

One foot on a slippery slope

There was a popular book a few years ago titled, "The Death of Common Sense," by Phillip Howard. A good sequel would be, "The Death of Integrity."

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Integrity, in the sense of honoring one's obligations and responsibilities, is a quality that Americans have long admired and, to varying degrees, strived for. Unfortunately, we've been seeing an erosion of integrity for some time. In a recent conversation, a bank CEO lamented the lack of integrity on the part of some borrowers. Now we have widespread "strategic defaults," where borrowers who can afford loan payments decide it's not a "good business decision" to keep paying, because the property value is underwater. They know that by walking away they're sticking the bank with a loss, but they rationalize this in a variety of ways including, "The bank shouldn't have made me the loan."

No one is going to feel sorry for banks. But people should feel sorry for themselves and for where our country is headed if they simply walk away from legitimate obligations. Over time this behavior will undercut the foundation of not only banking, but society.

There are many cases of true hardship, where some sort of accommodation—even bankruptcy—is justified. A banker with integrity would do everything within reason to try and help a borrower in such straits, as many do. A borrower with integrity would do everything possible to meet the restructured terms—a few even going so far as to pay all creditors in full, once they've emerged from bankruptcy. That's integrity.

Contrast that with the man quoted in this month's Bank Notes, who had defaulted on his home loan. He said, "We felt we were just tossing our money into a hole. I'm kind of banking on there being too many of us for the lenders to pursue. There is strength in numbers."

We all have a choice: we can walk through life on a gradually rising path or along a downward spiral. Right now, many people seem to have chosen the latter.

Absent integrity, we fall back on laws—a questionable backstop. In banking, lenders have had to become more cautious and now rely more on legality rather than integrity ("character") in their decisions. Hence, they make fewer loans. More broadly, the increasing complexity and widely varying interpretation of laws feeds cynicism, contempt, and a sense of "do whatever you can get away with," as the above quote illustrates.

This attitude applies well beyond finance. Many athletes seem to have a similar mind-set in their use of performance-enhancing substances, as do political and corporate leaders who abuse their power and position. People see these things and begin to think, why should I be the good guy?

What can be done?

Lead by example. Bankers are leaders in their communities, and they can demonstrate integrity by how they conduct their business. Further, we can all work to help elect government leaders who do likewise.

This malaise has been a while in the making. It will take time to shift direction, but it can be done. •

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