BusinessWeek

TIAA-CREF'S FERGUSON ON THE ECONOMY, CIT'S STRUGGLE, AND THE FED

Maria Bartiromo talks to the TIAA-CREF CEO about CIT and the Fed's new economic assessment

The second-quarter earnings season arrived with a bang in early July, with better-than-expected results from Goldman Sachs, Intel, and others. Amid all that, however, was an ominous sign that the financial crisis is not letting up: Faltering middle-market lender CIT Group wrangled with regulators about whether it should have access to the FDIC's temporary loan program. As the Federal Reserve raised its targets for 2010 growth, I caught up with Roger Ferguson, former vice-chairman of the Fed under Alan Greenspan and now CEO of retirement giant TIAA-CREF, with $350 billion in assets. I asked Ferguson for his thoughts on the economy, CIT, and Fed Chairman Ben Bernanke.

JENNIFER S. ALTMAN

MARIA BARTIROMO
The Fed just came out and changed its economic assessment, taking unemployment levels higher and GDP actually to a better number for the coming year. Can you characterize where we are in the economy?

ROGER W. FERGUSON JR.
I think the evidence is that we have seen a number of tentative signs, but consistent signs, that maybe we are passing the worst, though it's too early to say definitively that it's behind us. It's possible toward the end of 2009 to see growth. The data that are coming in are not inconsistent with that. But I would certainly have a higher degree of confidence around a 2010 return to growth. Too early to blow the all-clear whistle, I would say, but it does appear that the recession is receding.

What do you think is needed right now to help things along? Is it the stabilization of the consumer? Is it the housing market? Is it getting those toxic assets off the banks' balance sheets, or is that no longer an issue?
The stabilization of the consumer is very important. Consumption accounts for, as you know, two-thirds of the U.S. GDP. It's going to be important for businesses to see some improvements in their profits and profit margins, and improvements in their order books, to give them a greater degree of confidence. It is turning out that banks are healing, even with these toxic assets on their books. They certainly appear to be rebuilding capital. That process has got to continue.

What about small businesses? The Administration has been talking about helping them, yet a lot of small and mid-cap companies feel they still don't have access to credit. What kinds of incentives should be on the table for banks to start lending to them again?
This is all intertwined. So as banks and small businesses see consumers starting to feel better, as the businesses themselves start to see their profit margins increase, then the banks, I think, will

understand that it is safe to make appropriately priced loans to creditworthy counterparties.

What about a company like [struggling lender] CIT? Should the government be supporting it?
That's a big policy call, and I understand the arguments of both sides. If CIT fails to extend credit, then obviously a number of banks are going to have to step up and increase their credit provision to small and medium-size enterprises.

So you think there are companies out there that could pick up the slack if CIT were to go away?
There have been a number of regional banks that have had a history of doing this kind of lending, and certainly community banks really understand that their local small and medium-size enterprises have had such lending as a core of what they do. I wouldn't dispute that CIT is a very important player. On the other hand, there are other financial institutions that, when they see a credible business opportunity, are likely to step in and try to profit from it. That, after all, is what drives American capitalism.

How would you rate Ben Bernanke's performance?
I think he's done a good job. I give him credit for the creativity, the nimbleness, the speed with which he has moved. I'd also give him credit for speaking directly to the American public. You know, he went down to Morehouse College and did a town hall in front of the students there. He was on a network TV show speaking directly to the American people. I also give him credit for showing an ability to speak not just to the experts and the cognoscenti but to the average person on the street.

Tell me about your role at TIAA-CREF and how you see investing the money that is under its umbrella.
Our role is, in some fundamental sense, unchanged. We have always invested for the long term, recognizing that we're dealing with individuals' retirement incomes. We've always put a high premium on risk management, and we continue to focus in on that. One thing we're going to be doing more of is speaking out about retirement. It's painfully obvious that 401(k)s have become 201(k)s, as people say when they're joking. It's less obvious that now is the right time to start to think about restructuring retirement for the 21st century. Some of the things I think are necessary are an automatic enrollment into a stable system, clearly having some sort of guaranteed income option as part of the payout, and—something I've talked about many times—broad diversification of risk.

If you were offered it, would you take Bernanke's job?
[Laughs heartily] I am going to stay at TIAA-CREF. I enjoy what I do here. But I'm honored that you would ask the question.

By Maria Bartiromo
Maria Bartiromo is the anchor of CNBC's Closing Bell.