Banks adding ex-government leaders to boards
By: Jeff Green,Maryellen Tighe, Bloomberg News
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Wells Fargo & Co. is joining other financial firms in adding former government leaders as federal regulation increases. Federico Pena, who had terms running the transportation and energy departments for President Bill Clinton, joined this month, expanding the largest U.S. home lender's board to 16 members. Elaine Chao, George W. Bush's labor secretary, was named in June to replace U.S. West Inc. Chairman Emeritus Richard McCormick, who stepped down after serving since 1983.

Lenders are facing limits on credit and debit card fees, tighter capital standards and state probes into mortgage-servicing lapses. The oversight is fueling banks' demand for boardroom guidance from Washington, an asset previously more valued at transportation companies, energy firms and defense contractors, said George Davis, who heads the director placement practice at search company Egon Zehnder International.

"The financial-services industry is catching up to other industries that have always appreciated people with regulatory backgrounds," Davis said. "It's hard to find someone with the regulatory skills who also has an operating background. That is the bull's-eye these companies are looking for."

Pena is a senior adviser to private equity firm Vestar Capital Partners. Chao, the wife of U.S. Senate Minority Leader Mitch McConnell, R-Ky., had worked at a predecessor to Bank of America before joining Bush's Cabinet.

Chao and Pena have led "large, high-profile governmental organizations," said Ancel Martinez, spokesman for Wells Fargo. "Their leadership and regulatory experience is highly relevant to serving as a director."

Bank of America, the No. 2 U.S. home lender, overhauled its board in 2009, adding directors in June of that year including former Federal Reserve Board Governor Susan Bies and former Federal Deposit Insurance Corp. Chairman Donald Powell. Larry DiRita, a spokesman for the bank, declined to comment.

"There are much greater concerns about the regulatory environment in general that are stoking the trends," said Tim McNamara, managing director at executive recruiting firm Boyden. "There's been a strong increase since 2008, and it's getting stronger."

William Isaac, another former FDIC chairman, was named chairman of Fifth Third Bancorp in 2010. Isaac can help managers deal with an "ever-changing financial landscape," the lender said in a statement last year.

Of the more than 500 new directors among Standard & Poor's 500 index companies since the beginning of last year, at least 80 have ties to elected office, regulation or the military, according to a list of appointees compiled by executive compensation data company Equilar and examined by Bloomberg.

"It's more prevalent for the obvious reasons, the convergence of Washington and financial services," said Eric Pikus, global managing partner for consumer and commercial banking at executive search firm Korn/Ferry International. "You definitely see more of those types of individuals sitting on boards today, and there's definitely a clear value they bring, that view of what might be going on inside a regulator's mind."

The United States took stakes in the largest banks in 2008 and increased oversight last year with the passage of the Dodd-Frank financial overhaul.

Citigroup Inc. also reshaped its board in 2009, adding directors including Anthony Santomero, former president of the Federal Reserve Bank of Philadelphia, and Diana Taylor, former superintendent of banking for New York state.

"In the financial sector, understanding how your regulator thinks, knowing how to operate profitably within the regulatory footprint is every bit as important as understanding your customers," said Joe Grundfest, a Stanford Law School professor who was a member of the Securities and Exchange Commission from 1985 to 1990. "It may be good news, it may be bad news, but either way it's the reality."