

Oh, incidentally, I told them during this period of time, right after the first letter that came, "I'm due to get out in March." I already had a job. "But we must begin this process in June, because my wife has a teaching contract at White Plains High School until June."

"Oh, yes, no problem."

So by now, though, it's about April, and this time I receive a phone call from the navy saying, "We don't even know how to tell you this, but we're so embarrassed. We have disestablished the job in Heidelberg, but we have this marvelous job for you in La Palais, France." I said, "Where?" La Palais was the port of Bordeaux, and it was filthy-dirty, Communist-ridden, and all the rest of it. At that time I was on the staff of a vice admiral in New York, and here's one of his fair-haired boys, and they're pushing him around, somebody who he really hopes he's going to get to go regular navy, and they're pushing him around, treating him like this.

So he said, "You go down to Washington tomorrow and see the chief of naval personnel and straighten this out." I said, "Me? I'm a lieutenant. Go down to Washington and straighten this out?" He said, "Yes." So I went down there, I didn't get to see the chief, but I got to see the deputy chief of naval personnel, and he said, "Son, I've never heard of this. I've been in the navy thirty years, and I've never heard of anything like what we've done to you. You name it. Anything you want. We owe it to you."

"Well," I thought, "I've nothing to lose." So I said, "There's one place in the world, if you can write those orders in the next fifteen days, fine. If not, write my release from active duty orders." He said, "Where is that?" I said, "San Francisco." He said, "Son, I'm not only going to send you to San Francisco, I'm going to send you, son--I'm going to send you to the best job that a lieutenant can have in San Francisco." I said, "Never mind, Admiral, about the best job. Just--" "No, son, we owe it to you."

So at that point, he really did, he sent me to the best job. The navy had a little contingent at Fort Mason in San Francisco. It was really an army transport operation, but the navy had a little contingent, and I was Admiral Larsen's aide. But that's how we came to San Francisco.

But the navy had the last laugh. You remember the letter that said, "Anywhere in the world for two years"? So after ten months, I'm waiting for my "release from active duty" letter, and it doesn't come. I call the navy, and they said, "You extended for two years." I said, "I know, but that was when I was going to Oslo." They said, "You extended for two years." [laughs] So that's how I ended up spending five years in the navy, and that's how I came to San Francisco.

LaBerge: Okay. Well, we'll pick up, because we don't have the story of how you and your wife re-met. That's where we'll start next time.

Rosenberg: Okay.

III. FAMILY

Re-meeting Barbara in New York

[Interview 2: October 15, 1996] ##

LaBerge: Last time, we stopped with you coming to San Francisco with your wife, but we skipped the re-meeting of your wife again in New York. So why don't you tell me that?

Rosenberg: Okay. Well, I returned from Vietnam, and the navy sent me back to finish my tour of duty in the navy at Admiral Struble's headquarters, Commander, Eastern Sea Frontier in New York, actually in New York City. Struble was the admiral who actually had planned the Inchon invasion, among other things, and he was retiring as a full four-star admiral. In addition to Commander, Eastern Sea Frontier--at that time, we had a military representative to the United Nations--he was also the military representative to the United Nations.

I was assigned to his staff in New York City, which was headquartered at 90 Church Street. I almost did not know a single human being in a city of 7 million people when I was transferred there. My mother met my future wife Barbara's mother in downtown Fall River, Massachusetts--which is not difficult to do in Fall River--who informed my mother that Barbara had completed her master's degree at Harvard and was teaching in White Plains, New York.

And not only not knowing anyone, not even having a date for the admiral's retirement party that was coming up relatively soon, I called Barbara for a date to renew our friendship that had started when I was in high school. I had taken her actually to my high school prom, I guess approximately seven years before that, and had never dated her since, which was clearly not a very successful prom date. [laughter]

Early in the evening, before I discovered how much I despised Barbara, I invited her to Admiral Struble's retirement party, which was occurring the following Friday night. But as the evening wore on and I discovered that she was a "Students for Stevenson," [referring to Adlai Stevenson] and I was probably a little bit to the right of Attila the Hun but it was clearly too late at that point to rescind the invitation for the following Friday night.

At any rate, the following Friday night, we went to Admiral Struble's retirement party. As I said earlier, Admiral Struble was retiring as a full four-star admiral, so it was a major event held at the admiral's quarters, which were in the Brooklyn navy yard. We were probably 150 going through the reception line, which was probably close to 300. In a typical reception line, particularly in the navy, you pass through very quickly after extending your greetings.

But Barbara reminded the admiral of his daughter, or his daughter-in-law, I wasn't quite sure which, being a very nervous lieutenant junior grade standing behind her as she was talking to the admiral. The admiral went on what appeared to me to be a lifetime, but it was probably about five minutes, but that was a lifetime in a reception line.

The stewards were attentive to this, and they assumed that she must be someone important, like the daughter of the chief of naval operations, and so after we finally got through the reception line, which as I say seemed like an eternity to me, the stewards were extraordinarily attentive to Barbara. In those days, she drank Manhattans. As soon as she apparently had about three sips, they refilled it with a fresh Manhattan. And so I'm not sure Barbara ever really knew how many Manhattans she was drinking that night.

She did just fine during dinner. I can remember her discussing Greek literature with our table companions, but obviously, she had had a lot to drink. So, as I was returning after excusing myself for a moment or two, the assistant chief of staff for operations, who was my boss, Captain Smith, came up to me and said, "Lieutenant Rosenberg, I think you'd better take your date home." I said, "Why, sir?" He said, "She has just passed out on the deck." At which point, I gasped, because I assumed that I was being transferred back to Vietnam again after this debacle.

So I loaded her into my automobile, and I can always remember going through the gate at the Brooklyn navy guard, and the marine guard coming to attention, saying, "Pardon me, sir, is she dead?" And I said, "No, but I wish she were." [laughter] He said, "Very well, carry on."

At any rate, I got her back to her place in White Plains, vowing, of course, never to see her again. About three days later, I got a phone call saying, "Would you like to come to dinner on Saturday night?" and I said, "No, I would not like to come to dinner on this Saturday night or any Saturday night, if I'm lucky enough to live to be a hundred years old." She said, "Well, that's a shame, because Captain Smith and Commander Lines," who was the admiral's flag lieutenant, "are coming to dinner with their spouses on Saturday night. I know I embarrassed you, and we never have to see each other again, but I think it would be wise if you did come to dinner, since they're coming to dinner." I said, "Have they accepted?" She said, "Yes."

So I did go to dinner, reluctantly, and six or seven weeks later, we were engaged, and at the time of this oral history, we've been married a little over forty years. But it all started with a fiasco in Admiral Struble's quarters.

LaBerge: That was really something, for her to have the bravery to call your boss.

Rosenberg: Well, that's right. I think it typifies Barbara in that she has always had an extraordinary rapport with all kinds of people. Although I got scores of letters and phone calls from people when I announced that I was retiring from the Bank of America, I think particularly of those from the overseas BofA people where she had a chance to meet many of them even though often we were only there with some of these individuals for a short time. They are somewhat always alone. It's a family, in effect, the BofA, but still, when you're all alone in Singapore and you are the bank, it is always nice to have some contact with people from headquarters. And I think the fact that many of these letters and phone calls and e-mails from people offshore when I announced my retirement would always include a line, "how much we're going to miss not only you but we're going to miss Barbara as well." So I think the fact that she's been able to establish a rapport with all kinds of people has been just wonderful for me, and I think wonderful for her, and hopefully has made a contribution in every area that we have been involved in.

Michael and Peter Rosenberg

LaBerge: Would this be a good time, then, to tell me about your family?

Rosenberg: Whatever time is good for you. You're going to patch this together.

The family has become a somewhat expanded family at this point. We have two sons. At the time of this discussion, they're about thirty-five and thirty-two. Their personalities are somewhat different, I think. The older son is perhaps more aggressive, but equally as sensitive, I think, as the younger son, but has less patience, I think, than the younger son. They're both fathers of sons, but our older boy has another child on the way at this point.

Academically, things have usually come pretty easily for Mike. He had quite good grades--he had average grades in high school but very good SAT scores, and we encouraged him to go to school in the East. It was so typical of Mike, he said to me, "Oh, I don't think you would want me to go to school with ghosties, would you?" I said, "Go to school with what?" He said, "Ghosties." I said, "What is a ghostie?" He said, "A ghostie is a girl without a tan. How could I possibly consider going to the East Coast?" And so he went to UCLA, and if you've ever walked across the UCLA campus, you would say this kid has his head screwed on correctly.

So, he had been out working for a couple of years, and he said to me, "Well, I think I'll go to Harvard Business School." I said, "Well, I have two questions. One, what happened to the ghosties?" He said, "That was undergraduate." I said, "Well, maybe the more important question is, you did not exactly cover yourself with glory at UCLA. I have no doubt you can do the work, but how would you expect to get into the Harvard Business School?" He said, "Oh, that's simple. The person who does the interviewing in southern California is a sailboat racer and skipper, and like most good ones, he's a tyrant. So I'll crew for him. As you know, I'm a pretty good sailor, so I'll crew for him on weekends for a year." I said, "Mike, one does not go to the Harvard Business School by crewing on a sailboat." He said, "You believe what you want to believe, and I'll believe what I want to believe," and nine months later, there he was in Cambridge.

So Mike went to the Harvard Business School. Although he enjoyed Cambridge, I think, he's a true southern Californian. Thirty-nine seconds after he graduated, he was back in southern California, where he and another young man formed a small investment banking firm, and actually they have really made an extraordinary success out of it in about eight years. In its own niche, which is larger than the really small firms, but with companies that are probably too small for a Goldman Sachs or Morgan Stanley. Although as they become more successful with their upper range of customers, they're bumping into the competition from Morgan and others.

He's married to sort of an overachiever like himself. Ellen just got her MBA at UCLA in the executive night-weekend program, while she had our first grandchild, and is a product manager at Mattell, Barbie dolls.

Peter has always had to work a little harder than Michael for everything he's achieved. He's bright, but he's probably more sensitive in a lot of ways and shows that sensitivity to people. He's married. He lives in San Francisco, he's been a financial analyst for about five or six years--for Dick Blum and Associates. He also has a son, and so we have two grandsons at this point. Peter is married to a girl by the name of Lisa, and Mike's married to a girl by the name of Ellen--Ellen is pregnant again, so we are expecting hopefully another grandchild.

LaBerge: Isn't that interesting, they're both in the financial--

Rosenberg: Yes, I think that's probably not uncommon. Mike, I think, particularly, would have made a great engineer. I always tried to encourage him to go into operations and production, and we always had this running discussion. I think one of the great tragedies, which I have discussed--at some length with the dean of the Stanford Business School, Bob Jaedike, was the fact that sadly enough, a totally disproportionate percentage of the graduates of the two best business schools, Stanford and Harvard, go into either investment banking or management consulting, and the country needs these kind of kids in operations and in production management. And, unfortunately, the starting salaries in both investment banking and management consulting are so substantially higher than operations management or production management that the kids look at the opportunities, and obviously, are going to take the ones with substantially higher salary levels.

As I said, I think Mike would have been a very good operations management person, but coming out of Harvard, the starting salaries were substantially higher in the kind of fields that he chose. Now, he actually chose to create his own business, but I'm saying, in general--he chose to go into a financial business, which I think--today is paying disproportionately high salaries relative to the value to the nation of other fields of endeavor.

Transfer to San Francisco as Navy Public Information Officer

LaBerge: Okay, well, let's switch back to the navy and San Francisco. You told the story of how you got here. What was your job when you were at the Fort Mason?

Rosenberg: Well, it was the first time I used what I had majored in as an undergraduate, a journalism major. I served as the public information officer of the Military Sea Transportation Service command, MSTS for short. MSTS had the responsibility for all movement by sea of materials moving from the West Coast of the United States. There were occasional public relations events; most of it was pretty routine as a public information officer. But we would have occasional true public relations issues. Since this was a very small navy command, we relied mostly on--civilian lines, civilian shipping, which therefore involved the unions, the West Coast Longshoremans Union and Sailors Union of the Pacific and hiring and chartering of civilian ships.

There was a particularly aggressive reporter in the days when San Francisco used to have particularly aggressive reporters covering the waterfront, which they don't have any longer. His name was Jack Foise, and he was a very good reporter but was always looking for the big story about the chartering that should have taken place that didn't take place.

The other interesting part of public information in those days was the navy was attempting to create a Northwest passage route, while it was involved in the resupply of what was called the DEW line, or Distant Early Warning line, which was supposed to give the United States an extra ten minutes warning of Russian missiles. And since all of these radar sites were up on the Arctic Circle, you could only resupply these lines during a few short months of the summer. And so it was a major public relations story.

We tried some experiments to see if you could strengthen hulls of ships if you left the ships in the area in the winter, if the ice would not crush the hull, then you could fly materials to these ships in the summer and then could fan out across the top of the world, across the DEW lines sites. It would be a more economical way of resupplying these radar sites.

But most of it was a relatively routine two-year period, typical public information stories.

LaBerge: I didn't realize that the armed services had a public relations person in different ports.

Rosenberg: Well, the public relations persons were assigned to different commands. You were not the PR person for the Port of San Francisco; I was assigned to the MSTS command that I mentioned that had the responsibility for all of the seaborne supply. Particularly, there was a great deal of cargo resupplying Vietnam at that time moving out of West Coast ports. Most of this resupply was carried in civilian ships.

The demise, I think, of some of the shipping lines in San Francisco came about when there was no longer a huge logistical resupply of the Vietnam War. For example, you may remember names like Pacific Far East Lines of San Francisco, or States Marine Lines. These companies literally survived because of our involvement in Vietnam. There is so little U.S. merchant marine shipping any more, because we can't afford to have ships under American flags. The only thing that's kept the American merchant marine alive is a law that says that if you're shipping between two U.S. ports, only a U.S. flag carrier can carry that cargo. And without that law, I think you would probably have no U.S. merchant marine at all, simply because our staffing rules, our safety rules, all of those kind of things, are so much more stringent than somebody who's operating a ship under the PanAmerican flag. Even U.S.-based companies: Chevron probably has a minority, a distinct minority of their ships that fly under U.S. flag.

LaBerge: When you came out here, you knew that this was going to be your last two years in the service?

Rosenberg: I thought it was going to be my last year.

LaBerge: Your last year. So how did it turn into two?

Rosenberg: I don't know if I told you the story, about the--

LaBerge: Trying to go to Europe.

Rosenberg: Europe.

LaBerge: Yes.

Rosenberg: Well, the original letter that I got from the navy said that, "You've had exceptionally good fitness reports, and if you would agree to extend two more years, we will send you to virtually anyplace in the world." I think I told you that story. The letter also said, "If you agree to extend one year, we'll send you to virtually anyplace in the domestic United States." Well, of course, I extended for two years, because as I told you earlier, we expected originally to go to Norway and we ended up in San Francisco. So at the end of about ten months, I expected my release from active duty orders within a very short time. When they didn't come, I called the navy and said, "Where is my release from active duty letter?" And they said, "You agreed to extend for two years." I said, "But I agreed on the basis that I was going to Norway." And they said, "Well, we're very sorry. You agreed to extend for two years, and therefore, you're extending for two years." So that's how I ended up as two years in the navy in San Francisco instead of one year that I originally had anticipated. Not that it was two years of hardship in San Francisco, but it was an extra year in the navy than I had not expected to spend.

LaBerge: And did your wife continue to teach?

Rosenberg: Yes. She had graduated from Harvard, she had taught at what was clearly recognized as one of the better if not one of the best--maybe in the top 10 percent of schools in the United States, the White Plains High School. And therefore, she expected to get her teaching credential with no strain at all in California.

She discovered that there were two things that had been neglected in her education. One, California history, and two, audio-visual--how to run a movie projector. So she couldn't teach when we first came here, so the first six months, she worked for Blue Cross, some administrative job. But she went to San Francisco State to get her two classes that she didn't have for her teaching credential.

And then she got a job at Lowell High School, and we didn't know that Lowell High School was the equivalent of--in the eyes, at least, of Californians, of Boston Latin. Boston Latin was just a rural school someplace compared to Lowell. So she taught English and journalism at Lowell all during the two years that I was in the navy, and then she taught up to about eight months of her pregnancy in '59, I guess, '59-'60, just as I was getting out of the navy. Under California law at that time, they made a special exception in her case, because I think you had to leave after six months of pregnancy. They assumed that your brain would addle if you were six months pregnant or something like that.

Then after our first son [Mike] came along, she actually did home teaching for a while before she went back to the classroom.

IV. CROCKER NATIONAL BANK, 1959-1962

Public Relations

LaBerge: Well, what did you think that you would do when you got out of the navy? What was your aim?

Rosenberg: Well, I didn't have any real aim except to get a job. We were, frankly, going from two people with two jobs to two and two-thirds people with no job, when I got out of the navy, because the navy job was disappearing, the teaching job was disappearing, and there was a kid coming along. So I had hoped to do something in the journalistic field, and a job opened up at Crocker [National Bank], and so I went to work at Crocker as their one-man public relations-publicity operation.

LaBerge: Did you particularly look for a job with a bank?

Rosenberg: No.

LaBerge: You were just looking all over.

Rosenberg: The bank was the last place in the whole world that I ever expected to--

LaBerge: Amazing.

Rosenberg: I couldn't even conceive going to work in a bank. But there was this publicity-PR job that opened up in a bank, and so I decided I would learn something about banking.

LaBerge: Yes. Well, tell me a little bit about what you did there.

Rosenberg: You did all of the publicity for the bank, and looking back on it, you'd cover all the stories from promotions to earnings, the normal thing that P.R. people still do today. But perhaps the one really notable achievement, which at that time truly had never been done before on a sustained basis, was the television news release. Today, it's almost nonexistent, because most of the television stations would have their own--will use nothing but their own material or material from a syndicated news source dedicated to that function.

But in that period, for example, you could put out a story that the swimming pool industry in California is expected to boom next year, according to the economics department at Crocker National Bank. And then, of course, you would do sort of a sixty-second or ninety-second little TV feature on this particular economic item, and this economic item would of course obviously mention several times the Crocker Bank.

Innovation: The Television News Release

LaBerge: Okay, Gordon News Films?

Rosenberg: Gordon News Films is still being run by the son of the founder. Together we developed this television news release concept and got the bank mentioned as being the authority on a whole array of industries. We talked about construction, and of course, you'd have footage to make it interesting. For example, swimming pools, you could always have good-looking young women around the swimming pool as you were talking about the fact that this industry employed 22,000 people.

There were several things that were unique about it. First of all, a television news release had never been done on a monthly basis before. It was clear to me, even at that stage, that television was going to become the dominant news force. One of the problems, I think, believe it or not, today, forty years later or thirty-five years later, that a lot of PR people don't put out television news releases or don't pay enough attention to the broadcast media, because you can't put it in a scrapbook. If they're going to show their boss their great achievements, it's much more difficult to demonstrate on television, although there now are services that actually will monitor this all day long, and give you your--

LaBerge: Give you a little video or something?

Rosenberg: Will actually give you the script, or the transcription. And yet, as we all know or should know, about the impact of television news today is that 80 to 85 percent of the American public gets their news from television, not print media.

Crocker really didn't have an economics department, and so I would not only do the television news release, I would, quote, "do the economic research," on what we were doing in the TV clip. So according to the Crocker "economics department," which consisted of me--[laughter]. It was really a very successful program. Scores of companies, hundreds of companies around the United States then began to develop television news releases. I don't know if we were the first, but to my knowledge, we were the first on a sustained basis.

LaBerge: And certainly the first bank?

Rosenberg: And certainly, to my knowledge, the first bank, but maybe there was a bank that occasionally might do one. But not truly on a sustained basis. So I spent a couple of years beginning to understand banking, because it literally was a one-man department --although you were part of the advertising department, and your boss was really the director of advertising and public relations. Publicity/PR really was a one-man operation.

I certainly gave them their money's worth. We created some unique things. But I also learned some things as well. But I had lots of G. I. Bill left, and I was getting my master's degree at Golden Gate [University] in business during this time. But after receiving my MBA, I had still lots of G. I. Bill left, and so I had started law school at the time.

LaBerge: At night?

Rosenberg: All at night, right.

V. WELLS FARGO BANK, 1962-1984

Applying for the Job and the Old Taboo

Rosenberg: But the pay was abysmal at Crocker, and Wells Fargo [Bank] had just created a new department of payroll services, in which they would prepare a computer payroll and provide computerized printouts. The Bank of America had started this program. They were the first ones to do it in 1960, and suddenly, they were offering a service that literally no bank on the West Coast was offering. The old Wells was much more of a corporate bank than it was a consumer bank, looked upon this as a huge threat, in that for the first time, the Bank of America would be making inroads into their corporate customers, customers that they had considered fully theirs, and yet, the BofA offered a service which they were not offering.

So Wells decided to create a payroll services department. They had, of course, none of the computer capability to do it, so they had worked out a private-label deal in which no one would know that a company called SBC, which at that time was a wholly-owned subsidiary of IBM, Service Bureau Corporation, would actually do all the work except for the point of contact and sales.

Wells considered itself, at least on the corporate end, as the Morgan of the West. Wells Fargo by that time had merged with American Trust Company; Wells Fargo was a corporate bank; American Trust was essentially a consumer bank. American Trust was the dominant factor in that merger, with about 70 percent of the stock and about 30 for Wells, but the corporate banking business was still run by all the old Wells Fargo people.

In the old Wells Fargo, before they ever let you talk to a corporate customer, you probably had to be there at least five to ten years, but now suddenly they were faced with this new service which no one at Wells Fargo understood or really cared about very much, but suddenly they had to have it. So they advertised for people, and it was substantially higher salary than Crocker. Although they advertised, they were very nervous about having these new people that they brought in ever talk to a corporate customer. You had to be a combination of Thomas Watson from IBM, Arthur Andersen from the accounting firm, and not just Baton--the great advertising company in those days was Baton, Barton, Durstine & Osborne--you had to be not just either Baton, Barton, Durstine, or Osborne, you had to be Baton, Barton, Durstine, and Osborne. And of course, they got no response at all to this ad, because no one could be a combination of Thomas Watson, Arthur Andersen, and Baton, Barton, Durstine & Osborne.

LaBerge: Did they list all those qualifications?

Rosenberg: Yes, but not quite that way. But if you read the ad, you said, "My God, this person has to be--" and although the salary was pretty good, it wasn't that good.

But I had a friend at SBC who knew how unhappy I was at Crocker, not with the job, although I was getting a little bit bored with the job, but I was really unhappy with the money. It was getting desperation time, really. And that's why I said, "If I can only hang on until I graduate from law school, I at least then can begin to practice law." But I didn't know if I could hang on at that kind of salary.

So I talked to Wells, and in those days, my friend at SBC suggested that I talk to Wells. What was really fascinating was that no bank ever hired someone away from another bank.

LaBerge: Oh, I didn't know that.

Rosenberg: It was absolutely taboo. So the person who I talked to at that time was a senior vice president of Wells. He said to me, "You know, if you were not working for another bank, you would be just the person we would want for this job." I said, "If I were to resign from Crocker, does that mean I have this job?" He said, "I can't tell you to resign the Crocker [job]. All I can say, if you were not--." So I evaluated this statement, and I resigned on a Friday to take this new job, which was the nucleus of this new payroll department, which was going to be the sales people for the payroll service. I resigned on Friday from Crocker and, of course, immediately called this person. But of course he was not there. He had just gone for the weekend.

LaBerge: Do you remember his name?

Rosenberg: Yes, he's dead now. Jack Elmer. He was really, in his time, the dean of American consumer credit. I think Ken Larkin at BofA could also make that claim. Jack retired before Ken, and so Ken certainly became the dean then. Both were giants in the field of consumer credit. Since Wells Fargo at that time was a pretty stodgy operation and Jack was the only person who ever really dealt with consumers, that's why he was given this job, which was not considered truly corporate banking, of overseeing or supervising this job.

At any rate, it was a very, very long weekend, not having a job at all, and having three mouths to feed. I guess by that time--this would have been about 1962, Peter had been born--maybe four mouths to feed without a job. So it was one of the longest weekends of my life, having resigned on Friday and not knowing if I had a job.

LaBerge: And you clearly took a risk on that.

Rosenberg: Yes, I clearly took a risk. Now, in all fairness, it was a very broad hint. But I think what's interesting about the situation is that no bank would hire someone from another bank. It was just absolutely taboo.

LaBerge: When did that change?

Rosenberg: I'm not sure when it changed, to be honest. Clearly, it has changed dramatically.

LaBerge: But kind of like different fields have their different unwritten rules. There used to be different laws for attorneys, like the advertising--

Rosenberg: That's right. This is probably illegal, even in those days it may have been illegal, but I doubt it. In this day and age, it's clearly illegal to have said something like that. But it was clearly an understanding among the major banks that no one would ever hire anyone from another bank. That was just absolutely not done. And I'm sure there were others who had, when they moved, these broad hints, although I can't ever cite one.

LaBerge: That's right.

Rosenberg: But you just didn't do it.

LaBerge: When did you eventually talk to him?

Rosenberg: Monday, I think. I'm not sure I could have lasted another four days or three days of suspense.

Night Law School in Secret

LaBerge: Now, did your background--did your MBA help get that kind of a job?

Rosenberg: I think it probably helped to get that kind of a job. I'm sure it did. I did not mention to Wells that I was going to law school. This sounds presumptuous, but really, one of my most incredible achievements was going to law school four years at night without ever letting Wells know. That's the part that was incredible, keeping it secret for four years.

LaBerge: You must have intended to practice law.

Rosenberg: Well, there were two things. One, I was moving pretty rapidly at Wells, although I still probably was thinking about practicing law. But I know that I probably never would have promoted anyone working for me who was going to law school at night, because the odds are you don't go to law school at night for four years without planning on practicing law. So why would I promote this person when I'm going to lose him at the end of this time? So could I really keep it secret for four years? And I tried, and I did, including even the most difficult task of disappearing for three days while I took the California bar exam.

But which I did manage to do, and it seems to me about the same month that I passed the bar in California was the month I became Wells' youngest vice president. Now, today all the banks make vice presidents when the individual is sixteen years old or something like that, but it was kind of a big deal in those days. I had a terrible dilemma of deciding whether to stay in the banking business or go back and begin starving all over again as a brand-new, freshly minted attorney. I obviously chose to stay in the banking business.

LaBerge: Well, we like to pursue what people haven't done, like the roads not taken. What kind of law would you have done?

Rosenberg: Oh, by that time, I had developed a real fascination for business, and I think I probably would have practiced corporate law if I had practiced. Law school, particularly in those days, was sort of a broad-based, all the facets of law, so you really didn't specialize very much. But either business or labor law. Labor law also intrigued me, and so it probably would have been either business or labor law.

Questionnable Impact of Legal Studies

LaBerge: Well, as it turns out, I'm sure you've used that a lot in all your jobs.

Rosenberg: Well, as it turns out, I've used it not at all.

LaBerge: Really? I mean the knowledge. No?

Rosenberg: Well, that's one of the really intriguing questions, I think. The only time I can specifically remember using my law degree, which is a little bit of humor, I guess--the only time I particularly remember using it was very shortly after I passed the bar. By that time, the secret was out, but not widely known--and the job I had at Wells was the marketing and advertising job. I can remember, the marketing and advertising department was located in what was the Wells Fargo building--I don't know if you were in San Francisco--how long have you--

LaBerge: No, just since '74.

Rosenberg: Well, the building on the corner [of Montgomery and Market], which was known as the Equitable Building--I don't even know what they call it now [the Equitable Building]--

LaBerge: The corner right down there?

Rosenberg: No, corner of Montgomery and Market, which was originally known as the Wells Fargo building, because that's the site where the old Wells Fargo headquarters was located. They knocked the building down; it was one of the great classic buildings: then they built this skyscraper which was known as the Wells Fargo building. Ultimately, Wells Fargo sold it to Equitable, it was known then as the Equitable Building.

But at any rate, the marketing and advertising department was located in that building. McCann Erickson, who was our advertising agency, was also located in that building. I can remember, very shortly after I passed the bar, and the account executive for our account came down with some ads for my approval. They were trust department ads, and

I told him that these were the worst ads I had ever seen in my entire life. They were just absolutely--they weren't even worth trying to salvage, they were so bad. Well, of course, he got all flustered and all, and fortunately, he was in the same building--went up to his office and the account supervisor came down, because they had never heard this kind of language about their work.

He said, "Dick, I understand you think these are really terrible ads." I said, "Yes, Todd, they are literally the worst ads I have ever seen." He said, "Well, Dick, the problem, I think, is you just don't understand the market that we're trying to reach with these ads." I said, "Well, tell me, Todd, what market are we trying to reach with these ads?" He said, "Well, these are ads designed to reach the market for attorneys."

I said, "Really?" [laughter] Although the California bar is the toughest in the nation, they give you a little cardboard card after you pass and you pay your dues. I'm still a member--it's still cardboard. So I reached into my wallet and pulled out my card which said I was a member of the California bar, and I put it down on the table, and I said, "Todd, they are still the worst ads I have ever seen in my life."

He looked at that, and he folded up the portfolio of ads, and it was almost worth four years of night law school just to be able to tell Todd that they were still the worst ads that I'd ever seen in my life.

LaBerge: They weren't reaching the market.

Rosenberg: Right. Your question about whether the law school or the law training has been helpful for the rest of my career? It's one of those things that I really always wonder about. I'm frankly not sure. In fact, if I had to say, I would say that it's not been very helpful at all. It always reminds me of people who say, "Well, you can improve your English, both your oral and written English, particularly written English, by studying Latin." Well, you probably do, but do you improve as much as if you spent three years learning how to write English, instead of studying Latin? I mean, if I had spent all of those hours that I spent going to law school studying more of business, banking, finance, would it have been as valuable, or would it have been more valuable than studying law? So I have serious doubts whether it had any really significant impact on what I have done or not done over the period of time since passing the bar exam.

At Wells, I could always remember, we had a general counsel who, after I passed the bar, we went to lunch together one time. His father had been one of the great marketing and advertising people in the United States, he worked for the Encyclopedia Britannica and some of the big advertising agencies. He said, "Dick, why don't we make a pact? I won't practice marketing and advertising at Wells Fargo if you don't practice law here."

The law probably has given me some different perspectives, particularly in the early days, but the law changes so rapidly that even if you went to law school, I think it's almost dangerous to think you know the law or you know anything about the law three years or two years after you've been to law school. So I'm not sure it's been very helpful. Why I continue to pay my dues to the bar association every year is beyond me. They have now got to the point--and this is only very recently--that you have to have continuing education, unless you switch from active to associate or inactive. I've actually always paid active dues instead of inactive. But now that they, one, increased the dues to something substantially greater--and two, you have to go to continuing education courses, I have finally decided that I probably am not going to practice law, so I no longer am an active member of the bar.

Maybe the biggest value law school taught me was the willingness to take some risks, because if things really went bad in the banking industry, I could probably at least try and make a living practicing law.

LaBerge: Sure. But the general counsel never asked you to join that office, for instance?

Rosenberg: No. But I certainly never even gave them any encouragement that I would be interested.

Payroll Services Department

LaBerge: Right. Well, going back to what you were first doing when you started at Wells, can you describe it?

Rosenberg: Yes. My initial job at Wells only lasted about six months. In about 1964, Wells hired a management consulting firm that told them that no self-respecting major corporation could operate any longer without a marketing department. This was something that was unheard of in banking. And then the management consulting firm, as many of them do, just suddenly left. So Wells decided, "Well, gee whiz. We've paid all this money for this consultant." Then they looked around to find somebody who knew something about marketing and had a master's degree in marketing, and so, lo and behold, there I was. So I became their head of marketing. There was a longtime Wells Fargo person who they actually named as the head of marketing, but everybody knew that, for all practical purposes, I was the head of marketing, such as it was in those days.

Father of Bank Marketing

Rosenberg: I guess it was relatively early in the development of bank marketing and I did change it to an extent. Some other banks had marketing departments, but, by and large, marketing, in most banks, was really managing advertising. That was the extent of marketing. The Bank Marketing Association, which at one time I was president of, when they started their so-called Hall of Fame a year ago, I, along with four other people, went in as the first members of the Bank Marketing Hall of Fame--it was a tribute of a sort in that I invented or was the father of bank marketing.

Most of the early bank marketing people were fundamentally advertising people. I taught at the bank marketing school every year. I'd take a week's vacation every year and teach at the school, which they hold at the University of Colorado now, or have done for lots of years. The biggest problem was there was not any understanding by bank marketing people of banking. And to this day, there is not. I taught that until you understood how a bank really made its money, you would be allowed to price the safe deposit boxes and run the advertising. But if you were really fundamentally part of the management of the company, you had to understand how a bank made its earnings. In this day and age, now, marketing is a critical part of managment. Every security analyst, in evaluating whether they want to invest in a bank, how strong is their marketing capability? But marketing was almost an unheard-of word in the banking industry at that particular time.

LaBerge: So you essentially established this whole department at Wells Fargo?

Rosenberg: Yes.

LaBerge: Where did you get your ideas? Was it from your education, or--?

Rosenberg: Clearly, part of it came from the MBA part of it. A good part of it is just, I guess, a curiosity or interest in how good companies, who were at that point leading-edge marketing companies, ran their companies. And for years and years, the real marketing company in the United States, and the one that everyone followed as its model, was Procter & Gamble. I mean, they invented the product management concept, for example. I would put in a product management concept at Wells Fargo.

Product Managment Described

LaBerge: Can you describe that to me and to another lay person?

Rosenberg: Sure. The product manager had the responsibility for the success of a product, and in the case of banking, let's say it was savings accounts and certificates of deposit. Up until this time, in banking, the CEO might say, "Gee, we need more savings deposits," or something, and so if they had a marketing department--

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Rosenberg: The marketing department would just decide to run more ads, or run advertising about savings and certificates of deposit. And the big difference with a product manager is that he or she has a much broader function. One, the profitability of the product. I mean, if you wanted to--of course, it was much more regulated in those days, so you didn't have as much pricing flexibility as you have today, but you had some pricing flexibility. In fact, I guess the next session, I'll tell you about the thing that probably moved me faster at Wells and what really got my senior V.P. title. But advertising alone may not even be the appropriate thing. It might be more training, or might be more sales promotion, or it might be making the product more appealing to the customer by providing a better statement so that they could understand what their savings were.

But typically, in most banks at that period of time, there was no such thing as a product manager. If you called up and said, "Your marketing--" there were beginning to be marketing departments, but the marketing department was fundamentally a department that ran the advertising. But because every self-respecting company had to have, quote, a "marketing department," since that was the fad--they had a marketing department. But it was no more really than running the advertising.

But by putting in product management and somebody who was responsible, and measuring--and [doing] market research. I mean, these were all things that were revelations in the banking business.

Market Research

LaBerge: So no one had done market research before in banking?

Rosenberg: Well, they hadn't done it with an organized--I mean, I'm sure people had done market research. We didn't or I didn't invent, or Wells Fargo didn't invent market research. But it was clearly not really organized in the way marketing departments ran in real companies. In banking, this was all kind of very unusual, that the product manager would go to a market research department, which was part of the marketing department, and say, "I need research on what people think about our certificates of deposit," or "what they think about us."

Because perhaps the single most important thing that I have always preached, and it's almost as true today as it was for the first twenty years of it, which most banks, the overwhelming majority of banks did not understand, was that customers don't buy a banking service; they buy a bank. Because in spite of the hundreds of millions of dollars of advertising, by now billions of dollars of advertising that is spent, many people, even today, but certainly it was true twenty years ago, or ten years ago even, and certainly thirty years ago, was that most people believe that all banks have the same services. And therefore, what you're really going to buy is a bank, not a banking service.

So instead of running advertising about checking accounts, we would run advertising about Wells Fargo. And we created what today is probably one of the two or three most well recognized symbols. And it was a big risk for me, I remember--

The Stagecoach Symbol

LaBerge: This is the stagecoach check?

Rosenberg: The stagecoach, which became the stagecoach check. They always had the stagecoach, but they certainly didn't use it in advertising or product lines or anything else. And I can remember the first time when we ran essentially a stagecoach kind of advertising, the CEO of Wells Fargo called me up and said, "I'll let you play cowboys and Indians for a couple of weeks, but after that, I don't want to see any more of this business." I said, "Let's talk about it."

LaBerge: Do you want to launch into that story, or save that for the next time?

Rosenberg: I think we ought to probably not go into it at this point. But it's been a nightmare for me at BofA, because everything that we created with that stagecoach image--and they are really still using it. I mean, the guy who runs it, who's the president now, was somebody that was assigned to me to teach him marketing. He was a brilliant, brilliant computer guy.

LaBerge: Who is it?

Rosenberg: Bill Zuendt, who is their president. Dick Cooley came to me one day and said, "I'm going to move Zuendt from the computers, and I want you to teach him marketing." And every morning, he and I at six-thirty would spend half an hour together for months and months, and Bill was very, very bright himself, obviously, but I drained everything that I knew about the business out and gave it to Bill. Unfortunately! [laughter]

Birth of Marketing Department

[Interview 3: November 6, 1996] ##

LaBerge: When we left the last time, you were at Wells Fargo Bank, part of the marketing department. Were you there when it was actually established?

Rosenberg: Yes. As I think I may have mentioned last time, I had joined Wells really as a salesman for their new payroll service, which was at that time something pretty radical for banks to be offering a data processing service to companies. Actually, it was the Bank of America that really created that in about 1960 and put so much pressure on Wells that Wells actually went out, subcontracted the actual processing service to a subsidiary of IBM, but then wanted their own salespeople, if you will, to call on customers. A radical departure for Wells because in the old Wells, which always thought of itself as the Morgan of the West, you typically didn't allow someone to call independently on an account for probably ten years. They had to be in the bank for about ten years before you would allow that to happen. But faced with a new technology, they didn't have any choice.

Anyway, they hired in that period of time a management consulting firm, which I recall was from Cleveland, although I do not recall the name of it. The firm told them that no self-respecting corporation could go into the next decade without a marketing department, and then promptly collected their fee and left. So Wells looked around for someone, people with marketing backgrounds or experience. I had an MBA in marketing, and they always considered selling as part of marketing, which it clearly is, but it's not the be-all and end-all. So here you had someone who had already been hired in sales and also had an MBA in marketing, and so I became part of a two-person fledgling marketing department, which then absorbed also the advertising department, which was logical.

LaBerge: Who was the other person?

Rosenberg: Wells Fargo was really a merger of Wells Fargo and American Trust--this was a longtime American Trust person who I'm not sure they really knew what to do with, but this way, they could have a watchdog, if you will, on these radicals who might be in the marketing department, because he was clearly a longtime old-world kind of banker.

So the marketing department at Wells was born, and to a very large extent, marketing in banking was born really with that, because that was not much of a profession in banking at that period. Although there had been an organization for many, many years called the Bank Marketing Association, but fundamentally, it was not much of an association, nor was the discipline of marketing very much in most banks.

So I guess shortly after joining the marketing department, we were looking for something to distinguish ourselves as a bank. I think to me, one of the fascinating things is that we have gone through a period of deregulation which really started probably in 1982, 1983, when everyone said, "Oh, boy, banks can now be creative because they're unshackled from the regulators." And creativity was born in the early eighties with deregulation.

Stagecoach Checks and Icon

Rosenberg: And yet, I would somewhat take issue with that in that I think that when you have regulations as pervasive as that which characterized banking in the seventies, in the sixties, and prior to that, you had to be almost more creative in order to be able to create something, when in fact the regulations that bound you made the horizons of what you could do very limited. So in many respects, something almost as mundane, and it really is mundane if you look back on it today, as stagecoach checks, or what became known as picture checks in other banks that didn't have the value of the stagecoach, today probably would not be looked upon as being necessarily very creative, because [today] you're unfettered. And yet, in fact, as I said earlier, I think when you're bound by so many regulations, to be creative, you almost have to be more creative because of that.

At any rate, we created stagecoach checks. Stagecoach checks were after we began to use the stagecoach in advertising. I could always remember, I had never met the chief executive officer of the bank at that time; he called me up and he said, "We'll let you play cowboys and Indians this one time, but I never want to see that kind of advertising again, and using a stagecoach kind of thing." Fortunately, I was able to persuade him, but it was not easy, and really--

LaBerge: How did you do it?

Rosenberg: Well, I think I did it because I said, "Well, we'll primarily use it for retail advertising," and retail for people who dealt with corporate customers was just so beneath them anyway, even though retail was earning at that time, and has earned in many banks, a totally disproportionate percentage of the profits, but nobody from retail ever usually made it to the top. It was the people who called on and gave the company away when they called on the IBMs of the world and the rest of the corporate world. And I think that's not atypical of what happened in the banking industry for years and years. In fact--well, I'll talk about banking school at some other point, but--.

LaBerge: Who was the chief executive then?

Rosenberg: It was Ransom Cook. But the fact is that one of the greatest corporate symbols in America, maybe one of the most recognizable corporate symbols, certainly in California which is where they operated, is the stagecoach. Years later, for example, we used to run outdoor advertising without ever mentioning even the name "Wells Fargo," and do recognition studies, and 97 percent of the populace knew exactly who was advertising. And yet, it was nearly choked off at birth. I still remember that line about, "You can quit playing cowboys and Indians from here on in."

Well, once we had sort of a quasi-green light, at least, to go ahead with the stagecoach, we looked for something that might distinguish us. You can't think of anything more mundane in the world, I guess, than checks. And so in a way to distinguish it, we brought out the line of stagecoach checks. We continued to enhance the check line. And of course, it was an instant hit, great popularity.

LaBerge: How did you get the idea, for the checks and for the stagecoach?

Rosenberg: The stagecoach almost seemed a natural. I mean, how do you--to this day, I think one of the great secrets of a bank, of retail banking certainly, is the fact--and time and time again, people ignore it constantly--is that people don't really buy a banking service, they buy a bank. With each passing year you can do more things a little bit differently, because you're not bound by regulations, that becomes a little less important. But certainly in the seventies and the eighties, and I think even today, that most people buy a bank first and a banking service second, because most people believe all banks have exactly the same service at exactly the same price. I mean, that is still the perception. Obviously, with each passing year, it becomes less of a perception, but certainly at that time, it was.

And so you looked around as you sat there saying, "What's going to personify this bank?" Because if you really believe in that, if you really adopt that as an operating philosophy, which I believed in very strongly and have continued to believe, and I have never let Wells forget it in all the years I worked there, and of course, unfortunately, I taught people well, I guess, maybe too well, in that for years, they have not ignored that precept. You looked around for something to personify the bank, and I guess--I don't know how I came on the stagecoach, but clearly, that could personify a whole bunch of banking services.

And of course, the nice thing about the stagecoach was you could create, in effect, animation with it. Television began to be an important advertising medium, and there aren't very many corporate symbols which you can actually put into action. And of course, the stagecoach you could put into action. Perhaps one of the best ads we ever had was a stagecoach coming through the very pretty rolling countryside, and all of a sudden, it stopped, froze, and what formed around it was a check. So it just lent itself to so much that it was a great corporate symbol and has continued to be a great corporate symbol.

My great hope is that Wells someday gets tired of it because there is that great tendency to get tired of it, because you're really sick of it. I mean, if you've worked with it constantly. And yet, it is still so much more powerful than anything else you can do. Every five or six years when I was at Wells, I myself would get so sick of it that we'd run one or two ads that didn't incorporate the stagecoach, and you'd read the scores of the research, and you would quit indulging yourself in the fantasy of creating something else.

Even today about 40 to 45 percent of all advertising is actually identified with your competitor. The dollars you spend above 40 or 45 percent is identified with your competitor. So you're spending an enormous amount of money which really helps your competition. And yet, when you ran the stagecoach, after years of investing in it, it was never identified with your competitor. So we tried to incorporate it in everything we ever did.

At any rate, the checks were an instant success, and we continued to expand the line of checks. It was looked upon as, quote, a marketing coup. When you look back on it today, you think about what could be more mundane than checks. And yet in those days, as I say, it was something. I would guess hundreds of banks, if not thousands of banks around the United States, immediately followed it--or followed it, if not immediately, but followed it within four or five years. The check printers themselves all began to offer a variety of designs, and you could express your own personality, in effect, through checks.

So the marketing department was established. It needed a success in order to give it some legitimacy. We watched market share, and market share improved. Market share moves very little in the banking business until something that I'll tell you about in 1973 happened. But we were moving maybe a quarter of a percent of market share every year, which was not bad. Maybe half a percent. And so things were going along nicely.

Mastercharge, 1967

LaBerge: Now, the same year, I think, is that when Mastercharge was introduced too?

Rosenberg: Well, Mastercharge was actually introduced in 1967, so Mastercharge was probably introduced a year or so after the [checks]. We introduced the stagecoach checks pretty rapidly after there was such a thing as a marketing department, I would guess maybe '64, '65, around there. By the time we came to Mastercharge, marketing had a full seat at the table. The Bank of America clearly was becoming ever more a factor with its BankAmericard, and Wells--I don't know if you want me to go into the history of Mastercard?

LaBerge: Yes.

Rosenberg: Really Mastercharge at that time. So it was becoming more and more of a factor. The fellow who I directly reported to talked a lot about this competitive disadvantage. There were three of us in the bank; a fellow--I guess both of them are dead now--Ross Buell and Jack Elmer. And we talked a lot about how we had to do something about competing with BankAmericard. It was becoming more and more important. Not only was it a consumer product, but where it really hurt was with the merchants--and the Bank of America never really exploited it to the extent they could have--they made an enormous mistake, in my opinion.

Under the system, of course, you had to have a merchant bank and a cardholder bank. And in order to have someplace to deposit the sales drafts that you create when someone comes in and uses their card, you have to take them to the bank. So every single merchant in the state of California actually had to have a relationship with the BofA.

Even if they were a primary Wells Fargo customer, they had to have some relationship with the BofA, because they had to deposit their sales drafts.

And the BofA never really, truly exploited that. They would set up this account for the deposit of sales drafts, but instead of going after the whole customer, and since it's very much more convenient to do--since you had to do business with the BofA, why not do all your business with the BofA? But they never really, truly exploited it to the extent they could have. Thank goodness.

At any rate, the BankAmericard was clearly a worry on the consumer side, but it was even more of a worry if the Bank of America ever really explored its real potential, because every merchant had a relationship with the BofA. But if the BofA ever really put their muscle behind it, it would truly be a concern. So the question was, how were we going to go into the business? And there's probably a lot of histories of Mastercharge being written. Our history, I think, is probably more accurate than some of the history, some of the pieces I've seen.

But Wells Fargo, and United California Bank [which ultimately became First Interstate] and Crocker Bank formed a sort of informal consortium which was very tricky legally, because we had to make sure we were not violating antitrust laws by joining together, but the Bank of America was so strong and pervasive that the legal advice we got was that it was okay if we protected a little bank, who was in the credit card business before the BofA and obviously, before Mastercharge--and it was the First National Bank of San Jose. I don't know who ultimately bought it.

The "Everything" Card and Others

Rosenberg: But the legal advice we got was that you could join together as long as you don't drive out of business the First National Bank of San Jose. You can join together to fight the BofA, but you'd better make sure you try and preserve the First National Bank of San Jose's credit card program.

And so what was then called the Western States Bank Card Association was created. The fourth original joiner of the group was the Bank of California. At any rate, we went into business in 1966. At the same time, other credit card plans looking at the success of the BankAmericard were beginning to form around the United States. Among the more successful ones--none of them were really very successful, but among the more successful ones was the "Everything" card from Citibank.

LaBerge: Called the "Everything" card?

Rosenberg: Yes, the "Everything" card. It was called the "Everything" card from Citibank. The Marine Midland had a card, Mellon had a card, and there were these cards beginning to be formed. The person who's been sort of given the most credit for putting together the national organization, and was honored last year in London, where they honored some of the former chairmen and developers of the credit card business--and I guess I was one of them--he's a fellow by the name of Carl Hinke, who was at Marine Midland. He was the first president of a so-called Interbank Association, which brought all of these competing cards together. At least, you could use your Mastercharge card in New York where the "Everything" card had merchants if it had a little "i" on it. The "i" was the Interbank i.

The card association was formed in 1966. Our first launch was in July of 1967. Obviously, to some extent, the rest is history. In the process of going to Seafirst, I guess, I cleaned out my desk. I was, I guess, responsible for some of the research in naming the card, and believe it or not, one of the final six names was the "Shop & Go Card." And I will tell you that in the early days of the card the fraud that was taking place with the card, "Shop & Go Card" would have been much more appropriate than Mastercharge.

LaBerge: How did you then make the decision? Did you go ask consumers or--

Rosenberg: Yes, we had focus groups. Wells was clearly the--although UCB was clearly playing an important role, much more important than Crocker or Bank of California, UCB had a fellow by the name of George Briggs who was running their program at the time, but Wells and UCB were probably the two most primarily responsible for it. I guess George and I looked at the name at the time and recommended it to the board of directors that that be the name that be adopted.

As I said, fraud was rampant. The fraud was at its greatest at the Rincon Post Office Annex in San Francisco. At one time, we got the brilliant idea of, instead of mailing through the Rincon Annex all these pieces of plastic, we would truck them up to Santa Rosa and mail them through the Santa Rosa post office. And of course, little did we know that Santa Rosa trucks them back to the Rincon Annex in order to effect more efficient distribution. So that was not one of the great ideas we ever had.

One of the interesting anecdotes, I guess, of this period was the fact that it was clear we wanted--that this thing to really work, you had to bring--you needed a major New York City operation, and Citibank, of course, had the "Everything" card. The Interbank Association was headquartered here in California, in San Francisco, as a matter of fact. The price that Citibank extracted for joining the association, changing the Everything name to Mastercharge, was that the headquarters be moved from San Francisco to New York. And we agreed. But otherwise, both cards, both of the major cards would be here in California, and actually, I think, if we had hung tough, Citi would have agreed, but there was no real reason to hang tough, Citi really needed us more than we needed Citi. And so if we would have said no, in the end I think Citi would have had to agree to join. Either that or join the BankAmericard, which was already headquartered here. Because even Citi in those days could not launch a national card by itself. But as it turned out, we said yes, and that's how Mastercard, or Mastercharge at the time, was moved to New York, or the Interbank organization was moved to New York. That was clearly the Citibank.

LaBerge: Then how did you go about promoting it? You said that you thought Bank of America didn't do enough to take advantage of--

Rosenberg: Well, but of course, it was a different ballgame when you had--when Mastercard was introduced you had to have a Mastercard bank in order to deposit Mastercard sales drafts. Thus you could not do all your business with BofA. As a matter of fact, we used the Bank of America merchant list as our prospect list. Because not every merchant would take a credit card in those days, the Bank of America actually used to publish a directory of where the card could be used, and we would send our people in, get a directory, and that would be their prospect list. But the difference is that what we first obviously tried to do was sign our own customers. Now, even then, they had to have a Bank of America relationship, but at least they also had to have a relationship with a Mastercharge bank. So it was really a different set of dynamics than it was when you had only one card. When you had only the--. So although we were still more vulnerable than you would like, because one service had to be with another bank, you were not as vulnerable as you were prior to introduction of the card.

And somewhere, and I can't remember--maybe it was later, maybe it was in the seventies --that the Visa organization, and maybe it was still BankAmericard organization, fought what in my opinion was an absolutely absurd kind of ruling from the Department of Justice, or opinion from the Department of Justice. When the cards were originally set up, if you were a Mastercharge bank or a Visa bank--. By that time, BofA was beginning to franchise the card. Bank One claims that they were the first franchisee of the BankAmericard; in fact, they claim they were the ones who pushed the Bank of America into the franchising business. It was not the Bank of America's idea. I can't speak to it; obviously, I wasn't here.

But at any rate, the rules were pretty much the same all over the country: if you were a BankAmericard bank, you couldn't be a Mastercharge bank, and of course, vice versa. In one of the most absurd rulings or opinions ever out of the Justice Department, the Justice Department ruled that that was an antitrust violation. Here you had two healthy, competing systems, and now what you did was say that Wells Fargo, which was a Mastercharge bank, could also be a BankAmericard bank. So we could now--we could take our own merchants even back. You didn't even have to have a BankAmericard account any more, because we were a BankAmericard bank.

[laughs] A guy teaches at Stanford now who was the author of that ruling.

LaBerge: Oh, who is it?

Rosenberg: His name is Baxter. He will give you a chapter and verse as to why it was an intelligent ruling. And to some extent, it is difficult to argue with the ultimate outcome of what happened, because egos got so caught up in it. For example, I would go to a Mastercard board meeting, and they would report, "We have taken two share points away from BankAmericard or Visa," and everybody at the board would feel terrific and great and everybody would be happy. And then on the plane home, I would say, "What the hell do I care? We belong to both organizations." But you'd be so caught up in the ego part of the competition that there was, ironically, at least on the trade association level, real competition. On the bank level, there was considerably less competition, in my opinion, than there would have been had the Justice Department not given that opinion.

At any rate, Mastercard was successfully launched. It was successfully launched at Wells, although the first years were a nightmare. I mean, everything from accounting problems to credit losses to fraud losses to operational nightmares.

Aside on Owen Span Contest

LaBerge: And did you get involved in all of that, or did someone else have to do that?

Rosenberg: The primary person who ran the program, and still has an office right down here, is Glenhall Taylor. Taylor came to the job in a very funny way. He was a long, longtime Wells Fargo employee--American Trust and then Wells Fargo employee. Had run installment lending for Jack Elmer, who, as I say, was one of the key early leaders. We, Barbara and I, when we first came and we had no children, used to enter contests with great frequency. At that time, KCBS ran a contest about finding Owen Span, the morning man. Believe it or not--that's, I don't know, thirty-five years ago or something like that--Owen Span is still on some radio show. You may have heard him.

LaBerge: I haven't.

Rosenberg: He maybe just very recently stopped; I haven't heard him in about a year. At any rate, they would give you a clue each day, and if you figured out the clue, on the sixth day, Saturday morning, you would go to the spot, and if you would see this person, you would say, "Are you Owen Span, the morning man?" And if you were the first one to do it, you would win fifty-two weekends of entertainment. That was pretty fabulous for people who didn't have a lot of money, no kids. The weekend prizes were somewhat of a misnomer, because they were in some cases only events.

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LaBerge: Well, what you're telling me is that you won. Where did you go to find this man?

Rosenberg: Well, the first day's clue was--I think I still remember some of it--"With a pebble in his name"--well, they were just in the process of building Candlestick Park--"with a pebble in his name, this man has won great fame." And so you had a thought about Stonestown, because the fellow Stone had created--that was a relatively new shopping center at the time. And then the second day's clue was "Often called a girl's best friend, they are the means to a very good end." And of course, diamonds were a girl's best friend, and if you thought about that, the person became Stoneham, Horace Stoneham, who was owner of the Giants, who had brought the Giants to San Francisco.

And then I guess, "Something off the beach will put me in your reach," and that was kind of a puzzler. Barbara and I finally decided that it had something to do with baseball, but Seals Stadium was still the active stadium for the baseball. But they were building Candlestick at the time, and of course, there was tons of sand being used in order to construct all that concrete out there. So it could be sand off the beach, Seal is off the beach.

So we decided at that point that we were probably going to have to split up and look for this person. Then there was one--I can't remember, to be honest, the other two clues. But at any rate, on Saturday morning we decided--we had pretty much decided it was clearly either the new Candlestick, which was being constructed, or Seals Stadium. So Barbara went to Candlestick and I went to the Seals Stadium.

At eight o'clock in the morning, I saw a cab stop about a block away from the entrance to Seals Stadium. There were about four or five other people--nearly everybody had finally come to the conclusion that it was either Candlestick, the new Candlestick or Stonestown --but there were four or five other people or couples who had decided that Seals Stadium was clearly the answer to the problem.

I saw this cab stop, and cabs don't stop in the Mission District on Saturday morning at eight o'clock. So I raced down to this person, as other people were walking toward him, and I said, "Are you Owen Span, the morning man?" He said, "You've just won fifty-two weekends of entertainment!"

LaBerge: Oh, my gosh!

Rosenberg: So ironically, I beat out somebody who was a longtime--who has actually turned out to be a longtime BofAer and is still in our corporate banking operation, a fellow down in Los Angeles.

The point of this story, I guess--

Glenhall Taylor and Fred Sears

LaBerge: Something about Glenhall Taylor.

Rosenberg: Oh, yes, the point of the story. So one of the weekends was a weekend in the Santa Cruz mountains at some resort.

LaBerge: So you actually got something every weekend?

Rosenberg: Oh, yes, yes, something every weekend. In Soquel. And we met this most interesting person. He was one of the most interesting people I'd ever met. Just fascinating, could talk on almost any subject, and a bright, bright, bright fellow. And in the course of conversation, he at that time was working for Real Estate Research Corporation of America, which was an urban planning operation, but he told me that he had done all the original planning on the BankAmericard. He had worked most of his life in research for advertising agencies, he told me, and he had worked for I guess what was the forerunner of Darcy Advertising in San Francisco. And he really clearly understood the credit card business. He was extraordinarily bright.

And somewhere in the course of the conversation, he had told me that he'd gone to Groton, gotten his bachelor's at Princeton and his master's at Cal, at Cal Berkeley. Sure seemed logical to me; he was as bright a fellow as I've ever known. He was with a young lady; they had been living together, although they were not married, which was somewhat unusual for that period of time.

And at any rate, about two months later, we made the decision at Wells Fargo that we were going to go into the credit card business. So we were looking for somebody to run the operation. I may have provided the marketing, and other people may have credit input, but you really needed somebody to run the operation. So I wrote a memo to Jack Elmer and I said, "I have met this fellow who is working at Real Estate Research Corporation, and they want to transfer him back to Chicago now," which was the headquarters of Real Estate Research Corporation. "And frankly, he'd like to stay here, and this is the fellow who did so much of the work with the early days of the BankAmericard. He's a graduate of Groton, Princeton, and Cal."

So Jack asked me to see if he would come in and talk to him, so he came in and talked to him. Of course, he was an instant hit with Jack. And on his way out, he stopped by to see me. Jack was up, of course, on the executive floor, and I was on a much lower floor. He said, "Jack showed me the nice memo that you wrote about me, and thank you, but I didn't go to Groton; I went to Andover." But at any rate, "thank you for the nice memo."

Well, of course, we hired him to run the credit card plan. I guess you still have to do it in banking, although it's been so long--maybe not--everybody has to be bonded, and you have to fill out your bonding application. And he came to work for us, and he was only with us maybe three or four weeks. Yes, maybe two or three months, because just prior to that, I guess I ought to tell you about--not just prior to that; a year before that, probably around 1966, American Express was trying to launch their credit card, and we were one of the banks selected. Actually, we had the most success as a result of something I did, and I would say probably I will take a little bit of credit for the success of the American Express card.

LaBerge: Do you want to tell me that now, or we'll come back to that?

Rosenberg: Yes, we can come back to it. At any rate, so Fred worked on that program for us too. We were a franchisee or a licensee, if you will, of American Express.

LaBerge: Is Fred the person who went to Andover?

Rosenberg: Yes.

LaBerge: What's his last name?

Rosenberg: Fred Sears, I guess--. Well, Fred Sears is the name he gave. This is what makes the story fascinating.

Anyway, Fred came to work and did more good work in four weeks than most people do in four years, more good work. I mean, he was not a six-o'clock-in-the-morning-to-twelve-o'clock-at-night, but he was so bright and did so much good work in four weeks, in the four or five weeks he was here.

Anyway, four or five weeks later, the bonding report comes back. And of course, the head of personnel at that time was a former FBI agent. It turns out, of course, the bonding company can find no record of Fred Sears at Groton or Andover, or at Princeton, or at Cal, and in fact, they can't find anything of Fred Sears before he came to San Francisco and was working for this advertising agency, which of course doesn't require any bonding. They do verify, in fact, that he played a very major role in the BankAmericard and was working for Real Estate Research Corporation, but Fred Sears does not exist before he shows up at this advertising agency.

Well, of course, the FBI guy who's now head of personnel--of course, we have to fire him immediately if he can't be bonded. If you can't be bonded, you can't work for a bank, no matter how brilliant you are and all the rest of it in those days. Today, I'm not sure how we would do that. But at any rate, it was so funny. It taught me how people really see things through their own perspective, and I've seen that my entire life. The FBI guy immediately assumes that Fred must be a Communist, and that's why there's no record of him. Glenhall Taylor, who at that time was being brought in as, we needed a plan manager. We're now in the throes of introducing this card, and Fred is going to have to leave. And so Glenhall was moved from the installment loan division to run the new credit card plan, so Glenhall really, when you asked me who was involved in it, Glenhall was the single most important person in the card operation.

But Glenhall, of course, a former credit guy, he couldn't care if he [Fred] was Nikita Khrushchev, but he must have been a bankrupt. And the FBI couldn't care if the guy was the biggest deadbeat credit guy as long as he wasn't a Communist. [laughter]

LaBerge: Did you ever find out what--?

Rosenberg: You know, Fred, who we had become somewhat close to, Fred left the bank, of course. I ran into him only a couple of times afterwards in my life. The job he got after that, the next thing I remember of Fred was, you may remember there was a big earthquake in Anchorage, and they replanned the city after that. Fred was involved in replanning Anchorage. But I lost track of him. He lived in Berkeley, I guess we saw him once. I don't know what ever happened to Fred.

But that's how Glenhall Taylor ended up as one of the big credit card people in the United States, because Fred didn't exist. He truly was the man who never was.

Marketing American Express Card through Database Management

LaBerge: Tell me about your involvement with the American Express card?

Rosenberg: Well, American Express--as I said, in 1964 or 1965 we were groping all around for an answer to this BankAmericard thing. And American Express decided that they would go very heavily into the credit card business, but they would market it through banks, but they would market the gold card. They did not want to extend credit, but you could have your American Express card, and then it could just be rolled over into--and this is how they really kicked off the first of the gold card programs, the American Express Gold--into a bank line of credit. But the bank would actually solicit the card for American Express and get a fee. They gave all of us an advertising allowance in order to attract a few banks into this test.

And to this day, I will never understand Crocker or Bank of Cal and the rest of the test banks. Most of them ran their American Express ads in *Look* magazine, and *Look* existed in those days. As I remember, in those days, in order to qualify for the card, you needed, I think, $12,000 annual income. And the median income of a *Look* reader was $7,500. The whole thing made no sense, what other people were doing.

Well, I guess it was the first use of database management, as simplistic as it was in those days. I got a list of our checking account customers who had, and I can't remember what their balances were, but it was some significant balance. You didn't need much science to figure out that you couldn't carry a balance like that in your checking account unless your income was X, was at least $12,000. So I took all of the money that American Express gave us and put it into direct mail using this list. To my knowledge, it was the first time that database management, and this goes back to 1966, bank accounts was used to sell additional services.

And we had great success with the program as a result, the American Express Gold Card program they might have abandoned, because frankly, Crocker had no success, and Bank of California, the other bank that they were using testing it, had no success. But I think they realized as a result of what happened at Wells that intelligently marketed, this could be a smashing success for American Express, which it obviously turned out to be.

LaBerge: Was that before you introduced Mastercard?

Rosenberg: Oh, yes, because after that, we would never have done it. But then, we were groping for some answer to the BankAmericard. At least we could offer this to our own best customers. It was clearly an unsatisfactory solution for us, because frankly, it was all stacked in favor of American Express. But when you've got nothing else, it's better than nothing. We still didn't have any merchants, because under the way the American Express worked for all those years, and even today it's electronic so it's different--but if you were an American Express merchant, one of the reasons why the bank cards were so appealing to you was that if you were an American Express merchant, you would mail your drafts to American Express. The merchant would give you the merchandise or service, in a restaurant. Then they would take the sales draft and they would mail it to American Express. American Express made sure they didn't open the mail very fast, and so it took you as a purveyor of services probably forty-five days to get your money. They were just using the same concept they used in float in traveler's checks. It was a wonderful system for American Express.

So that's why merchants were just ecstatic about the bank cards, because they could run the draft through and deposit it at their local bank and get immediate credit.

LaBerge: Is that why still there are some merchants that won't take American Express? You know, sometimes you go into a place and they say, "We don't take American Express."

Rosenberg: Yes. Although today it is probably more the fact that their discount is higher than the float, since so much of it is electronic today and they can't get away with what they were doing. But they still are not as fast as a bank, and so there were some who said between the combination of a quarter or a half a percent higher on the discount, plus the float, we don't take American Express.

LaBerge: Well, in addition to the stagecoach checks and the Mastercard, were you involved in the ACA, Automated Credit Account?

Rosenberg: Yes, I was. It was a nice service which I introduced at Wells, but to be frank, it was a service that was actually invented at Security Pacific and we just copied it.

Passbook Savings Rate Increased, 1973

Rosenberg: If we go to 1973, probably the single biggest, best thing I did for Wells was what really got me my title and got everything else. We were a very important consumer deposit bank. And as a result, we were very large residential real estate lenders. In fact, many people disdainfully said, "They're just a savings and loan calling themselves a bank," because we were so big in savings and real estate loans.

So competing with the savings and loans was a very important aspect of Wells Fargo, and there was something called Regulation Q which regulated the amount of interest you could pay. We could only pay, I think, 4 1/2, and the savings and loans could pay 4 3/4, but even though it was a 25 basis point differential, we felt we could probably compete--we could compete, we did compete, competed very well.

And then in 1973, I think, the Federal Reserve changed the rules, in which we could pay 5 percent and the S&Ls could pay 5 1/4. Of course, on day one, if you go to 5 percent with your big savings base, all it means is additional expense. Huge additional expense. Half a percent on several billion dollars was a lot of money, and you hadn't gained anything except continued--the consumer benefit--but this was an enormous expense.

The savings and loans, though, went immediately to 5 1/4. From 4 3/4 they went to 5 1/4. On that first day, the bank leader, who had all the savings in the world--we had an 11 percent market share in California, and the bank with all the savings in the world, the Bank of America, looked at what it was going to cost them and didn't move. I wrote a memorandum and then I went to Dick Cooley and Jim Dobey, who were running the bank, and I said, "We have to move. If we are really going to continue to compete with the savings and loans, we can hold our own at a 1/4 of a percent, but we certainly can't hold our own at 3/4 of a percent, and particularly when 5 has sort of a magic sound to it anyway. We have to move."

Cooley and Dobey, I can remember them looking at me like I was crazy. They said, "Do you know what this will cost us?" I said, "If we're going to strategically stay in our position where we are, we have to move. I don't know how long the BofA is not going to move, but I tell you, if the BofA doesn't move, I will get you all the money we spent and some more back. And every day they don't move is going to be one more day that they may be too embarrassed to move, or something."

Well, Cooley and Dobey agonized, but they believed in me, and they said, "Strategically, we think the BofA is going to move the minute we do it. They can't let us be the bank for savings in California. So this is just going to cost us millions of dollars. But strategically, you're probably right, we have to do it." So we did it.

And lo and behold, the Bank of America does not move, and of course we moved. And each day that they didn't move--and of the five large California banks, we were the only one that did move. Everyone figured, well, if the BofA doesn't move, they can gut it out. No matter what they're losing to the savings and loans, because they used to look at it with such tunnel vision that their only competitor was the other banks.

I told the agency, the advertising agency, that--

LaBerge: Who was your ad agency then?

Rosenberg: McCann Erickson. I said, "I don't care if we have the stagecoach running up the hill or down the hill or sideways, there's only one message: of California's five largest banks, only Wells Fargo pays 5 percent." It was really so much fun for two years--the agency went nuts, because they couldn't even be creative. No matter what ad they came up with, I threw it out unless that was the ad.

LaBerge: The message.

Rosenberg: We moved--and of course, the BofA was dying, because their own employees were embarrassed. Here was this biggest, richest bank in the world, and they wouldn't pay their consumers 5 percent. I just saw Mr. Baumhefner walk out. Of course, the minute you put out a memo, in a bank, you might as well send it directly across the street because some employee is always married to someone in the other bank. So competition in intelligence is always important. I told everybody in the marketing department, "If you don't walk through an enemy bank on the way back from lunch, don't come back from lunch at all." But also, we had somebody who was married to someone at the BofA, and so anything they put out was always in our hands.

Well, Baumhefner actually put out a memo which I have in my file somewhere, because it was one of the great memos, that the Wells Fargo Bank is personally causing inflation in the United States. Because he had to put out something to the employees; they were so embarrassed. The people in BofA trust department secretly used to bring their trust deposits--

LaBerge: To Wells Fargo?

Rosenberg: Because they felt they had a fiduciary responsibility to the customer. And so we moved 300 points, 3 full percentage points of market share, in two years, which I figured out when I left Wells, that was worth--obviously, it's worth more in a high-rate environment than it is in a low-rate environment, but just doing it on the back of an envelope, that memo and decision--obviously I was backed by Cooley and Dobey, which was just wonderful to have people like that believe in you--that made for Wells at least $500 million before tax, maybe as much as $500 to $800 million depending on how you wanted to figure it. Because once we had that market share, of course, we never lost it. And in those two years, we took--and of course, we didn't have anything in the south. If we only had branches in the south--all we had were branches in the north. If we had had a statewide system, that decision would have been worth over a billion dollars. But as it was, even then it was worth over half a billion dollars.

And it was just so much fun, because every month, you watched the market share numbers increase against the BofA, and the BofA morale was demoralized, in the places where we competed. In southern California, they couldn't care less. We didn't have any branches there. Anything south of Fresno even in the Central Valley, we didn't have any branches. And of course, to most of the BofA management who never paid any attention to market share or never understood what market share was all about, they didn't realize what was happening to them.

And then, unfortunately, Tommy Wilcox came to town and spoiled my party.

LaBerge: Who's Tommy Wilcox?

Rosenberg: Tommy Wilcox was the guy who competed for the CEO job at Citicorp which Walter Wriston got. Wilcox was then hired by Crocker, and as soon as he got here, the first thing he did was look at this thing, because Citibank had very smart people. Wilcox had an ego which was beyond belief, but nevertheless, he was a very, very smart person, and he immediately raised the passbook rate to 5 percent, at which point BofA finally had that other excuse that they were looking for to finally raise it to 5 percent and the party was over. But in those two years, we irrevocably forevermore changed Wells' position vis-à-vis the BofA.

Risk-taking in Banking

LaBerge: Well, can we talk sort of philosophically about taking risks in banking? You've done a lot of that. What gave you the impetus to do it, how do you know when to do it?

Rosenberg: That's a super question. I mean, the business of banking is really a risk-taking business. Every loan you make is a risk. You try and evaluate it as intelligently and with as much data as you can. I was just lucky enough, or unfortunate enough, depending on the viewpoint, that the risks that I had the opportunity to take were very large risks with very large rewards. But every account officer who makes a loan is in the risk-taking business.

And I'm not sure there is any easy way. You try and obviously get as much information as you possibly can. You evaluate it, but there are always variables and unknowns that you can't project, and so I think that some of it clearly is sound rationale and reasoning, and the rest of it--some of it, frankly, is just plain luck. I mean, in looking back on it historically, for example, probably the passbook was my single biggest risk, because we put millions of dollars at risk--it was still a good strategic decision if we never made any money. But frankly, it was just luck that the BofA for whatever reason, and I will never know the reason, and I never have had the courage to go--

LaBerge: Because Mr. Clausen was CEO then, right? Yes. Too bad I didn't ask him that question! [laughs]

Rosenberg: Well, I don't--. See, one of the interesting things is that he probably wouldn't even remember the whole story, because the problem in most banks, like the BofA, is that the retail people are looked down upon. When I came to this bank [Bank of America], retail was making about 120 percent of the profit. It still had a lot of room to improve, obviously, which is how I got the CEO job, but without it, this place would have been gone. I mean, we were taking huge losses. But the losses would have been staggering if we weren't making money in retail.

I used to have, when I used to teach--I'll give you an illustration--let me give you a piece of paper, I'll show you something I used when I used to teach at the bank marketing school. [See diagram page 181.]

Description of Transfer Pricing ##

Rosenberg: [writing] These numbers are all hypothetical, but let's just assume all the money is coming in at 5 percent. This is the deposit side of the bank, and it's usually run by a retail guy, because that's where the deposits are generated. So it costs, let's say, 5 percent for what he pays in interest, and then by the time all his expenses in advertising and people and the branches who have to handle the deposits, it probably costs another 3 percent. So it probably costs him something like 8 percent to raise money in my hypothetical example. Okay.

So just like every business, there's something called transfer pricing. And so over here is the loan guy, and usually this is a corporate guy, because they don't generate any deposits. They take deposits from the retail side, and in the BofA, of course, the people who get the fancy offices like the rest of the bank are the people dealing with the IBMs of the world, and AT&Ts and all that. Now, let's say at this period of time that most banks, unlike the banks in the West, really had to buy some of their money. Even the BofA, with all its great savings, had to buy some money outside of its retail deposits in the wholesale market. So money, let's say, was worth 10 percent. If you had to go out and buy it in the open market, federal funds or--I don't know if these terms mean anything to you or not--

LaBerge: Yes, they do.

Rosenberg: Okay. Let's say federal funds are 10 percent, just in my hypothetical example. Federal funds are 10 percent. Okay. And let's say the prime rate for my example is 12 percent, in this hypothetical example. Okay. So the retail guy brings in this money that costs him 5 percent for interest, 3 percent for all the people in the branches and the advertising and all the rest of it. And the loan side, the corporate side, the CEO, who was always on the corporate side, would either browbeat or maybe not--this was maybe a standard, accepted practice. It was standard, accepted practice. In fact, BofA came over to see how we did transfer pricing at Wells. The corporate CEO would say, "Okay, it costs 8 percent, and you're not really the profit center, you, Mr. Retailer. You sell your money to the loan side for 8 percent."

Okay. So meanwhile, the loan side, of course, charges its corporate customers 12 percent. Now we come to the end of the year. We come to the end of the year, and over here, this loan guy has made a 3 percent. Now at the end of the year, they're handing out bonuses and who's going to get the bonuses and be promoted and all the rest of it to be CEO ultimately someday? This guy who has made this profit, right? Over here, to the retail side they say, "Well, of course, you're running an expense center and you kept the expenses pretty well down, so you did a nice job, that's fine, that's great."

Had the retail guy been allowed to sell it in the open market, he could have made 4 percent spread. But because of the transfer pricing system that most banks use, and I once explained this to McKinsey, and McKinsey finally understood it and tried to do a little bit of difference with Citibank. They never got the whole picture quite straight, and the reason I invented this diagram was because of something I wanted to tell the people at school--because these were all retail bankers, basically, that came to the bank marketing school that I was teaching--I said, "You have to get into the guts of the business of transfer pricing. The transfer pricing is either going to make you a hero or going to make you just an expense center." Transfer pricing, it was unheard of. Who ever heard of transfer pricing, that marketing people would be considering transfer pricing?

And yet, this was all the difference in the world. This is how the Clausens of the world became CEOs, and this is why the Al Zipfs of the world or the Joe Carrerras never got to be CEO, because at the transfer pricing rate that Baumhefner would set, these [corporate] guys had to look good and these [retail] guys had to look okay. To show you how important this was and how McKinsey finally accepted it: New York State had a new law, they finally were opening up the branching in New York State, and I was teaching at the bank marketing school. This was about 1976 when they were opening up the New York law. You could open five branches a year.

Well, Citibank's not stupid; they immediately opened branches in--I don't know if you're familiar with the New York area?

LaBerge: I am; I went to school there.

Rosenberg: Okay. Well, Citibank opens their first branches in Scarsdale and Hawthorne and Mamaroneck, obviously all affluent places. You could offer a couple kinds of certificates of deposit. The average cost of funds coming out of the Scarsdale branch--one of my students told me in those days, they used to have to produce a term paper as well, and we used to have to collect them in the winter--this student produces a paper to show how Citibank makes decisive decisions. They had opened this branch in Scarsdale. Deposits were going straight through the roof. Now, these were two-and-a-half-year and five-year deposits, and their average cost of funds was something like 6 percent.

There was just a very short period of time, a very short period of time, when prime actually during the early seventies dropped to about 4 3/4. And so Citibank could buy money in the wholesale market at 5 percent. Transfer pricing is not that easy. You've got to buy it at--I mean, you just can't set one rate. You've got to set it relative to maturity. The branch is a losing branch in Scarsdale for six months because of the transfer pricing system, because they are being paid the short-term wholesale rate when in fact they were selling long-term retail deposits. And because nobody understood how to do transfer pricing, in my opinion, at that time, except Wells, Citibank says, "This branch is a losing branch," and closes it. Closes it.

Of course, a couple of years later when prime went to 21 percent, this branch would have --was worth a fortune.

So McKinsey then finally comes in and works out a better transfer pricing system than most banks had at that time, but they still didn't fully understand the maturity factor that you ought to price retail deposits what it costs you to buy in the open market money of the same maturity. Now, one of the real battles that continues to this day is, what do you value, what transfer price do you give to checking account deposits, demand deposits? In theory, because they're demand, they're overnight. Some say, you should only give it the federal funds rate. But in fact, the most stable deposits you have in the bank are the demand deposits.

So the argument continues to this day with a zillion studies as to what transfer price you should assign to demand deposits, but at least as to all the other deposits, transfer pricing is accepted practice throughout the industry.

LaBerge: Because of you, do you think?

Rosenberg: Well, I had a brilliant guy working for me, but never had a marketing department ever, ever been involved in what were really the guts of the bank. To my knowledge, no--I think to some extent, clearly we had an influence. I can't tell you that we--

LaBerge: Who was the brilliant guy?

Rosenberg: Fellow by the name of Roger Radcliffe. And Roger worked with me in developing it. I guess, I don't know whether he had the concept, I had the concept, but clearly, Roger did --if I get any credit for this, which I'm never going to have, nobody ever got any credit for this; who ever heard of giving credit to anybody for transfer pricing? But if I were to get any credit for it, Roger Radcliffe would certainly have to have as much credit as I got.

But it was a concept, the BofA actually came over and looked at. In those days, you used to share information much more than you would share it today. Today, you go to these banking conventions and you never see a banker speaking, but if you go back and look at what the agendas were at the banking conventions twenty years ago, at every session there was a banker speaking. Today, where we compete virtually across the country and in every area, you never have bankers speaking. It's really interesting to see the agendas of banking conventions now.

But at any rate, BofA came over and they saw how you would have to change our whole computer system and everything else to do something like this, "We're not going to do anything like that." Today, the BofA obviously has that system, and the only issue today is, what is the volatility of demand deposits? And obviously, it's a lot more sophisticated than what we were doing in those days.

LaBerge: How is your time today?

Rosenberg: I've got about another ten minutes.

Bank Marketing School: Combining Banking and Marketing

LaBerge: Okay. Well, since we kind of got off on this, I read a couple of your speeches, or articles that you had written, about how a lot of times, people in marketing didn't know banking, and bankers didn't know marketing.

Rosenberg: Yes, right.

LaBerge: Can you elaborate on that? Because it has something to do with what you're talking about, I think.

Rosenberg: Well, sure. I mean, exactly. What this really is is asset-liability management, and I said to the bank marketing school, "Unless you understand how a bank really makes money, what you will be allowed to do is price the safe deposit boxes." And that the guts of the bank are its asset-liability management. So I got them to incorporate a course at the school--

LaBerge: At the bank marketing school?

Rosenberg: Bank marketing school for asset-liability management for a marketing person, although I'm not quite sure that was the course title. And I guess, and I don't know, I think it had some impact on the entire marketing profession. The people who came back from the school understood, at least, to the extent my class was there, and ultimately, I think, I always got pretty good marks, so I guess they liked it, whether it was the content or presentation or whatever. But the fact is, they began to understand that the value of asset-liability management, because most of them, because bank marketing for years and years was really involved in deposit gathering. Consumer loans was another area, but it was not really as important as deposit gathering. Most banks didn't make real estate loans, and since you were competing with savings and loans, what were you competing with them for? You weren't competing with them for residential real estate loans.

Now, in the West, the banks did make residential real estate loans, but most of the banks in the country did not make residential real estate loans. So where was the competition, where did you need marketing? You needed it in deposits competing with the savings and loans.

So most marketing people were involved primarily, if not exclusively, in the marketing of bank deposits, and they were marketing it in a very highly regulated environment, under this Regulation Q. But to understand whether you could afford an advertising campaign or what kind you did and the rest of it, you had to understand, what did you do with the deposits? How did you measure market share? Were the savings and loans your competition? If you don't understand transfer pricing, deposits are just an expense. You don't make any money, quote unquote, with deposits, except of course you do, because of what you do with them. But what you do with them and how much they're worth is the guts of the bank.

LaBerge: How did you train the people under you, for instance, in the marketing department?

Rosenberg: Well, the first thing one had to do was get people smarter than you are, frankly, like Radcliffe. I wouldn't say it was any formal training. I mean, we all--

LaBerge: You taught yourself and got others to understand.

Rosenberg: And them at the same time, I guess.

LaBerge: Well, what classes did you teach at the bank marketing school?

Rosenberg: Well, that's really the class I taught, asset and liability management from a marketing standpoint, or something like that. And even in the first years when I was there, I was teaching something which didn't have that name, but that's what I really was teaching. Because I thought it was really so important.

LaBerge: And you did that once a year?

Rosenberg: Yes. I used to take it as vacation, because I think you learn as much from the questions as you learn from the answers. And it was so much fun, after the first year. The first year, it was at Northwestern, and those dormitories were not air-conditioned, and I said, "I'm never going to do this again." Then they moved the school to the University of Colorado at Boulder, and it was so much fun that I used to take it as vacation every year. It was once a year, it was a week. I taught for, I think, ten years there.

LaBerge: Do you think the perception has changed today about marketing departments?

Rosenberg: Oh, yes. Marketing is an inherent--but there are not very many more centralized marketing departments. It has become so much a part of the business that every major business unit wants and has its own marketing unit. In the first evolution of marketing it was centralized marketing. You had a centralized marketing department. We did the marketing for the consumer loan division, obviously for the branches, for everything else. But today, most operations have their own marketing department within them.

LaBerge: But reporting to a main--?

Rosenberg: No. Reporting to the business manager, the head of the consumer loan division.

LaBerge: Is that a good place to stop?

Rosenberg: Probably.

LaBerge: We'll finish up Wells Fargo next time.

Rosenberg: Okay, great.

The Gold Account, 1973

[Interview 4: November 14, 1996] ##

LaBerge: When we last stopped, we were in the middle or maybe at the beginning of your Wells Fargo career, and we were talking about the different marketing coups that you had. So is the Gold Account the next one, or was there another?

Rosenberg: Well, I guess we had covered the checks, and I think we covered the passbook savings decision.

LaBerge: We definitely covered that.

Rosenberg: I think probably the next one of any significance was the Gold Account. Essentially, again, we operated in a highly regulated environment, so coups or marketing successes which seem so mundane, I think we have to put against the background of a highly regulated environment in which you can do very little.

And I think the Gold Account was probably a great success because banks throughout the country always implore their employees to cross-sell other products. If somebody opens a checking account, try and sell them a savings account or something else. The great success of the Gold Account was that, in effect, the customer sold themselves, the customer bought instead of you selling it. Since once they bought essentially what was a checking account, the very fact that you had all these other services packaged under the Gold Account, you didn't have to rely on employees to try and persuade a customer to buy other services. In effect, they bought it themselves when they bought the Gold Account.

And so I think it was recognized as a major success. As a matter of fact, we had so many requests--in those days, you were much more open to other banks to give information because you didn't really compete with banks across the country in the retail business. Banks pretty much stayed in their own geographical area. As I think I mentioned in one of our earlier interviews, today you can't find a banker as a speaker at a bank convention because we compete so much, but in those days, it was very typical.

But we had so many requests that we decided that we would turn this into a money-maker, and we actually held seminars in Chicago and New York on the Gold Account, in which we charged, I don't know, $500 a person to come and listen to us talk about the Gold Account. And so that was a revelation in those days, to actually have a seminar on a product.

LaBerge: Would you be the one who taught?

Rosenberg: Well, we would have our team. Yes, I would go, but it would be more than just me. It was our team who would hold the seminar in--I think we held it in New York and Chicago and charged. No one had ever done that before in the industry. And it was a great way, one, of--not that we all got rich, not that the bank got rich on it--but it was a great way of frankly disposing of scores of requests to come and talk to us about this service, and at the same time, make a little bit of money on it. So we were pleased with it.

LaBerge: So these were national requests?

Rosenberg: Oh, yes, from banks all over the United States. Because within a couple of years, as I said, there is almost nothing that's patentable here, and so within a couple of years, hundreds of banks had look-alike Gold Accounts. And they were called whatever was appropriate for that bank. I can remember there was a bank in the Southeast who called theirs the Dolphin Account, and they were called by various names. But they were essentially a package of banking services being sold under one price, and that's really what the Gold Account was.

Some of the innovative thoughts we had, we actually researched the concept outside of California, because we didn't want--not that maybe anybody else was as attuned to marketing and marketing intelligence as we were, but we didn't take any chances. So we actually researched it outside of California without the Wells Fargo name, of course.

Focus Groups/Market Research

LaBerge: How do you do that?

Rosenberg: Well, we conduct focus group interviews and other kind of interviews, but we did it outside of California, because by and large, if you're picking randomly, you're probably going to hit somebody from the BofA or Security Pacific in a random sample, and if they're smart enough, they'll report that somebody's researching something like this. So this way, we did it outside the state.

The amusing thing was that we had reached the 100,000th Gold Account sale in a very short time, and as you may know, they give Gold Platter records to the recording artists who do it, and so my staff actually gave me a plaque with a record of 100,000 sale, Gold Account sale. So we had a party at our home for all of the marketing department, because everybody obviously contributed, including one of our youngest, our newest member of the marketing department, a young man that just pretty much graduated from college. We had candles for dinner or something, and this young man backed into a candle and set himself, set his jacket on fire. I guess he figured that his career was over at Wells Fargo after that. He resigned within three weeks after that, and I honestly believe that that was part of--that that was the reason he resigned. Funny thing, he came to the BofA and has been in the leasing department here forever, and it was kind of fun when I came to the BofA because here was somebody who had left us in three weeks.

LaBerge: He didn't know about your terrible experience at the admiral's retirement party!

Rosenberg: That's right. [laughter]

LaBerge: You can overcome anything.

Rosenberg: That's exactly right. Well, obviously, we didn't think--but he was so embarrassed, I think, that he figured life would be better off at some other place.

LaBerge: Who was on your team?

Rosenberg: Oh, there was Roger Radcliffe, although he's--

LaBerge: You mentioned him before.

Rosenberg: The gal who was our director of advertising, Pat Pope. We were somewhat unusual in that at a relatively early period, I had a woman in a very high-ranking situation. Pat unfortunately has just died about a year and a half ago of leukemia. A fellow by the name of Ed Hall. I don't remember any of the others.

Some Fundamental Marketing Principles

LaBerge: How did you conceive of the idea?

Rosenberg: I don't know. That's one of those psychoanalytical things that someday we will all know, is how an idea comes to you. My best ideas always come to me when I'm shaving. [laughter] But yes, I frankly don't know. There are a couple of fundamental marketing principles which most banks I don't think ever understood: that it's always easier to have somebody buy something than sell something to them. It goes along with my other principle of the fact that, certainly in those days, and even to a large extent today, but in those days it was universal, and it was true, that all banks offer the same products; therefore, what you really ought to sell is the bank, not the banking product.

Another one is my January 1 syndrome, and the BofA used to be particularly bad about the January 1 syndrome. The BofA could outspend us, and did outspend us maybe four dollars to one on their advertising, and that's scary when somebody can outspend you four dollars to one. Fortunately, the BofA did not have very good advertising. But every once in a while, they would come up with a really good advertising theme, program, which scared me to death, except I always knew we could count on, what I call, the January 1 syndrome with the BofA: no matter how good the campaign was on December 31, the BofA would change it on January 1. And that's true of a lot of banks, but BofA was particularly bad in that, because they said, "Gee, that's last year's campaign. What are you going to do this year?" And advertising campaigns can be timeless. They can go on for a long, long time. Just because the calendar says it's now January 1, a new year, it doesn't mean you drop your advertising. But BofA was wonderful in that respect--in their retail.

Ironically, in some of their more corporate and credit card operations, for example, their man-on-the-spot program was one of the greatest advertising campaigns ever conceived, and that went on for years. But that was in the wholesale area where we didn't compete very much with them.

LaBerge: So you two had different advertising companies, too? Or you had your own in-house--

Rosenberg: No, we used McCann-Erickson.

LaBerge: And who did BofA use, do you know?

Rosenberg: Well, they used an agency for retail and an agency for wholesale. I think they were split. It was Johnson & Lewis. It was a local agency that ultimately sold out to Darcey, which was a national agency.

<u>Leadership at Wells: Ernie Arbuckle, Frank Newman, Dick Cooley</u>

LaBerge: Well, I read that you realized early on that convenience for the customer was one of the key things, and this seems to me to be one of those basic principles.

Rosenberg: Well, yes, you try to make a more convenient way of doing business with the customer. I don't know, we could spend a lot of time on Wells Fargo. I think Wells Fargo had some enormously good leadership, and actually, it was really a real plus for the BofA years later. I think there were two remarkable people who led Wells Fargo. Ernie [Ernest C.]

Arbuckle was the chairman of the board. Ernie had an interesting theory, that people ought to re-pot themselves every ten years. His re-potting concept was that you ought to take an entirely different job in a different industry. Now, there aren't very many people who can achieve that. Ernie did; he had been with Chevron for probably ten years. He was dean of the Stanford Business School for ten years, and he was chairman of Wells Fargo for ten years. He was not the CEO; he was chairman.

LaBerge: Chairman of the board of directors?

Rosenberg: Yes. But he was a working chairman in that he was part of the management structure. There aren't many companies that do that. I don't believe in that as a management structure, as a matter of fact, although the BofA did it for a lot of years too. But the BofA did it in a little different way. I mean, if you're going to do it, the way BofA did it was okay in that they had the chairman in Los Angeles who had probably no power at all. They had people like [Louis] Lundborg and others. The CEO was the president and CEO.

But I really don't believe in that split. I don't really believe in a chairman of the board being separate from the president and the CEO, but it worked at Wells. Ernie was so special.

Ernie had a theory that, if you see talent, hire it. Talent will always find its own way to make money for you. That's how we came to hire--that's how I came to hire Frank Newman. We had no idea what to do with Newman.

LaBerge: You weren't looking for anybody?

Rosenberg: We weren't looking for anybody.

LaBerge: And he just came in the door?

Rosenberg: And talent walked in the door. He had decided he wanted to live on the West Coast. He was working for Citicorp at the time, and we created something called a management sciences group which Frank headed, and which made us a lot of money. Frank ultimately as you know, or may not know, went on to become our chief financial officer, became chief financial officer at the Bank of America. He was the deputy secretary of the treasury and is now the CEO of Bankers Trust.

But I think Frank typified the kind of situation that Ernie always advocated: hire talent wherever you find it. And so when the BofA ran into its enormous problems, all of the four vice chairmen who worked for [A.W.] Clausen, when Clausen came back, all were from Wells Fargo. As a matter of fact, there were many in levels below, who were heavily from Wells Fargo. And yet, in spite of this enormous movement of talent from Wells Fargo to the BofA, it didn't even trouble Wells Fargo because talent was so deep and strong and broad at Wells Fargo, and I think to a very large extent because of Ernie's philosophy, that both companies benefitted.

I mean, if you look at where Wells Fargo people are today or have been for the last five years, they're running all kinds of things, and they all poured out of Wells Fargo.

Dick Cooley was another remarkable leader in that Cooley was not necessarily the world's best banker, but Cooley was one of the finest motivators and developers of people around, and always operated under a philosophy that's always been my philosophy, which I took directly from Dick: the way to be successful is to work very hard to make the people who work for you successful. Or words to that effect.

LaBerge: And he was president?

Rosenberg: He was the CEO, president and CEO.

LaBerge: The whole time you were there, or just the last?

Rosenberg: For almost the whole time I was there. I mean, I think when I first joined, I was so low down, I don't even remember, but I think he was not the CEO until maybe a couple of years after I joined.

Differences between Wells Fargo and BofA

LaBerge: Well, because we're talking about management or just the way banks are run, what's the difference, do you think, in, say, Wells Fargo and Bank of America, as far as how they're run? Why are the Wells Fargo people--why is there so much talent there? Is there something else besides Ernie Arbuckle's philosophy?

Rosenberg: Well, it's funny. Why was there so much talent at Wells, and why was there frankly so little talent here? And I'm not sure. I think part of it was, I was appalled to see how low the pay structure was at the Bank of America. I think there was a feeling that, I guess if you worked for the Bank of America, why do we have to pay you? The Bank of America's salaries were totally noncompetitive. And so I think they probably lost--I think the BofA probably attracted a lot of talent, probably trained it well, and lost it at a very early stage. I don't understand why the pay structure was so low at the BofA.

LaBerge: I wonder if it has something to do with A. P. Giannini's philosophy, something about that family philosophy.

Rosenberg: It could be. I never really pushed Tom or Rudy [Peterson] on this question. But it was awful. And there was a great reluctance, I think, to pay appropriately at the BofA. I guess it was part of what was probably a little bit of arrogance.

LaBerge: Is there some different kind of feel in the corporate culture of the two different banks, or at Crocker or other banks you've been?

Rosenberg: There was a difference in corporate culture. First of all, a major difference in corporate culture was, I think, much more willingness to openly question a peer.

LaBerge: At Wells Fargo?

Rosenberg: Yes. Glenhall Taylor has told me the story, and I don't know--I guess we could seal some of this stuff--

LaBerge: Yes.

Rosenberg: But Glenhall Taylor has told me a story that just dumbfounded him. He was the first of the Wells Fargo team to come to the BofA, I guess. Yes, he was the first. At a managing committee meeting shortly after he joined, a senior officer made some comments which Glenhall openly questioned. I mean, that was the environment that he thought ought to be on the managing committee. That was to get things on the table, so they could make better decisions with other input.

And after the meeting, [CEO Sam] Armacost came to him and said, "Glenhall, that's not the way we do things around here." He said, "What do you mean?" He said, "Well, you don't raise questions in the managing committee with someone else." And Glenhall was so dumbfounded that he, of course, accepted it.

But I think that that was a reflection of not only why there was such weak secondary management, but maybe one of the reasons why it got in so much trouble. I think Tom always thought--Tom was faced with four Wells Fargo vice chairmen. We all grew up together at Wells Fargo. We all knew each other well. And I always thought that Tom was a little bit suspicious that we sort of had a conspiracy, but what really puzzled him was that we would openly fight.

LaBerge: Among each other?

Rosenberg: Among each other at the managing committee level. And it was so alien, that how could it be a conspiracy since they're fighting with each other? But in fact, that was not fighting each other, that was--

LaBerge: You're just discussing.

Rosenberg: That was the kind of open environment we had come from, and that no one had any monopoly on brains and judgment. But I think it was alien to the BofA culture that people would question each other. And of course, obviously, that kind of culture, I think, helps to keep people, helps to keep good talent, and also it helps to develop good talent. But clearly, there was an enormous talent pool at Wells.

LaBerge: It certainly would make you want to stay, if you were having a good time with the people you were working with and respected them.

Rosenberg: Yes. At any rate, I think we've probably exhausted the Wells thing, and I guess I should tell you how I left.

Corporate Responsibility in Southern California, 1983, and Philosophy on that Structure

LaBerge: Yes, because I did wonder why. Well, before you left, you went down south?

Rosenberg: Yes.

LaBerge: And was that kind of a step up or--?

Rosenberg: Yes, it's a very strange story, and maybe it ought to be told. Dick Cooley had been the youngest CEO of a major banking corporation. Dick had become CEO of Wells Fargo at about forty-two or forty-three years old. And after seventeen years, Dick stepped aside to go run a sick, smaller organization called Seafirst. Dick had gone down south--he was the CEO, but he was actually headquartered in southern California, and consequently was obviously our senior officer in southern California.

So when Dick stepped down--when Dick left the company--and part of his leaving, I think, was his personal life. He was just going through a second divorce, was now getting married again, and probably this was, in fact, it was, it was sort of a fresh start. First of all, I think he was bored with Wells Fargo after more than twenty years, and besides, it was a new wife and an opportunity to get out of the northern California environment. So it was probably a combination of factors why he left Wells.

Well, Dick said, "Why don't you come down south and become the senior officer for Wells Fargo in southern California?" And [Carl] Reichardt was taking over as CEO of Wells, and I think he wasn't--whether he wanted me to go or not, I'm not sure, but he wasn't going to question. Dick Cooley was leaving; Dick was after all in a sense his mentor, too.

So I went south. Earlier Jim Dobey, who had been chairman of the board--after Arbuckle left, Jim Dobey became chairman of the board although not the CEO, and Jim went down to southern California. We were copying the BofA structure in which the chairman of the board was essentially always in southern California. For example, [Chaunce] Medberry was chairman and in southern California; Lundborg was chairman in southern California. So when Arbuckle left, Dobey went to southern California as chairman of the board.

By the time I was going to southern California, Jim had retired. Jim came to me when I took this job in southern California, and he said, "Well, you'll be gone in two years out of Wells." I said, "Jim, what are you talking about? I've been here twenty years, I'm really happy. Why would I leave Wells in two years?"

He said, "Let me tell you what's going to happen. I went down as chairman of the board, and I was gone; after thirty years at Wells, I was gone in a year and a half. Cooley went down as chairman and CEO, and he is gone in three and a half years. You're going down as vice chairman of the board. You'll be gone in two years."

I said, "Why?" He said, "Here's what's going to happen. This business of a separate management--of a key member of management physically not being located where everyone else is, you're going to find this situation. In the first six months or so, you're going to be on an airplane every week, spending three to four days a week in San Francisco. And then you're going to ask yourself, Why am I living in southern California if I'm doing this? Why don't I stay in southern California and--in effect, be part of the community, do all of those kind of things. And no one is going to specifically cut you out of the top management, but when you just can't walk across the hall, and as you know, Wells has got a very open environment, people just walk across the hall and kick things around. You're going to really find yourself out of the top management, and pretty soon, if you're out of the top management, not because anybody's deliberately--not that Reichardt is going to try to cut you out of top management, or [Paul] Hazen. It's just that you're not there to walk across the hall to talk to.

"And if I left after two years, Cooley left after three and a half years, I give you two years." And I said, "That's ridiculous, Jim. Reichardt and I have a terrific relationship." He said, "I want to emphasize that it has nothing to do with relationships. It is the physical proximity." I said, "I don't believe it, Jim."

But he was absolutely right. So the lesson for me, when I came to the BofA and I got into a position of authority as chairman, many members of the board believed we ought to have a very senior person in southern California, or maybe we even ought to split it like it used to be split, chairman and president. And my contention is, not if we want to keep somebody who is in a really line position. Now, we could have a senior guy, Jim Miscoll, who you see here occasionally, Jim was sort of what I considered perfect. He was high enough, he had a vice chairman title, he was a member of sixty-five boards of nonprofits in southern California, he was a terrific representative for the company. Decker is a terrific representative of the company. He's not as good as Jim maybe because he's not carrying as high a title. But that's all right.

But if we want to keep somebody who's really truly part of the management committee and we send them to southern California, if they're any good, we're going to lose them in two years. So I have resisted the board totally. We now have what I think is a much better arrangement. Dave [Coulter] is actually--the company is going to actually buy an apartment, has bought a condominium for Dave, so he can, quote, "be a resident of southern California," because it's even more acute now. I mean, there was a little bit of pressure in '90 when I took the job, but after we wiped out Security Pacific, then there was a lot of pressure from the board: Gee, there's nobody in southern California, they feel awful, terrible. And now, of course, that First Interstate is gone, there is really that kind of pressure. But I have persuaded the board that it would be an enormous mistake to take a real management person and put him in southern California. We can achieve it by Dave having a condominium, and instead of getting back on an airplane after a charity dinner or something, he can go home, or he can entertain at home, that kind of thing.

But Dobey was right. In two years, I was gone. Frank Cahouet came to me and said, "You've been at Wells twenty-two years. It must be boring. Every year, you just increase earnings by 12 or 14 percent. The company is superbly run. Why don't you come with me to a really sick operation, Crocker?"

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Rosenberg: Although everything he said was true, had I been in San Francisco, I probably would not have even listened to him.

LaBerge: Isn't that amazing? How did it come to you that you were ready to leave?

Rosenberg: Oh, it was pretty simple. I did exactly what Dobey said: the first six months, I was on an airplane. They used to have an apartment for me at the Grosvenor Towers here. And I was spending four days a week at least in San Francisco, and I kept asking myself, Why am I on the airplane every week, and I don't live here? I'm spending more time up here than I'm spending in southern California. Am I really doing what I should be doing in southern California? And I said, No, I'm not.

So then I quit coming up all the time, and pretty soon, I found myself--I really wasn't part of the big--

LaBerge: You weren't in the circle.

Rosenberg: --part of the big decisions any more. "Oh, gee, we forgot to tell Dick." And again, Jim was absolutely right. There was absolutely no deliberate attempt. It's just, you're not there. And that's why split headquarters to me are clearly a very big mistake.

LaBerge: Does Wells still do that?

Rosenberg: No, no. When I left and told Carl I was leaving, I said, "Carl, let me give you some advice, which is that if you really want to keep anybody, don't ever do this again. Let's not do this again. Dobey was right; Dobey left; Cooley left; I left. It is just never going to work." And of course, Wells never did it again.

Underbidding Crocker for U.S. National

LaBerge: And you didn't need somebody down there? Because I know at first, you didn't have very many branches in southern California.

Rosenberg: You mean at Wells?

LaBerge: At Wells.

Rosenberg: Yes.

LaBerge: But during your time, you increased the number?

Rosenberg: Well, we kept increasing branches, yes. We did increase by a lot of branches. Maybe there's one other interesting story of Wells that we ought to go back to. We had the chance to buy U.S. National, and you may remember, the reason for the interest in it, they were headquartered in San Diego but they had sixty-three branches throughout southern

California. And the reason for the interest in it, it was [C. Alan Holt Smith?] who was caught up in the Nixon scandal, in the Nixon-Watergate thing.

Anyway, the bank was going under. At that time, it was the largest bank, I think, that was going to fail. And they put it out for bid. It's now actually a Harvard Business School case, incidentally. It's a Harvard Business School case not in the banking area; in negotiations, because it was a bidding situation. The two serious bidders were going to be ourselves and Crocker. Crocker was like Wells, heavily a northern California bank.

I can remember it because when I went to a banking CEO school, they actually used this case in the CEO school. They didn't let me play that simulation game.

We had a chief financial officer at that time. Frank [Newman] was not yet CFO--Frank worked for him--a fellow by the name of Bob Kemper, and Kemper did the financial analysis and I did the marketing analysis as to what this bank was worth. I can remember I had finally come to the conclusion that the bank was worth between the two of us, what I thought we could do with it and what Bob, who worked with the numbers, thought it was worth $68 million. We were going to bid $68 million.

We brought it into Cooley and Cooley said, "Aw, Dick, you always do better than what you tell me. This will really make a statement for us in southern California, sixty-three branches. We absolutely are going to get it. I don't care what you say, that it's only worth $68 million; I'm going to bid $75 million." I said, "Dick, please. I stretched to go to $68." He said, "No, no, you always--you'll turn it into a winner."

So we bid $75 million, and for reasons that nobody at Crocker later could explain to me, Emmett Solomon bids $89 million. That was the beginning of the end, frankly, for Crocker. I mean, they so totally overpaid for that bank. We didn't get U.S. National, so we didn't have that branch system.

Bid on First Western and Attorney General John Mitchell

Rosenberg: We actually had another situation which may be of interest: the First Western Bank. First Western was a bank that--and again, it has a BofA connection. The legend is that Frank Belgrano used to play poker with Giannini late at night, and after Giannini died, Mrs. Giannini was determined to make sure that Frank Belgrano never became CEO of BofA after keeping A.P. up all night long playing poker.

So he was pushed aside, and he was determined to build a statewide organization that would actually challenge the Bank of America. He put together an organization which was really--was a spinoff of several banks. Ultimately, he died and the Justice Department never really allowed it all to come together. It became two separate banks: United California Bank, UCB, and First Western. But those banking systems were really all of Belgrano's original thing to challenge Mrs. Giannini for statewide banking dominance to avenge his not becoming CEO on Giannini's death.

At any rate, First Western was on the block. It was actually owned by World Airways, I think, the guy who owned World Airways.

LaBerge: Ed Daly?

Rosenberg: Ed Daly, I think, yes. Daly, right. And Wells, we were going to buy it. It was the right time, we had a 1.5 percent market share in southern California. They had fifty-four branches in southern California, and even with those fifty-four branches, it only would have taken us to a 3 percent market share in the south. In addition, they had about forty-five branches in the north, and it was a time that black capitalism was being talked about in a big way.

What we were going to do was literally keep the forty-five branches, or keep them together but sell it as a minority bank, and we actually had the capital lined up. It was essentially black football players, but we were going to provide management assistance, but it would have been truly the largest--and because it was large enough in a growing area, it probably would have been the most successful minority bank today in the world. And of course, obviously, we were going to keep the fifty-four branches in southern California for Wells Fargo.

Well, we went to the final, literally the--under the banking law, the Justice Department has thirty days after the Federal Reserve approves a transaction to protest it, and John Mitchell, for reasons that none of us know, and it was obviously politically motivated, and I'll never know what was in John Mitchell's mind, but as Nixon's attorney general, he brought an action to stop it. To this day, it would have been a--and it was crazy. I mean, here would have been the largest minority-owned organization. Secondly, we had a 1.5 percent, would have given us a 3 percent market share in southern California; would have meant nothing as far as market share is concerned. Why he ever, why he ever brought that suit--he went to his grave without discussing the reasons. And the attorneys all told us that we could win, but it would take us years to fight this thing, and of course, by that time, the bank would be useless. So we just backed away.

But that was the second big branch attempt that we did not achieve in southern California. So essentially, we were building branches of our own, de novo, and we bought up a couple little banks, Channel Island Bank and a few banks like that. But essentially, the two big purchases both were frustrated, one by absurd bidding in one case and the other one by something that had to be politically motivated.

LaBerge: What year was this? Like late sixties, early seventies?

Rosenberg: Well, when was Mitchell the attorney general? That would have been the sixties, wouldn't it?

LaBerge: Yes, late sixties. And Nixon was out in '74, so--

Rosenberg: Yes. Well, it would have been the late sixties, early seventies or something. Whenever Mitchell was attorney general.

LaBerge: I didn't realize the Justice Department had anything to do with the banking laws.

Rosenberg: Oh, yes. The Justice Department, even in our Security Pacific merger, were the ones who forced us to sell, oh, half of the branches in Seattle. They forced us to sell many branches in Arizona.

LaBerge: Having to do with antitrust?

Rosenberg: Antitrust, yes. It's all antitrust.

LaBerge: Well, it would be wonderful to find out--I guess you could never find out what--

Rosenberg: No. Whatever motivated Mitchell, I will never know. Maybe Cooley had voted--Cooley was always a liberal in a lot of ways. Cooley, I think, is a secret Democrat, and maybe he crossed Mitchell at some time, and Mitchell was a particularly partisan attorney general. But for whatever reason, and Mitchell went to his grave--at least, I've never seen anything written on what motivated him.

Corporate Responsibility Committee

LaBerge: Wow. Well, that brings up another subject I wanted to ask about. While you were at Wells Fargo, you were the person who really did, well, corporate responsibility, you did the social responsibility issues, like forming a minority bank?

Rosenberg: Wells to my knowledge was the first bank that had a--well, first major bank that I know of; it wasn't the first major corporation, Xerox, I think, was before us--but among banks, certainly among large banks, we were the first bank to have what was called a corporate responsibility committee. It had an incredible charter at Wells. I may have chaired it, which I did--the first chair, but really, I think you have to give great tribute to Cooley and Arbuckle who supported this concept and may even have conceived it. I can't remember who conceived it, but it sounds like something Arbuckle would have conceived.

But it had an incredibly broad mandate: to be able to challenge and question any banking practice. As a matter of fact, one of the great legends at Wells is--and it comes about when Newman was on the committee, and I suppose it's kind of interesting, because Newman went on to very big things himself.

LaBerge: Yes.

Rosenberg: Banks used to have a practice, and it was standard banking practice in the West, to give--if you were the Western head of Sears Roebuck, or you were the Western head of General Electric or the Western head of something, of major Eastern corporations, who also had very major operations in the West. And they had somebody who was in charge of the Western states for them. Almost every major industrial manufacturing company and retailer had that. If you were banking the company, you would automatically give the head of the Western region a half a percent off on their mortgage loan. I mean, it was just standard banking practice, that kind of thing. And you would give him half a percent off on his mortgage loan.

Frank Newman and Mortgage Discounts

Rosenberg: One day, as chairman of the corporate responsibility committee, I get a phone call from Frank Newman, who was, of course, a young vice president at the time, and was not working for me, although as I say, I played a role in his hiring. But he was running management science, a department which we brought into the controller's operation.

Frank said to me, "Dick, what's the price of the best hooker in town?" And this from the most staid guy I knew. I said, "Gee, Frank, I don't know. Maybe $500 a night, I guess." And he said, "And what's the price of a good case of scotch?" I said, "Well, I do know that." I said whatever it was, $600, I guess, for the best scotch. He said, "Well, if we're bribing all these Western heads of these big, major companies, we could probably do the bribe cheaper with a good hooker and a case of scotch." I said, "Frank, what are you talking about, bribing these companies?" He said, "Well, we're giving these Western heads a half off on their mortgage loan, aren't we?" And he's figured out what the present value cost of all this was. I said, "Well, Frank, don't be silly. If you think that influences whether Sears Roebuck is going to bank with us, that we're giving the Western head--"

He said, "Well, if we're not, if it doesn't have any impact on their banking design, why are we wasting the shareholders' money?" And I said, "You know, you've got an excellent point. If we're not 'bribing' them, then why are we wasting the shareholders' money?"

So the corporate responsibility committee recommended that we no longer give a half a percent off on mortgage loans to them, and we did it. And of course, the officers of what was called the national division or corporate banking, they nearly died. I mean, we're going to lose all of these accounts to BofA and everybody else, and of course--

LaBerge: Because all the other banks were doing it?

Rosenberg: Because all the other banks were doing it. This was absolutely standard practice. Of course, we didn't lose any accounts. In this day and age, you'd have to disclose to the SEC [Securities and Exchange Commission]; we were way ahead of our time. And pretty soon, all the other banks realized that this was not only bad for them, it was bad for the individual, that he was getting something that somebody else couldn't get.

But it was such a furor, but also, it was so typical Frank. First he asks a question about what's the price of the best hooker, and then he translates the half a percent into present value, that kind of thing. Because he was--because he is an extraordinarily ethical human being. In fact, as you may know, Bankers' Trust got into all these questions about the ethics of their derivatives operations and all the rest of it, and I think Frank got the CEO job as much for his pure-as-the-driven-snow image as he did for his brains.

But yes, corporate responsibility, and it was a very serious thing there. You could challenge anything. There, you challenged the very essence of their major company accounts.

Escrow Account Interest

LaBerge: Yes. Wow. Anything else that came up, an interesting case like that?

Rosenberg: Well, yes, it was. Banks used to require almost everyone to have what was called an escrow account if you had a mortgage, in which you would pay in your insurance money and particularly your taxes; that used to be virtually absolutely required. As it is today, very few banks have it. I think the FHA, if you make FHA loans, I think they do require it still [or if your loan is greater than 80 percent]. And the corporate responsibility committee felt, since we were requiring this of these individuals, that we ought to pay interest on it. "You want to pay interest on escrow accounts? This is free money."

Well, this one took a little longer to discuss and discuss, and and somehow or other, this one, the corporate responsibility committee did not keep secrets as well as normally you should. And the BofA found out about it, and the BofA made a grandstand play. We were going to pay--since it was a lot of handling cost; I mean, these are small amounts of money--we were going to pay 2 percent or 3 percent interest. And BofA, to beat us to the punch, and this enraged Cooley, the BofA, to show that they were socially responsible, announced that they were going to pay 5 percent on escrow accounts.

Well, ultimately there was a state law, I think, there's a state law now that does require you to pay it. I do think the BofA moved only because Wells Fargo was going to do it. The state law even says, I think, 2 percent or 3 percent or something like that. But the BofA started the trend to show how corporately responsible they were--. And that's one of the reasons I think that, for example, interest is today paid on escrow accounts.

Social Leave

LaBerge: For the most part, did you bring up subjects yourself, or did people like Frank Newman come to you and suggest something?

Rosenberg: Honest, I think it was probably a combination of both. Everybody knew there was a corporate responsibility committee. We did some things that made sure that everybody knew about it. For example, the first, an idea we stole from Xerox, but was a social leave. You could take a three-month social leave. You could apply for social leave. We awarded two of these a year, I think, in which you could work for some nonprofit operation and the bank would pay your salary, and you were absolutely guaranteed a job when you returned. There weren't many of us doing it, but I must say that that was an idea that was clearly stolen from Xerox, and Xerox was the first to do it.

LaBerge: As part of that, too, did you encourage people to volunteer or to be on boards of nonprofits?

Rosenberg: No, we didn't do it. That would have been a good idea. I think we did support--there's an organization in San Francisco, Management Center, which presumably trains people for serving on nonprofit boards. My wife served as a director of it for a while.

LaBerge: Oh, did she? Bob Orser was the head, or--

Rosenberg: Well, this goes back so many years I don't remember, but she said the board was so inept that if they're training other people--if their own board is so inept, that she was never a great fan of this thing. She said, "How can they really train anybody else to be an effective board member?" No, this goes back a thousand years ago, so I don't--they may have--I don't know, I guess they're still in existence, I don't know.

LaBerge: I think they are.

Rosenberg: And they, I'm sure, have improved immeasurably. But it was a period of time.

LaBerge: Well, what about loans to, well, say, inner city areas or more minority loans? Was that part of that committee's--

Rosenberg: You know, it's really kind of sad, but that was never--I mean, here was a, quote, corporate responsibility committee that I think really felt socially responsible and corporately responsible, and the sad thing is that in that period of time, that was not even an issue, which goes to show how bad the industry must have been. Because I don't ever remember that as a discussion.

LaBerge: What about affirmative action? Was that part of that or not?

Rosenberg: Well, the HR [Human Resources] department had that as their responsibility--it would be an oversight kind of thing. Remember, this is not an operational group. This is only a policy group. For example, we discussed whether we should make loans on offensive military weapons. But let's say we decided we were going to make loans for offensive weapons; this is not a group that made loans. This is purely a policy group, and we try to broaden the discussion from a wide range of people. We experimented. The thought was, Well, we ought to get people from the ranks too, so we don't just get the perspective of officers. I thought we--what at least we found is that people of relatively low rank are intimidated when they're sitting with a group of vice presidents--at that time, a vice president meant something. Today, no vice president would intimidate anybody at this point. But in those days. So we actually decided it wasn't a good idea to get people from the lower ranks, that they were reluctant to really speak up.

Effect of Politics

LaBerge: Okay. I wanted to ask you, too, and this carries over to the Bank of America: what effect does politics have? For instance, the Vietnam War was going on while you were at Wells Fargo. Or like the oil embargo? Did that have--

Rosenberg: Well, you know, the BofA had a real issue with Vietnam.

LaBerge: Because of the bank-burning--

Rosenberg: Well, the bank-burning in Isla Vista, and of course, Lundborg, the chairman of the board coming out against the war. At Wells, interestingly enough, I don't remember any discussion at all on any level among anybody about Vietnam. We obviously observed the Isla Vista situation and Lundborg's attempt, and there had to be, it was so much a part of America, I guess. And yet, honest to goodness--and maybe for whatever reason, people disagreed with me or something and that's why I blanked it out of my mind, because I--. I myself went from hawk to dove to hawk to dove, and to this day, I have never made up my mind on it. I had a great opportunity, I don't know if you've ever read Neil Sheehan's book that he won the Pulitzer prize for--

LaBerge: I haven't, but you told me about it.

Rosenberg: *A Bright Shining Lie*. But as I say, I've had a chance to meet with Sheehan since then, and I can't to this day make up my mind. So I would imagine that there had to be discussion of it, at Wells, but I don't remember a word.

LaBerge: And it certainly didn't affect your day-to-day work or you would. What about the oil embargo and the oil crisis? That didn't either?

Rosenberg: No, I don't ever remember. The year of the oil embargo was--what I remember about '73 in Wells was that was the year of my great triumph of the passbook savings. First of all, we were not an international bank. We were really, truly a California bank, but on the other hand, we had major corporate relationships. As I said I think at the inception, the old Wells Fargo was sort of a Morgan of the West. But I guess I was really involved so much in retail banking that--. I mean, one of my great thrills was when our senior credit guy, a fellow by the name of John Holman, who was sort of the dean of American credit, asked me to author an article for *Robert Morris Magazine*, which is the commercial lending bible. And I really felt so good about it, because I was trying to--as I said, I told you how I taught at the school, and I was trying to broaden marketing beyond retail lending and the areas that I knew a lot about into other areas. I said, "Gee, the marketing concept has really arrived here when we get an article, when a marketing department is invited to write an article for the *Robert Morris Magazine*."

But I think as a noninternational bank, heavily California, although with some big corporate business, we just were not a factor and not involved.

LaBerge: Well, talking about you being a marketer, when did you feel you became a banker rather than--

Rosenberg: I had always felt I was a banker, and as I said, I tried to make sure that marketing was an integral part of it. But I finally left the marketing operation I guess in 1975, I guess, around 1975. Yes, 1975 I guess I left, and actually I resigned from the bank.

Deputy Head of the Trust Department, 1975

LaBerge: Oh, really? Is this before you became executive vice president and manager of trusts?

Rosenberg: No, they sent me to the trust department, and after the first funny incident which happened in the first week--I don't know, do you want?

LaBerge: Oh, yes. If you're willing to tell the story.

Rosenberg: Sure, yes. Well, I went in as deputy head of the trust department, as Cooley asked me, he said, "You've got the brightest of bright futures here. You've got to get out of this, you're being stereotyped in marketing. I'm going to send you in as deputy head of the trust department." And of course, I went in as deputy head of the trust department. Nobody knew what to make of this. A marketing guy coming into the trust department? But a really strange marketing guy who's actually a member of the California bar, when the trust department is filled with guys who couldn't pass the bar.

LaBerge: Oh, really?

Rosenberg: Oh, yes. Trust departments are filled with people who went to law school and could never pass the bar. They're filled with those types. But here is really a strange guy: an advertising guy. Well, anyway. The head of the trust department, who actually is a wonderful human being, George Hopiak, said to me in the first week, "Well, Cooley tells me you're such a hotshot that I am going on vacation for a month."

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Rosenberg: Any really significant trust issue came to what he had set up called the Trust Policy committee, which he chaired. And the system that was so great is he had the account administrator of the trust and the investment officer of the trust make a joint presentation, so there couldn't be any finger-pointing whether or not he said this, she said that, kind of thing.

So I'm there the first week, and George is gone, and we have the trust policy committee meeting, and of course, as the deputy head of the trust department, I'm now the chair of the trust policy meeting. They used to hold it in the trust library. It's a room like this with just a whole wall of law books, very, very staid. And the investment officer and the trust administrator come in, and they put in front of me a picture of one of the most gorgeous twenty-three-year-old creatures I've ever seen in my life in a bikini. Of course, you can imagine--first of all, the setting. I mean, just breathtakingly beautiful.

I said, "What's this?" I don't know where I am in this situation. They said, "Well, as you know," which I didn't know, "we have this eighty-three-year-old client, and we have been moving his estate from equities into so-called flower bonds, or deep discount treasuries." I don't know if you know what these are. They no longer are sold, but the Treasury Department actually used to sell what are called deep discount--they were bonds, but because they carried a fixed rate of interest--and at that time I think it was about 3 percent--and their unique quality was that they could be used at par value for death tax, for estate tax purposes.

LaBerge: Oh, okay.

Rosenberg: So let's say you're in an 8 percent rate environment, and these bonds are at 3 percent, they sell at a very deep discount, but where they're fantastic, if you're going to die tomorrow, they are worth 100 cents, in effect, on the dollar. And you're buying them at some enormous discount, because they're taken at par value for estate tax purposes. So the name "flower bonds" comes from flowers on the grave, that kind of thing.

So they said, "As you know, we have been shifting the portfolio of this very wealthy person who's eighty-three years old from equities into deep discounted treasuries, because actuarially, the guy's going to die very soon. And over the weekend, he married her." This absolutely breathtaking creature. I said, "Well?" "And what we need now is a policy decision whether we should accelerate the program of buying deep discounted treasuries or slow it down." [laughter] I said, "This is--" to this day, I can't remember what the decision was.

LaBerge: Your first--

Rosenberg: That was clearly my highlight of my trust experience.

But I discovered after about two months, I could do my job in about two hours a day, and then I would go nuts for the rest of the thing. George first of all had it so well organized, and it was so boring, the trust department, it was just absolutely so boring, that I said, "I can't spend two years here. I just can't. I can't do it. I realize that this is all being done for me, but I can't--I would go nuts." So I talked to Cooley. "Dick," he said, "you've just got to get that image out, and you've got to spend some time." I said, "Well, Dick, I'm not sure I can do it." He said, "Well, yes, yes, yes."

Job Offer from European American Bank

Rosenberg: Well, a New York bank came to me and offered me a fantastic job at an enormous salary.

LaBerge: Do you want to say which bank?

Rosenberg: Well, it was European American Bank. It was going to be the second job; I'd probably be the CEO. But it was an enormous salary in those days. I didn't really want to go to New York, but I was going nuts in the trust department. And to think of eighteen more months where I didn't know what to do after ten o'clock in the morning, I couldn't. So I said yes.

I went to Dick and I told him I'm through, and Dick said, "I think you're making a big mistake." But Dick was that way. He really didn't try--I mean, I think there's nobody I'm closer to or have been closer to who is still just so close and is a friend. I came to the BofA in effect because of Dick.

LaBerge: He wasn't going to try to convince you--

Rosenberg: Well, he did, he tried to convince me, but he wasn't going to move me out of the trust department. He wasn't going to move me out of the trust department. I mean, he tried every which way to convince me not to go, and that this was a mistake. I had an enormous bright future at Wells and all the rest of it.

The guy I worked directly for was a fellow by the name of Ralph Crawford, who was one of the world's authorities--I mean, everybody was always trying to recruit him, but not for his banking skills. He was a very good banker, but I guess he's probably one of the world's authorities on Trollope and a minor authority on Dickens, but on Trollope he is--. And I remember Cal was always trying to recruit him.

But at any rate, I was due to report on Monday to this bank in New York.

LaBerge: In Manhattan?

Rosenberg: Yes. Barbara and I had gone back, we'd looked at houses, we were going to buy the house--

LaBerge: I mean, you were really doing this?

Rosenberg: Oh, yes, I had resigned. I was leaving. And everybody knew I was leaving. Well, Ernie Arbuckle came back from a trip to Saudi Arabia on Saturday, and as with anybody when they came back from a trip, he wanted to have his briefing, and they listed among other things that "Dick's leaving." He said, "What did you say?" "Dick's leaving," and of course, they go through this whole thing. I remember he called me on Sunday and said, "I have to come over and talk to you." I said, "Sure," and he came, and he went through it. He said, "Dick, if you stay three more months, I'll get you out of there. But please, don't throw away your career by going there." He was so persuasive, Ernie was so persuasive.

I flew back that night, took the red-eye, flew back that night to the bank, to European American, and walked into the CEO's office on Monday morning. He said, "Great, Dick, we're just delighted to have you here, the office is all set up for you," and all the rest of it, and I said, "I really came back to tell you in person I'm not going to come." [laughs]

LaBerge: Wow.

Rosenberg: So I stayed at Wells.

LaBerge: And it was because of Ernie Arbuckle.

Rosenberg: Right. And in three months, I was--

LaBerge: You were out of there. And then what was your job?

Rosenberg: Well, I went to strategic planning, the whole company, and--

Shedding the Identification with Marketing

LaBerge: But that's when you started doing things other than marketing?

Rosenberg: Yes, right. After that, I never again went into marketing. In fact, one of the things I most regret about the last six years here [BofA] is that because I had built a career and created the marketing discipline really in banking, I never got away from the marketing stigma--stigma; the marketing, I guess, identification. And so I stayed so far away from marketing in the six years that I was CEO of the BofA, and when I look back on it, there are lots of things I should have done in marketing. But just by staying away from it, I didn't get them done.

LaBerge: But you purposely didn't.

Rosenberg: But they were purposely--well, had I realized how much should have been done; I guess only after it was all over, I look back and what I turned over to Dave [Coulter], and in every other area, I think I turned over an absolutely top-quality group of people, teams, businesses, everything else. I think he has acknowledged that in effect, what he inherited was an organization of the scale and scope and size that he can go anywhere he wants to go now with it. But the one area where I left him with I think a weak--or, not weak; I left him with an average or mediocre operation was marketing, which is the ultimate irony.

Management Structure and GM's Corporate Governance Principles

LaBerge: I'm going to come back to that when we are talking about the BofA and what you think you could have done. But before we leave Wells Fargo, you brought this up in the beginning: your view of how the management structure should be set up. Whether you should have a chairman be the same person as the president. Tell me your thoughts on that, and that can be in general through the whole banking industry or specifically.

Rosenberg: Well, in general, I don't think it's a good idea.

LaBerge: Okay. And why?

Rosenberg: I think there is just a diffusion of authority, and although the CEO is clearly, or should be clearly perceived as the authority, when you have a working chairman of the board, I think there is some question as to who is responsible and where the authority is. So I think it's not a good idea.

Now, it worked well at Wells. Dick was forty-two years old. He wanted somebody with some grey hair and white hair. In those days, nobody ever heard of a CEO of forty-two years old of a major bank, and Ernie provided that elder statesman kind of thing as a working chairman. In addition, Ernie was unique, in my view, in that he was just an extraordinary human being as far as his broad knowledge, his ability to get along with all types of people, to know where it was appropriate for him to voice an opinion and where it was inappropriate. Enormous contacts because of being in the business school--and it worked. And so I won't say it can never work, but in general, I think it is a bad idea.

It was pretty much fading from the scene until the General Motors situation, in which General Motors came out with its corporate governance principles, and here you had a sick company, and so they believed there should be a lead director, or the chairman of the board should be separate from the CEO. I think the fact is that in spite of the fact that it's General Motors, in spite of the fact that they published widely and promoted widely these corporate governance principles, many of which have been adopted by other companies, but that one has been by and large almost universally rejected. It may be appropriate for sick companies, but I think that--for example, the Bank of America board has specifically addressed it, because we looked at the General Motors corporate governance principles and specifically rejected that one. I think most companies, and I serve on a number of other boards, and all of them have said that, while there is much good in the corporate governance principles of General Motors, that is one that they do not accept or believe in. The diffusion of authority; at least, the perceived--it may not even be real--but the perceived diffusion of authority and responsibility is just not acceptable to most companies.

Family Considerations in Moving

LaBerge: In the moves that you did make, like going down to Los Angeles, and maybe going to New York, how do you do that with your family, and how do you make that decision?

Rosenberg: Well, we were pretty lucky in that all the time that the kids were growing up, we lived in Marin County. So I think it's really relatively easy to make physical moves when you don't have any children living at home.

LaBerge: So by the time you were doing both of these--

Rosenberg: By the time I went to Los Angeles, which was the first move, the kids were gone and it was really relatively easy. But it's very difficult when--for example, when Gerald Ford took over from Nixon, Ford, as you know, was from Grand Rapids, Michigan. The headhunter he had, or the director of personnel recruitment or whatever they called them at the White House, was a friend of a friend of mine. I was offered an assistant secretary of the Treasury job, and I was only--I guess I must have been about thirty-eight years old or something. I don't know how old I was, but I was pretty young.

LaBerge: Okay, it was like 1974.

Rosenberg: So let's see. Whatever I was. And I would have given anything to be able to take the job, but as I recall, the job paid around $40,000 a year. I still had two kids I had to put through college. As much as I would have loved to have taken that job, I just turned it down. My good fortune was that the moves came at a time and place when the family was not a significant factor. When we went to Los Angeles, it was kind of a kick for Barbara. We had always lived in northern California.

It did enter a little bit when Clausen recruited me for this job, for the BofA job, in that by that time, if we took the job, it would have been the fourth physical move in five years. We had moved to Los Angeles for Wells. When I went to Crocker, we moved back to San Francisco. And then I went to Seattle at Seafirst, and if I had come back to the BofA, it would have been the fourth physical move in five years. I told Tom, "There are lots of reasons I don't want to come, but that's certainly one of them. It may be a primary one.

To ask my wife to move four times in five years is--" not that San Francisco is moving to Des Moines, Iowa, or something like that. But the fact was, it was the fourth physical move in five years, and we were ecstatically happy together in Seattle.

But I think when you have children, or children at home--it has--I don't think you're going to get very many good insights from somebody like me, who by the time I began to make all these moves physically--

LaBerge: Your kids were grown.

Rosenberg: Kids were grown.

LaBerge: But even so, just the fact that your wife was happy to go along with you and--

Rosenberg: Yes, I suppose, but I think each situation is somewhat unique. In my case--can't be somewhat unique; it's either unique or it isn't when you are married to an English teacher. I think in my case, I think I've got an extraordinary wife who adapts very well to almost any situation and makes friends very easily, and I think that if you had a spouse, whether it was wife or husband, a spouse who did not adapt well to new personal situations, it might be much more difficult. The one thing that it did have a negative impact, from Barbara's standpoint, was her continued work in education. After she got her doctorate in education at USF, she had continued to--I think she had been the assistant superintendent of schools, and then she had worked in the Fromm Institute as a curriculum developer. I don't know if you're familiar with the Fromm Institute at USF.

LaBerge: I am, yes.

Rosenberg: But once we moved to Los Angeles, she lost all of her education ties. I mean, you can make friends, but breaking into the education field where people actually pay you is a very different story. So I always kid her that when we moved to Los Angeles, that's when she decided to become a tennis bum. [laughter] And it's true. I mean, she gave up for-profit work, she never worked again after Los Angeles. I mean she never worked for money again; she's continued to involve herself in a whole variety of nonprofit activities, but--.

So because when you move, you're sort of cut off from where your normal opportunities in business, as you look upon education as business, sure. But she may have been ready for that at that point. We were making enough money at that point that two incomes were not as critical as they certainly were when we were living in Mill Valley, things like that.

You want to end it?

LaBerge: Sure, that's fine. And next time, we'll start again with the story of going to Crocker?

Rosenberg: Okay, great.

Government Regulation of Banks

[Interview 5: December 4, 1996] ##

LaBerge: The last time, we had almost finished up Wells Fargo, but I have a couple more questions. You talked about the corporate responsibility committee, but we didn't talk about the legislative policy committee. I wondered if you went to Sacramento and talked to the legislature, or what that was about?

Rosenberg: Well, we created a legislative policy committee. We were early in the stages of discovering that so much of the franchise value of any bank in a highly regulated environment is dependent upon both state and federal regulators and legislators, and in this case legislators, because we were not a state bank any longer. And so I probably did visit with legislators on occasion, but I don't think it was anything of any great import or anything that distinguished us from Security Pacific or Bank of America or, for that matter, First Interstate or UCB, as it was known in those days.

LaBerge: Well, because we're talking about that, I know that you have views on regulation of banks and the government's role in that. So maybe just in general, you want to tell me your views.

Rosenberg: I think there is an appropriate place for regulation, but in my opinion, the regulation by and large has been anticompetitive, anticonsumer, all in the guise of protecting the consumer. The fact is, for example, that Regulation Q, which presumably was there to prevent banks and savings and loans, for that matter, from paying too much interest, because that was dangerous, was in fact obviously an anticompetitive, anticonsumer aspect, because for most individuals, they could not get the interest on the funds that they deserve.

Banks and savings and loans were really instruments of national policy, to implement a housing policy for the U.S. government. So I think that it's an inappropriate use of government powers to use a private sector, and the banks are still private sector, because their capital is provided by shareholders, to implement national policy. That's only one of a great many areas. For example, it is absolutely absurd that banks have been prohibited from selling insurance. It is actually under the guise that it is an unsafe and unsound practice. It is absurd. The fact is it's probably the least risky business, other than selling safe deposit boxes, and maybe even less than that, that a bank engages in, and it's been captive to the insurance lobbyists. So again, federal regulation, and state regulation to some extent, has created an anticonsumer, anticompetitive environment for banks to operate in.

So I'm not a great fan of a great deal of banking regulation and legislation. Fortunately, now in 1996, 1997, it appears that because we have a very enlightened comptroller of the currency [Eugene Ludwig], or head of the OCC as he's otherwise known, that many of those regulations are beginning to crumble. But it's been far too long that we've lived in this kind of environment.

LaBerge: And what about securities?

Rosenberg: Well, securities is another--I mean, insurance is the most obvious, because there's virtually no banking transaction that does not give rise to an insurance transaction. But the selling of securities is another area where I think it would have been healthier for both the consumer and the banks to be able to be allowed to sell securities. Now, the great argument is that the American consumer would believe that these are no-risk instruments similar to deposits insured by the federal government, and that's--but that can be corrected with full disclosure. I think we have an obligation to have absolutely crystal-clear disclosure, but we don't have an obligation to make people read something or listen to something just because they're lazy. And so I think there's another area where banks have been restricted and held back for no good reason, again because of very strong lobbying by the securities industry.

And that lobbying, frankly, has prevented a lot of good things from happening in the banking industry, ranging from interstate banking to the selling of other types of financial instruments.

LaBerge: Does the American Bankers Association have any play in this?

Rosenberg: Well, the American Bankers Association has been by and large ineffective in this, because the American Bankers Association is comprised of big banks and little banks. There are lots of little banks who would just as soon have that same anticompetitive, anticonsumer environment built around them. Interstate banking was a classic case of that. And so the American Bankers Association until very recently has had a very difficult time taking any crystal-clear positions.

And so a congressman, when he's confronted by an industry in which its principal trade association or lobbying association is not either unified or forceful, has a tremendous excuse in saying, "Well, as soon as you decide what exactly you want, we can legislate that." So the American Bankers Association has had a huge struggle because of the constitution of its membership of both small and large banks.

Merging of BMA and ABA

LaBerge: Now, I think that when you were involved with the Bank Marketing Association--is this right?--that you merged with the American Bankers Association?

Rosenberg: The Bank Marketing Association had really advanced, I think, the art or science or discipline or whatever you want to call it of bank marketing. Its membership, however, at the time that the banking industry had 13,000 members, the Bank Marketing Association had about 4,000 members. It was, of course, extra dues, and obviously for many banks, marketing, as long as you could build a legislative wall around you, that's the best marketing of all kind of things, so felt no need for it.

But during my presidency, it was very clear to me that there would be a huge consolidation in the industry, which of course did happen, has happened, and continues to happen. And that consolidation would result in even fewer potential members for the Bank Marketing Association. I did not see how we could continue to be viable as a separate organization over the long run when the industry was consolidating and there were going to be that many fewer banks to pay dues to the Bank Marketing Association, or to send their people to the schools and meetings which the association conducted.

In my opinion, it's always far better to negotiate from a position of strength than it is from a position of weakness. I guess during my presidency, we were certainly at one of, if not at the height of our strength, we were certainly very close to it. We were well recognized as a very outstanding educational organization, in marketing education obviously. The meetings were well attended. In those days, they called them conventions, because it was not a--now it's politically incorrect to call anything a convention.

So we could negotiate a very good merger with the American Bankers Association. American Bankers Association had its own so-called marketing division which conducted educational programs, but it was a very, very poor second to the BMA. And so we were able to negotiate, as I say, a good acquisition. We kept the BMA's headquarters in Chicago, which made it easier on the staff. There were lots of things built into the agreement which were very favorable to BMA, because we were a very desirable property for the ABA.

Over time, of course, what I had predicted would happen happened, and ultimately, the ABA moved the whole operation to Washington and incorporated it. But that was fine; it was the right thing to do, but certainly--and that would have happened from day one to the detriment of the staff if we had waited, let's say, five more years or six more years to effect the merger or acquisition.

LaBerge: And have you stayed active in either of those?

Rosenberg: Well, no, not really. Well, that's not totally true. I did serve on the board of the American Bankers Association I think after I came to the BofA; I think I served a three-year term on the board. They were kind of anxious, I would say, to get a major banker from the West Coast. They had always had little bankers, but they had not had a major bank board member. And I have on occasion made a speech or two for--at least let's say before I became CEO, I think I made a speech or two for the BMA over that time, but I have not been very active.

One of both the disadvantages and advantages, I guess, of the early career was being known as the marketing guru of banking, and so deliberately, I think, I have stayed away after I started to move into more senior ranks of banks from the marketing function. As a matter of fact, I would say that one of the few things I regret when I turned over the BofA to [David] Coulter, Dave has been very gracious, but he's--well, he's right--in that the bank we turned over to him was so strong and so pervasive in both retail and wholesale that he really is in a position to do anything he wants to do over the next decade. We have a bank that in the last year, I left, was making $2.7 billion; market capitalization, $25 billion; huge retail presence; big corporate bank because of the Continental merger.

So he's really in an enormous position, and I left him, I think he would agree, with superstars in almost every area. Some of those superstars may not be people he's necessarily comfortable with, but I think he would admit--many of them he would be comfortable with--but he has really stars in every area. We built a great talent team.

The one area that I consider I did not leave him appropriately a really good operation was the marketing operation of the Bank of America. And part of it, and probably the single biggest reason, is that there was an area I stayed away from, deliberately, I guess, and I'm not happy with what I did in retrospect--was the marketing area, because I did not want to go out or continue my career as only a, quote, "marketing person." It literally is the only significant area of weakness, and it's not life-threatening; I mean, we'll go out and get some good people, but it is the only significant area of weakness that at least I can see that I left Dave with in the company.

And I have stayed largely away from the Bank Marketing Association, or the ABA's new marketing operation, for the same reasons I guess I stayed pretty much away from it at the Bank of America.

LaBerge: It's interesting, it's kind of like with your kids. If you have a weakness, you kind of just try to steer away from that, or you don't want to influence them too much, so this was like your child.

Rosenberg: Well, that's right. It's not a bright child, the bright, shining child at the Bank of America, and it's a child I should--if anybody should have fixed it, I should have fixed it.

LaBerge: I just noticed last week that there's maybe a change in the advertising group.

Rosenberg: Well, yes. They're looking for a new agency, and as I have told [Tom] Peterson, I said, "Good clients make good agencies, and bad clients make bad agencies." Maybe to get a fresh look--obviously, I'm in no position to second-guess it any more, but the fact is that we have not done the agency a great service by having the kinds of people who direct the agency in the company. And this is not to say that there doesn't come a time when, no matter how good the client is, the agency is not good, but nevertheless, by and large, good clients make good agencies.

I replaced the agency myself when I was there. When I first came here, Gray frankly had either gotten lazy or forgotten how to work, or had never had any direction, I guess, or whatever, that they no longer were appropriately staffed or anything else. So we replaced Gray with Ketchum.

Credit Card Proliferation

LaBerge: Okay, well, more on the eighties, just other things that you did. Were you with MasterCard when there was a chance of a merger with Visa?

Rosenberg: Yes, I guess I was the person who tried to do it. It was a valiant attempt, but in many respects, it probably didn't have much of a chance. We were never really looking for a full-blown merger. We did not think the Justice Department, as absurd as it is since it's common ownership of both groups--but we thought enormous, millions and millions of dollars of economies, could be achieved by putting together some of the data processing, some of the back room functions.

Visa did not have a great deal of interest in doing it, and although we met, I guess I can remember meeting once in Denver and once in San Francisco, it was reasonably clear that that merger was never going to happen. We spent a lot of effort at MasterCard on trying to establish that it was good for the industry, but it never even got to the point where we were meeting with the Justice Department.

LaBerge: What's your reaction to just the way all these cards have taken off?

Rosenberg: Well, it's a very competitive, very aggressive industry. Of all the banking products for many years, it had the best returns. And as a result, it attracted great efforts by the banks. And then, I think it could have been prevented--no one will ever know because it's too late now--but I think we could have prevented the nonbanks from participating. But you have sort of a schizophrenic kind of organization, in that although it is owned by the banks and the board of directors are bankers, like in so many associations, the staff really controls it to a much greater extent than you think.

And as far as the staff was concerned, profitability was second to growth. So they worked to ensure that people like AT&T and others could come into the business. And today, I think six out of the ten largest credit card issuers are nonbanks. And yet, that system was built by banks, it was paid for by banks, the enormous losses--and there were enormous losses in the early days of the card business--was paid for by the banks. These people came in on a free ride of two great brand names, MasterCard and Visa, and the banking industry allowed it to happen.

The interesting thing is, could it have been prevented? Would the Justice Department have allowed it? I think so, because the systems were paid for by the banks. I honestly think so, but we'll never know. But it's really a very sad commentary when we think about the fact that a system paid for by the banks, created by the banks, was literally handed to people like AT&T and to--

LaBerge: Airlines.

Rosenberg: Household Finance. Well, the airlines are a different kind of story, because the real issue is who owns the receivables. I will go to my grave believing that I was lied to at a Visa board meeting when I asked specifically who was going to own the receivables in the AT&T card entry. It was my understanding the bank that was sponsoring the AT&T effort would own the receivables.

It is one thing to use airline miles as a promotion. I think that's perfectly legitimate. For example, Citibank has their deal with American, and First of Chicago has it with United. But Citibank owns the receivables. But in the AT&T case, and in several other cases, AT&T owns the receivables, and that to me was--and of course, that's where the profit is. What United is doing is selling to Citibank a promotion device, and in this case, it happens to be airline miles. But it's not much different than if you sell toasters or anything else, except it's more effective.

But the difference is owning the receivables, and that's where the real profit is in the business. And that's what I think could have been prevented. Because, we don't compete with the airlines. We compete with AT&T.

The credit card, ironically, is what appears to be the simplest of all products in the banking industry, compared to all the complexities of derivatives and things like that. It's actually, because of the associations, the interchange fees, the way the fee structure works, because there are merchant acquirers and card holder issuers and all the rest, is actually one of the most complex of all banking services, from an organizational structure standpoint.

LaBerge: I'm glad you explained that. I didn't understand that about the airlines.

Rosenberg: Yes. We don't compete with the airlines, but we compete with AT&T.

LaBerge: The receivables.

Rosenberg: And when you would look at a ranking, for example, of who are the ten largest credit card issuers today in the United States, you don't see United Airlines or American Airlines. What you see is AT&T or Household Finance or something like that. Because they own the receivables.

Board of Directors

Saga Corporation

LaBerge: Well, let's go on to different boards you were on, like before you came to the Bank of America. Any one that you want to comment on. I have Sonoma Vineyards, Saga Corp., Children's Hospital. Do you have any comment on those?

Rosenberg: Sonoma Vineyards was a somewhat unique situation in that both Bank of America and Wells Fargo each had a big loan position in a loss situation, and it was sort of a convenience to the bank really to have me serve on the board.

Saga was probably my first true New York Stock Exchange kind of company board. And I think it was either Ernie Arbuckle or Dick Cooley, and I can't remember which at this point, who had a very interesting philosophy about senior officers of the company serving on outside boards. The philosophy was that you had to bring something to that company, some special inside expertise, experience, which would help that company, and that company had to give you something that would be helpful to Wells Fargo Bank. Now, and I don't mean the business, because in many cases, it's almost counter-productive, because they almost bend over backwards not to give you business. It was, you learned something about the food service industry, or you learned something about the forest products industry, or something.

And I think that was a very good philosophy. This is unlike the BofA, where although I was not here at the time, but Clausen told me that the BofA had an almost ironclad rule that no one ever went on an outside board.

LaBerge: Didn't that come from Giannini?

Rosenberg: Yes, I guess. And I don't know what it was; either it was arrogance again, that what could you possibly learn from anyone else? We knew everything. Or, whatever, I have never understood what that was. But at any rate, the Wells Fargo philosophy, which frankly when I was CEO here, when people would come and talk about outside boards, I would continue that same kind of philosophical leaning.

Saga was a company with 40,000 employees, big multi-location situation, because they not only had institution feeding, but they had restaurant divisions as well. So you would certainly learn something about the way large numbers of people are motivated and managed and other aspects, which was of course obviously very helpful in your own work at Wells. But I think the important thing about Saga was that it was the first time I was exposed to--and I can't remember whether it was Arbuckle's or Cooley's philosophy of mutual value which I think is a terrific philosophy and is one that I continued to operate under as well when I was CEO. People would come to me and say, "I'm considering, or I've been asked to go on Board XYZ, and what do you think?"

Saga was an interesting company. You learned a lot about management. Saga was a company in which the three founders--this is not really germane to this, but you might be interested--there were four founders. They had all gone to--they had all lived in a fraternity house in Hobart College in upstate New York, and the food in the fraternity house was so bad that they took over the kitchen. That was in their junior year. In their senior year, they took over the kitchen for a dining room for the university. At the end, when they all graduated, one of the four said, "Well--" and they had all put up fifty dollars each in capital, I think. One of them--this was 1947, I think--one of the four said, "Well, I don't think I want to stay in this business," and the other three thought it was a pretty good business. So they bought him out, I think, for a hundred dollars. He got a return, he was happy, and went on actually to found Christmas Club, which was a printing operation. Christmas Club is really a printing operation.

But at any rate, the other three built in effect a billion-dollar company, taking turns as being CEO every year. I mean, who would ever have heard of that? They would take turns every year as CEO. Now, when this was a $200 million company or $400 million company, that was probably okay. But by the time they built it to a billion-dollar company, the company was close to bankruptcy when they finally went out and got professional management.

LaBerge: So who were the founders?

Rosenberg: Three people more different you have never come across in your life. You had Bill Scandling, who in my opinion was probably the smartest of the three, whose outside interest was primarily his yacht. You had Bill Laughlin, who was probably a person closest in touch with the 40,000 people and worried about quality of service and customer service, who was interested in programs such as Food for Peace. And then you had Hunk Anderson, who was the third founder, who even today probably has one of the two or three best collections of contemporary art in northern California.

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Rosenberg: Ultimately, they realized rotating CEO was not working and they brought in professional management and began to bring in outside board members.

LaBerge: And is that when you came in?

Rosenberg: Yes. Shortly after. Ernie Arbuckle had retired from Wells, they brought Ernie in as chairman to find a real CEO. And they found a real CEO, a fellow by the name of Charlie Lynch. I came on the board at the time that Charlie came.

LaBerge: You've mentioned Ernie Arbuckle before. It sounds like he was one of your mentors.

Rosenberg: Well, I wouldn't want to use the word mentor, but certainly he was somebody I had enormous respect for, and someone whose philosophy I think I have mentioned earlier, for example, his philosophy that if you see talent, hire it. That kind of thing. Certainly some of his philosophy I would adopt. My concept of a day-to-day mentor, or a mentor, even, is somebody you go to with your problems and he helps you to find your own way, kind of thing. I certainly can't put Ernie in that category.

LaBerge: Who could you put in that category? Early on, you mentioned Mrs. Emily Johnson.

Rosenberg: Yes. But I don't think I can almost put anybody in that category. I'm kind of, interestingly enough, I think, at least, I'm really a pretty private person. And although I may give the impression of being rather gregarious, actually, I have a very thin skin, although I hide it very well. I guess I have been very reluctant ever to reveal my inner thoughts, concerns, worries, to anyone.

But what I've tried to do is listen carefully, and to people who have something to say, I'm not the least bit reluctant to adopt their best qualities or their best philosophy or concepts, and certainly I've been extraordinarily lucky to have been exposed to lots of people who have some wonderful character, approaches, concepts, philosophies. Although I think I have a thin skin and although I think I'm a pretty private person, I don't have a lot of ego, I think. Somebody else would have to evaluate that, but consequently, I'm not the least bit reluctant; let's say not embarrassed--reluctant to adopt somebody else's philosophy and give them credit for it.

San Francisco Education Fund

LaBerge: How about the Children's Hospital board? Actually, I don't even know if that's San Francisco or Oakland.

Rosenberg: To be honest, I can't recall which organization you are referring to. I mean, you serve on a zillion of these. During that period of time I was on several do-good organizations, in that period. Maybe some of them even were in the seventies. Well, almost all three, I guess, I helped them launch and was very pleased with them.

One was the San Francisco Education Fund. The San Francisco Education Fund's concept, although they've outgrown that now, is that a classroom teacher could apply for a grant up to, and I think our maximum grant was $3,000, but it was direct from the Ed Fund to the classroom teacher, and very little paperwork. You bypassed the school district and the principal, and it was things as simple as, "I'm teaching geometry and I need twenty-five compasses, and the school budget doesn't allow for any more compasses." And they were quick, and it was really effective grant-making in my opinion.

The San Francisco Education Fund has grown into a really big deal now, with big budgets, big staffs--

LaBerge: So you helped launch that?

Rosenberg: Yes. There was a wonderful woman by the name of--it will come to me. But I was one of the first board members, I guess, of that, and--oh, Thacher was her last name.

LaBerge: Gladys?

Rosenberg: Gladys Thacher, yes. She really is the creator and heart and soul of that thing. But I was one of her first board members, and I guess the first board member from the significant business community.

Ecumenical Association for Housing, Marin County

Rosenberg: And then I did help to launch something called the Ecumenical Association for Housing in Marin County, which helped to build low-cost housing in Marin, in probably at that time one of the highest, if not the highest, areas of land cost in the United States. So to build affordable housing over there--and by the time I left the organization, we had probably built 400 or 500 units.

The concept was, which--it's funny, just the other day we were talking about it, because the failure of HUD--the concept was to build these units in as small a number as possible, because the larger the number, the less cohesive the residents are. But the trade-off is that it's much more expensive to build small developments than it is a big highrise development. So there's a trade-off, because you can't always economically do it. But that's been a very successful organization, and again, a big deal.

LaBerge: Where in Marin is it, did you build it?

Rosenberg: Well, the first unit we built was--and we did them always with a partnership, because there was a HUD 236 program, I think. We did it with a nonprofit. The first one we did was with the Presbyterian church in Santa Venetia. We did two with the Catholic Social Services Agency, one in downtown San Rafael and I can't remember where the other one was. We built one with a group of churches in Tiburon. I can't remember where the others were at this point.

But it's continued to be a big-time organization. We had a one-person staff and volunteers, and now somebody told me they've got thirty staff, and they're building in Sonoma and the East Bay. But it was a group of churches and synagogues joining together called the Ecumenical Association for Housing. We hired--one of the principles that I guess I've always believed in in every volunteer organization I've worked in since is that nothing really happens until you have at least one full-time professional. We hired a wonderful guy by the name of Martin Mackie, and he shaped the organization. Just as the San Francisco Education Fund, I don't think Gladys got rich in that job, but at least she was paid. And as great as that organization is and was, or was and is, it never would have happened without a full-time, paid person. And Gladys was that.

Experience Reserve Bank

Rosenberg: And the third one was something called the Experience Reserve Bank, which was a creature of the American Jewish Congress. What this did was work with black business owners to improve their own performance. You had a bunch of volunteers who would do everything from helping them to set up bookkeeping to, if they were in retailing, how to make their display windows look better, and the rest of it.

That one, unfortunately, was only moderately successful, but successful enough that the Ford Foundation thought it was wonderful, took it over, and destroyed it. Like everything that's small, it's very hard to operate for a big organization, and that always worries me when either we acquire something that's small and entrepreneurial. I saw it happen at Wells when we would acquire a couple of businesses that were small and entrepreneurial and we would proceed to destroy them. And the Experience Reserve Bank was one that was pretty good. I mean, it wasn't great. The Ford Foundation offered the kind of resources that the American Jewish Congress--well, the local chapter of the American Jewish Congress certainly never could muster, and it just absolutely destroyed them.

VI. SECOND INTERLUDE AT CROCKER, 1984-1986

Invitation from Frank Cahouet

LaBerge: Okay, how about on to Crocker National Bank? We talked about the fact that you'd moved south with Wells, and that you didn't think you were going to go farther than that. But then when did the offer from Crocker come, and how did you decide to take it?

Rosenberg: Well, I think as I may have mentioned before, that Dobey had said to me that, "You'll be gone in a short time, because nobody will deliberately exclude you from management, it just will happen," because of the so-called split headquarters kind of thing. And it was happening; it clearly was happening. I was tired of being on an airplane every day, and although they had a nice apartment for me here at Grosvenor Towers, the whole thing began to make less and less sense.

And Frank Cahouet, who had been recruited from Security Pacific to be the CEO at Crocker, came to me and said, "You must be getting bored. Every year, Wells just increases their earnings 15 percent, and it works like clockwork. And besides, you're down here and they're up there." But most importantly, he said, "You probably are bored stiff. Why don't you come with me? I'm leaving Security and I'm taking the CEO job at Crocker. Why don't you come and be my second guy and run all of the retail and real estate and all the things that you know so much about?"

Although I was getting bored, I had not yet reached a point where I was thinking of leaving, although I would think about Dobey's words with more frequency each day or each week than I had thought of them initially when he mentioned them. And so when Frank offered me the job, and it seemed to me like a real job again, because I did not think I had a real job any longer, I thought about leaving Wells. Wells had been so good to me, and hopefully I'd been good for them, and I still had a great fondness for the organization at that point. But this was a real job again, and so I told Cahouet that I would go to Crocker.

LaBerge: And by this time, the old taboo about one bank asking--

Rosenberg: Oh, yes, those days had gone. Those days had gone. And so I left--we had been in southern California eighteen months. We had enjoyed it, frankly. We made a lot of good friends, and I left Wells.

LaBerge: So you came up here to San Francisco?

Rosenberg: Yes. Crocker was headquartered, of course, here in San Francisco, and I was coming back to run what was actually about two-thirds of the company.

Situation with Midland Bank as Parent

LaBerge: Now, it was in troubled times, is that right?

Rosenberg: Oh, yes. They had had serious trouble, but they were owned by Midland, which had very deep pockets. Probably Crocker would have been in serious trouble except for the fact that they were owned by Midland, which had very deep pockets.

And so I came up here, and it didn't take any of us very long to realize we probably had all made a mistake in joining Crocker, in that I have never seen such incompetence as at Midland. I mean, there were examples after example. They didn't bother me directly very much, but it was frustrating to see what they were doing.

For example, when they got into real trouble, they had sent somebody over here to run the company. They had asked Wilcox to leave. They had asked--you remember Tommy Wilcox came into the story earlier, because I could have run this passbook savings to drive BofA into the ground, actually, if Wilcox hadn't come on the scene. But by that time, Wilcox--Wilcox was never fully accepted in San Francisco. He actually had built the most incredible operation, most incredible offices, in Los Angeles. The best restaurant or dining room in Los Angeles was the Crocker executive dining room, which Frank and I closed on day one. But it was clearly the best place to eat in all of Los Angeles. He prided himself that when his phone rang, it rang both in San Francisco and Los Angeles.

But at any rate, Wilcox was gone. Midland had sent somebody over to run the place while he was gone, although he didn't have the official title of running it. John Place had the official title still, I guess, until Cahouet came, of running the place. And the man from London was to develop a strategic plan while he was running it, and have the plan ready by April. This was in January. And so he--

LaBerge: And you came when?

Rosenberg: I came July 1.

Well, this fellow, a reasonably good man--

LaBerge: Do you want to tell me his name, or--?

Rosenberg: I can't think of it.

LaBerge: Okay. Maybe later in the transcript, you can--

Rosenberg: Yes. I can't think of his name, but he was a reasonably good man. He sort of kept things steady. I mean, they weren't in the kind of trouble that BofA was in. BofA was almost close to the wall. Because they had a deep pockets parent, but they were clearly--the bank itself, as a division--was in enormous trouble.

And he came to the conclusion that what they ought to do is cut back to what Midland had originally bought Crocker for, which was a big, regional, U.S.-dollar-based bank. And of course, Crocker had made all these loans in Latin America and had gone far beyond what they had--what at least Midland had originally contemplated that they were buying at Crocker. Because they had let Wilcox--the price that Wilcox extracted from them was, "I will come, but you totally leave me alone." And they totally left him alone all right.

But while they sent this guy over, they totally panicked and they hired Cahouet, without ever telling the Midland man, incidentally, that they were going to hire Cahouet, and they promised Cahouet that he could use Crocker as the base to build a world-class bank. After all, they had Midland in London, they had Trinkhaus in Germany, and all of this would be part of this worldwide network, and Cahouet could build Crocker into a global power.

And so along comes April, and by this time, Cahouet is hired--Cahouet came probably in March or something like this--and he presents this report to the managing committee of Midland. Meanwhile, they've told Cahouet that he can run a world-class bank, and meanwhile, the report says--which they all commissioned--says that they should cut it back to a regional bank.

Well, of course, that was the beginning of what was just a series of nothing but battles with Midland. I can remember that Crocker had a New York office, and Midland had a New York office, and so clearly, you ought to combine the New York offices. The telexes that went back and forth about the New York office, I'm not exaggerating, Germaine, would reach from the floor to the ceiling. And in the end, they did just what I knew they would do: they kept both offices. [laughter]

We had both realized--I think I certainly had realized that this was not going to be one of the great experiences, although I was having a lot of fun. We were turning the place around. I will say this: Frank is a very, very smart guy. I mean, he's not Mr. Personality, but he is a very, very capable, smart person, and I like capable, smart people, even if they don't have any personality. So Frank and I got along just wonderfully. They're always quoting Frank in all these books that the bank puts together when I retired--

LaBerge: --that when you become CEO, he bought the stock.

Rosenberg: Yes. But he is really a very, very capable guy, but he was going nuts with this Midland thing. To show you how bad the thing finally turned out is that when they sold it to Wells, they had already sold it to Wells without ever telling Frank.

LaBerge: Wow. Midland did.

Rosenberg: Midland.

Well, at any rate, we were beginning to make money. In fact, we were making--Frank and I talked about how much money we ought to show in 1985, I guess, it was. I mean, by that time, we'd gone from losses to making money. Frank was a very good cost-cutter. I provided, I guess, some of the creative marketing spark for the company, and between the two of us, and we hired a third guy who was--Jeff Morby, who was the other vice chairman. To show you how absurd what had happened with Wilcox, this is the Pacific Telesis building now [pointing out the window], and the Crocker executive offices were on the thirty-sixth floor. It's kind of fun; I'm a director at Pacific Telesis now, so I see the same building.

But Frank was the chairman and CEO, and we had two vice chairmen. I ran all the retail and Morby ran all the wholesale. And there was this huge office which used to be John Place's office. It was <u>so</u> big. I don't know if you remember the movie *The Great Dictator*, where Charlie Chaplin plays Mussolini?

LaBerge: No, I don't.

Rosenberg: Well, it's one of those classics. If it ever comes to a classic station, it's one of the great comedies. But anyway, Mussolini has this office that you literally need binoculars to see one end to the other. Well, Jeff and I decided that we would put up a wall, and we would split this chairman's office into two offices. Actually, both of them had spectacular views, but one was the corner, and the other one had the private john, if you put this wall between them. So we flipped a coin; I won; I took the one with the john.

But to this day, that half an office is larger than any office, including my CEO office at the BofA, that I ever had. [laughs] That's how enormous the things were at Crocker.

But at any rate, Wilcox had been passed over for CEO at Citi, and he was determined to show that this was going to be better than Citi.

I was reasonably happy on the day-to-day operations, and yet the frustrations were eating at all of us. I used to drive Frank crazy in that Frank always prided himself on being the first person in the office. He used to drive people I guess at Security crazy with that. And of course, I'm a pretty early comer in, and Frank lived in Atherton. When we moved back from Los Angeles, we were living in the Montgomery/Washington Tower here. We bought a condominium, so it would take me five minutes to walk to work. And I used to walk to work, and it took me literally five minutes. So every day when Frank would come in, I'd say, "Good afternoon, Frank," and it just drove him crazy. But then for the first half-hour, there was just the two of us there, and he would cry on my shoulder about how frustrating this thing is with Midland. And once every other month, he and I would have to go to London, and you know, when you don't have any--it's bad enough when people are driving you crazy by second-guessing you when you have respect for their competence. But neither of us had much respect for Midland, and so that made it even more frustrating.

[tape interruption]

Offer from Dick Cooley at Seafirst

Rosenberg: So anyway, when Cooley came to me and said, "How about coming up to Seattle and being my successor at Seafirst?", I was certainly ready to go. Cooley's situation was that he had three really superstars, in his view, one of whom was forty-five and one was forty-two and one was about thirty-nine. If he brought in a president who was forty-five, he would probably lose all three of them, but by bringing somebody in who was fifty-five, they figured, well, they can outlast this person, particularly when initially, we thought I'd only stay about five years anyway. So he felt he could keep all three if he brought me in. It turned out, as usual, Cooley was right in his judgment about people. He did keep all.

LaBerge: Who were they?

Rosenberg: One was Luke Helms.

LaBerge: Okay, who you brought down here.

Rosenberg: Who ultimately became chairman and CEO of Seafirst and I brought down here, and has just resigned. Another one was Roy Henderson, who now is a vice chairman at the Bank of California--or now I guess it's Union Bank. And the other one was Bill Pettit, and Bill went, ironically, with Dave Coulter. Coulter left this place shortly after I came. I didn't even know him at the time, but Coulter left to go with one of the securities houses, brought Bill with him, and within six weeks--well, maybe Dave had already left, but Dave left, brought Bill Pettit with him, because he had met Pettit, because Coulter had negotiated the original deal to acquire Seafirst, and that's where he met Pettit. Pettit was the chief financial officer, Helms was the head of wholesale banking, and Henderson was the operations guy. None of them liked each other, interestingly enough.

But at any rate, so it was another move, and this time after eighteen months again, and I was not wildly enthusiastic about it from a moving standpoint.

LaBerge: Yes, and how about your wife?

Rosenberg: And Barbara was certainly not wildly enthusiastic about it after coming back to San Francisco when we were enjoying it. Again, the kids were gone, as I said, and we were living downtown, which was a wholly new experience for us. We had never lived in the city since the first days when we came here. But she was prepared to go. It was a new adventure, new experience. Seattle seemed like a funny place to go, but she said, "If that's what you really want, we'll do it."

Ironically, I left in December of '85, and in January, of course, the announcement came that Crocker had been sold to Wells Fargo. Everybody has accused me to this day of knowing about the transaction and that's why I really left, and I will tell you, absolutely I had no knowledge of the transaction.

Crocker and Wells Fargo Branches in Eureka

Rosenberg: I think I may have started the process of thinking that, however. When I was at Crocker, we had a branch in Eureka, and Wells Fargo had a branch at Eureka, and both of us combined were not even as large as the Bank of America branch in Eureka, but at least we could have been a more effective competitor to the Bank of America if we had combined the two branches. Eureka was a very difficult place to service, because it's just off--it's away from everything else, and you had to have a special air courier bring the checks in, to be processed.

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LaBerge: Okay, the Eureka bank was not very profitable.

Rosenberg: Eureka branch was not very profitable, but I knew Wells' branch was not very profitable in Eureka either. But together, we would have had a real competitive force to compete with Bank of America. So I hired Huret and Rothenberg to approach Wells about either, "You buy our branch, or we'll buy yours." And it went--it seemed to go a long way, but when it got to Carl, at least according to what Huret and Rothenberg told me, he nixed it. But I often wonder--I've never asked Carl that--if that was not what gave him the idea of maybe he could buy Crocker and save zillions and zillions of dollars. Carl's whole reputation, frankly, is--

LaBerge: Is this Carl Reichardt?

Crocker Sold to Wells Fargo, 1986

Rosenberg: Yes. His whole reputation has been built on the Crocker transaction.

But at any rate, in January, of course, Crocker was sold to Wells Fargo, and people have always accused me of--

LaBerge: Of having insider knowledge?

Rosenberg: Insider knowledge. But to show you how really, really dumb Midland was, they actually sold the Crocker Bank to Wells Fargo for below book value. If this had been in the United States, there would have been a thousand shareholder suits against the Midland management. I mean, Carl has built his whole reputation on what they did with Crocker. This is not to say he didn't do a good job, but talk about a gift, because in addition to selling this fantastic franchise in California below book, they had already taken out all of the bad foreign loans and put them on Midland's books. They had another $450 million of bad real estate, which they created a separate subsidiary called Braxton and had taken that out of the bank.

So Carl bought below book this incredible bank, which was the cleanest bank at that point in the world, because all the bad loans were either at Midland or in this subsidiary called

Braxton. [laughs] And I have often thought my ten-year-old at that point could have created a powerhouse. But that was not atypical of Midland.

LaBerge: What year was that?

Rosenberg: January 1986, they announced the merger.

VII. SEAFIRST, PRESIDENT AND CEO, 1986-1987

Situation in 1986

Rosenberg: So anyway, that's how I ended up in Seattle.

LaBerge: Okay. And you were hired to be the president--

Rosenberg: President and chief operating officer, with a pretty clear understanding. Cooley was sixty-four, I guess, or sixty-three and a half, with a pretty clear understanding that when Cooley retired--in fact, obviously, they were a wholly owned subsidiary at that point, and so I came in to talk to [Sam] Armacost, because, although it was Cooley who hired me, you ultimately reported to the Bank of America. And I had a pretty good understanding with Armacost--there was nothing in writing, but Cooley was going to retire in a year and a half or two years, and I would be the CEO of Seafirst, and Armacost seemed comfortable with that, so I took it on faith.

But then about maybe nine months or a year after I got there, Cooley came to me and said, "You know, what I've always wanted to do is be president of a big foundation, and I think I've got a job. If I leave a year earlier, I assume you're not going to be unhappy." Obviously, I was not going to be unhappy under any conditions with that.

As it turned out, because I left Seafirst to come here, Cooley not only had to stay, but I asked him to stay an extra year. So instead of leaving at sixty-five, or sixty-four, which really, was his plan, he left at sixty-six.

LaBerge: So what was the situation at Seafirst when you got there?

Rosenberg: Oh, you know, I have been given a fair amount of credit for helping Seafirst turn around, but Seafirst was well on its way to a turnaround before I got there. In that area, I think I perhaps have received more credit than I deserved. First of all, Seafirst was an extraordinary situation to begin with, in that ten people--well, in 1980, they had hired McKinsey, and McKinsey had told them that in the new world of banking of tomorrow, unless you're at least a $30 billion bank, you don't have a chance of remaining, independent. Here was essentially a $9 billion, $10 billion bank, whose natural marketplace was Washington and Alaska. Washington had 4.5 million people, and Alaska had 5 million people. Maybe they had something in Oregon, but fundamentally, you had a very strong bank in Oregon at the time. You essentially had a marketplace of 5 million people, and you were never going to grow to be a $30 billion bank in the normal way in Washington and Alaska.

So they went out and bought all these loans, these oil loans, from Penn Square. The great irony of the whole Seafirst situation and its collapse: the rest of the bank was outstanding, and continuing to be outstanding. Meanwhile, you had ten people buying these loans from Penn Square, destroying the bank--but they bought them in such numbers that they literally were able to bring down what was probably the best bank of its size in the United States. So when I say it was turning around, BofA pumped in a lot of capital, BofA pumped in a lot of capital which kept it alive, really, but the bank itself had never been like Crocker, which had no real focus, no marketing orientation. The rest of the bank, if you got away from the oil division, was really still a very good bank. I maybe helped to make it a little bit better, but it was really a very good bank.

There is an added irony in this: the two best acquisitions--well, two of the three best acquisitions--with each passing month, I think there is more and more appreciation of how great an acquisition Security Pacific was. We bought it in the height of the California depression, and I will use the [term] depression, particularly in southern California, which is where Security had its greatest strength.

But certainly the two that everybody agrees were absolutely fantastic acquisitions were Seafirst and Continental, both of which were destroyed by Penn Square, and BofA was there to pick up the pieces. Because Continental had the same situation. Continental, which was considered the best wholesale bank in the United States, and as evidenced by the people that we have now today in the bank from Continental, was clearly just a great bank. A small part of the bank, but--and it ought to be a great lesson, I think, for every bank, is that a rogue division can--given how highly leveraged banks are, and banks are very highly leveraged, even in this new conservative era--can destroy a bank. And the rest, 95 percent of the bank had been performing at a superior level.

LaBerge: So when you got to Seafirst, you took over the retail side?

Rosenberg: No, I took all of the line operations. Wholesale, retail, and their specialized line operations like commercial real estate and things like that. And Cooley kept the staff, except fundamentally, the way we ran it, everything reported to me to begin with, but Cooley had primary responsibility, if you will, for the finance people and staff. But all the operations, so most of the bank directly reported to me, and indirectly, everything reported to me and I reported to Cooley.

Personal Banker Programs

LaBerge: And you instituted some innovations, I think. A couple of new checking accounts, like Value 62 or something like that? Value 62 and Choice Checking? Does that ring a bell?

Rosenberg: No, not there. Maybe--

LaBerge: A debit card, a pilot program of a debit card?

Rosenberg: Could be. I think, if I--

LaBerge: Maybe some writer needed something--needed some catch words when he was--

Rosenberg: Yes. I think probably what we instilled the most up there was to help them to install some of the personal banker programs that I originally conceived at Wells, moved to Crocker, and then put them into Seafirst. And with each time, we refined them more, so it was a very good personal banker program, I guess, that helped Seafirst. And there probably were some of those other services; I can't recall, to be honest.

LaBerge: We never talked about the personal banker programs, even from Wells. Did you want to tell me more about that?

Rosenberg: Well, the personal banker program I consider really one of the achievements at Wells, which we also then put into other places. We did not have in the seventies the sophisticated computer tools that would allow you to do great profitability analyses of individual consumers, but certainly, there were enough rules of thumb that allowed you to isolate those customers who were more profitable than the average customer.

And so we built a personal banker program, and you as a personal banker would have--what we tried to do was give you more information about those 400 or 800 accounts that you were personally responsible for, build incentive programs for you with those accounts, try and shield you as much as possible from the day-to-day things in the total branch--you were still sitting in a branch--and we built a whole new career category of personal bankers.

How to Read the *Wall Street Journal*

Rosenberg: But especially, what I'm proud of is the training program that we built. For example, I would teach one of the classes, which was how to read the *Wall Street Journal*. And I think that that seems like a kind of silly thing, but there are all kinds of things in the *Wall Street Journal* that, if you are a personal banker, or what we had then was a small business banker as well--we expanded the program--that you read the *Journal* with different eyes, if you know how to read the *Journal*. And you were expected to read the *Journal* every day, as early in the day as possible, and therefore, be a more astute personal banker.

For example, we would teach them to read the classified ads, and when you're reading the classified ads, it was no longer assumed that you're looking for another job. Thus if one of the companies in your area was looking for a new chief financial officer, you would either alert your corporate banking group to see if there was somebody whose resume they had and you could go out there, and help the company with their search or when they got a new chief financial officer, it was obviously somebody who would have been a good personal banking prospect.

We taught them to read commodity prices and the rest of the obscure items. I guess I may have mentioned, in the newsletter I published for Crocker, if the salmon catch was going to be weak in the Northwest, the little restaurant down the street where the owner, first of all, certainly doesn't subscribe to the *Wall Street Journal,* but when you call on him and say, "Here I am, your friendly banker," instead of calling on him and saying, "Here I am, your friendly banker, what can I do for you?", you come in with a little clipping or something and say, "Gee, you know, the salmon catch is going to be weak this year, and salmon salad sandwiches are a big item. You might want to buy a couple of extra cases early this year before the prices go up." Even if he didn't do it, it was clear you had an interest in his business.

So we had the training class. And then ultimately, actually, I brought the person who used to run the training for me over here.

LaBerge: To BofA?

Rosenberg: Yes. Vicky Harper, who is just retiring, to run something similar here. Vicky went on to other things after that, but initially, we brought her over to do some of the same things here.

LaBerge: So you started this at Wells Fargo, this training class. Oh, it sounds great. I wish I could have taken the class! [laughter] So that was all part of the personal banker and the small business banker?

Luke Helms as a Retail Banker

Rosenberg: Yes. And we put something similar--now, Luke [Helms] actually carried it on even to greater heights, where after I left, he created a Seafirst University, and he actually put it into the University of Washington and had some of the U-dub [U-W] people teach it.

Cooley had great instinct for people, as I have mentioned. When I came up there, Henderson had been running the consumer bank, and just prior to Armacost leaving or when Clausen came back, the fellow who was running operations for BofA, Max something-or-other--

LaBerge: Max Hopper.

Rosenberg: Hopper, Max Hopper, right--had left to go back to American Airlines. I guess it was Armacost, had taken Mertes, who was running the operations up at Seafirst, Lou Mertes, to run them here. In fact, that's how I ended up with my secretary, Peggy. She had been Mertes's secretary and was looking for a new boss; and Peggy actually came down here with me.

Cooley was still a believer in moving people around. That's how he knew he lost me the first time. But he moved Henderson in to run operations, and there was no retail bank head. And Cooley had not filled the job knowing I was coming, and since--maybe I ought to decide who would fill the job.

After I got there, he said to me, "Why don't you try Luke Helms in the job?" I said, "Luke Helms?" Luke Helms--the joke is he's never been in a branch except to cash a check, but he's not even been in a branch to cash a check, he sends his secretary in to cash a check. Why would I ever have Helms running the branch system? And Cooley said, "Well, it's just a thought." And knowing Dick really had great people instincts normally, I thought about it a lot and actually did move Luke into running the branch system, and he turned out to be in my opinion one of the great branch bankers of all time.

And so many of these retail innovations that I put in were, either Luke helped to refine them or develop them or implement them, and then when he became CEO, he actually went on and did more of them. But maybe what I really did was help train Luke as a retail banker, and he did a great job. He was a natural retail banker.

We've probably got about five more minutes.

LaBerge: So should we just finish up Seafirst?

Rosenberg: Yes. Well, I guess I've told you about how I came here and turning Clausen down.

LaBerge: We don't have it on tape. Do you want to start with that next time?

Rosenberg: Why don't we start with that next time?

Impressions of BofA from a Seafirst Standpoint

[Interview 6: January 22, 1997] ##

LaBerge: When we ended the last time we had you still at Seafirst and wanting to stay in Seattle; I know Mr. Clausen asked you a couple of times to come down to Bank of America.

Rosenberg: Yes, at that time, as you know, I was president and chief operating officer at Seafirst. My wife and I had found Seattle to be the most delightful place to both work and live. It is a city that just embraces you if you are prepared to give something back to the city, and Seafirst itself is such an incredible institution in Seattle, in spite of all it had gone through. So we, for all practical purposes, had found nirvana. The Bank of America, frankly, was not an institution that I felt very good about associating with.

During my time in Seattle, I had come down twice to the Bank of America. Once to be invited to a branch managers' meeting which the Bank of America held for its district managers, or regional managers, because there were only about 200 there, and BofA had about a thousand branches at the time. And having gone to branch managers' meetings my entire life, I know there is always a handful of branch managers, regardless of your admonitions, who stay up all night and drink and play cards. And that's just the way it is when you have 200 individuals. And so, they may not be the most awake to hear the program or benefit from the program the next day, but you tolerate it.

What shocked me at the BofA was that the BofA actually had a "hospitality suite" for branch managers that opened at about eleven o'clock at night and so, to a significant extent, encouraged this kind of behavior, at a time when the bank was just absolutely struggling. And to actually encourage such actions indicated to me that they had totally lost any focus or direction that should have been there.

LaBerge: Was this when Sam Armacost was still CEO?

Rosenberg: Yes. And it didn't help, of course, that the hospitality suite was located right next door to my bedroom [laughter]. And so I left the conference, frankly, early--went back and told Dick Cooley, who at that time was CEO of Seafirst, that I did not think that Bank of America was going to be long in existence. And that we ought to figure out what we were going to do because this was not going to last, given this kind of thing. [interruption]

LaBerge: And you were like a child of Bank of America? Or what was the relationship?

Rosenberg: We were a wholly-owned subsidiary. [pause]

It got to the point where I actually asked Cooley if I could explore something which had never been done before and has never been done to this day, and probably was impossible, because of the capital requirements. I said to Cooley, "Let's see if we can do a leveraged buyout. It's never been done in the banking industry, but we have got a great bank here; we've got a great name. And if we can get the capital to get us going for a couple of years, we can really do this independent of the BofA."

So I actually went down and talked to [Michael] Milken, and of course it was a pipe dream because the amount of return on capital is too low in the banking industry to justify the risks of a leveraged buyout, particularly in those days.

So of course ultimately, as you know, Armacost was replaced by Clausen. Several people apparently at the Bank of America who had already come over from Wells Fargo said, "You know, if this place is going to survive, we have to do it in our retail banking operations. And one of the best, maybe the best retail banker in the United States, is right in our organization at Seafirst, and so why don't you get him?"

It is my understanding from hearsay that Clausen resisted it initially on the basis that, if we have already got one in our organization, why not we go out and get someone else. And for whatever reason, he did not get Ed Hoffman, who apparently was the person Clausen wanted to get.

Hoffman was from Citibank. He ultimately became president of Household Finance, and about six months after he became CEO, at a very young age, about fifty-five, he died of a heart attack. At any rate, Hoffman did not come.

Being Wooed by A.W. Clausen

Rosenberg: I had several dinners with Clausen in which he tried to persuade me to come down and run the retail operations of the Bank of America--which were broader than just the retail, but included middle market operations, and commercial real estate. And I told him, frankly, I wasn't interested--twice--for a variety of reasons. One, I was extremely happy in the Seattle environment. Two, it would have meant the fourth move in five years to different cities for both my wife and myself. And so I said no.

Finally, I guess, he asked me to come down again a third time to talk about it. It was a Friday; I flew down and told him no again for the third time. On Saturday I got a call from Frank Newman, who I had hired at Wells Fargo and was now the chief financial officer at BofA, telling me that I just have to come down. And I said no.

On Sunday, I remember Glenhall Taylor, who was our chief credit officer at the time, who also had worked with me at Wells, called and said, "You just have to come down." And I told Glenhall, you know there was never anybody that I was ever closer to in the banking industry than you, but I was not going to come. Actually, Glenhall started out the conversation by saying, "I know I sound like a hypocrite because I'm the one who told you that you are going to have a wonderful time in Seattle, and you ought to go with Dick Cooley when he asked you." And he said, "But the world has changed, and we desperately need you down here." And I told him no.

On Sunday night, which was the night before the BofA board meeting, Clausen called again and said, "You just have to meet with me and we have to resolve this." And I thought, "Hey, we have absolutely resolved it the prior Friday." Now, it is true in the course of that conversation not only did I turn him down, but I told him that this is not fair to my wife to impose four moves in five years on her as well. And Clausen said, "I have to talk to you and her; you have to let me talk to her." And I said, "Well, of course." He said, "I am going to fly up right after the board meeting on Monday." And I said, "Tom, you have got so many other things on your mind, and things that you really ought to be focusing on at this point." While the hostile takeover [Interstate] was winding down, it was still there. And I said, "You know, we have no capital. There is a whole array of problems that are a lot more important than Dick Rosenberg that you ought to be focusing on rather than wasting your time flying to Seattle." And I said, "But if you insist, I'll get a private room at the Rainier Club and we'll meet."

We did get a private room at the Rainier Club. Tom did come up. Ironically, in the Rainier Club on a Monday night, you could have used the main dining room and it would have been a private dining room. [laughter] We talked for a very long time and I told him that, you know, I would give him my unequivocal answer the next day.

LaBerge: That must have been awfully hard to resist with all your friends calling you.

Rosenberg: Well, that's right. It was hard to resist, particularly because I have so much respect for Newman and for Taylor. And these are two very, not only long-time associates, but long-time friends. So it was difficult. But we were so ecstatically happy in Seattle that I just did not want to move again.

Impact of the Contract

Rosenberg: That night Barbara and I talked it over. And although I don't think I have shared this with anybody, the fact is that one of the significant factors in deciding yes was that I think it would have been very difficult for Dick Cooley, not just for me. I had a contract and so Tom could have insisted that I be fired as a result of turning him down, but I still would have collected my contract. But I always thought that Tom might feel that Cooley was the one influencing me not to leave. And it would have been very difficult for Dick Cooley as well. And Dick Cooley who, I don't know if it's a father image, but Dick and I have been together so long and it's such a close relationship that to do anything that would even remotely hurt him would just be so out of character for me.

The contract there, and then subsequently when I came to the BofA, is something that I think is one of the really interesting management issues, in that I normally don't believe in contracts.

LaBerge: Just in banking or in general?

Rosenberg: In general. I normally don't believe in contracts. On the other hand, I often wonder whether I would have had the courage to say no, even twice, without a contract.

But more importantly, when I did come to the BofA, some of the methods of changing the branch system to be more effective and more profitable flew in the face of long-standing traditions that Tom Clausen believed in. For example, we took all lending authority out of the branch. There were no more note tellers; there were no more lending officers in the branch. You certainly could not afford any longer to have a note teller in every branch. And that represents a dramatic change from everything that had ever gone on in banking in Clausen's entire career.

And, of course, for some customers this is not as convenient as it used to be. On balance it is the only way you can run a branch system--in 1987, much less today in 1997. First of all, you couldn't afford it and you couldn't find the people, you couldn't train enough people to be note tellers for every branch. Clausen wanted to at least put lending authority back in a couple hundred branches. And I said, "No. We are not doing it. We can't afford it; we can't train them. And it's just the wrong thing to do."

I often wonder, in my own mind--and he was very insistent upon it--would I have had courage enough to say, "No. We are not going to do it. I am not going to do it," if I hadn't had a contract. And I'll never know the answer to that. But it's possible that a contract is what really allows you to sometimes make the right decision.

LaBerge: And to give you more freedom?

Rosenberg: Well, to give you more freedom because you know that at least if you are fired because of what you believe is the right decision, at least financially, you are going to do okay.

LaBerge: So you had a contract at Seafirst and then you did have another one at BofA?

Rosenberg: Right, I just extended the contract I had at Seafirst.

LaBerge: What pushed you over to say yes?

Rosenberg: Well, as I say, what pushed me over to say yes was: one, Tom was very persuasive. There were no promises that I would ultimately run the BofA, but certainly I think there was an inference, at least, that I would be considered or I would be in the running. Secondly, but maybe even more importantly, is a fact that it seemed to me by saying no again that Tom, who I had always heard was somewhat of a vindictive person, would have made Dick Cooley's life miserable. And I certainly didn't want that. And third, I was blessed with a wife who was perfectly prepared to do whatever she felt was best for both of us. And this was obviously best for both of us.

VIII. BANK OF AMERICA, 1987-1990

Accepting the Post as Head of the Retail Bank

LaBerge: Well, besides having an inference that you might be in the running for the top job, anything else that being a part of the board of directors or anything else that was attractive?

Rosenberg: The other attractive part, and clearly it was attractive, was this incredibly potentially fabulous franchise that had just deteriorated and it would have been--I was coming to the end of my banking career anyway. Which I thought was going to end at about sixty years old and I would do other things. And here was the opportunity to see if you could rebuild a franchise that at one time was the world's great franchise in retail banking.

So I don't think it was any one thing, but the combination of things. Finally that night, because we talked very late that night about a whole variety of things--and Barbara and I decided the next day, and I called Tom and told him I'd come.

LaBerge: Well, when he talked to me about this, he said when you called he could almost jump through the telephone wires to get there. He was so happy that you said yes. [laughter]

Rosenberg: One, I mean, he is a very good salesman. I mean, there is no question. Certainly there was never any warmth necessarily between us at that point. But clearly, you had to have great respect for him. He was taking on something that was an enormous challenge. On the other hand, I think in corporate America very few people ever get a chance to fix what at least people perceive they broke. Now whether he broke it or not, I never have had time to look back and I frankly don't care. There was always too much to do going forward to look back. But at least, I don't think there is very much question that there is a perception out there that he broke it. Sam never fixed it, but he broke it. And here was his chance to fix what he had broken and still retain all his honor and to go out with some glory. Which was, in itself, kind of an exciting thing.

LaBerge: How long did you have before you came down and got to work here?

Rosenberg: At that point in January, I guess this happened sort of the end of January, I recall.

LaBerge: January '87?

Rosenberg: January or February '87, maybe it was February '87. And I told Dick Cooley that we couldn't waste any time. I actually went on the Bank of America payroll, I think, in April. But I was down here almost immediately. We still lived up there, but I was down here spending three, four days a week starting the day I told him yes. There was just an awful lot to be done.

LaBerge: And what happened with Dick Cooley and Seafirst?

Rosenberg: Well, Dick obviously didn't leave early. And in fact, he left later because I asked him to leave later. We always joked about the ultimate irony. I had worked for him probably for twenty years in my banking career, and at the end he was working for me because he was the CEO of Seafirst, but I was CEO of the corporation. He finally retired--I think we had a short time together before he retired because he didn't retire until he was about sixty-seven, I guess. So I had just become CEO, I think, and it was just before that. Even when I was vicechairman of the board here, he was clearly sort of working for me even if I wasn't CEO. So, we ended up in a situation where it was one of the great ironies of life, I guess. There was nobody more vicariously proud and pleased than Dick, you know, that the kid he always had working for him at Wells Fargo was now running the Bank of America.

Conditions at the Bank in 1987

LaBerge: Tell me the situation you found when you came down here and what you had cut out for you.

Rosenberg: I found the costs were absolutely bloated. I found morale just terrible, particularly the morale in the major cities. They had been so beaten up in the press for so many years now that they were embarrassed to say they worked for the Bank of America. Calling officers were not calling in the middle market because they did not feel like spending the first twenty minutes of every call explaining that they were still going to be here next year. Found a terrible advertising campaign--an advertising agency that had no focus, no direction, no media plans.

LaBerge: Who was that?

Rosenberg: It was Gray, good agency, but my long-standing proposition is that good clients make good agencies, and we were not a good client.

I found what really was scary was the technology was so far behind in some key areas, although in some areas they were moving ahead on leading edge technology. The credit card technology was awful and mortgage banking technology was awful. The Versatel card which had been a leader had slipped totally. For example, there was a genius on the peninsula, a cryptography genius, who invented a device. His name is John Atalla--sold his company ultimately to Tandem. John invented a device in which you can create your pincode number right at the desk, when you get a new account, which is today's standard practice. It was standard practice at Wells Fargo. BofA couldn't invest in it--didn't have any money. John did something for me because we had been friends for a long time. He invented a paper process in which we would send out paper to people and they would tear off--like a game almost, it would create a pincode. But that's obviously not the best way.

For example, at that point probably 60 percent of Wells Fargo customers were using ATMs and maybe 30 percent of BofA customers. I found a current research study which showed that 54 percent of the people in California said they would never do business with the BofA. [laughter]

Hiring Tom Peterson and Other Wells Fargo Personnel

Rosenberg: There were lots of things--I mean it goes on and on, that kind of thing. The very first thing, five minutes after I told Clausen that I would come, I called Tom Peterson.

LaBerge: He was still at BofA?

Rosenberg: Still at Wells. And I told Tom, "It's time to come." And Tom came. One of the things I had insisted upon with Clausen was that whatever happened, I had a free hand. In everything that I was responsible for there was to be no interference: people, programs, anything. And on that condition I would come.

Tom Clausen honored that. I mean, I remember when I told him I was bringing Peterson in, he said, "Is he over all the branches at Wells?" which at that time had about 320 branches. I said, "No, he's a regional manager. He runs about seventy-five branches." He says, "And you're going to turn the whole BofA system over to him?" And I said, "Yes." He gulped hard, obviously opposed to it. But he honored totally his commitment and I never heard another word. Of course, Peterson turned out to be his own legend.

The first day Peterson came a branch manager in Santa Cruz said, "I need a bigger branch. We're doing a lot of business down here." Peterson said, "Fine. I'll meet you Monday morning at seven a.m. in Santa Cruz." And the branch manager was dumbfounded--first of all, that someone would meet him from from headquarters at seven a.m. in the morning, but okay. He meets Tom at seven a.m. and he sticks out his hand to shake hands and Tom says, "Where's your rag locker?" He says, "My rag locker?" He says, "Yeah, where you keep your mops and brooms and rags." The branch manager thinks now we've reached the epitome of what's the end--so he shows him the rag locker. Peterson takes the rag from him, cleans off the ATM which typically after a weekend just looks awful. Of course, it's spotless after Peterson cleans it and hands the rag back to the manager and he says, "That's the way it always ought to look." And of course, the word spreads throughout the system. "This guy, Peterson, we don't know who he is but I mean, you know."

So Peterson was my first real asset. It was a very difficult thing because the fellow who he replaced turned out to--

Community Relations

LaBerge: Is this Tom Cooper?

Rosenberg: No, I told Clausen, "Cooper is to have nothing to do with what I'm running." Cooper was still here, but it was Don Mullane that Peterson replaced. It turns out to be one of the happiest stories. If in fact I had had more time then probably Mullanc would have worked out. He is a terrific guy and he did a great thing in stepping back, taking on something that I felt needed to be done, the community relations program. But it was a big blow for a guy who's been running a thousand branches to step back and take what, at that time, was perceived to be a nothing job. But he did it, and over the years we could not have done what we did without Mullane's tremendous work in the community relations area. It takes an extraordinary person. Only four times in my life have I had people willing to step back, take a lesser job. Three times it's worked, but once it hasn't worked. But it really takes--you can't do it with everybody, and I think it's something that probably has to be addressed in corporate America before we're all through.

Because what you see is people reaching a certain level, and frankly finding it very difficult to keep up totally with all of the new technology while they're still running something. Ultimately somebody comes along who ought to be promoted over that person. Now, what do you do? The person is blocking, if you will, better talent. And yet two levels down someone could probably perform the job in a superb fashion. Yet we have not, in corporate America, figured out a way to have people step back after they have reached a certain level--perform at the kind of level that they are still capable of and having a very satisfying life and making a significant contribution to the company.

LaBerge: You should probably write a book on it.

Rosenberg: I have often thought about it. I had two case studies of two people I did it with at Wells. One was a success and one was a failure. So I kept some notes and maybe someday I'll--.

At any rate, Mullane did; Peterson came. And then of course we recruited others and I reorganized the structure. At the time, what I really needed was a tremendous cheerleader for the medium-sized corporations. Bright enough that he wouldn't get us into any trouble, but not strong enough to be a leader once you're out of trouble. But you sure need a cheerleader and I found Tom Decker.

LaBerge: Also from Wells?

Rosenberg: Also from Wells. You know, we just poured them in from Wells, and Peterson of course brought in [people]. We had to build a personal banker program which had deteriorated. We brought Vicky Harper from Wells. We had built an enormous talent base at Wells. Obviously, we tapped that talent base.

LaBerge: What happened at Wells when all of these people left?

Rosenberg: There were a couple of bitter comments. Well, you know, "They got the second team and the first team is still here."

But what happened at Wells was that [Carl] Reichardt began retrenching in several areas, which further allowed us to recruit good people from Wells. Carl was a hero to Wall Street because after the Crocker aquisition, the principle strategy appeared to be buy back stock. And as you bought back stock of course you drove the earnings per share up, but you shrunk smaller and smaller as a competitive force. He first closed all international operations and closed almost everything outside California. He believed totally in California. And he shrunk the bank and bought back stock, made it very profitable, but in the final analysis they had to do something and they did it after Reichardt left and his sucessor Hazen bought First Interstate. So, with all of this talent, there really wasn't any need in many ways. We maybe hurt Wells in the middle market but we didn't hurt Wells fundamentally. The BofA had lost its way so badly. You didn't turn this thing around overnight.

And the wisdom of, what I guess I mentioned in one of our earlier interviews, of Arbuckle saying, "Whenever you see talent, hire it," ultimately always paid off for both Wells, BofA, First Bank Systems, Banker's Trust. I mean, that tremendous talent pool at Wells Fargo came really out of the philosophy that Arbuckle had conceived.

Motivating Employees

LaBerge: You seem to be able to attract a lot of talent, too, and to motivate people. Do you know how you did it?

Rosenberg: I think fundamentally you certainly need to share the glory, if you will. You have to give absolute credit to the people who do things. I think I mentioned earlier, the philosophy I have always operated under is a philosophy that Cooley had which was, "Your only job is to make the people who work for you look good." Not just to look good but to succeed. To that extent, people respond. I think most people can rise far above what your expectations are of them.

Positive Message in Advertisements

LaBerge: Did you have any specific ways to do that--incentive, rewards or something like that?

Rosenberg: First, a fundamental thing was actually an advertising program. As I said, the advertising program that was here when I arrived was, "We Want the Job." Well, isn't that nice, you want the job, so what? When I discovered how embarrassed people were to say that they worked for the Bank of America, and how embarrassed customers were to say that they banked with the Bank of America, it was clear we had to do something. So just by the nature of the fact that it was the Bank of America, more Californians bank with Bank of America than any other bank. So that became the advertising campaign. "More Californians Bank with Bank of America than Any Other Bank." So it shifted it from the fact that there is not something wrong with you if you bank with Bank of America. There may be something wrong with you if you <u>don't</u> bank with the Bank of America since more Californians bank with Bank of America than any other bank. Now, that was an accident of history. But it was an accident of history that we had to use at a time when both employees were ashamed to say they worked here and customers were ashamed to say they banked here. If we could create the environment that it's perfectly all right to bank here, more Californians do than any other bank. So that was the first major effort in turning the attitude of our people around and that was very important. I spent that first year at least a minimum of eighty-five hours a week in the field telling our people how good they really were.

I remember sitting at the Santa Barbara airport at ten o'clock one night saying, "You know, this week I am going to put in 105 hours. I'm not going to do this any longer, eighty-five hours is plenty." You had to get out there and tell the people how good they really were, because they were still good! They had lost focus; they lost direction, but they were still good.

Incentive Program in the Branches

Rosenberg: Then, of course, we put in a whole array of other things. Peterson and I put in an incentive program in the branch system that we had developed earlier at Wells and we refined here. That was important.

LaBerge: Can you describe that?

Rosenberg: Essentially it created approximate values for certain types of deposits and accounts. Then if you passed certain hurdles the branch would get cash to distribute to the staff. And it was a relatively simple thing. There was no one motivational plan. Tom created something called the Gold Club. And Tom, who people will tell you around here is the cheapest person around, he never spends a nickel, but we would bring in the best branch managers to the Gold Club ceremony. And nothing was too good that evening in the Gold Club. We put the winners up in the Park Hyatt with their spouses and they were treated like absolute princes and princesses. Wherever possible we would single people out for heroes. This was in the branch system.

In the middle market area, I spent an enormous amount of time calling on our middle market officers, and they had never seen a vice chairman in many cases before. The bank executives reserved themselves for the large corporate customers, in the real estate area, major real estate developers. You could not do my job, in my opinion, in fewer than eighty-five hours. There was tons of paper that never stopped. But that you had to do on Saturdays and Sundays when you could not touch people--by touching people, I mean both customers and employees.

We had lost so much credibility. We lost credibility in the real estate markets, and the only way you could get credibility was to actually go out and talk to people. And even then it was a problem. They said, "Well, how do we know you are going to be here? The last guy was here, he lasted six months or something like that." And that's tough.

LaBerge: So you had to sell yourself in addition to the bank? [silence]

Is there more about taking the loans out of the branches? You started to talk about that. What's the philosophy behind that?

Rosenberg: One, taking loans out of the branches usually helps you make better decisions. If a branch sees only two or three loans a day or maybe even a week, they don't have the perspective to make very good decisions.

First of all, we have to talk about what kind of loans. If we're talking about consumer loans, a branch sees maybe three or four, five applications a week, the average branch. So the decisions are not necessarily--they don't see enough to make as good decisions as if you're looking at loans all day long. Secondly, it's much more difficult to use modern techniques of credit scoring. So we put loans into centers where it's less expensive to process the loan. But I don't want to take credit for all of those changes. The BofA had already begun to make some of those moves, but they had thirty-two processing centers. I think by the time Peterson and I got through in the first two years we cut it back to eight. Today I think there are two. Some of the concepts which we are perhaps given credit for were sort of kicking around in the BofA system already. To that extent, when Sam says, "Some of these things were being put into place if I just had time," he is right.

Unfortunately, there was no sense of urgency around this place. That was one of the things that just absolutely got me. The world is crashing down and there was no sense of urgency. Like having the hospitality suite, that kind of thing. That is so small but it's symbolic of the fact that there was no sense of urgency.

The Middle Market

Rosenberg: In the middle market, however, what we did was form commercial banking centers. We just went to the concept that actually I had created at Wells in which they had already had commercial banking centers, but they didn't have, if you will, "the downstairs." They were lending to medium-sized corporations and that's all they did. But they didn't have a real branch. They would have to go to a retail branch to do other business with the customer. I guess we set up twenty of these across the state. Each of the regional presidents of the commercial banking center felt like they were the president of their own bank because they had all of the things. They could take somebody downstairs and get them a boat loan, an owner of a hundred million sales business, it was your branch you could take him right to--before you had to refer him to some other unit. So you could feel in each of those areas whether it was Fresno or Sacramento or San Francisco, you were the president of your own bank and that gave them a whole new lift. That was a concept actually that I had created at Wells.

Since for all practical purposes, you were going to be president of your own bank, I asked for a five-year commitment from these people, that you would stay there five years. My commitment to them was that we would allow you to personally and professionally and monetarily grow in the same spot. You didn't have to move to monetarily and professionally grow. Now you had to make the commitment you want to stay here five years and be happy. I mean, obviously there were things if you didn't perform you were a goner or if we desperately needed you somewhere else we were going to break the five years. But fundamentally we asked them for five-year commitments, and we found of the twenty, I think, fifteen turned out to be winners.

LaBerge: That's pretty good.

Rosenberg: And here you had to listen to people--I didn't know these people. Some of them we'd brought from Wells, but some of them were BofA's. [interruption]

At any rate, as I said, there were untold things to be done, but the single most important thing was to make the people feel that they were winners again. I mean, that was pervasive.

Training; and Convenience

LaBerge: I read something about bag lunch discussions and sending people to training centers?

Rosenberg: Yes, we didn't have much money and yet some things we felt we just had to invest in. We invested heavily in training.

LaBerge: And what kind of training?

Rosenberg: This was sales training. There is a firm that has gone now--I first used them in Seattle. They continued to play a major role in training programs in banking all over the United States. He started out as a medical doctor, his name is Cohen, out of Beverly Hills. And it's motivational, well, it's more than motivational training, it's true sales training. I guess we were the first major bank to use them as extensively as we used them. We put virtually everybody in any kind of customer contact position in the branches through it. He is so good that the corporate bankers who would normally just be disdainful of this kind of training have used him at the Bank of America. But he still continues to play a major role in banking across the United States in training individuals. So we put money in that.

Tom [Peterson] and I looked and saw what was our only strength, frankly, if you looked at the research data. And our only strength was that we were the most convenient. But convenience was going to be defined in a different way, so although we didn't have much money, we took everything we had and poured it into Versatellers. So we continued to have the largest ATM network because Wells Fargo was adding ATMs at a rapid rate and if they could take away the one thing we had, convenience, from us, we had nothing; we had no other image. You know, we were big, impersonal, all the other negatives. The one thing that people said was that we were were convenient.

So my philosophy is always you have to build on your strength. It's much easier to build on your strength than to try and overcome a weakness. We were always going to be big, hopefully we were going to be less impersonal, but that takes time to create that kind of image. But we at least could continue to reinforce the convenience image which is why we, without much money, continued to pour money into Versatellers, and today BofA still has the largest proprietary network and has turned out to be really important for us.

We had to make a difficult decision. We had, as I said earlier, a mortgage system that was totally obsolete and we had a credit card system that was totally obsolete. We didn't have enough money to do both, so we chose the mortgage system. I have not regretted the decision, although we obviously have lost tremendous market share in the credit card area because frankly we didn't have the systems. The credit card would have presented another problem for us. Not only did we not have the technology, the bank probably could not have sustained the losses, and by this I mean credit losses, even though those of us who are close to the business know that that is part of the game in the credit card business. It was not as well recognized in 1987, 1988, '89, that you have to look to the ultimate bottom line of what the credit card is producing. The fact is that, sure you can't tolerate 3 percent credit loss factors in commercial lending because the spreads are too narrow, but in credit card, where the spreads are very large, you can tolerate 3 percent credit losses. But for a bank that was already reeling from credit losses, this just would not have gone over.

Technology

Rosenberg: One of the interesting things I found--the amount of money we were spending on technology, ironically, was disproportionately being spent in corporate banking; the retail bank, because it didn't have a strong voice or, for whatever reason, was not only not getting its fair share, was not getting the appropriate share of the technology spending. Frick was being replaced or had been replaced by Clausen, and Coleman was running the World Banking Group, and to Lew's credit when I talked to Lew about it, he said, "You take as much as you want. I know where it ought to be spent. It ought to be spent with you, not with us," at least at that point. So we shifted it from roughly probably, I think the retail operations and commercial banking operations were getting 35-40 percent of the technology dollars that were being spent to about 70 percent within a year. That actually was the appropriate number. But without somebody with a voice, it would not have happened.

I'm moving from two or three subjects here, but you simply had to do it because we had a fire on every front. We had a fire in the credit operation; we had a fire in technology. You had to make a lot of decisions very fast, you had to understand the issues very fast, and you had to be able to go from one issue to another very rapidly. Time was a great luxury, as it always is, I suppose. In a crisis period, the most precious thing you have as a manager I think is the time and how you allocate it.

LaBerge: What did you do in the mortgage system?

Rosenberg: We invested money in developing a better system so that we once again became one of the top three mortgage lenders in the state of California. We had a very good, bright finance person that I had known at Crocker, had gone to Wells and we took him from Wells. We broke the mortgage business into three businesses, which it is. It's a lending business, it's a servicing business, and an origination business. Typically you don't make much money on origination and you get it in servicing. But if you've got a huge consumer deposit base as we had, you could make money in both the portfolio balances itself which you keep, as well as in the servicing business. But in order to do the servicing business, you need to have good technology.

LaBerge: And was this Vicky Harper who did this?

Rosenberg: No. What Vicky did for us was do the training of the personal bankers. This was a very good fellow by the name of Frank Schultz, who actually had been here; he was at Bank of America.

LaBerge: I skipped over the technology. What did you do in technology? I've got COIN and CDN.

Rosenberg: COIN was already in process. This was going to be, before it was through, a $350 million investment--just an enormous investment. It was probably already half spent by the time I got here, and if I'd had a choice probably, I'm not sure we would have given COIN the highest priority. But, one, it was half spent. Two, the system it was replacing which had been state-of-the-art when it was put in, the terminal system in the branches, was so old that when a terminal went down you had to cannibalize other terminals for parts to replace it. So you had to go on with COIN, and fortunately I had a very good operations person, Larry McNab.

Operations: Visiting Data Centers and Cash Vaults

Rosenberg: I guess maybe there is another point to make: in the banking industry, operations are critically important. Very early after I came, I went to the data centers and to the cash vaults, and nothing really happens in the cash vaults and the data centers until starting at about eight o'clock at night when work comes pouring in from the branches. The swing shift and the graveyard shift are really the most important; during the day we do day shifts, but they're not very critical to the success. They told me I was the first senior officer, much less a vice chairman and I guess at least the second or third person in the company, who had ever been in the cash vault. In fact, I remember at the time someone asking me, "What were you doing in the cash vault?" This is the heart and guts of the company, this was our strength. I would visit the data centers on the swing shift and the graveyard shift because that was critically important, and fortunately, as I say, I had a wonderful operations person in McNab.

I think there is much more a recognition today of operations and technology than there was even ten years ago in the banking industry. What always used to amaze me when I first began to go beyond the advertising world in banking was a strange situation: for example, at Wells if we had a $100,000 loan loss, somebody would have to go to the board of directors and explain why we had a $100,000 loan loss and what had gone wrong, why the decision wasn't right to begin with. But if you actually missed the transit deadlines, and by transit deadlines I mean moving the checks onto the airplane to be presented on the East Coast; if two or three nights in a row you missed a transit deadline, you could be losing a million, two million dollars in float costs. Not only, one, did you never have to explain that; nobody even knew about it on a senior level.

It reminds me of my older boy who I always thought would make a great plant manager, in manufacturing. When he graduated from Harvard Business School I was hoping that he would go into operations management, manufacturing management. Of course, Mike said, "No one from Harvard Business School goes into that." He said, "They're offering $40,000 a year and all the investment banking firms are offering $70,000 a year. Why would you do that?" And I said, "Well, what about manufacturing?" And he says, "Dad, you don't understand it. At Harvard Business School, manufacturing just happens. We don't know how it happens, it just happens. [laughter] We work in the abstract world." He's smart enough to know. But I will never forget that, and one of the problems with the business schools is that manufacturing just happens, and so you don't find the best and the brightest going into manufacturing.

Now the world is changing and we realize that we have fallen far behind and there is a new world. But in the banking industry, it's only very recently that the technology people and the operations people sit at the same table as senior management. And yet that's really so important to success. So one of the things that I did early on was to make sure that the people in our data centers and the people in the operations center and the people who ran float understood that I understood how important they were. And literally, somebody told me that no one from senior management had ever been there before.

LaBerge: Well, that probably carried over when you were CEO.

Rosenberg: Oh yes, because there is such a thing as gross demand deposits, which is what you see in the paper, and there is net demand, which is net after float. Maybe I was one of the few CEOs, and certainly one of the few at the BofA, who ever paid attention to what the net demand deposit number was rather than the gross demand.

Tape 12 and page 123a are sealed until 2019.

Buying Time for the Turnaround

LaBerge: What's your assessment of the turnaround?

Rosenberg: In what respect?

LaBerge: I guess besides what you did, how do you think that it happened?

Rosenberg: I think that the franchise was so strong that if you could buy enough time, and what we did with the California operation was allow the corporation to buy time. I would guess that, we never kept those numbers, but the California operation was producing about 120 percent of the profit of the corporation even when we began to turn it around. And we were still losing huge gobs of money everywhere else. But the California franchise was so strong, if you could give it focus, direction, and cut the expenses and make the people believe in themselves again, you could carry the whole corporation on the back of the California operation until the rest of the corporation found time enough to work its way out of its problems. And it did.

Coleman obviously cut out countries where we were not making any money. He reduced expenses around the world. Frank went to Japan with Clausen, and Frank continued to go back to Japan to get us capital which he did, which the Japanese made a lot of money on because it was convertible, preferred stock. Each of the team played a critical role and my job was just to make gobs and gobs of money to let the corporation as a whole return to health. And we did make gobs and gobs of money. It was painful; we took probably 12,000 people out of the operations that reported to me, but it was--

LaBerge: How did you deal with that? Are you the one who had to tell most of the people?

Rosenberg: I agonized. I had to tell some people, but obviously you don't tell 12,000 people. It was not 12,000 people, fortunately, it was probably not more than 5,000 or 6,000 people. It was about 12,000 jobs. In the retail world and even in the middle market world there is very high turnover. And let's face it, it was a time of very healthy California.

One of the proudest achievements I guess I had as its CEO, we continued to show increased earnings every year, in a time when California, in many respects, was close to a depression. Fortunately in '88, one of the things that helped the BofA and one of the things that saved it, in many respects, was that the things we did in California in '87, '88, '89, even in early '90, could not have been done in '92, '93, '94. I think we have to give some credit to the economy in the late eighties, just as I think we have to take some credit for achievements during the terrible economy in the nineties.

Other Job Offers

LaBerge: Somewhere I read, I don't know where I read this, that maybe you were recruited for another bank? American Savings and Loan?

Rosenberg: I don't know where you read that, but--

LaBerge: I don't either! [laughter]

Rosenberg: --but I guess it is true. It was First Nationwide. Ford owned First Nationwide and they had made a huge mistake at First Nationwide. Ford came to me and said if you will come run First Nationwide you will even get a seat on the overall Ford managing committee or executive committee or whatever they were calling it, and of course I turned it down. I had just come to the BofA; that happened almost three or four weeks after I had came to the BofA.

I had another great job offer which if I had not brought so many people from Wells who if I left I was betraying them, I might have given serious thought because I am a big football fan. Pete Rozelle was retiring from the NFL [National Football League] and the owners --there were two huge factions of the NFL owners, and if you have ever dealt with the NFL football owners--are you a football fan at all?

LaBerge: Yes.

Rosenberg: You have never seen egos like that! [laughter] I mean, I have seen egos in my life, but there is no ego like an NFL owner. The two warring camps in the NFL could not decide on who was going to be the next commissioner to replace Rozelle. There is only one thing the owners really agree on, they all hate Al Davis. I mean, that is about the only thing the owners agree on. So, Al Davis was selected to be the person who would chair and really run the next pick of the NFL, since everybody hated him, he wasn't going to favor one side or the other. I had gotten friendly with Davis; he is probably one of the most loyal BofA customers. Davis asked me to consider the NFL job that [Paul] Tagliabue now has as commissioner of the NFL. Now, there was a job that was really tempting. Of course again, after I had brought all of these people from Wells Fargo, I was not about to pursue--and Tagliabue may not even know how he got his job--maybe he would have beat me out in the end, but I don't think so. [laughter]

LaBerge: Any other interesting offers like that?

Rosenberg: I don't know that I've even talked about that. I have two sons, but I had to tell somebody about that job, that was too good. I think the only person I told was my older boy. [laughter] He says, "Take it, Dad! Take it!" Because he's a football fan, too. He may have been proud of me as CEO of the BofA, but he would have been a lot prouder of me as commissioner of the NFL.

BofA Regains Health

Rosenberg: There are not many jobs that people can offer to you that would have the scope of responsibility that you had at the BofA or the challenge or the opportunity and the rest of it. That's why you don't get many offers when in this job because people know it's virtually impossible to attract you. The compensation committee and Tom were extremely generous in the options. The options could have been worthless or they could have been worth a lot of money, and they were worth an enormous amount of money because we succeeded.

At any rate, we began to get better and healthier, and then you could begin to do some things that you wanted to do. We put in more ATMs, Versatellers; the training got better; we could refine the incentive programs. All these things we had done on such a crash basis in '87 and '88 because the thing we had to impart was a sense of urgency. This was particularly true not just in the retail operations but in the middle market operations too.

What I think people don't realize that actually the middle market companies are the most vulnerable areas to some other bank taking your business away. Because if you're an IBM or a General Electric, if your bank is in trouble and they decide they just can't lend anymore, so what? There's twenty-five banks standing in line waiting to do business with you. But if you're a toy manufacturer or a small toy distributor and you have built your inventory for the Christmas season, and your bank which you've been with all the time--and typically you're a one-bank company--has got its own problems, and suddenly says, "Gee, you know I'm not sure we can extend you that much credit." you've got real problems. So we were the most vulnerable of all in the middle market. That's why what I really needed was a cheerleader to get our people to go out calling on customers, and

Decker served that role as a cheerleader. Tom Decker has his own difficulties. We replaced him ultimately with Rossi, but he was perfect for the time.

LaBerge: So by '89 the turnaround is going well and you could do some other things?

Rosenberg: You could feel it. Mostly what you could do is refine the things that you had to throw into place all at once. Everything from being more intelligent in the media selection and advertising to the fact that you could invest more in training. You could do a lot of things. You could think a little bit more strategically; you could think more beyond next week.

Senior Management Retreat in Sunnyvale

Rosenberg: To Tom's [Clausen] credit, in the darkest days, he wanted us to think longer range and he had a retreat on this subject. Athough we had a fight about where it was going to happen. Actually I will never forget this one. As we began to at least see that there might be a light at the end of the tunnel, Tom said we ought to have an offsite retreat to think about the future and strategy, which was good. And he said, "I've talked to Cheri Sorokin. We'll have it at Meadowood on October 26," or whenever it was.

I said, "We're not going to have it at Meadowood, Tom. If it's at Meadowood, I'm not going to be there." See, that's again the advantage of a contract. I mean can you imagine telling the CEO that you're not going to be there? I said, "How could we possibly have it at Meadowood? I am taking ten or twelve thousand people out of the company. First of all, Meadowood was one of Sam's last retreats. But even if it wasn't, how can we go to some place like Meadowood--the senior management--when we're cutting people?" Well, Tom got mad and angry. I said, "But if you do it there, I'm not going." He said, "If you're so smart, you pick the place and set it up."

It became a sort of quasi-legend around here--not quite the same legend as Peterson's wiping the Versatel--in that I picked the Sunnyvale Holiday Inn. And it just has the right sound--awful, "the Sunnyvale Holiday Inn." [laughter] We had our first strategic retreat; Tom was still the CEO, at the Sunnyvale Holiday Inn. And it gave just the right message. But to Tom's credit, he was thinking there was a life beyond putting out the fires every day.

LaBerge: And that he would go along with you. It sounds like there was a shift in the culture; you were also able to argue.

Rosenberg: He had never seen anything like this before, that somebody who works for him says they're not going to be there. I don't know whether he liked it or didn't like it.

LaBerge: But he went along with it.

Rosenberg: Right, because clearly we were delivering. Here was this Peterson who had never run more then seventy branches and people are willing to die in the streets for him--and he's hearing this from old-time BofA managers. Obviously he had his own network, just as I have my own network today. What he was hearing was just wonderful things even though they may have grated on his nerves what we were doing.

Commercial Real Estate

Rosenberg: In the middle market some of the things we were doing were also bearing fruit because of some new, excellent people. But a person we lost in commercial real estate was a tough loss. I lost somebody that I didn't want to lose as soon as I got here. It's a very interesting story. We had one of the most talented workout people for real estate in trouble, a fellow by the name of Ken Edwards. I had known him at Wells and as soon as I arrived, he was the only person I really lost. Ken came to me and said he was leaving. He was going to go work with a developer. And I said, "Ken, why leave?" He said, "You bring in all of these Wells Fargo people and I never got a chance at Wells; I always got passed over. I know you've just got this image of me that I never can run the whole real estate operation; and I'm leaving." I pleaded with him to stay and I lost him.

In 1992, 1993 when we acquired Security--never did I see so many bad real estate loans as Security had. Of course we knew what we were getting into; it was all part of the price, but still it was awful. I went to Ken and I said, "Ken, please come back."

LaBerge: He's meanwhile still at a developer?

Rosenberg: Yes. I said, "Please come back. We need you desperately. As long as I am here you will have that shot at the top. I can't guarantee it, that it will stay that way forever. But you can help us work our way out of what is a disaster, and this is clearly your strength." Well, Ken came back, did a fantastic job and we paid him for it. Now I'll say this, we paid him extremely well for what he was doing. By 1995, we had worked our way out of the zillions of dollars of bad real estate that we got with Security Pacific. Ken was, as I promised him, running it all. Ken is the kind of person, if he says good morning to you, you feel like punching him right in the mouth. But he is a wonderful workout man when real estate is in trouble and your attitude is entirely different. Ken has just left us again I guess; they've asked him to leave again. But as long as I was here, I carried him because I made that commitment.

It's funny how it is clear that some people--I wouldn't say it's a "Peter Principle," it is important, I guess, to know your own strengths and always try and operate where you are strong and not do things that you just can't do. And in Ken's case, here is the smartest real estate person, in my opinion, bank real estate person in the United States that I've ever come across, the best workout real estate person I have ever come across, but when it comes to a healthy environment, that's just not his thing.

Saturday Hours

LaBerge: Where did you come up with the idea for Saturday hours?

Rosenberg: To be honest, I can't tell you if it was my idea or if it was Peterson's. It was very clear that the one thing that the BofA had, that I keep going back to, was convenience. It was very clear to us that the world was changing. Again, the importance of Saturday hours were two factors: one, it was understanding what was our strength, which was convenience, and two, being prepared to spend money where we could get the biggest bang for the buck. Because that obviously was expensive. The willingness to starve other things to pay for that; we starved the credit card operation--and it hurt. Because credit cards were still important. One of the interesting things was that when I got here the credit card had terrible technology--a combination of reasons: credit card was still living in past glory, and two, the rest of the company was in such terrible shape that the credit card operation which represented about $6 billion in outstandings in $100 billion bank was producing 24 percent of the earnings. Now, that's the wrong place to be. [pause]

LaBerge: Should we go? The next time we'll just wrap that up and start when you became CEO.

Rosenberg: Okay. Great.

Sales Training Program, Apollo, and COIN

[Interview 7: February 18, 1997] ##

LaBerge: Last time we talked a little bit about the turnaround and how you, for instance, changed the advertising slogan to make it more affirmative, and some of the other things that you did. How about talking about the weekly sales' meetings, the seminars by Marty Cohen. How did you get that idea? Tell me about it.

Rosenberg: Well actually, we had used Marty Cohen and his sales management training that he installed at Seafirst. So he was a known quality at Seafirst.

LaBerge: Was he from California?

Rosenberg: He's from Beverly Hills. Although he probably has not practiced medicine for I don't how many years, he actually is a medical doctor. Went into the sales training business lots of years ago, and I guess has enjoyed it.

LaBerge: Not from a psychiatry background?

Rosenberg: No, I don't think it's a psychiatry background. Although, I'm not sure of that. But he is a fully qualified M.D.

But there were a great many things that we put into the California system. Obviously, we put in the sales training program with Marty Cohen. We put in, what I think was a very important tool, a branch managers' incentive program, which focused the branch managers on what we wanted them to achieve. And nothing focuses the mind more perhaps than the ability to have a financial reward at the end of it, if you achieve those objectives.

There had never been, to my knowledge, an incentive program of that nature. There had been one-time promotional campaigns in which you win maybe money or rewards. But this was a year-long incentive kind of program. Again, as I say, focused on those aspects that were important to the company. That was an important aspect.

The best of the breed of the managers became members of the Gold Club. And had a very elaborate weekend in San Francisco, at the end of the year, having achieved their incentive goals. I think, it is typical of Tom Peterson, who has enjoyed a reputation around here of squeezing every penny, but when it came to the rewards for the managers who had achieved, it was a very plush, elaborate weekend with Tom's blessings. In fact, Tom created it.

I think it was important to have a new product that the branches could rally around. So we introduced the Alpha account, which was a reasonably good package account unto itself. But, more importantly, it was a new product that could create some excitement with the branches. Again, they had to become leaders rather than just followers. Although the Alpha was an important good product, it was clearly--it was a copy of the Gold Account that we had introduced years before [at Wells Fargo]. Sometime during that period of the turnaround in the California system, we went to opening on Saturdays, which was an enormously bold move for a bank that was still struggling to cut its expenses. This was obviously going to cost us money. But it was what the customer wanted. And Bank of America was the leader again, and people were following. Wells Fargo followed within a week or two of it. But it was the Bank of America that set the tone that we would be open on Saturdays. And that gave the whole system a big lift.

LaBerge: Was that your idea?

Rosenberg: I can't remember if it was my idea or Peterson's. The two of us have always worked very closely together, ever since Tom came. In fact, I think it was probably more Tom's idea than my idea. Although I can't be 100 percent sure on that.

LaBerge: For something like that do you have to go back to the board or did you go back to Mr. Clausen? How does that decision come along?

Rosenberg: No, very few decisions [thinking]--we certainly didn't go to the board, and I guess I probably took it to Clausen. I know I took it to Clausen, and told him what we were going to do. To Tom's credit there was, I can't remember anything in the three years that I worked for him that he ever said no to. Whether he was in agreement in his heart or not, I'm not sure, but certainly there was never anything that he ever disapproved.

LaBerge: The opening later hours, was that just an extension of the opening on Saturdays? Because I remember when the banks used to close at three every day.

Rosenberg: Well, I think by the time I came, most banks were open on Fridays until six. The bold move was a Saturday move, a totally new day.

LaBerge: Didn't you have some promotion along with that?

Rosenberg: Oh yes, we had an enormous promotional, free checking till the year 2000 or something. Because you had to dramatize the Saturday openings. But the accounts had to be opened on Saturday, to dramatize that. We were open on Saturdays.

LaBerge: What about the Apollo account? What was that?

Rosenberg: Well, Apollo was not a very successful--the offer had been introduced and it ran its course. Although it's still in existence. I think Apollo was merely an extension of the credit card. I'm not sure now I can give you all the details of it. But, it was not a very successful effort. But in an effort to continue to introduce new products, which had not been done around here for a long time, I think Apollo was introduced. But it was not a very successful account.

LaBerge: What about COIN?

Rosenberg: Well, COIN, was one of the big decisions I guess I had to make when I first came here. The Bank of America had invested a tremendous amount of money in updating its teller terminal system. Nothing was yet operational, the COIN system was about halfway through when I got here. COIN was really conceived before I got here, but it was probably going to represent another $200 million of investment. But, in one sense, it was an easy decision, in that we were beginning to cannibalize parts from the old system, from branches that were no longer open, things like that. You almost had to go through with it, when you had $200 million at that point invested and there was probably another $200 million to do it. So, COIN was continued and introduced. And maybe one major contribution to it was trying to maximize the benefits of COIN. But COIN was clearly something conceived before I got here.

LaBerge: One thing we didn't talk about is how the bank got to be in such bad straits that you had to rejuvenate it.

Rosenberg: Germaine, I have never spent much time looking back. I've got some theories, but I have never done any research. It seemed to me non-productive unless it was going to lead to a better decision going forward. Some of it was clearly, if I had to sum it up, I'd say it was decentralization without the controls that are necessary for decentralization. So we had much more of a centralized organization. Which, I guess, has often been accused of being too bureaucratic. Because centralization usually is bureaucratic. But there is nothing wrong with bureaucracy per se, if you can manage it correctly. But you certainly can't decentralize without the appropriate information systems in control. And the BofA clearly did not have the appropriate information systems in place to decentralize to the extent that they did.

LaBerge: Information systems being computer?

Rosenberg: Well, usually computer. I mean, in this day and age, almost by definition, information would be computer-generated. But it's what you take from those information systems or how you structure those information systems. Oftentimes, you have tremendous information in your systems, but it's not in a format in which you can make good decisions or appropriately evaluate things.

IX. BANK OF AMERICA, CEO, 1990-1996

Background to the Appointment

LaBerge: As time went on and the turnaround was happening, how did it come about that you were going to be CEO? What were some of the early signs?

Rosenberg: I would tell you up until maybe six months before, I was surprised. I did not think it was going to go to me.

LaBerge: Who did you think it was going to go to?

Rosenberg: Lew Coleman. I always believed that Clausen was going to pick Lew Coleman. So up until maybe six months before, maybe two or three months before I was named. Once I was named president, of course, in February, then it was obvious. I would say, up until two or three months before February, if you would have asked me, I would have said Coleman was going to be the CEO.

LaBerge: So what happened? Or how did the process take place?

Rosenberg: I don't know. Clausen has always maintained to me that there was never any question in his mind. But you asked it as well. [laughter]

LaBerge: Is it the previous CEO's choice usually?

Rosenberg: Well, it is a board choice. But, in most cases, if the board has much respect for the CEO, the CEO has 51 percent of the votes as to who is going to be next CEO. Obviously, if there is a problem with the board and the current CEO, or if the board is really struggling with whomever the CEO names, then the board may play a much more active role. But usually the outgoing CEO, I think, in corporate America has about 51 percent of the votes as to who the new CEO is going to be.

Committee System of the Board of Directors

LaBerge: Well, that's so interesting because when you were stepping down, all the speculation was that Mr. Coleman was going to follow you. That's really something. This may be a good time to talk about the board and the board's role and how the board functions in the bank.

Rosenberg: Sure, I think the board probably functions differently under every CEO. I think it does function differently under every CEO.

LaBerge: For instance, do you pick your own board members?

Rosenberg: No, there's a nominating committee in which, in good corporations, the CEO is not even a member. I believe in good corporate governance where the CEO is not a member of the nominating committee, although he usually sits in and attends the meetings. He may recommend, and usually does recommend prospective directors. But it is the nominating committee. Again, I'm not so naive as to believe that if the CEO feels strongly about a director his opinion does not carry a lot of weight. Unless there is something, again, that the committee feels uncomfortable with. In this case I don't think the CEO has 51 percent of the votes. But the CEO's wishes are clearly listened to with great respect, I think, by a nominating committee. Although in good corporate governance practices, it is a nominating committee that recommends to the board a new director.

The nominating committee is obviously seeking--in stepping back when Clausen was the CEO, we were heavily criticized at one annual meeting as having no woman on the board. And clearly one of Clausen's goals was to get at least one woman on the board. And of course, he was therefore very happy when Katherine Feldstein joined the board.

LaBerge: Well, how does the committee structure work?

Rosenberg: Typically in a bank, in this bank, in most banks, you obviously have a nominating committee. A nominating committee's job is two-fold, really. It is to try and attract good directors to the corporation. Also more currently in accordance with good corporate governance practices, is to evaluate the current board. Now ,that may take the form of self-evaluation by each board member, which it does in this case. But the evaluations are submitted to the nominating committee. So that's its principal role.

One of two perhaps most powerful committees on the board are the Audit and Examination Committee and they review, as you would expect, all of our risk management policies. Although in years past, it has been principally focused on loans. More and more the Audit and Examination Committee is beginning to understand that risk takes many elements, ranging from operational risk to more esoteric risk: the interest rate risk, the derivative risk. It is a very important committee, and in fact, meets more frequently than the other committees.

The other extremely important committee, and the committee involved in the recommendation of a new CEO to the board, is the Executive Personnel and Compensation Committee. And their principal job, obviously, is executive compensation, as you would expect. They review the compensation, and approve the actual bonuses and options for all of the senior executives. The bonus and performance of the CEO is actually reviewed by the Executive Compensation Committee, but that is ratified by the full board, when it's recommended by the Executive Compensation Committee. Compensation of all other members of management are actually approved by that committee.

This is also the committee which anguishes over the new CEO, and ultimately makes its recommendation to the full board as to who the new CEO should be. Again, this is a committee that the CEO does not serve on.

The other committee is the Executive Committee in which, at least sometimes, the CEO is the chairman. Sometimes it is a senior director. In Clausen's early years, the first year when I joined, Jack Beckett, who was the senior director, was the chairman of the Executive Committee. Then when Jack retired, Clausen assumed the role. Currently, I am serving as chairman of the Executive Committee.

LaBerge: Were you doing that when you were CEO, too?

Rosenberg: When I was CEO I was chairman of the Executive Committee. I recommended the committee assignments which were done with the concurrence of the nominating committee. Probably in good corporate governance practices, the CEO does not even recommend. The nominating committee really does it more independently. I will say that, when I was CEO, I suggested the members of each committee and the nominating committee concurred. But probably, in retrospect, it probably would be better if it almost originated on a more joint partnership basis with the chairman of the nominating committee.

At any rate, the Executive Committee really doesn't have any formal function. It is usually a very good sounding board for major decisions. If you are going to have a major merger and you want to talk, for example, to some directors, key directors. Typically, it's comprised of, in most cases, of the chairmen of most of the committees.

For example, a committee I neglected to mention was the Public Policy Committee. But, sometimes the Audit and Examination Committee chairman is not a member of the Executive Committee and it's really more logistics than it is practice. Because we try and achieve all of the committee meetings on the same day as the board meeting. And I think that's really important as we become larger and have directors from outside of California. It is somewhat unreasonable to ask them to fly from the East Coast to the West Coast twice a month. Typically very major decisions are usually run by the Executive Committee for its opinion, more than for its recommendation or decision.

An increase in the dividend, for example, would be run by the Executive Committee. Again without decision, but [to get a] feel as to what we should be doing. Our capital structure, in this particular case. Now we're generating so much capital; the dividend usually is in conjunction with perhaps share repurchase.

LaBerge: When you were vice chairman, what committees did you sit on?

Rosenberg: When I was vice chairman and a director, I was a formal member of the Public Policy Committee, but I was not a formal member of the Audit and Examination Committee. I was not a formal member of, I guess, any other committee. With the exception of the

Executive Personnel Compensation Committee, I would sit in on every committee meeting. Particularly the Audit and Examination Committee meeting.

Typically the head of HR [Human Resources] will sit with the--except when it goes into executive session, will sit with the CEO as a guest of the Executive Personnel and Compensation Committee.

LaBerge: Who was that?

Rosenberg: Originally it was Bob Beck and then, of course, Kathy Burke after the merger.

Function of the Board

LaBerge: What do you see as the board's function?

Rosenberg: The board's function is clearly to approve strategic direction of the company, and to give advice and counsel to the CEO, on those subjects that are broad policy subjects.

LaBerge: When you were CEO you didn't need them to approve your vice presidents or--

Rosenberg: Under the National Banking Law the board approves vice presidents, but I would hate to tell you how many vice presidents we approved in five minutes! Under the National Banking Law they approve all officer appointments. And they actually approve, under National Banking Law, I guess, all terminations of vice presidents. But where they participate significantly is reviewing the senior management team. I would review the senior management team and their performance, and what might be their future potential, with the Executive Personnel and Compensation Committee, in detail. And review it also once a year with the board, the very senior managers, the Managing Committee.

LaBerge: The Managing Committee of the bank?

Rosenberg: The Managing Committee of the bank and the holding company are one and the same.

LaBerge: That's separate than a committee of the board?

Rosenberg: Yes, that is an operational committee. But it is the most senior officers. Typically, when I was CEO it was all vice chairmen. And I would review their performance. In addition, in the Executive Personnel and Compensation Committee, I would recommend their bonuses and their option grants to the Compensation Committee, who would approve it.

LaBerge: Back to when you were appointed president. How does that come about? Did someone just call you and say, "We just voted you president." Did they discuss this with you ahead of time?

Rosenberg: Clausen talked to me about the fact that he was going to recommend, at the next board meeting, that I would be named president, to become CEO upon his retirement in May, at the annual meeting.

LaBerge: So what was your reaction?

Rosenberg: I was pleased. [with emphasis and great laughter]

LaBerge: Is that an understatement?

Rosenberg: That may be the understatement of the year!

Now both Beckett and [Philip] Hawley were senior directors, and I guess Hawley had already assumed the role of chairman of the Executive Personnel and Compensation Committee. He had talked to me about the fact that--this was in the works several months before the presidency--that they were talking to Tom, and Tom was going to step down. "And don't get nervous about jumping and the rest of it. Tom is going to step down and you're going to be the CEO." So this took place at, I would say, probably October-November of '89, or thereabouts.

Goals as CEO, 1990

LaBerge: So coming in, what were your goals for the next few years?

Rosenberg: You mean in '87 when I came?

LaBerge: No, in '90, when you became CEO?

Rosenberg: I had, I guess, several goals. My view of what was going to happen in the banking industry was going to be tremendous consolidation over the next decade, and that the Bank of America had to play an important role in that consolidation. And that we should seek every opportunity to take advantage of that consolidation that was happening. Because in my view, we were entering an era that was never going to be repeated, and what would happen in the next five to ten years was going to determine where we were going for a long, long time.

In addition, my second important goal was that we achieve a much better balanced company than I found. For example, as I think I may have mentioned to you, when I first came here, we were a $100 billion bank. The credit card operation was $7 billion, earning 24 percent of all of the earnings of the company. That was clearly imbalanced as far as I was concerned.

So what I wanted to create was a better balance between our retail and wholesale, and a better balance between California and the rest of the world operations. And those were sort of twin objectives. As I said, to take part in the tremendous consolidation that was occurring within the financial services industry, not just the bank.

LaBerge: Did you have some apprenticeship time with Mr. Clausen or did he just end and you came in?

Rosenberg: That was it. Yes, in theory I suppose from February to May was apprenticeship time, but I can't honestly say that there was much apprenticeship.

LaBerge: Had you done any work in the wholesale part of the bank?

Rosenberg: [Thinking] The medium-sized corporation, which is wholesale, actually reported to me. But the large corporation and international did not report to me, and I had never had any experience [there]. But in the three years that I had had with the BofA, I tried to spend as much time, in fact maybe a disproportionate amount of time, with visiting the offshore operations, as well as our U.S. corporate customers. One, to get the view of U.S. corporate operations, and get the feel by visiting it with our people, and visiting it with our customers, as well as get a complete understanding of our international operation.

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Rosenberg: I wish I had had Dave's [Coulter] luxury, and Dave was doing exactly the right thing, in staying very close to home, in his first year as CEO. Getting to understand his responsibilities and everything else much better. I kept saying, "Gosh, I wish I would have had that luxury of being able to stay close to home that first year." But I had to visit the offshore operations I had not visited. I had to spend a lot time with corporate people.

There is, I think, there will always be--there will always be a perception that, "Hey, we're spending too much money with the retail," by the wholesale people, "We're spending either too much time or giving too much attention to the retail," and the retail people will always say, "We're second-class citizens. The CEO always wants to spend a lot of time with his peers, CEOs of major companies."

And obviously my entire background had been retail. And so one of the reasons, I think I spent, starting really in '87 when I first came, even when I was still running retail, a disproportionate amount of the time with the wholesale corporate operations to try and overcome that perception that I was only interested in retail. I don't think it really hurt us, but it would be better if such a perception did not exist. I think what finally put it to rest forever was when we acquired Continental [Bank], which was 100 percent wholesale operation.

Just as Dave is spending, if I look at it, a disproportionate amount of his time, rightly so, with the retail people, because he's looked upon as somebody with no clear experience [there] at all. And therefore, maybe not much interest in the retail operation. So Dave is spending more time with the branches, and with branch kind of activities, than he probably would had he had some of that experience.

Committee System of the Bank

LaBerge: Could we talk about the bank's committee system, like the Managing Committee and the other committees and how that works? Did it change when you became CEO?

Rosenberg: I fundamentally left the committee system. I thought the committee system that we had was probably a pretty good committee system, and I don't think that I changed it very much.

The Managing Committee has a number of actual, I think, by-law requirements in the company. Probably I changed the Managing Committee system in its tone from what I observed how it worked with Clausen. I was a member of the Managing Committee. And it seemed to me that the Managing Committee actually made decisions, and I'm not very much one for committee decisions. And so although we listened to everything, probably the same things that were there with Clausen, I never really pushed the Managing Committee to decisions. First of all, most of them were pretty obvious anyway. But when it came to decisions, I guess I am much more of, "You've got the responsibility; you make the decision."

The other most important, well, there are several other committees that are very important in the company. The Credit Policy Committee is clearly a very important committee. We essentially left that alone except we broadened it. I left it alone pretty much. After Glenhall [Taylor] retired, we pushed it much more into a risk management committee more than a credit committee. I think we still call it the Credit Policy Committee. But it's really a risk management committee more than almost anything else.

Another important committee [thinking]--

LaBerge: Is there something like Money and Loan Policy? Or is that an old one?

Rosenberg: That's old, the Asset and Liability Committee, that's what it was, that's what it used to be called. I consider this, frankly, the most important committee in the bank. The CEO is not a member of that committee, but I would attend as a guest. To be honest, it did not function very well in the first couple of years. I guess by tradition or policy or whatever, it is always chaired by the chief financial officer.

LaBerge: Who was Frank Newman?

Rosenberg: Yes, and Frank was having terrible, terrible personal problems during my first couple of years as CEO, and frankly canceled a meeting as often as he would hold it. And frankly, I was not happy. There was a lot of disgruntlement, even more so among the people who attended that committee meeting. And so the committee, I think, did not work very well in the first couple of years.

LaBerge: Who else is on the committee?

Rosenberg: All of the line vice chairmen are members. And it's heavily staffed by the corporate treasury people. Ray Peters plays a key role in the committee. And it reviews such things as our total asset and liability portfolios. It considers hedging positions, our disproportionate percentage of mortgages to total deposits, approves our deposit structure. All those factors that have to do with assets and liabilities in the company.

LaBerge: After a couple of years it got back on track?

Rosenberg: Well, Frank left. And Lew [Coleman] became vice chairman and chief financial officer, and I think it improved, but it's not reached the point I think it should be until, frankly, Michael O'Neil became CFO. Well, it got better; it clearly got better under Lew. There is no question it got better under Lew, but I think it's really back to achieving its real value and potential when Mike O'Neil became CFO.

Frank would work strange hours because of his own personal problems. His decisions were probably okay decisions, for the most part. But it certainly didn't develop any collegial kind of feeling when Frank would make the decisions at eleven o'clock at night and nobody else was around.

There are a number of other committees. There is a Country Risk Committee, which is a subsidiary of the Credit Policy Committee. This committee, which assigns risk limits to countries. There is a Social Policy Committee of the company, which is an important committee, and has the charter of reviewing almost all of our actions, in light of their impact on our social responsibilities.

LaBerge: Now, was the Environmental Committee or section part of that?

Rosenberg: No, I guess when I came into the job, in looking ahead at the future, one of the things I thought was going to have a big impact on society and corporate America was the environment. We became, I think, the first company maybe, well, certainly the first major bank, to establish an environmental policy to look at what our environmental position should be, and what our actions should be. I asked Jim Miscoll to undertake that job, and we had a happy congruence of events, in that I had decided we ought to get out of the traveler's check business. And the fellow who was running our traveler's check operation has an enormous interest in the environment, Rich Morrison, and became for Jim the operational head, and ultimately grew up to be "Mr. Environment" for the bank, after Jim left.

LaBerge: Two questions I have, one, why did you decide to get out of traveler's checks?

Rosenberg: We weren't making any money. One, the BofA had sort of starved it for resources over the years, and at that point, we would have had to invest a tremendous amount of money to regain our position and profitability. And even then I doubt we would make it. In fact, we could never make it, in my opinion. We could never make up for the lost years in which we had given up market share to American Express, and to the Visa combination. So we sold it to, as I recall, Barclay's.

LaBerge: So today, I know I have gotten traveler's checks at BofA.

Rosenberg: We sell Visa's probably. Yes, we still sell traveler's checks, but BofA used to actually operate its own Bank of America traveler's check.

Foreseeing Trends

LaBerge: The other question is, how did you see that the environment was going to be the next thing, or how did you see that you needed to have some consolidation in the banking industry? Where does all that vision come from? Reading or--?

Rosenberg: I have a great habit of reading everything that comes in. I read a prodigious amount, I guess. And I read a wide variety of materials, and I think, the greatest (this is going to sound terribly immodest), but I think one of the highest forms of intelligence is lateral thinking. You read something, and I think you have to decide how it's going to affect you or your company. And to me that's kind of lateral thinking. I'm not sure you can ever teach creativity. I have had this big argument with one of our customers, who was a wonderful man. He was a fan of Emory University, which believes you can teach leadership. My argument with him is I do not believe you can teach leadership. You can teach management.

LaBerge: What's his name?

Rosenberg: His name was Peter Bennett, and he's dead now. But, at any rate, I think you just think about things, and how they are going to affect the company. Some of the joke that has always been associated with me, somebody will find in their in-box some article from some magazine or something, with a big circle around it from me saying, "What are we going to do about this?" "What is he reading that publication for? And I never thought of it." That kind of thing.

Medical savings accounts were a concept. I mean, if you are reading the Congressional Record, they were going to come. And Tom [Peterson], for all his greatness, and I literally would not have the CEO job, in my opinion probably, if Tom and I had not worked together as well as a team, and Tom had not come. Tom is a great executive. But Tom doesn't have anybody who can look at something and say, "What are we gonna do about it?" And I see in the paper yesterday or last week, Saturday, "Glendale Savings and Loan is the first financial institution in California to offer medical savings accounts." Now, if we had analyzed it and rejected it, I wouldn't care. But nobody even thought about it. I dropped a note to Tom. I said, "What are we going to do about--"

But I think one of the things that clearly, the kind of leadership that I hope that Dave, and I believe Dave will have, is the ability to see something for the company. Things that are not necessarily obvious to the company. We have reaped all kinds of awards for the environment, and Dave has just accepted for the company some major sustainable development award. But, there was nobody that said, "You had to have an environmental program." But it was obvious to me in 1990, the environment was going to take on a much greater role, in every company.

Merger with Security Pacific Bank, 1991-1992

LaBerge: Well, do you want to go into the Security Pacific merger?

Rosenberg: If you like. [laughter]

LaBerge: Where did you have the idea for it to be Security Pacific, because that was one of your goals?

Rosenberg: Well, one of the goals was not Security Pacific, one of the goals was to participate in the consolidation. We had been, I think even as early as '90, when I first came, we had been acquiring savings and loans outside of the state. Sick savings and loans and turning them into banks, which is not an easy task. I guess it was in about January or February of '91, I saw a story about Security in the *Wall Street Journal*. Earlier I had called on First Interstate. First Interstate looked as if it were the logical player. And First Interstate said, "No." And we were not in the business of hostile takeovers. First of all, I'm not sure if we were strong enough to begin with in '91, or in '90. But secondly, I thought it would have been a natural for us. But First Interstate said, "No." So I said, "Thanks for talking." And that was it.

Early Negotiations in Secret

Rosenberg: In '91, I saw in the paper, in the *Journal*, that the discussions between Wells Fargo and Security Pacific had broken off. Or had been rumored they were broken off. So, what was interesting was the fact that Security Pacific was willing to talk to Wells Fargo, maybe. So I called Bob Smith, and asked him if he'd like to talk about Security Pacific and Bank of America. Because I had read in the press that his merger talks had broken off with Wells Fargo. He said, "Sure." He'd like to talk. I said, that was great, and Bob said he'd come up to San Francisco. I guess one of the difficulties of never having had an affair, is that you don't really know how to rent a hotel room, [great laughter] under some other name. And I remember Peggy [Leith], my secretary, I guess between the two of us we figured out how to rent a room at the Ritz Carlton without--

LaBerge: --without saying who it was? [still great laughter]

Rosenberg: --who it was or something like that. You know, really, it would have been helpful if I had had a few affairs in this particular case. And then, of course, ironically, Bob and I were going to have dinner in this hotel room. And if I knew how to handle this better, we would have had some kind of more of a quasi-conference room. But, we had a room with a bed, because I assumed that most hotel clerks, I guess, were astute enough to know that you need a bed when you're renting out a room with some other name.

But at any rate, Bob and I had dinner. We talked at great length about the merger, and what a natural it would be for the BofA and Security Pacific. But Bob said to me in January or February of '91, whenever we talked, that, frankly, his company was in such tough shape that he needed to do a lot of things to get it on track, before he was really prepared to enter into serious discussions about a merger. There were some things going wrong that he had to get fixed before he could seriously discuss a merger. So I said, "Well, any time you're ready. I'll be always happy to talk to you."

I did not give it much of a chance, frankly, at that time. I came to a conclusion that if he really did get it back in shape--at that point, frankly I did not know how sick it was--but if he did get it back in shape, we would be an acquirer and not somebody who would enter into a merger, even with a merger of equals. Because a merger of equals, although it's a great concept, is very difficult to truly pull off.

So we went about our way. I think, at that time, I entered into negotiations to acquire Valley National in Arizona. In addition to, as I say, a few other small savings and loans. And then about August '91, I guess it was, or thereabouts, July or August '91, Bob called me and said, "I'd like to reopen the discussion." And I said, "That's terrific. Are you set to come to San Francisco? Or I can come to Los Angeles next week." He said, "Next week? I was kind of thinking maybe tomorrow or the day after." And I said [to myself], Boy, he really is interested. I said, "Bob, you know one of the few real perks that I get as CEO is that, I'm a big football fan. And Al Davis is our most loyal customer. And Al invites me to the training camp every year, and gee, tomorrow, I'm taking my day off and going to Oxnard, to the training camp." The Raiders were training in Oxnard in those days. I said, "But tell you what. I'll spend all day at the training camp and come down after training camp to Los Angeles. And we'll meet tomorrow night." Or Wednesday night or whatever that it was. So I went to Raider training camp and then flew to Los Angeles. From that meeting we decided we wanted to go ahead. And we would do due diligence in the most quiet way and the rest of it.

Due Diligence

LaBerge: Now, why does it have to be so quiet? So that no one else enters into it?

Rosenberg: Well, there's a lot of reasons. I think, one, someone else might want to come in, as long as you're "in play" at that point. It also makes staffs very nervous. And so we did very intense due diligence. We both had due diligence teams, but obviously, they were still sick. And so our due diligence had to be much more intense than their due diligence, I think. And we also had to negotiate the price.

Obviously Frank was in on it. Frank Newman. We then called, I don't remember the exact details, but a board meeting for the weekend after having done this intense due diligence.

LaBerge: I don't know what due diligence means in this context.

Rosenberg: Oh, due diligence means, we wanted to examine what the loan portfolio looked like, particularly their loan portfolio. What their legal, litigation concerns, the whole range of how good is this company. Therefore, what should we pay for it? What are their prospects? What are their strategic plans? What has been their deposit run-off or not? We had a whole team looking at key things, but particularly, you look at the loan portfolio. You particularly look at litigation pending. You particularly look at customer structure. But there are a whole variety of items. You also look at are their computer systems compatible? What is the state of their computer systems? So you pick key people from your organization to look at their organization in key areas.

LaBerge: And they did the same thing?

Rosenberg: But I would say that, to be frank, theirs was much more perfunctory because they were seriously in trouble. And frankly, I don't think they had very good people to overlook due diligence, if they wanted to look at it.

So we engaged in this intense due diligence. We had a board meeting over a Saturday and a Sunday, with both our outside investment bankers. We determined what the price was that we were going to pay. The investment bankers had to give a fairness opinion as to whether we were overpaying or not overpaying.

The amazing thing was that we were able to keep it secret. I think it was so incomprehensible. It was kept secret but I'm sure it surfaced in a number of areas. You can't keep things like this--you know, a contingent from the Bank of America checks into the Sheraton Hotel across the street from Security's headquarters in Los Angeles. But it was so beyond anybody's comprehension that we could merge with Security Pacific. I think principally because of antitrust factors. People would have said, "That's ridiculous. You must be talking about Wells Fargo." Because that had been publicized. "They must be back again talking to Wells Fargo." No one could have--it was a huge, huge, huge surprise, I would say, to the marketplace.

Some things that I remember about it, maybe anecdotes. We had pretty much handshaken on a .86 to 1 exchange ratio. In other words, for every share of Security Pacific stock you would get .86 of Bank of America stock. Literally, almost at the very last minute, they insisted at .92, and we had already scheduled the board meetings and everything else. Frank and I huddled at that point, and I looked at it. And although the investment bankers were actually going to come in and say [that] we could well afford to pay .94 or .96--.92 at the last minute was just outrageous to me. But this was such an important transaction for the health of BofA going forward, for years and years to come, that I told Frank, "We'll go to .88. But tell them that's it. If they want to walk away, they can walk away." And they were really pretty sick. They were sicker than any of us really knew.

People did excellent due diligence except in one area, which I'll talk about later. But .88 was what they figured was our last offer. They had really pushed us to the point where, first of all, it was very poor timing after we had negotiated this transaction. So we agreed to .88 to do the deal.

Board of Directors' Issue

Rosenberg: Another thing I remember is, we had fifteen directors, and they had twenty-three directors. I went to the board, and I said, "We need to give them fifteen seats." So we're going to have a board of thirty people. At first, there was some resistance from the directors. Because they said, "This is ridiculous. Although we're billing this as a merger of equals, everybody knows that we're taking them over. How are we giving them fifteen board seats, in a situation where we're clearly larger to begin with, if nothing else? But even more importantly, we're healthier." I said, "Look, to make this look like a merger of equals, we are absolutely going to have to give them fifteen board seats."

First of all, thirty directors is too many to begin with. I'm not sure we had enough furniture, enough for thirty directors. [chuckles] I said, "But by changing the retirement age from seventy-two to seventy, within a year we'll be down to twenty-two directors or something like that. And within two years, we'll be down to fifteen or seventeen which is really our ideal number of directors. The really important issue is that at the end of a year, if all of the directors who are left because of the age requirements, are not directors of the new BofA--rather than 'I was an old Security Pacific director; I was an old BofA director.'--we shouldn't even be doing this." I said, "At the end of a year, these directors, if we do our job right, will be a cohesive Board of Directors of the new Bank of America." Because, at the time, it was the largest merger ever attempted. And it still ranks up there as one of the largest ever attempted. So the directorship becomes important, in a situation like that.

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LaBerge: Why did you want it to look like a merger of equals?

Rosenberg: First of all, it was important to them. It was very important to them, for their own pride. Their directors, frankly, did not realize how sick they really were. After we merged and we began to turn over things in the Audit and Examination Committee, which we had discovered in due diligence, and some things which we hadn't discovered in due diligence, their directors were just flabbergasted, frankly. The kinds of reports and information systems that we used to give to our directors, they never got. And when they did get material, they got it the morning of the meeting. It was truly night and day the way they handled their board, and the way we handled our board. But it was very important. I don't think we could have achieved it. They would not have merged, if we had not billed it as a merger of equals.

Of course, it worked out that at the end of the year it was just as I had hoped and predicted. The irony I think today is that there are very few of the senior management of Security Pacific left in this company. But the key committees of the board are actually, by and large, held by what were Security Pacific directors. Which I think is one of the great ironies. Don Guinn, who was from Security chairs the Audit and Examination Committee. Tim Crow from Security, chairs the Executive Personnel and Compensation Committee. The two most important committees of the board are chaired by Security Pacific directors. But fortunately, nobody thinks of themselves any longer [as old Security Pacific directors]. And of course, their board members are so proud to be with BofA, they're so happy, because it would have been a terrible embarrassment, what would ultimately have happened at Security.

Another anecdote--one of the things that they wrote into their agreement was that at the end of a year, you could walk away, if you were part of the top five officers, without any reason at all. At the end of the year you could walk away with two and a half years of pay. And it was a real, fabulous golden parachute for the top five people. There was a ten-day window at the end of one year, in which you could walk away without cause, and collect all this money. And they wanted us too, of course, to have the same clause, because it was a merger of equals. And our board said, "Wait a minute, Dick. At the end of a year, you could walk away without cause? And collect all this money?" And I said, "Yep, that's the way they're insisting upon it. This is not something we wanted, but they want it very badly. To make it look like a merger of equals." The board said, "Well, we'll carry this merger of equals thing so far, but we're not going to let you walk away." This was about two o'clock in the afternoon, after six hours of board discussion. Of course, I called Smith, I told him, "Bob, we cannot, our board, and rightly so, in my opinion, will not allow that clause in our agreement. So, if you want to keep it in your agreement, that's fine, but we cannot have it in our agreement, among our senior management." Of course, they did keep it in theirs.

LaBerge: And how many left?

Rosenberg: Well, for a variety of reasons, almost all of them left.

LaBerge: And did Bob Smith stay for the first year?

Rosenberg: He stayed for about six months.

[pg 144a is sealed until 2024.]

CRA Hearings

LaBerge: What things did you have to do as far as the regulators were concerned? Were there antitrust issues?

Rosenberg: We announced the transaction in August, and now comes a really difficult problem of getting the merger approved by the [United States] Justice Department and the regulators. First of all, there is something called CRA hearings, Community Reinvestment Activities. And this is a relatively new phenomenon in the banking industry, in which activists insist upon something, or they will oppose the merger, because they will claim one party or both has not been a good corporate citizen. Of course, fortunately BofA was a good corporate citizen. I take a little bit of the credit for it.

One of the best things that has happened to me at the Bank of America was, when I first came, the critical item that was going to keep the Bank of America alive was the branch system. The fellow running the branch system was a fellow named Don Mullane. Don looked okay to me, but he did not look fantastic. And I needed somebody fantastic, because that was frankly what was going to keep the BofA alive, was the branch system. That's why I went and got Tom Peterson. And to Don Mullane's credit and to my good fortune forevermore, Don agreed. This was the pinnacle of his life, running all the branches. He'd been a branch person, and I told him he was not going to run the branches anymore. And we gave him what at the time seemed like a nothing job, social, community development, community responsibility.

Of course, as the years went on, Don turned that job into one of the really critical jobs in the bank. It gave us an incredible reputation nationally, not just here. He started a community development bank, which is the most successful community development bank in the nation. But he took that area, and made us into the most incredible, socially responsible bank in the United States, and I think we are recognized for that.

So, when it came time for the merger, the Federal Reserve usually holds hearings. But this one was so huge, they decided that they would hold hearings in four different cities: Los Angeles, San Francisco, Seattle and Phoenix. And fortunately, even by '92 we were already--although we had not yet had enough time to enjoy the fabulous reputation that we do in this area now, but we already had probably the best reputation in the United States. Although we were attacked constantly in these hearings by the activists, it was pretty hard to attack us substantively. And of course, there is something absolutely fundamentally wrong with these hearings, in that anybody could say anything.

LaBerge: You mean I could walk in off the street?

Rosenberg: Oh yes, you just register as--you walk up here. And of course, what really got me, and I finally got the Federal Reserve to change it, all the anti-BofA witnesses were in the morning, and all the pro-BofA witnesses were in the afternoon. So the morning papers and television all covered the morning, and of course by the afternoon there was no one there but us chickens, and that kind of thing. They started in Los Angeles and then San Francisco, and by the time they got to Seattle and Phoenix, there was a more fair sprinkling of balance.

But the whole thing is just craziness. Nobody has to swear that they're telling the truth, and they can say anything. I mean, we were attacked for the fact that people did not have health care in the United States. Anyway, the Federal Reserve fortunately--they know your record. So this is going through the motions for them, but it's still very, very disconcerting, even though it's going through the motions. These things are held in every merger, almost no matter how small. Now, rarely do they hold four public hearings. But, there is a public hearing in almost every one of these, and in a couple of cases there have been some delays. I don't think I can remember any merger that was ever really stopped by these hearings. But there have been some mergers that have been delayed by this process.

Federal Reserve and Justice Department Requirements

Rosenberg: But anyway, we would go through these motions and we had to prove that we were good citizens. Then came the Justice Department. And we knew we had a problem in some states, in the state of Washington, we just dominated the state of Washington so much even before the merger. Because Security had done a terrible job with Rainier [Bank], which they had acquired. We knew we were going to have to divest some branches and some business in Washington. Which we did, we agreed to that. We knew in Arizona we were going to have a problem. Not as much of a problem as in Washington. But in Arizona, we had to divest. In Nevada we had to divest. Finally, we thought we had the whole thing finished, and then the state attorney general decided to get in the act.

LaBerge: Who was it then?

Rosenberg: [Dan] Lungren. So California decided they ought to do something. In the end in California I think we had to give away four branches in Fresno. But all it resulted in--one of the really bad things about bank mergers, and particularly this one, it was so big and nobody knew how to handle a big one, is that we announced in August and we could not close until April. And obviously, uncertainty is terrible. Who's going to run operations? And when you go this long, uncertainty is a very, very bad thing.

LaBerge: Just what you were talking about earlier, that you wanted to keep it secret because staff gets nervous?

Rosenberg: Right. Staff really gets nervous, now it's announced and we're going through all of this. So we announced in August and actually it did not close until April 1. With the Justice Department--under the banking law the Federal Reserve has antitrust responsibilities as well as the Justice Department. The Federal Reserve was operating under what I consider an archaic system of counting deposits. And it's ridiculous when money market funds like Dreyfus are your major competition today, to count only what share of bank deposits you have. As far as the customers [are] concerned, an account at Dreyfus is the same as having money in a bank. But the Federal Reserve only considers as universe, for antitrust purposes, bank deposits.

The Justice Department, although it was a much greater problem for us, at least, I think, it [was] approaching it on the appropriate basis. Which is the small loans market. Because they say, "You're right. Customers can make deposits from institutions outside of banks, and a big company can get loans from anywhere. But a small business really depends upon the local banking situation." So they would measure the percentage of small loans you had in a given market. Now even there, I think they don't count enough of the universe because you can get funds from a variety of sources. For example, equipment manufacturers are prepared to lend you money to buy their equipment. But nevertheless the Justice Department approach makes more sense than the Federal Reserve approach.

LaBerge: And does the Federal Reserve still have that?

Rosenberg: I think so.

So we passed the community hurdle; we passed the Justice Department hurdle. And then the Federal Reserve kept insisting on more capital. They were so scared because they had approved the Republic-Interfirst merger in Texas, which at that time was the largest merger around, and both companies were so sick. And ultimately, in very short order they were failing and NationsBank bought the combination.

So they kept on insisting on more capital. Frank and I figured out, at least if we were going to do capital, we were going to do what was called retail capital. It would be preferred stock which would count as capital. But fully callable at the end of five years. Because I didn't want to leave a legacy, for whoever succeeded me, that he would be forevermore stuck with preferred stock, or he would have had to pay a huge premium to take it off the market. Dave, fortunately, is getting some great benefit of that now. This happened in '92, when the Fed kept insisting on capital, and this is now coming due in '97, in '98 and Dave is retiring it as fast as he can. I told him, "Luck is everything." [laughter] But timing is everything.

The Fed kept insisting on more and more capital. And there was a point where Frank and I debated, on the last traunch, whether we tell the Fed, "Okay, we think there is plenty of capital. If you're not going to approve it on that, you can have Security Pacific." By that time we knew how bad Security Pacific was. And the last thing in the world that the Fed wanted was to take Security Pacific. Privately, the Fed has told me that you did us the world's greatest favor. Of course they wouldn't tell us that at that point. They just kept saying, "If you want us to approve this, we certainly want more capital into the combined company." We put in more capital. But fortunately we put it in the form of retail preferred, which we're busily retiring now, as fast as it comes due. So we jumped all the hurdles, and in April of '92 we effected the merger.

The first couple of years of the merger, we did not get high marks--first of all, the security analysts overestimated how great this merger would be. This was great, but it was going to take some time to be really great. So we took a little bit of a beating, not huge, but we took a little beating, on the fact that, where were these huge earnings as a result of this merger? And part of it was, what we didn't anticipate, but nobody else did either, including George Bush and his economic advisors, is how deep and how pervasive the California recession would be. And, obviously, that economic situation had a huge impact on Security Pacific's loan portfolio. We knew how bad it was, but we did not anticipate a recession that was going to continue to make it even worse.

The area where we did not do great due diligence was in the fiduciary and trust areas. Because BofA in a time of trouble had sold off all of their trust operations, we didn't have very many people on our own staff who knew much about trust. We had to borrow them from Seafirst, who still had a trust operation, to do the due diligence. So we didn't do there as good a job as we did with the loan portfolio, with the systems' requirements, and the rest of it. So ultimately we sold off virtually all of the corporate trust operations that Security had. But other than that, I still take great pride in the due diligence that we did. Even though there has been some criticism. What we didn't anticipate was a recession as deep and pervasive as occurred. In fact, again, I kidded Dave, the fact that as soon as he took over we were coming out of recession, there were thousands of new jobs being created in California, instead of thousands of jobs being lost.

But at any rate, the merger did go through in April of '92, and obviously, I think that with the benefit of hindsight, four years later, it was clearly one of the great mergers I think for BofA ever. It gave us the size and scope to be able to do so much more going forward.

LaBerge: It's 11:15 now.

Rosenberg: Okay, I really have to head back. There's probably a few more things in there we have yet to talk about, the integration process and the key job process.

Security Pacific's Trust Divisions

[Interview 8: March 13, 1997] ##

LaBerge: You talked about the negotiations leading up to the actual merger. You didn't talk about how you merged the personnel.

Rosenberg: As I discussed with you the last time, negotiations went relatively rapidly. We were able to do, I think, very good due diligence. Although there has been some criticism afterwards about the kind of due diligence we did, because of the speed. But in looking back on it, I think the due diligence was really excellent. What none of us had projected was how deep and how pervasive the California recession would be. In fact, to some extent, it was almost a depression in some of the southern California markets.

So, to some extent, the loan portfolio, which in looking back on it we evaluated very carefully, and it was very accurate. What we could not project was the economic scenario. Of course, we were not alone. [President George Herbert Walker] Bush projected a different economic scenario, and probably would have been reelected president if the economic scenario had been as his own economic advisors had said.

But there is one area of due diligence that we did not do a good job. Of course we knew we could not do a good job on it, and that was a risk that we had to take to effect the overall transaction, [that] was the trust areas or the fiduciary areas. In BofA's great times of trouble, in a desperate effort to raise cash for capital, it had sold off all of its personal trust operations to Wells Fargo. So it had no personal trust operations, and we had no staff who could do effective due diligence.

In addition, BofA, during that time of trouble to raise cash, had sold off their corporate trust operations to Monarch Insurance and to others. So again, there was really no great expertise here in corporate trust activities either, because in neither of those businesses did we actually have a business. In fact, in the personal trust area we had a non-compete clause with Wells Fargo for five years. Ironically, as a digression, the Federal Reserve took so long in closing the transaction that it actually closed in April of '92, whereas we expected it to close earlier. But that was exactly the month in which the non-compete clause with Wells Fargo expired. So we did not have to go beg Wells Fargo to let us acquire the personal trust operation of Security Pacific, as part of the merger.

It turned out that both of those areas, in spite of the fact that those were areas that their CEO had been personally responsible for, for many years, were in really, very, very deplorable shape. And we spent a lot of effort and energy and time and money in fixing those areas over the next several years. It turned out, in fact, in the personal trust area we had to pay penalties to individuals, that they had actually miscalculated the amount that should have gone into the individual's personal trust account. In the corporate trust area, it was an extraordinarily difficult effort to fix it. And great credit has to be given to Mike Rossi for managing that effort. In the end, we ended up selling those operations for a rather substantial gain, well over $100 million of gain on those operations, after they were cleaned up and fixed by BofA.

LaBerge: Who did you sell them to?

Rosenberg: We sold to Bank of New York primarily, but some parts of it to Banker's Trust. In the due diligence, although we did not have great expertise, we did have some expertise in the corporate trust area, and we uncovered an area where Security Pacific was walking right on the edge, in the way they handled certain securities' transactions. And it could be interpreted that this was in an effort to avoid reserve requirements of the Federal Reserve, although it was not absolutely crystal clear that they were over the edge, they were certainly on the edge. But it was of such great risk, because the Fed then could have imposed enormous, enormous penalties as a successor to Security Pacific, that we actually got a ruling from the Fed, before we would go forward, that they were not in violation. But the Fed, frankly, immediately changed the regulation thereafter, to make it clear that what Security Pacific had been doing was no longer acceptable. Even though under the prior regulation it was just on the edge and not over the edge. But I think that typified all of the Security Pacific fiduciary activities in New York. And that was an area where I would say we probably did not do as good a due diligence job as if we had, in our own shop, the kind of expertise that we had in the loan portfolio or the operations' portfolio and consumer credit, and all the other activities.

For something that had never been done of this size before, the negotiations went relatively smoothly. The boards met on a Saturday and a Sunday to determine the merger. We tried to make it look like as much of a merger of equals as possible. Because frankly, the Security Pacific board did not, I think even yet, understand how much trouble they were in when we met to have the merger.

More on the Directors

Rosenberg: Obviously, we integrated the management. Bob Smith became president and chief operating officer, but Bob left, not very long thereafter. And of their three key people, none of them remained.

LaBerge: So they left within the year?

Rosenberg: Jerry Grundhofer was the one we wanted to keep. And Jerry felt the uncertainty of where he was placed. Jerry came to me and said, "If I knew you were going to be here for another five or ten years, I would not even think of leaving. But I don't know what's going to happen to me after you leave." And so Jerry left. The parachute clause was structured so there was a ten-day window exactly at the one-year anniversary. And Jerry chose to leave at that window anniversary, and was very frank about why he was leaving. He actually has done a very wonderful job as CEO of a bank in the Midwest. Kathy Burke obviously, we would have been very unhappy to have lost. But Jerry and Kathy were two people we really wanted to keep, and we kept Kathy and lost Jerry. Smith, for obvious reasons, worked out well that he left. Binkley, it worked out well that he left. He was the other vice chairman.

LaBerge: Where did Jerry go?

Rosenberg: Jerry went to Starbank in Cincinnati to become CEO.

Integration of Staff of Two Organizations

LaBerge: How did you work out the rest of the integration of staff?

Rosenberg: Well, we really worked very hard, and I think we achieved our objective in almost every case, in that we chose the very best person for the job. Where there were two people for one job, regardless of whether they were from BofA or whether they were from Security Pacific, we chose the very best person. Now, I am not naive enough not to think that obviously the bias was probably somewhat slightly tilted toward BofA people. But I think we really did work very hard to try to achieve that the best person got the job. And there are, in the company today, not a lot of key jobs that are held by Security Pacific people, but there are some. Liam McGee was given all of the California branches, after the integration, to run one of the crown jewels in the system. A lot of Security Pacific people ended up in good positions. And we tried to do that in every case, but I would not say that we totally succeeded.

One of the reasons I think the merger went very well, from a business standpoint, we closed over 400 branches or over 75 percent of the branches that Security had, and yet kept 94 percent of the customers and 95 percent of the deposits. Which was, I think, quite an achievement. We chose the computer system that would affect the fewest customers unless one system was so clearly superior to the other. But even when the system was superior, but not so dramatically superior, if it affected more customers by switching, we would opt for the system that affected fewer customers.

Now, almost in every case, as a result you ended up with Bank of America systems. But not in every case, but in most cases you ended up with Bank of America systems, because we had frankly more customers. But there were some systems that were so inherently superior that Security Pacific had, some of the small business lending, for example, as one, that we adopted the Security Pacific system as contrasted to the BofA system.

The integration, as I say, went reasonably well. At that time it was probably the most generous severance package that had ever been created for banking. Although we still took a lot of heat in the press because we were the first big bank to merge. And pioneers always have arrows in their backs. So we took a fair amount of flak in the press about the fact that there were probably going to be 10-12,000 jobs disappear. Not necessarily 10-12,000 people, because of attrition.

We made a public relations mistake. We should have put a number out there. I made a public relations mistake. I should have put a number out there, it probably would have been a two-day story. But we didn't really have a real number, because we didn't have it yet. And by saying that, that just created a furor in the press, and for weeks and weeks it was a feeding frenzy in the press, negative publicity which resulted from that. It would have been easier to put out a number which I wasn't even sure of, but it was clearly a public relations mistake. It was an honest mistake, and when I say honesty is the best policy, I still believe in it, but clearly in this particular case, honesty being the best policy has hurt very badly.

LaBerge: In the lower ranks of employees, was it the same case? Like when you closed a branch?

Rosenberg: That's where truly, I think, we really did a good job of picking the best branch manager, where there were two branches overlapping. And today you have a substantial number of Security Pacific branch managers, who were the better branch managers. Now, the physical branch itself, because of the accounting laws/regulations, where two branches were equal, physically, we always closed the Security Pacific branch because we could put them into so-called "purchase accounting." Whereas if we closed a BofA branch, it would have been a hit against earnings. The accounting laws dictated that. Now, where you had a Security Pacific branch with enormous parking and a BofA branch that clearly could not accommodate the consolidation, we would close the BofA branch. But wherever it was equal or just slightly better, we would close the Security Pacific branch.

The huge headquarters operation in downtown Los Angeles, of 700,000 square feet, was a difficult decision. The Security Pacific building was absolutely superior to the Bank of America headquarters building in southern California, in every way. But just by good fortune, the lease was expiring on that building in '93 or '94, whereas the leases were expiring on the Bank of America space in the year 2002 or 2004. So it made it very difficult economically to stay in the Security Pacific building, although all of us would have liked to have stayed in the Security Pacific building. Actually I think we had 165,000 square feet of space in our building. We needed only about another 75,000 square feet, for the Los Angeles headquarters functions, and we could not only move the 75,000 square feet to the BofA building, but we could even renegotiate the current 165,000 square feet to a lower cost, because we were bringing 75,000 square feet more in, at a time of enormous depression in the Los Angeles real estate office building market. But it was no fun giving up a beautiful, beautiful building, and throwing 700,000 square feet of empty office space into an already depressed market.

Effect of California Recession

LaBerge: Why don't you talk a little bit about the California recession? How that affected, or how the merger then looked because of the recession?

Rosenberg: Today the merger looks just as good as it looked when we first did the transaction. From a strategic standpoint, to build this mass in California, for example the average branch size went from $45 million in deposits to $65 million, and it's axiomatic that the larger the branch the greater the profitability of the branch. But, unfortunately, and there aren't very many things that I would say Frank Newman did not do well, but this one he did not do so well, was provide guidance to the security analysts, who projected incredible earnings that couldn't have been achieved, even with no recession. But we all knew about the recession, and I don't think we did a very good job with the "street." And I left this to Frank for the "guidance" that you give to security analysts.

As a result, our stock price took a severe pounding in '93, '94, because there is nothing worse than disappointing an analyst, who was going way out on the limb to project very high earnings. It's bad enough when you disappoint him by one penny a quarter. But none of us had ever said we planned to achieve those earnings in 1993 and 1994. These were analysts' projections about how great this merger was going to be. And it was a great, and is a great merger. Today, you look back and say, "Where would we have been had we not done this merger?" So it was, in my opinion at least, it was a great merger, and I think most people agree now with the benefit of hindsight, but in '93, '94 when the stock price was being pummelled by the fact that we were not achieving these analyst projected earnings, it was no fun. But interestingly enough, in the *Wall Street Journal* scorecard, of which they just recently published, and they usually publish for periods of one year, three years, five years and ten years, we got three A's and a B. So, it was not as fantastic as they projected, but it really clearly provided us with a great impetus going forward.

At the very last moment, I guess I should recount this, Carl Reichardt tried to restart the discussions with Security. About a week before.

LaBerge: Is this in '93?

Rosenberg: No, this is '91. He tried to restart the discussions with Security. But, of course, it was about a week away from the transactions being consummated, but it came as a huge surprise. I think we were all amazed that a transaction of this size, with so much due diligence going on, that you could ever keep it secret. I think people just couldn't bring themselves to believe that anything like this could ever happen. So probably the rumors were there. I cannot believe that the rumors were not there. But they were totally rejected by everybody, by analysts, newspapers, everybody saying, "absurd." That kind of thing. Because it was a bombshell. Now it's "the transaction."

Let's see what else is of interest.

LaBerge: Kathy Burke, did she become head of personnel?

Rosenberg: Yes, we had a nine-person Managing Committee, and it seemed to me that we obviously wanted to put some Security Pacific people on it. She at that time was actually head of Human Resources. She had actually served as corporate secretary. But she had done a lot of the negotiating during the merger talks, about the social issues and items like that. She was superior to our head of Human Resources, and, in keeping with our policy of picking the best person, she got the job. Although he had been here since [Sam] Armacost, Armacost had actually found him. He worked for Clausen; he worked for me.

LaBerge: Who was that?

Rosenberg: Bob Beck. So they had initially four people on the Managing Committee, Smith and Binkley and Jerry Grundhofer and Kathy. Except Kathy, there is no one, in the very senior management of the company, left anymore from Security Pacific. There is virtually no one left, the directors of Security Pacific have ended up as the key directors of the new Bank of America. A Security Pacific director heads our Executive Personnel and Compensation Committee. A Security Pacific director heads our Audit Committee.

LaBerge: Do you want to give me some names?

Rosenberg: Sure, Don Guinn is chairman of the Audit Committee. Tim Crow is chairman of the Executive Personnel and Compensation Committee. Joe Alabrondi is the chairman of the Nominating Committee. The three most important committees of the board. Which I think is somewhat of an irony, given the fact that virtually none of the management survived, but the directors were. But again, I think it points out how the boards did come together very well. [thinking]

Federal Reserve Requirements

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LaBerge: Just one more thing on that, who was the Federal Reserve chairman then at the time of the merger?

Rosenberg: [Robert T.] Bob Parry was the one who we were negotiating with; he was the president [of the Federal Reserve Bank in San Francisco].

LaBerge: Are you the person who did the negotiating?

Rosenberg: Frank did it.

LaBerge: Okay, then I interrupted you from your next thought, no?

Now, when you bought Continental, did you have to go through the same thing? No? Because of the outstanding CRA?

Rosenberg: Well, probably because Continental was a wholesale bank. I'd like to think it was because the Fed finally had begun to understand CRA, but I think it was more likely because Continental was a wholesale bank.

Antitrust Considerations

Rosenberg: Well, at any rate, the Security Pacific transaction--I think we may have discussed the Justice Department last time. Did we?

LaBerge: I think we did too. Tell me one sentence and I'll tell you.

Rosenberg: Well, if the Justice Department had a more practical procedure for measuring antitrust, namely small business loans instead of the Fed's deposits test.

LaBerge: I don't think we did talk about that.

Rosenberg: Okay, well, in addition to all of the Federal Reserve hoops, we obviously had to jump through the hoops of the antitrust division of the Justice Department. Which was probably one of the reasons why so many people discounted the fact that this merger could even go, because of antitrust considerations. Well, we knew we were going to have to spin some business off--we had such a great market share in the state of Washington.

LaBerge: You did talk about this.

Rosenberg: We would have to spin it off, and so we did. But I don't think we mentioned that, in the process of spinning off the Arizona banks, we couldn't find a buyer for months and months, and that really dragged on for a long time. We created a separate bank with the branches that we spun off, and Tony Frank was attempting to be the buyer--Tony had been the Postmaster General, and CEO of First Nationwide before it was sold to Ford. But he couldn't apparently get financing, and the sale was a very difficult transaction. We were almost at the point where we were going to have to pay people to take it, to comply with the Justice Department.

LaBerge: So who finally bought it?

Rosenberg: I can't remember who finally bought it. Somebody finally bought it; it got financing. We marked it down to practically zero, just to get it off our hands because of the Justice Department requirement.

The integration went, as I say, quite smoothly. In most states it went very well. But, ironically, during that time, just before we were ready to announce the merger in August '91, a bank that everyone in the country wanted, called Valley National in Arizona, came to see me. And said, "Gee, everybody's coming after us, Dick, but you're the people we want to do business with, and we'd like you to take us over." And of course, it was a very awkward thing; I could not tell their CEO why. But I said, "I'm flattered and honored and all the rest of it, but we just can't, we just can't be interested." Of course, they were dumbfounded and shocked, and of course they ultimately ended up being bought by Bank One. And that's our major competitor in Arizona now, Bank One.

LaBerge: Bank One based in Columbus?

Rosenberg: Based in Columbus. Yes.

LaBerge: And why did everyone want that bank?

Rosenberg: It had such a great market position in Arizona. The number-one market position in Arizona. Arizona being one of the fastest growing states, along with Nevada and Utah, in the United States, and here is the bank with the number-one market position.

Of course, we had done reasonably well in Arizona. We had patched together a network of sick savings and loans. I may have mentioned that another real plus out of the Security Pacific deal is that Security Pacific did not have a great bank in Arizona. But it was a fair bank; it had been the old Arizona Bank. But the very fact that it was a bank, that we put together with savings and loans, accelerated our progress in turning those savings and loans branches into real banking branches. The same thing happened in Oregon. Security Pacific provided us with again a very mediocre bank, but nevertheless it was a bank.

LaBerge: And what was it?

Rosenberg: Well, again it was Security Pacific. But it had been the old Orbanko. I had first run across Orbanko just as I had joined Seafirst. Seafirst was in the process of buying Orbanko. Seafirst was part of the Bank of America. By that time, the Bank of America was in so much trouble that the Federal Reserve told the Bank of America that either you withdraw the application or we'll withdraw it for you. And so, Security acquired Orbanko because the BofA had to back away. We ended up with it after all. Again, before the Security merger, we had bought sick savings and loans. We had bought the old

Ben Franklin Savings and Loan in Oregon, and this accelerated turning it into a profitable operation. In Oregon and Arizona, the fact that we acquired banks in the Security merger really helped us.

One of the reasons why I think we are still struggling in Texas is that we have never been able to buy a bank of any size that would accelerate the transformation of the 200 or so savings and loan branches into banks. So we're doing it all from scratch, if you will.

LaBerge: Because you owned Gibraltar? Was that in Texas?

Rosenberg: Well, we bought Gibraltar. Gibraltar was one of the savings and loan networks. But we bought several savings and loan networks that had been taken over by the federal government in Texas. But Security had no bank in Texas. So the advantage that we got in Oregon and in Arizona was not available to us. In Nevada and Washington, they strengthened very dramatically our own banking operations, but we also had had banks. The confusion is that there's a Valley Bank in Nevada and a Valley Bank of Arizona. Two totally separate entities. But we had purchased the Valley Bank of Nevada. [thinking] That probably runs the gamut of the Security Pacific--

Regulation Q and Home-buying after World War II

LaBerge: While we're talking about that, do you want to tell me your views on conglomerating the banks? I read a couple of your speeches, where you said there were too many banks, and that was the future to--

Rosenberg: There's no question that there was too much capital in the banking industry, and that capital has to be put to work, and that was one of the reasons, perhaps, for so many of the dumb loans. There were too many banks, and when it was all spread out, you didn't have enough critical mass to repurchase shares. So in the future, there were going to be fewer banks. When you're in a highly regulated environment, in which banking was really until about 1982, almost all banks could survive. But you could not have 15,000 banks in a deregulated environment, and all survive. So the consolidation which we were major players in has continued to this day. And obviously we have continued to see very large consolidations, such as Chase and Chemical and others. I still think there will be substantially more consolidation, because we still have too many banks.

With Regulation Q, which regulated the rates you could pay on deposits, you couldn't give customers explicitly the rate they deserved, because of the regulations. So you gave it to them indirectly, by subsidizing with convenience: a branch on every corner, a free this, free that, because you were not paying them the appropriate rate for their money. When you finally could pay them the appropriate rate for their money, suddenly fees began in the banking industry, for which the banking industry was very much criticized. But the fact is, that it is much more a business today, as contrasted to a regulated subsidy.

I don't know if I've given you my theory on that. But my theory is that at the end of World War II, Congress, either consciously, subconsciously or unconsciously, depending on your view of Congress, decided every American ought to own their own home. And so, what they did was create something called Regulation Q, which prevented banks from paying too much interest on deposits. Therefore, everybody could borrow cheaply, for homes. They created the savings and loan, and lots of saving instruments in banks. In fact, the old joke was, it was a great business in those days, you paid 3 percent on your deposits, you loaned your money out at 6 percent, and you're on the golf course by 3 o'clock. So "3-6-3" was the banking motto.

And this system worked pretty well, if you will. We have about 65 percent of Americans owning their own home, and about 15-20 percent more could if they chose to adopt that lifestyle. And that system worked pretty well, until along came a couple of new developments. So this system of Regulation Q was really a subsidy for the middle class. You could borrow cheaply. And if you were stupid enough to save money, you had to pay taxes on it. But of course, if you borrowed money for your home, you could deduct the interest from your income tax.

Then if that wasn't enough food stamps for the middle class, we created something called municipal bonds, to build the roads and the schools, and other infrastructure for this middle-class housing. Every academic study that has ever been done shows municipal bonds as being a net cost to the Treasury, and a net tax benefit for the rich! I lose lots of friendships this way when I tell friends that the biggest consumers of government welfare are not the people you see who are disadvantaged, standing in the supermarket lines with food stamps. The largest group on welfare are you and me who have bought a house. Never have you seen such an array of subsidies as what are given to middle-class America to buy their homes. And the banks were the instrument of that subsidy.

Well, as I say, this system worked pretty well, until a couple things happened. Money market funds were invented, and people said, "Why should I put my money in the bank when I can put it in a money market fund, and get real interest?" And the money market funds grew from almost nothing to over $240 billion before 1982. And that's in 1982 dollars! Two hundred forty billion dollars in 1982.

LaBerge: How do you remember all these numbers?

Rosenberg: Well, because I feel passionate about the outrage; it's an outrage. And then there was one other factor. We woke up one day to discover that we had new homes and old factories. And the Japanese had old homes and new factories. A very good part of that was the fact that we were putting so much money into housing, because of the way we had structured the tax laws.

So at any rate, if you were in effect ripping off your savings customers by not paying a market interest rate, you try to attract them by branches on every corner, by free this, free that. Actually, people say, there's been a lot more creativity in consumer marketing since the banks have been deregulated. But in many respects, it required much more creativity when you were heavily regulated.

That's why I guess I am especially proud of the Gold Account. The Gold Account was really nothing special, when you think about it, but in a regulated environment anything that could break through the clutter of everybody paying absolutely the same interest rate was dramatic.

And of course, you had this huge lobbying warfare in Washington between the savings and loans and the banks. The banks at one time, I can remember, were allowed to offer only two types of certificates of deposit: 5 and 1/2 percent and 5 and 3/4 percent. The 5 and 3/4 percent was for two and a half years; it was a two-and-a-half-year deposit.

I remember I was once back at the Federal Reserve, and I said, "I just don't understand how you came up with 5 and 3/4 for two and a half years." And one of the Federal Reserve governors, whom I don't remember now, said to me, "Young man, you are very naive. You know about the ways of Washington?" I said, "What are you talking about?" He said, "The savings and loans, if we were going to give you 5 and 3/4 percent rate, wanted it to be at least a minimum of seven years. And of course the banking industry wanted it to be for six months, so we came up with two and a half years." [laughter]

But once 1982 came, it was recognized that money market funds were clearly taking huge amounts out of the banking industry, and they were just savings in another form, so the banks were allowed to offer money market instruments. The Bank of America, almost beyond belief, when we competed with them at Wells, were offering 11 and 12 percent, when money was really worth about 8 or 9 percent, in order to gain market share. I mean, none of us could believe what the Bank of America was doing in 1982. And I'm not sure they knew what they were doing either. It was just craziness.

I think they had been so stung by the passbook savings defeat, by Wells Fargo, that they were determined to never let this happen again. So they were paying rates that made absolutely no sense, just to regain market share. I guess it was to regain market share. Who was President in 1980?

LaBerge: Jimmy Carter? I think he came in in '76.[1]

Rosenberg: And he wanted to fight inflation, and at any rate the Fed and the Treasury came out with a one-year CD which was tax-exempt. Everybody else said, "This is never going to fly." And at Wells we thought it would fly terrifically. We gathered hundreds of millions of dollars in that instrument. We were probably one of the few banks that successfully marketed it, and took hundreds of millions of dollars away from the Bank of America.

The gravy train against the BofA lasted only a year. It was a one-year phenomenon. But in one year, we took hundreds of millions of dollars in market share away from the BofA. And again, that must have bothered them, after what we had done to them in passbook savings. And so, they were determined, when the regulation finally came off money market accounts that this would never happen to them again.

LaBerge: The law that we're talking about is the regulation, DIDCMA or something like that?

Rosenberg: In 1982, yes. I would have to look up, that regulation that allowed a one-year certificate, tax free.

LaBerge: As part of this?

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1. Jimmy Carter was President of the United States from 1977 to 1981.

Rosenberg: No, it was separate regulation. And everyone thought, "Well, it's not worth it. It's only going to be one year." And as I say, I think in many respects you had to be more creative operating under so many regulations than you have to be now, when you can let your own imagination create products and services and ads and everything else.

LaBerge: When any of the negotiations for the laws were going on in Congress, did you go and testify or offer advice?

Rosenberg: I would go back and lobby. We had a very good lobbyist at Wells Fargo. He had been a navy captain, and just was a very personable guy. His name was Jack Schultz. He was a staunch Republican, but he had such a wonderful personality that both Republicans and Democrats liked him. In fact, I think I was back there for the signing of this DIDCMA or whatever it was, in '82. Henry Royce, I remember, was the congressman that was deeply involved in this bill. I never actually testified, but I would go back and lobby.

Debt Policy in the U.S., 1980s

LaBerge: Well, before we talk about the Continental Bank merger, I have a couple other things written down. Do you remember anything about the new debt policy with the Interfaith Center on Corporate Responsibility, about loans to developing countries? It was a new lending policy.

Rosenberg: [thinking] No. Well, when I came here, of course, the most serious crisis we were facing was the developing country loans, and we charged off $3 billion in 1987 and 1988, and that's what really put a strain on our capital, when you charge off $3 billion. And of course, there were the Brady bonds.

The first couple of years I was here, while I was rebuilding the areas that I was responsible for, I guess Tom's primary focus of attention was the Brady bond negotiations, and what we were going to do on that subject. Fortunately, we were making lots of money to be able to carry the wholesale bank. The wholesale bank was losing tons of money. And of course, the Third World debt or emerging country debt was one of the primary factors in that loss. I'm not quite sure what you're referring to, but I guess by 1990 we had pretty much written down and charged off the emerging country debt.

I guess another philosophical point is, even though I've competed my whole life against the savings and loans, I have great empathy for them. In that, if the banking industry's Third World or emerging country debt had been treated the same way as the savings and loans' real estate debt was treated, there would not be in existence any of the top ten banks in the United States; nine would have gone, in my view. And Morgan would have been hanging by its fingernails. Morgan believes, they've done their own independent study, that all ten of us would have been gone.

So, again it is one of those absolute outrages to me, that if I was a shareholder of Gibraltar Savings and Loan, that I was wiped out, while a Bank of America shareholder was protected. It is one of the most outrageous, unfair actions of the federal government. This bank should have been gone, if you had adopted the same rules as you adopted with the savings and loans, with real estate. [Paul] Volcker, who was the head of the Federal Reserve at that point, realizing that he would destroy the banking system, chose to say that Brazil was worth 100 cents on the dollar, when no rational person would have said Brazil was worth 100 cents on the dollar. But by closing your eyes to it, you could say the bank still had capital. But no one was prepared to say that, that an office building that was worth $25 million in 1989, was worth $25 million in 1992. And so, therefore, if you were a savings and loan, you had to write it down to what it was worth.

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Rosenberg: But in fact, it is to me an absolute outrage, even though I have obviously benefited from this outrageous fiction, enormously. As every Bank of America shareholder, at the time, benefited. So I have always had great empathy for the savings and loans, who were wiped out, because they were treated correctly! When the banks clearly didn't deserve it; there was absolutely no reason to protect bank shareholders to save the system if you were not going to treat S&L shareholders the same way.

By 1990 most of the Third World debt problems were behind us, and it no longer represented a drag on us. To show you how bad it was, you could have bought the whole BofA for a $1.6 billion that was our market capitalization in 1987. And a great many analysts had what was called breakup values for the Bank of America. They would say that if you could just get rid of the wholesale part, give it away for free, zero, if somebody would take it, the company would have been worth $5 billion. You have got to get rid of all the overseas offices, all the wholesale operations, every part of the business that Coulter ever worked in. You give it away. But of course, it was a very short-sighted viewpoint, as evidenced by the fact that today it is a very strong part.

LaBerge: When you took over, what was your thought for the global and the wholesale bank?

Rosenberg: I really believed in it. I think there was enormous nervousness among the wholesale bankers, because I had spent my whole career in retail banking, with the exception of commercial real estate. And so there was just absolutely enormous nervousness, that we were going to wipe this business out. Particularly, when they were really still not making very much money. Capital markets needed to be rebuilt, the trading operations needed to be rebuilt. But I really believed that there was certainly room for a few U.S. banks to be truly global. And we were the only global bank west of Chicago. So we had an enormous position to play if we could get our act together.

As I said, although the wholesale bankers were very nervous, I guess that first year I spent an incredible amount of time traveling to the international sites and calling with our wholesale bankers. Well, first of all, we had a very good, by that time, retail operation. And I had a great person in Peterson. With Peterson, you know there was a lot less worry. No worry, in fact it was just doing great. But it allowed me the luxury of trying to reassure the wholesale bankers that I really believed in what they were doing; we could make a lot of money in their business. We had to do it right. We couldn't do it the way we did it before, but we could do it. And that they had an enormous potential and future.

So I would spend almost all my time, at least the visible time, with them. The retail decisions, obviously you could work on Saturdays with Tom. But I don't think I ever fully, absolutely convinced the wholesale bank until we bought Continental. [laughter]

And then they were convinced. But I think I went a long way in convincing them, by calling with them constantly, and being part of the wholesale team for that period of time. But I think the clincher in convincing them was buying Continental.

LaBerge: Do you have time to talk about that?

Rosenberg: I've got about another fifteen minutes.

Acquisition of Continental Bank, 1994

LaBerge: Well, before you bought Continental, were you looking around for any wholesale bank?

Rosenberg: No. I still thought there was room to expand. We were settling down, and the security acquisition was settling down. It went smoothly given the size and the magnitude of integrating the bank in all those states. Wells is beginning to discover it is not quite as easy as they thought [with the First Interstate transaction]. And in most cases with Wells there was no real integration, because they didn't have anything outside of California. So, we were beginning to settle down and I thought, well, we could do another one. But Continental sort of came.

Continental came opportunistically, I would say. I went to Chicago to deliver a speech. Tom Theobald, who was the CEO of Continental, came up to me after the speech and said, "What are you coming to Chicago to make speeches for? You ought to come to Chicago to buy us." And I said, "Are you serious?" He said, "I'm always serious."

By that time Frank Newman had left us, and Lew Coleman was our chief financial officer. Lew and I flew to Chicago to meet with Theobald, and his chief financial officer was Michael O'Neil. They were a lot tougher negotiators than Security Pacific. But of course, they were not sick. They weren't as healthy as they claimed they were, but that was part of the negotiating ploy, I think. But they were clearly not sick. And so, again as I say, we did the merger. That one was the absolute home run, unequivocally.

I can go back, and maybe people would say I'm rationalizing, although I think I am good enough with hard numbers now, that Security Pacific was a wonderful deal. When you see what prices are being paid now, or what it did for us in so many states. People really don't even understand what it did for us in Oregon and Arizona, and places like that.

But Continental was applauded from day one as being a great home run. But it was a home run for lots of reasons. It had a wonderful customer list. They had gone through hell, as you probably recall, the FDIC owned them at one point, it was a ward of the U.S. government. And you must have good people if you were able to keep customers during that period of time. And that was the added bonus. You could evaluate the earnings potential, you could evaluate the areas that would add strength to you.

Whereas, Security Pacific was essentially an expense play. We could take out huge expenses, and we did take out huge expenses. We took over $400 million out of it in the time period that we--we told the analyst we'd take $400 million out in three years, we did it in two and a half years.

Continental was a revenue play. They were better than we were in a whole bunch of areas. They did things we didn't do. They traded, and they had trading rooms in emerging markets. Their private placement operation was better than the BofA's. But what we didn't count on, which was the absolute added benefit, was the incredible quality of their people. And more than the top level, you dig two, three, four levels down, and the quality of their people was something that was the added bonus. You almost would have paid that price just to take all those people. As evidenced by the fact that as you know, yesterday we gained two presidents. And one of them is a Continental person--Mike Murray came from Continental. Our chief financial officer, when Lew left, is Mike O'Neil from Continental. The person running all of Chicago today was from the Continental, and is a very talented fellow by the name of Goodyear. I mean, wherever you look into the Continental--I mean, the investment management job we moved to Chicago. The quality of the people at Continental was just outstanding. And so that was an absolute added bonus.

But it gave us suddenly--we were always a major corporate bank after we began to rebuild, we were always a major corporate bank, but we began to rebuild its profitability starting in 1990. Tom [Clausen] did the dirty work of charging off all of the bad loans, which he had to do. Latin America and all the areas where loan problems existed. Fortunately, the areas I was running were making enough money to afford to do it. But the real beginning or turn of the corporate banking started in about 1990, but adding Continental accelerated the turnaround. And we actually moved the headquarters of our corporate banking operation to Chicago.

LaBerge: And moved people from here or just cut their--?

Rosenberg: We moved some people. We didn't move a lot of people. You don't need to move a lot of infrastructure with corporate banking, but we did move some people. But it was clearly a wonderful, wonderful acquisition.

LaBerge: Well, I assume the board was fully in support?

Rosenberg: Yes, the board was fully in support of Security, but they were scared with the Security Pacific merger. But they were fully in support of the Continental merger. I was very fortunate, I don't ever remember the board not fully supporting anything. Except that which we didn't want either, but we wanted the board to tell us that they didn't want it, which was the bizarre parachute clause in the Security Pacific deal. But at Continental, they were clearly very supportive of it.

Well, for one thing, it did not represent the Security kind of risk. Continental was much smaller than Security Pacific. We were much stronger in 1994 than we were in 1992. We were a bigger bank, a stronger bank, making more money. And my fundamental objective of 50 percent earnings from consumer, 50 percent from corporate, 50 percent from California, 50 percent from outside of California, was obviously going to be achieved.

From Continental's standpoint, it was a marvelous merger. They had this wonderful customer base. They really had a wonderful relationship with customers, but they had absolutely no international operations, for all practical purposes. And today, not to have any international operations for a wholesale bank is a very difficult situation. They had a whole array of arrangements with offshore banks to hand off their customer when they needed service in Singapore or Hong Kong or Europe. But now we brought it this great international presence to a wholesale operation. So it was, from every standpoint, a wonderful home run. And we told them that they would be kept as a wholesale bank.

As a pilot, which is expanded and now more than a pilot, we had put ATMs and retail banking offices in Jewel Stores in the Chicago area. But it really is a separate operation reporting to California. We have kept the Continental situation as purely a private banking, wholesale bank. The woman who ran their private banking, for example, was just head and shoulders above anybody we had here in private banking. The depth of their staff was just extraordinary.

LaBerge: Who was that person?

Rosenberg: Smeltzer is her last name. Michael Jordan is her client. [great laughter] Among others. Michael Jordan doesn't move, at least off the basketball court, without Smeltzer. On the basketball court, I'm not sure she is much help to him. Nor does he need much help.

LaBerge: Well, it kind of goes along with--I am trying to remember, not your mentor. Is it Arjay Miller? Whoever told you to take, if you saw a good talent--

Rosenberg: Yes, that was Arbuckle.

LaBerge: --or if this opportunity came to just take it.

Rosenberg: And it was a surprise. First of Chicago--in fact, I had had preliminary conversations with First of Chicago. They were in the mood to stay independent, and I had not really ever gotten around to talk to Continental, when the opportunity came that Theobald presented, we just took it. It was, as I say, in some respects, it was a much more difficult negotiation. They were much better negotiators than Security Pacific.

LaBerge: And what about the Fed, what did you have to do?

Rosenberg: Well, the Fed in this case went much more quickly, much more smoothly. This was not a retail bank. The Fed did not have concerns. We were strong, we were well capitalized, so the Fed wasn't scared about us. One of the reasons that the Fed kept pushing more capital on us in the Security Pacific situation was that we were strong enough, but they knew how sick Security Pacific was going to be. And they were afraid that without more capital, we might be in big trouble by acquiring Security Pacific, even though they very much wanted us to acquire it. But they wanted it with great protections for BofA.

In this particular case, Continental did not have the problems that Security Pacific had, we were much bigger; this was a small transaction relative to the size of the BofA by then, and so the Fed did not--there was no problem. And then of course, even the consumer activists were not a problem because Continental was not a consumer bank.

There was minuscule consumer activism. So from a merger standpoint this one went easier. From a negotiating standpoint, they were tough negotiators.

Our stock price had still not achieved what I felt it was certainly worth, because we had disappointed the analysts in '93 and '94. Our own currency, our own stock was not strong, so it was more expensive. Because our own stock was not as high, in my opinion, as it deserved to be. Because of, quote, "disappointing the analysts" in '93 and '94.

We used purchase accounting. It had never been used before in a big bank merger. In the Security Pacific merger, it probably made economic sense, but we did not do a good job of explaining it to the analysts. In purchase accounting, you put a lot of goodwill on the books, and you write it off over, depending on what it is, between ten and twenty-five years. So, for example, we were writing off $400 million a year of goodwill. And that goes against earnings. So we started out with a $400 million charge to earnings, but it's a non-cash item. Cash is still pouring in. And at that time everyone had done poorly. In situations where no goodwill is created, the economic effect is the same. Frank chose to use purchase accounting and I, as a CEO, took responsibility for it. If we were going to do it that way, we should have done a better job of explaining it to the analysts.

Wells Fargo did the First Interstate transaction with purchase accounting. Their reported earnings are taking a terrible beating, just as our reported earnings did with Security because they are writing off this goodwill. They have explained to everybody the accounting theory, and they haven't convinced everybody, but they have told me they went to school on us. They saw what happened to us. Wells Fargo, for example, took a whole page in their annual report last year to just explain the difference between pooling and purchase accounting. And they have said, reported earnings don't mean anything. Cash earnings are everything. And to some extent, I agree with that. But the world goes with reported earnings. Our cash earnings were $400 million a year more. And if we could have done a better job of explaining that, in the final analysis, cash is what we could use to do other acquisitions or repurchase stock, or whatever else, we probably would have had a higher stock price in '93 and '94. It wouldn't have been as painful.

Wells has not convinced every analyst on this subject, but they have done a far better job than we did. Well, they had us to go to school on--as far as the difference between cash earnings and reported earnings. So if we had had a higher stock price in '94, when we did the Continental merger, it would have been a triple home run. As it was, it was a home run in everybody's opinion, I think. But it really would have been something even better because we could have bought it more cheaply, with BofA stock that was of greater value.

LaBerge: What was the ratio?

Rosenberg: Well, in that one, it wasn't an exchange ratio. We just paid them, I think, I want to say $32 a share for their stock. I don't remember exactly. Because this was not a merger; this was really an acquisition.

Balance at BofA through Continental Acquisition

[Interview 9: March 20, 1997] ##

Rosenberg: We were talking about the Continental merger. I think we had finally made believers of the corporate and wholesale groups in the company, that although they were being headed by someone who had spent his life in retail banking, we were serious that this was an important business for us. I think that the lesson here is that although Dave Coulter has continually reassured the retail group by visiting a wide variety of retail operations in his first year in the bank, and has continually talked about retail, until there is some defining event--and I don't know what that will be--the retail part of the company will always still view with great suspicions the fact that their leader spent his entire life in wholesale banking.

LaBerge: It doesn't matter what side you're on, right? [laughter]

Rosenberg: So no matter what you said, you probably need some very tangible act. Although of course in the case of Continental, nothing could be more tangible than acquiring a totally or almost exclusively wholesale bank.

But with the acquisition of Continental it really achieved, from my standpoint, one of the major objectives, if not the most key objective that I had when I started out as CEO, which was to provide very good, if not outstanding, balance to the company. And with the acquisition of Continental we achieved that kind of balance. The company is about 50 percent retail banking now, and about 50 percent wholesale banking. It's about 50 percent of its revenue and earnings come from California, and about 50 percent of its revenue and earnings come from outside of California. The company has achieved the kind of balance I think will stand it in a good stead for a long time to come. So Continental was a very good capstone, if you will, to a series of acquisitions and mergers that were made during the first four years that I was CEO.

Having achieved, at least on paper at that point, the balance, we could then begin to focus on refining all of those parts that we had to put together in a hurry. Because it is a financial world that is changing and consolidating very fast, and I don't think you have the luxury in an environment such as that to wait and see what the final end game will be. But, of course, with Continental as I said, we now could begin to truly refine the operation. So in the last year that was probably one of my principal objectives, along with deciding who was going to be the successor.

LaBerge: Before we talk about that, you once told me an anecdote about financing a bank in London and meeting the Queen. But we never got it on tape.

Rosenberg: Well, one of the many international achievements of the company was we financed a bridge in the United Kingdom. And it was the Queen Elizabeth II Bridge, and so the Queen herself came down to help me cut the ribbon. Among the points that struck me being with the Queen was the fact that although I'm sure there was enormous security there, it was almost invisible. But unlike the security that we see attached to the President and other major figures in the U.S., there was no visible sign of people running around with buttons in their ears, and guns obviously protruding underneath their jackets. So, either they're not providing the same level of security, or they're doing it in a much more subtle fashion. But one of the things that strikes you, certainly in the U.K., is they're able to maintain that kind of security without the visible trappings of it, as we have here.

The Queen was clearly very well briefed or very knowledgeable, because when I talked to her about the economy, and suggested that England was still suffering from a severe recession, she said to me very quickly and recited a statistic or two to say that, "Young man, this is a depression, not a recession in many areas."

Board of Directors Meets in China, 1995

Rosenberg: In the fall of 1995 we probably should mention the fact that after the Continental merger, we took the board to China. Because many members of the board had not been in Hong Kong or China for a very long time; some of them had never been in China. And since Southeast Asia was already representing such an important market for us, and was going to represent an even more important market for us going forward, we felt it was important that they get a feel for our operations as well as the market itself. And we felt there was no better way of doing it than by taking them to China. It sounded frankly like a wonderful idea, it felt good when I conceived it. By the time we had to get into all the logistics of it, in October and November, I said, "Whose stupid idea was this to take the board?" [laughter] Actually, it was well worth the trip.

LaBerge: So would you set up meetings with bankers there or government officials?

Rosenberg: Well, it was such an experience that I even have the schedule still memorized. On Monday what we did was actually have in the morning an overview briefing. Our Asian headquarters is now in Hong Kong. They came to Hong Kong first. And on Monday morning we had an overview of our retail operations in Asia, and then in the afternoon we took them to visit some of the 800-square-foot apartments that we are financing for about $200,000 each. So they got to see some of our branches in Hong Kong, as well as some of the mortgages that we were writing.

In the evening we had a customer dinner, where they got a chance to meet local Hong Kong business people. On Tuesday morning we gave them a briefing of our wholesale operations in China or in Southeast Asia. And then in the afternoon they actually visited our data operations center in Hong Kong. And again in the evening we had another dinner for them with local Hong Kong business people, so that they could get the feel of the market. On Wednesday we woke them up about four o'clock in the morning, put them on a ferry, and took them to Shenzen in China, where they visited three of the factories in which we were involved in financing the owners, one of which was a Mattel factory for Barbie dolls. It was not a Mattel factory, it was a factory manufacturing only Barbie dolls, for Mattel. And my wife has this magnificent picture of a room of 4,000 young Chinese women manufacturing Barbie dolls, and the picture has 4,000 Barbies who have not yet had their hair sewn on. So there are 4,000 bald Barbies, it's a fantastic photograph. [laughter]

I think some of the statistics were almost overwhelming for them. We visited a watch factory, which produces 1,200,000 watches a month. And you don't accept that fact until you realize that we import, in the United States, 360 million watches a year! And everyone looks at their wrist and says, "Wait a minute. I have been wearing the same watch for twenty-five years, thirty years, how could we, if there are only 320 million people here, how can we be importing 360 million watches?!" And then I remember I have a B-2 watch from the fact that I'm a director of Northrop, and I'm going to John Gardiner's tennis camp, and I have a tennis watch. And I have probably another eight watches in the drawer. And literally, we import 360 million watches a year.

LaBerge: And you can buy watches at the drugstore, everywhere.

Rosenberg: That's right. At that point, 1,200,000 watches a month out of this factory becomes believable.

So then we took them back to Hong Kong that night, and we had a picnic in the park, with all of the staff of our Hong Kong operations. A chance for them to visit with the clerical staff of our Asian operations. And on Thursday we flew them to Beijing. We spent Thursday and Friday visiting with Chinese officials, including the premier, who I guess was so impressed with the fact that it was Bank of America's board. Unlike almost every other delegation where he meets with the delegation, if he meets with them at all, at the end of their visit, he met with us as the first one on the visit. Of course, it played on television at night, which gave the cue to every other minister that they had best spend time with us.

I guess it was on Friday, we had one of those typical fourteen-course Chinese lunches. As an aside, I think every other visit with every minister was extraordinarily interesting, and other people they had set us up to meet with in Beijing. The one visit after this lunch was just awfully boring, and it was "how the provinces were governed."

In the typical arrangement the board and the senior management people sit facing the minister and the CEO who did all the discussing. And no one else says a word but listens. I looked out and saw many members of our board dozing off, some sleeping so heavily that I was really frightened that they would fall out of their chair and embarrass us. [laughter] The one exception was Rudy Peterson at ninety-one years old, who was visibly taking notes. Maybe he was really only ninety. [laughter] Anyway, there he was taking notes where everyone else was either sound asleep or fighting to stave off sleep.

By then it was a real eye-opener, the whole trip was a real eye-opener to the board. I think it reinforced the strategy that I had, if not initiated, certainly expanded, to make us a major force in the Pacific Rim, and the importance of the Pacific Rim.

LaBerge: And would you do it again? Would you take the board?

Rosenberg: Oh, yes. You may not do it every year. We had begun in a mini-way moving the board around. Before, we had them meet primarily in California and in Arizona. And Dave Coulter I think is continuing that practice. For example, the board will be meeting in Fresno where we have become the largest agricultural lender in the United States, and they have never really visited that area. I don't think the board has ever met in Fresno. So Dave is continuing the practice.

I think it's a good idea to have the board meet in cities and areas important to the bank. Not only is it a real boost for our local people on the scene, it's a real boost for business development, in that we can stage a dinner or breakfast or some event with customers. So it's just a very win-win [situation]. And of course the board gets to see a perspective of the company that usually they only get written reports on. So it's a very good idea, although to do China or Hong Kong you would think twice. [laughter] I'm glad we did it, I think we probably some day ought to do it again, but you wouldn't want to do it every year.

Corporate Secretary Cheri Sorokin

LaBerge: Well, with something like that, who helps you do that?

Rosenberg: The corporate secretary, Cheri Sorokin. I had, I think, a unique relationship with our corporate secretary. Who, although she was a corporate secretary, has such great tentacles inside the company, and everybody trusts her and respects her, and she's also a very hard worker. She handled something like this. Whereas you might have a protocol officer or somebody else handle it. But Cheri Sorokin played a very key role in my five and a half years. In that she was always so omnipresent, my eyes and ears and also a conduit of information which people wanted the CEO to know about but sometimes were reluctant to speak directly--although I think I had less of that than most CEOs. But even then, there are some things that you would prefer the CEO to hear from someone else. And she played that unique role. But in addition, she was also wonderful at stage managing significant events like this.

LaBerge: Did you kind of promote that or did it just happen, that she played that role?

Rosenberg: Well, it's interesting. I think she naturally evolved into it, although I certainly promoted it. But I think she evolved into it. It was certainly a very lucky decision for me. She had been the corporate secretary for Armacost at the end, and all during Clausen's period of time. And when Clausen was stepping down he had offered her a chance to go back to the legal department, because she joined the bank as a lawyer in the legal department. Something instinctively told me that this was a bad mistake, to come in new as a CEO and have a brand-new corporate secretary. And so I asked Cheri to stay on for a while, and after a while she got to enjoy what she was doing, too. It was more than a corporate secretary, which she could have done in the spare time in the morning. It was a very lucky decision that I persuaded her not to take Clausen's offer.

LaBerge: And has she stayed on now?

Rosenberg: Yes, she has stayed on. In fact, Dave has promoted her, it's interesting, she still continues to run the corporate secretary operation. We had some real talent in the public relations area, and to my view, this was never really exploited to the extent it should have been. But it was not managed well. So Dave promoted Cheri, when he came, to run government and public relations, and continue as corporate secretary. And it's clearly a much better operation today than it was.

Role of Secretaries and Administrative Assistants

LaBerge: What about your personal secretary, Peggy? Could you say something about maybe her particularly, but then just that role that that person plays?

Rosenberg: Well, I think Peggy is the ultimate professional. She's not only a superb secretary, in the normal role of secretary. But for ten years I would hear compliments from customers, from happy customers, irate customers, and particularly from the staff, of how fabulous Peggy was when they would call. Because there were so many demands on me, she had to say no, lots of times. She just handled everyone with such grace and charm and professionalism and courtesy. The compliments were extraordinary. In addition, the normal secretarial work was always done in a highly professional manner. She's just outstanding.

But I made the ultimate, what I think was the ultimate sacrifice, I think. Peggy and I had been together for ten years; she came down from Seattle with me. And I was concerned, frankly, that she would be bored stiff if she continued with me when I retired. Under the system of the bank, the retired CEO as you know gets a secretary, I guess for life. In fact, I haven't fully explored it yet! [laughter] But I see that Helen has been with Clausen forever.

LaBerge: And she went to the World Bank with him.

Rosenberg: Yes, she went to the World Bank with him. Well, at any rate, I was concerned that Peggy would be bored stiff, because I personally myself was scared that I was going to be bored stiff. And so I talked to Peggy about the fact, did she want to stay with Dave, if Dave wanted her? And you know it was obviously a difficult decision for Peggy. I think we'd established a pretty good relationship over ten years. I told her, she was getting paid as a CEO secretary, and that undoubtedly would remain, but there probably would not be the normal kind of increases going forward. I think the money had to have an effect, as it should have, and it had some impact on her. And Dave was ecstatic, have somebody who already had the job. And so Peggy stayed with Dave.

I think in the role, everybody uses their secretary in a little different way. I really don't like administrative assistants. Dave really does like administrative assistants. He has brought an extremely bright person from our Chicago office--again one of the Continental staff, to be his administrative assistant. So I guess in some way, Peggy's role was diminished.

I really think, an administrative assistant actually creates more work for you. Because an administrative assistant is going to write their own analysis of whatever you get. The one advice I did give him, I think maybe the only advice I have given him, is when he told me he was going to get an administrative assistant, I said, "Whatever you do, Dave, I would hide her, someplace else. Do not put him or her on the fortieth floor. I mean, there are still people with long memories. I think I may have mentioned at the very beginning, when I came here, about all of the administrative assistants that were floating around the fortieth floor. And that was the beginning of the end of this company." And I said, "You know there are people still with memories. And that they see, well gee, we've got a new BofA CEO again, and now the first thing he does is bring in an administrative assistant."

He has, I think, taken my advice. He has an administrative assistant, but he's got her in finance with some other title or something. So Peggy just ships the stuff to him.

LaBerge: Well, you didn't need one because you read fast and can get through it?

Rosenberg: I think so.

LaBerge: We talked before, as far as making decisions, you really do make your own.

Rosenberg: And his may be more thoughtful. Maybe. But I think you have to make them very fast in this kind of environment. Some things you do have the luxury of analyzing and analyzing, but you need to make a lot of decisions very fast.

Helping Choose a Successor CEO

LaBerge: How about talking about the succession, because all the reports in the paper and everything were that it was going to be Lew Coleman.

Rosenberg: Well, it really was a very difficult decision, because we clearly had two very superior people in Lew and in Dave. I met many times with the Executive Personnel and Compensation Committee, which recommends the new CEO to the board. First of all, we came to the conclusion, if at all possible, we did not want to go outside. And did we have enough talent inside? We quickly rejected the outside and quickly came to the conclusion that we had two very good people. Then I guess it was just a matter of lots of discussion of two people; Lew was obviously the odds-on favorite, and Dave was a totally unknown quality, not only to the community but to the company almost, except in those areas in which he worked.

There was nothing in the bible that says the CEO has to leave at sixty-five, but there's an expectation. I think there's an expectation in the company as a whole, and I certainly think an expectation with the board. But the board asked if I would stay at least six more months while they were sure of the decision. So, instead of retiring in May, I told the Compensation Committee and I told the board that we think we would be in a position to recommend to them a successor by the end of the year. So I stayed as CEO until December. And then when we did decide it was going to be Dave, if there were any difficulties in selling Dave to the board, I would stay longer. But, as Lew said to me the week before we made the decision, "Dick, we both know that although ostensibly this is a decision of the Executive and Compensation Committee--"

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Rosenberg: You're going to make the decision, regardless of the fact that it will be announced it was "recommended by the chairman of the Compensation Committee and the board." I agree that that's true, where the board has great respect for the retiring CEO. As a result, I didn't think I would have any difficulty, once we discussed it at the Compensation Committee and came to the conclusion that Dave was going to be the CEO. I didn't think there would be any difficulty selling it to the board as a whole. Even though they had not had the benefit of months of agony that we had gone through, of just trying to decide. But at least to help that decision, in naming someone as CEO who literally had zero experience, absolutely zero experience in retail banking, I agreed to stay on as chairman of the board. And stay on the executive floor for another six months, until the annual meeting. At which point Dave would not only be president and CEO, but also chairman, president and CEO. But he would be CEO, that's the only thing that really matters, on January 1, not at the following annual meeting.

Those five months, incidentally, have got to be among the worst five months of my life. You sit on the executive floor and the best thing you can do is to keep your mouth shut, no matter how you feel. That does not say Dave was not always gracious and all of that, but I mean, it is not something I would recommend to anyone. In this particular case, we probably didn't even need it. But to make sure that the decision went down smoothly, which it did. I said, "If there are retail issues, I'm still on the executive floor, I'm still chairman of the board."

A Difficult Decision

LaBerge: How hard was it to tell Lew Coleman?

Rosenberg: [with emotion] Awful. Awful. I mean, San Francisco is still a very small community. In New York this would not have been--even in New York it would have been a big deal to the individuals involved, but it wouldn't have been a big deal to the community. Lew was clearly, not only the obvious choice, he was and already had been preordained in the community.

LaBerge: Right, and in the press.

Rosenberg: And in the press. So it was very difficult, extremely difficult. Lew actually ended up, fortunately, I mean Lew would make more money than he would ever have made as CEO. In his first year, for example, they tell me that if you did nothing after you went to Montgomery Securities, you would have made $10 million. That's in addition to the package that we sent him off with. But you're not the chairman of the BofA; you're not honored here and honored there, and all the rest of that. So, you make a lot of money, but it is simply not chairman of the BofA.

So it was very tough. Very, very tough. Dave was the right person, and I never thought for one day since I made the decision that I made the wrong decision, but this doesn't make it any easier.

LaBerge: Right. Mr. Clausen didn't talk much about this, but he thought it was a very courageous decision. He must have said that about three times.

Rosenberg: Well, he's right. I normally don't take compliments very easily. But in this particular case, I will take one. [laughter] Yes, the last six months, it was very difficult. As I say, I sometimes look back, and this we'll cut out of the history but, it sounds terribly presumptuous, but it really was a remarkable five and a half years. Considering that in the last six months, I not only had to run the place, I had to focus on what was just a very, very difficult choice. Lew is the wrong person for the job. In spite of all the intellectual capacity, I mean he's intellectually superior, clearly intellectually superior to me. He's intellectually superior to Dave. I just believe he was the wrong person to run the Bank of America. I have no compunctions about it, I earned my salary. [laughter] It was very tough. Lew's wife took it with much more difficulty than Lew. Lew has been a perfect gentleman about it. Susie's not quite that noble.

Ironically, I took Dave to dinner in about late July or early August of '95 to tell him that I had decided that he was going to be the next CEO. And of course, he was very close to Lew. They were very good friends. I think Dave was stunned to begin with. He was as surprised as anyone else. He said, "Gee, I don't know." I said, "Why don't you go home and ask Susan if you should take it?" [laughter] Of course, in all three cases, I think, Susie, Susan and Barbara, they're all more ambitious than Lew, Dave and Dick. [laughter] So when Dave said to me, "Gee, I don't know if I should, if I am ready," I said, "Why don't you go home and ask Susan?" [laughter] Yes, it did not take him very long, however, thereafter, to tell me how excited he was about that. And he has lived up to all the expectations and more.

Wells Fargo Impact on BofA

Rosenberg: But it clearly was an ending of an era. When you think about it, Clausen came back in '86, but '87 was really the beginning. Although Clausen was the CEO, the company was being run in almost every area by a whole team from Wells Fargo. From Taylor in credit, to me in retail banking, in consumer, Peterson, Rossi, Coleman in wholesale and Newman as CFO. All from Wells Fargo, all a team that had worked together for years and years in the middle market. And when Rossi and Peterson leave in a month, the total Wells Fargo impact on the company, which came at a time of crisis, turned it back into a $3 billion earner, we'll all go. I'm not sure anybody really appreciates that. But this is the end of the Wells Fargo era, when Rossi and Peterson go. And they're going in a month.

LaBerge: You didn't bring them all in, so a lot of them were here when you came.

Rosenberg: Yes. Most of them were here. Taylor had already come; Newman had come. They had asked me about Rossi, and I recommended him. Rossi had come just before I came, I believe I was responsible for Rossi coming. Coleman had come, and then Armacost brought Newman. The only one I added to the team was Peterson. There were lots of Wells Fargo people below, on other levels. Obviously, some of them will still be here. But, the real top of the team were all Wells Fargo people who had just come, or were coming.

LaBerge: What lasting effect do you think that both you had on the bank, plus you and the Wells Fargo division? Do you think you've changed the culture?

Rosenberg: Yes, I think we have made it a more open place. I honestly believe that we have made it a more open place. In that it's a place where I think that people are much more prepared to tell you what they really believe; they're much more prepared to make decisions on their own. Taylor tells an anecdote that I think typifies what I hope was not there anymore after I left. At a Managing Committee meeting, he questioned something that [Lee] Prussia said. Because Taylor was the first of the Wells Fargo people to arrive. And Armacost talked to him after the end of the meeting, privately, and said, "Glenhall, we don't do that around here." He said, "What do you mean you don't do it around here? We don't do what?" "Well, you don't question some other peer's report."

I think that was something that typified the place. There was a great reluctance to shoot the messenger or not have bad news. I think we left the place a much more open place. I think one of the things that appealed to me about Coulter was that he would continue that kind of openness and encouragement of other people and their attitudes. Now, you never know, nobody ever knows how effective a person is going to ultimately end up as CEO. I don't think anybody ever knows, I didn't know myself, what would happen to me after a couple years on the job. You hope you've got the right person and made the right decision.

I think one of the interesting aspects of CEO succession: Rube Mettler, who was one of our best directors, in about 1994, came to me and said he was going to recommend something and he hoped I was comfortable with it. He had done the same thing as chairman of the compensation committee of Merck [and Company], which was to give me more options than I normally would have received. But unlike everyone else's options, they would not vest at retirement. Because the most important decision a CEO makes is who his successor is. And since you really don't know how good that decision is, for at least two years, the option shouldn't vest for at least two years. So if the new CEO is taking the company's stock price down by his actions or inactions or whatever, you're going to suffer because that was your decision. But on the day of retirement none of us knew how good or bad your decision was. So he did the same with Vagilis at Merck. And of course I said, yes. [laughter] But I think it is a very good idea. I served on another compensation committee and we've done the same thing now.

<u>Duties of a CEO</u>

LaBerge: Well, in all this, who do you think your primary duty is to? Do you think of it as to the stockholders or to the customers or to the board?

Rosenberg: Well, it's one of those classic business school questions. I think, in theory, your responsibility is to the shareholders. But if you don't feel that same responsibility to the customers and to your employees, you're not going to probably do a very good job for the shareholders.

Actually, I kid one of the key people in the public relations department. I said, "Gee, the best thing that Dave has come up with is this great mission statement that he has articulated." Which I think is just absolutely terrific. Which is, we want to be the best place to invest, the best place to bank, and the best place to work. So you cover the employee group, the investors, the shareholders and the customers. And one of the P.R. guys told me, "We came up with that for Dave." And I said, "Why didn't you come up with something as good as that for me?!" [laughter, jokingly] And Dave is using it a lot;

I think it's terrific. It's better than anything I've ever heard anywhere else. He wants this place to be the best place to work, the best place to invest and the best place to bank.

California Water Issues

LaBerge: Can we talk about your interest in water? Was the bank interested in water before you yourself got on the Business Roundtable?

Rosenberg: No, very peripherally. They're interested in water in that our agricultural lending would, of course, obviously take into consideration whether the individual farmer or rancher had water rights. But all we would do is say, "If you have got water, we might make you a loan. If you don't have it, we're not going to make you a loan."

But when I went on the Business Roundtable, I met Jim Harvey, who was a wonderful human being, and who was the CEO of Transamerica. He died about a year ago. I don't know whether it was I who initiated it or he initiated it, but the two of us decided that the business community had to come to the table on water. I mean, here is the single most important item in the state, and although it's important that we have better education, it's important we have affordable housing and roads, and improve our worker's compensation laws, and all the rest of it, without water there is nothing else.

So, the roundtable had a Water Task Force, which was, for all practical purposes, dormant. And Jim and I took it over. Jim got sick not long thereafter, and I became chairman. And then I deeply involved the roundtable in the water issues. The first really big test came in 1994. Two-thirds of the water of the state flowed through the Delta. And the federal government and the state were at loggerheads as to the accord that had to be developed in order to develop standards in the operations of the Delta. Everyone has weighed in on this matter in years past, environmentalists and municipalities and water districts, agriculture, but business, which represents 85 percent of the gross national product of the state, never really played a role. And so I got the roundtable to get CEOs to write to both [President William] Clinton and [Governor Pete] Wilson to break the deadlock. And the Secretary of Interior publicly acknowledged the fact that without the letters from the business community he does not believe the accord would ever have been signed. So the business community got into this at this point, having seen that it could have some real impact on this most important issue.

LaBerge: Are we talking about the Central Valley Improvement Act?

Rosenberg: No, no. We're talking about the Bay-Delta Accord. The Bay-Delta Project, which is now called the Cal Fed Project, because it's a state and federal accord. The standards for it--that was only the first step. There's still a big war to win in this area. You know, the devil was always in the details. But we were at such a loggerhead. Water in this state is so critical and it's such a controversial issue, that even taking, getting a first step, of having an accord, setting up a group that would draft the standards, and how the standards would be drafted, was a major step.

I testified Tuesday in Sacramento at the legislature on the Water Transfer Act that the roundtable has created. There were two issues, one coming up after our issue, which was the big battle in Los Angeles, whether Los Angeles is going to be able to charge a certain fee to San Diego for water carried by Los Angeles Water Authority. They had the largest hearing room in the state senate, and there was standing room only. You couldn't even get in, it was so packed. Water is a big subject in this state.

You've got the urban interests, you've got the agricultural interests. The Model Water Transfer Act, which is one of two products of the roundtable that we have developed, it does represent, in some respects, a series of compromises; however, I think maybe one of the most incredible achievements was to get the California Business Roundtable, the California Farm Bureau, the State Chamber of Commerce and the California Manufacturers Association all to sign and support one document on water. That has got to be one of the great achievements I think of my career! [laughter]

LaBerge: So you continue on that board?

Rosenberg: Yes, well, they have not yet been able to find a replacement for me. I mean, I should get off. I'm not a CEO anymore, and the roundtable is comprised of CEOs, but the roundtable has asked me if I would at least continue to stay on, be involved and interested.

And then the bank did something very nice for me. Traditionally they have established a chair for the CEO at some university. I think Rudy's chair is at UCLA? At any rate, they have established chairs.

LaBerge: Maybe at the business school and I don't know about it.

Rosenberg: Well, what they did instead of establishing a chair, they provided a fund for the Rosenberg International Water Forum that would be held every other year with the secretariat provided by the agricultural department at Berkeley. The first symposium will be held this fall. It has a very interesting steering committee. When they announced it, the steering committee had already been established. There was somebody from Morocco, the United States, Australia, Israel, and Spain.

LaBerge: Well, that's wonderful. So it's at the Water Archives on the Berkeley campus?

Outside Boards

Rosenberg: Well, it will be under the jurisdiction of that steering committee, but Berkeley provides the secretary for this forum, and the bank provided the money.

LaBerge: What other outside things have you done that have been of the most interest to you? Other boards, like Golden Gate [University] or Caltech or Visa or--

Rosenberg: I have been flattered to have been president of the Reserve City Bankers Association, which is comprised of the big banks, chairman of Mastercard, and president of the

Federal Reserve Advisory Council. All of which were interesting in their own way. Excuse me, the fourth one was the president of Bank Marketing Association. And in each case it came about through a vote by my peers.

LaBerge: And you're not on any of those anymore?

Rosenberg: No.

LaBerge: What did you think you were going to do when you retired?

Rosenberg: I think, I was at a Business Council meeting about three months before I was retiring, and Walter Wriston, who had been the CEO and chairman of Citicorp and probably is the banker's banker, said to me, "You know, Dick, you're at the most vulnerable time in your life." I said, "What are you talking about?" He said, "Well, you know, I'm still active in New York City civic affairs. And whenever I have a particularly dirty job to do, like having someone chair a campaign or raise money for Sloan-Kettering, I look for some CEO who's retiring. And I know that he's so scared about what he's going to do when he leaves the office on Friday, what is he going to do on Monday? That when I call him up and ask him to take the chairmanship of this campaign, he not only accepts it, he embraces me. And then of course, six months later he's ready to assassinate me!" And I said, "Gee Walt, I wish you'd have given me this advice a little earlier, because to be honest I was a little scared, and I said yes to a variety of things."

I guess all of the positions and affiliations in which I am involved, I think, individually are okay. In the aggregate, it's probably too much. I said yes to half a dozen corporate boards. And then I'm chairing United Way. I'm still a trustee at Caltech, and I chair their Investment Committee. And then you always, "That's enough. More than enough." Because it really does not leave any real time for any extended trips or vacations or anything like that. There is always something else that comes up.

We bought a home in St. Helena and Mondavi is in the process of creating the American Center for Wine, Food and the Arts, and has an interesting board, with Julia Child and others. Bob Mondavi said, "Please Dick, serve on the board." And you're a new resident in the Napa Valley, and of course you say yes. And then of course there is probably one of the most important mergers occurring in the San Francisco Bay Area between the University of California San Francisco Medical Center and the Stanford Medical Center. Here are probably two of the world's great health centers. But what makes it unique is that there has never been, to anyone's knowledge, a state teaching medical center, like UCSF, merging with a private sector medical center, like Stanford. The regents get six directors and Stanford gets six directors and then they had to go out and get three, quote, "independent, outside directors" and so--

LaBerge: Are you one of the independents?

Rosenberg: Yes.

LaBerge: Well, it is one of the most important things that has happened in the Bay Area.

Rosenberg: [laughter] That's why even though I have way too much to do--and then my older boy beats up on me all the time and says, "What value do you add as a director to these big companies like Northrop? You don't know how to build B-2 bombers!" He said, "What you ought to do is not go on the boards of these big companies, you ought to go on the boards of these little companies! Where not only you're serving as a director, but you can bring them expertise in finance and bring them expertise in marketing, and a whole array of expertise." He said, "It's harder work than being a director of a major company, where you don't add much value." I said, "Well, gee, Mike, I think I added a little value when Northrop acquired Grumman."

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Rosenberg: He's right. I am a director of K-2, which you know, make skis, and roller blades and snowboards and bicycles. And he's right; this is a $600 million revenue company. It's not a tiny company, but by the standards of the billion-dollar companies on whose boards I serve, it is tiny. And it's true, you do add more value. But I reject his contention that you add no value serving as a director of large companies. [laughter]

LaBerge: Right. Only a son can say that. [laughter]

Rosenberg: But Mike has an interesting point. Probably if I had to do it all over again, and I didn't have the commitment to all these big companies, he probably was right. It would have been more fun, and I may have been more intellectually challenged, if I had said no to companies, like the BofA, and Pacific Telesis, Northrop and Pacific Mutual Insurance, those types of companies, and gone on the boards of companies like K-2, and other smaller companies. Because I probably would have added more value.

Frank Newman at the U.S. Treasury

LaBerge: Is there anything you think we haven't covered? No? Can I ask you one more question?

Rosenberg: Sure.

LaBerge: The whole issue on Clinton's coffees?

Rosenberg: Oh, sure. Clinton's coffees is really an innocuous issue. Well, in one way it's not innocuous because my friendship with Frank Newman is strained. [laughter]

When Frank was deputy secretary at the Treasury--well in fact, I'll tell you something else. [Secretary of the Treasury] Lloyd Bentsen called to get a character reference on Frank, when he was considering him as assistant secretary of the Treasury. I can't remember exactly how the conversation went. But there's three levels of authority: assistant, associate and deputy. And I can't remember if assistant is lower than associate.

LaBerge: I can't either.

Rosenberg: At any rate, whatever it was, Frank was going to be, the associate deputy--he was going to be associate secretary for domestic affairs of the Treasury. And it kind of bugged me a little bit, because Summers was going to be assistant secretary for international affairs at the Treasury (a higher rank). And I said to Bentsen, "You just can't get anybody better than Frank. But I cannot believe what you're doing--that a President comes to office saying he's going to put his focus on domestic affairs, and the secretary to the Treasury for domestic affairs has a lower rank than the rank of the secretary for international affairs." So Bentsen says, "Rank doesn't mean anything. He's reporting directly to me." Because [Roger] Altman, who was deputy secretary, had in fact told Frank he was just going to spend a lot of time at the White House; as it turned out he was prophetically correct.

I said, "Mr. Secretary, with all due respect, you certainly know Washington far better than I do, but I just can't believe that when somebody testifies before a committee, that his rank in front of the Senate does not have some bearing as to his credibility and everything else." "Well, it doesn't really!--" And I kept pushing it. He says, "I've only got the right to name one, on this level, assistant secretary." I said, "Again, Mr. Secretary, with all due respect, you're the most respected person in the Clinton cabinet. If you wanted another assistant secretary, I just can't believe that--." He said, "You're pretty persistent, aren't you?" And I said, "Well, you're getting the best chief financial officer in the United States for this job."

Of course, Frank got the job, as assistant secretary. Which may be how he got the job as deputy secretary when Altman was disgraced and forced to resign. What Altman did, in retrospect was, of course, zero compared to the scandals that are coming out now, as to what happened at the White House.

Well anyway, Frank becomes deputy secretary of the Treasury. And there are any number of bills which we as bankers were involved in, and other programs the President was interested in during the time that Frank was there. For the bill signing or discussion of the bill, I would get an invitation, as would Hugh McColl, the North Carolina bankers, and the East Coast bankers. For all of those individuals, particularly for the New York bankers, you could fly up in the morning, and you could be back for lunch! Anytime you go to Washington from the West Coast, you made a two-day commitment because of the time change. So most of the time I wouldn't go at all. And then one time I remember Frank called me up and said, "They're beginning to notice you never show up for the White House." So I finally went once. So anyway, this was the background.

President Clinton's Coffee, 1996

Rosenberg: So Frank leaves, and is now CEO at Banker's Trust. And he said, "Glass-Steagall [Banking Act] is coming up, and the President would really like to have a small breakfast with a couple of people, to really talk about this issue, and see where the administration is going to come out on this. He'd really like you--he's only met you to shake hands, but he's heard about your reputation, and it would be a small group of us meeting with, maybe as few as just you and me and the President. But maybe one or two others." I said, "Frank, it's just as I told you when you were at the Treasury. It is a real imposition to go back to Washington for meetings like this. But I will try, and maybe there will be some mutually convenient time that will just work out right for everybody."

So about two months later, I was going to a Business Council meeting. The Business Council always holds its meetings in Williamsburg, Virginia. So I called Frank and I said, "If you can set up something for Monday, I'm in Williamsburg on Saturday, and although Barbara is not happy because Sunday is Mother's Day, we will stay over in Washington (she is with me), and I'll go to the breakfast on Monday." So Frank called back and said, "Absolutely, all set." I said to Barbara, "We're going to stay over in Washington on Mother's Day." And that did not go over big. But she agreed, "Okay."

So I walk into the White House, and I'm expecting Frank and me, and maybe two or three others. And I walk in and there's thirty people in this room [with amazement], and most of them are bank CEOs.

LaBerge: You mean he pulled it together that fast?

Rosenberg: No, I had called him several months before, that I was going to be in Williamsburg. The Business Council's schedule is set months, years ahead of time. So he pulled it together. By Washington standards, it was a relatively short time, it wasn't next week. But it was six weeks, seven weeks, something like that. And I was just dumbfounded! I stayed over for this group meeting? And then to make it politically correct, they had an African American, it was mostly big banks, in fact it was almost all big banks, except for the politically correct--they found an African American woman from some small bank in Philadelphia.

And then there were people from the Democratic National Committee! Which was totally inappropriate! I could appreciate having Rubin there, and I could see Ludwig being there. I would have been surprised if both of them had come to such a small meeting, but then to have people from the Democratic National Committee there, it was just totally inappropriate. Well, I was so angry. And Frank could see, I was just boiling. Frank apologized. I never have known to this day whether Frank got sandbagged himself at the last minute, that he had to invite all of these people, or the White House wouldn't do it. Or Frank was part of the whole plan of inviting all these people. I don't have any idea. Frank knows how angry I was. He wrote me a letter and called me to apologize. But I was really angry about having stayed over Mother's Day in Washington, for this group meeting. And of course it turned out to be a nothing meeting--I had forgotten all about it until the whole thing blew up again during the Washington investigations.

LaBerge: Right.

Rosenberg: Now, to give the White House credit, there was not one word of fundraising discussed. They stuck to the subject matter. It was banking subjects. I just stormed out, I was so mad when the thing was over, I just left. And that's when Frank called me in San Francisco. But I can't remember whether these two men from the Democratic National Committee ever contacted me again, that I met at the meeting. I don't think so, but I can't be sure of that. Certainly at the meeting, there was zero talk about the campaign or the fundraising or anything else. I mean, it was exclusively banking issues.

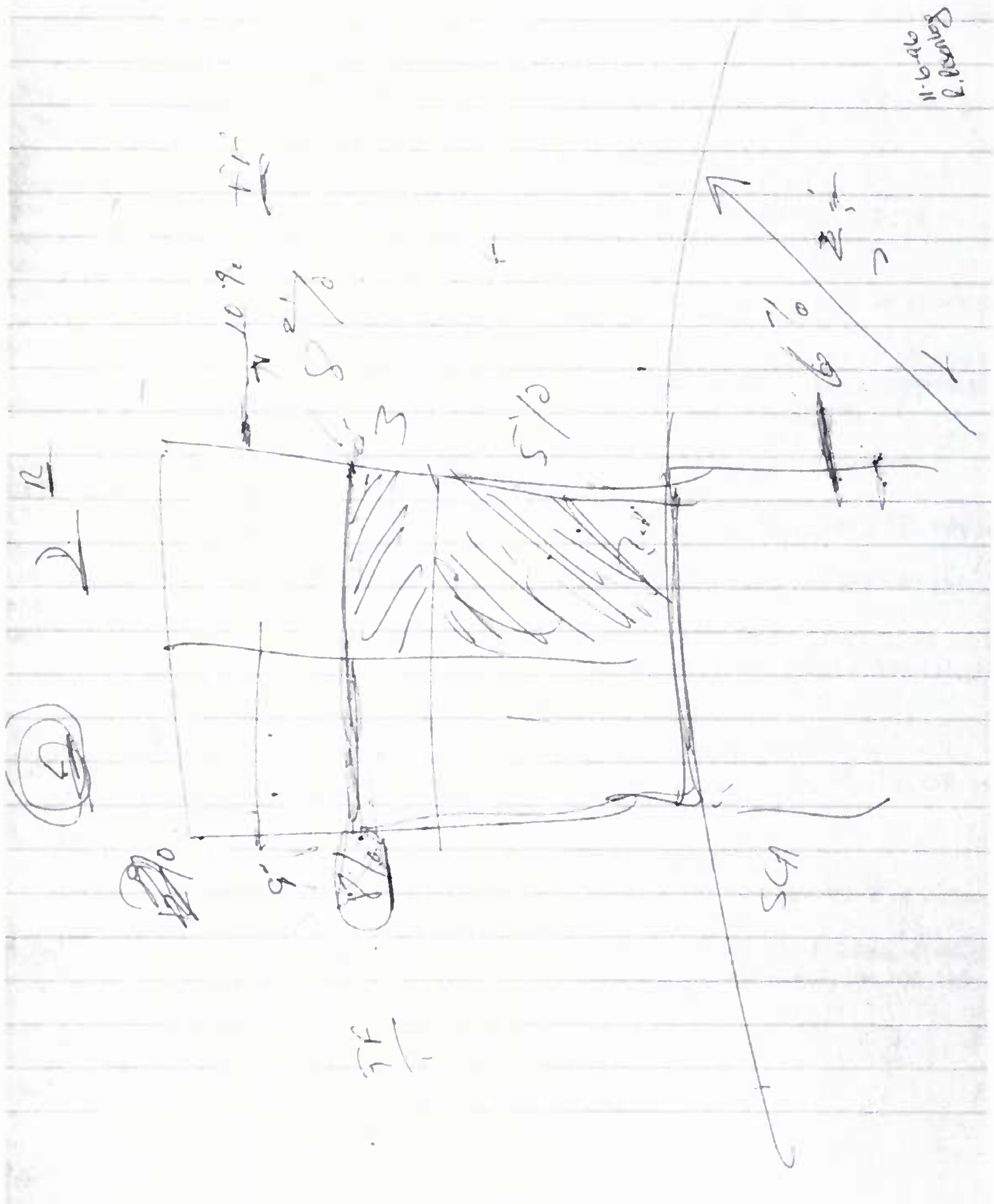
LaBerge: Now, I don't have any other questions, unless you want to add something.

Rosenberg: No, I think I'm drained. [laughing]

LaBerge: I'll just say, thank you very much. You've been a wonderful interviewee, and very patient. I didn't know how busy you are in retirement. I mean, you're really busy.

Rosenberg: [with great laughter] I'm really busy!

[End of Interview]



INDEX—Richard Rosenberg

GERMAINE LaBERGE

B.A. in European History, 1970, Manhattanville College
Purchase, New York

M.A. in Education, 1971, Marygrove College
Detroit, Michigan

Law Office Study, 1974-1978
Member, State Bar of California since 1979 (inactive status)

Elementary School Teacher, Michigan and California, 1971-1975

Legal research and writing, 1978-1987

Senior Editor/ Interviewer in the Regional Oral History Office in fields of business, law, social issues, government and politics, water resources, and University history, 1987 to present. Project Director, East Bay Municipal Utility District Water Rights Project and California State Archives Oral History Program.