

PART 1: SIX LESSONS TO TAKE AWAY FROM 2009

A popular morning news and talk cable channel show regularly ends its program with a question to its talking heads and guests: "What have we learned today?"

Part 1 of a three-blog series

On the show, this is meant to be more facetious than serious. But for bankers, the question of what we've learned in the more than a year of the current financial crisis is an urgent one.

So, as we approach the end of this tumultuous year for banking and business, we pose this question: "What have we learned?"

As I see it, there are six important lessons. Future columns will examine some of these more deeply. Today, the goal is to list the important ones.

First, while there is one banking industry, there are some distinct parts.

We are an industry comprised of community and regional banks and the "mega" banks, the latter representing the top 25 or so banks by size. Combined, we are the commercial banking industry. In areas considered "traditional banking" there are many similarities regardless of size, but when it comes to how we operate there are large differences, smallest to largest.

A new category of banks are those former investment banking houses that converted to bank holding companies to be eligible for TARP assistance in late 2007, as the economic crisis deepened. Goldman Sachs and First Boston are examples of investment banks turned BHCs. Much of the public anger centers on the mega banks and the former investment banks. They are largely the ones who were excessively leveraged and customarily have paid large salaries and bonuses to their senior people. It is important to note that former investment banks are not part of what most of us generally mean by "commercial banks."

Second, banks as a group have managed to offend large segments of their constituencies.

- Regulators are angry that banks largely ignored their warnings of dangerous concentrations of commercial real estate credit, beginning in 2006.

- Bonuses (historically and again this year) paid to people who are viewed as perpetrators of much of our current economic troubles.

• Consumer regulatory reform has been fueled by bankers' appetites for fee income. How much of this we've brought on ourselves is open to discussion.

• Some senior managers, bankers and non-bankers, have a "tin ear" and have said and done some pretty dumb things such as "We're doing God's work." Such actions demonstrate thinking isolated from the real marketplace.

We have some fence mending to do.

Third, financial re-regulation is like a freight train bearing down on us.

Many businesses and industries, as well as strategic components of our economic life, will be caught up in this—banks, our customers, regulators, and even the Federal Reserve System will be impacted significantly, if not profoundly.

New financial regulation has the potential to completely upend strategic business plans and business models for segments of our industry.

Fourth, "Too Big to Fail" is a real concern.

A few years ago, this was still a subject for debate but it's painfully obvious that some firms have grown too large and interconnected to be allowed to fail. We can't as an economic society take the risk of the consequences of such failures.

Fifth, bank regulatory contradictions are a fact of life.

Supervisory agencies have their charters and responsibilities. Sometimes, these are in temporary tension with political realities and the smooth functioning of our banking system. The strains felt by community banks imposed by single-minded examiners during recent examinations have been difficult, if we give credence to a growing body of anecdotal evidence. How this will play out in community banks' willingness to accept more credit risk, especially in small business lending, is a major unknown right now. In time this will get sorted out, but meanwhile we are seeing the forces and conflicts unleashed by the economic downturn impacting examiners and, in turn, us.

Sixth, banking is an essential business for our modern economic society.

Were our industry not so critical, there wouldn't be much fuss politically and fewer stresses and strains on us in our daily business activity.

This last point, our central importance to a smoothly functioning modern economy, is the source of hope and our eventual certainty that most of us will come through this stronger and better for our customers, our owners and ourselves.

How well we have learned the lessons we are being taught is the question, and the challenge.

We'll explore some of these topics more fully in future columns. Meanwhile, tell me what I've left off this list.

About Ed O'Leary:

Veteran lender and workout expert O'Leary spent more than 40 years in bank commercial credit and related functions, working with both major banks as well as community banking institutions. He earned his workout spurs in the dark days of the 1980s and early 1990s in both oil patch and commercial real estate lending.

O'Leary began his banking career at The Bank of New York in 1964, and worked at banks in Florida, Texas, Oklahoma, and New Mexico. He served as a faculty member and thesis advisor at ABA's Stonier Graduate School of Banking for more than two decades, and served as long as a faculty member for ABA's undergraduate and graduate commercial lending schools.

Today he works as a consultant and expert witness, and serves as instructor for ABA e-learning courses and a frequent speaker in ABA's Bank Director Telephone Briefing series. You can hear interviews with Ed about workouts here. You can e-mail him at etoleary@att.net. O'Leary's website can be found at www.etoleary.com.

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