

## Four misconceptions that hurt banks (February 27, 2009)

Major decisions affecting the industry's future are being made in atmosphere of dangerous misinformation

By Bill Streeter, editor-in-chief, [bstreeter@sbpub.com](mailto:bstreeter@sbpub.com)

At the recent ABA community bankers conference, ABA President and CEO Edward Yingling addressed the assembled bankers with a sobering message. He began with this blunt assessment:

"We're in the most important and dangerous time for the banking industry in 70 years. I urge all of you not to underestimate what's at stake." He defined the present situation—and what will inevitably follow—as "the defining fight for the future of the financial services industry and for the banking industry right now. This fight is not only important, it is massive." The Gramm-Leach-Bliley legislation, he said, was considered to be "the mother of all financial services bills. What we are facing now is ten times the size of Gramm-Leach-Bliley."

He gave three examples of the kind of massive changes that are coming.

- At some point this year, the government will stop guaranteeing \$3 trillion in money market mutual funds. When they do that, he said, obviously they will have to look at the whole business model, and look at the whole regulatory structure.

- The entire regulatory structure of the insurance industry has to be redone, he said. "You can't have an AIG and leave regulation of the insurance industry at the state level.

- There will be a major redo of the corporate governance structure in this country that will make Sarbanes-Oxley look small.

Overarching everything that Congress, the administration, and the regulators will be considering, said Yingling, is the current atmosphere in regard to banks. "There are tremendous misunderstandings and misperceptions about the financial crisis, he said, and this is extremely dangerous.

"Members of Congress," he continued, "are getting hundreds of calls from constituents who are just plain angry about what's going on. That is why we are working so hard with the media and with members of Congress to try to get the truth out, to have people understand what's really going on. There are four main misunderstandings that we want to correct.

“First – There is a big difference between traditional bankers and Wall Street. But when we turn on the news, what do we hear? ‘Banking,’ as though all banks were giant banks.

“Second – How many times do you hear the phrase, ‘banks aren’t lending’? I’ll just give you one fact. In 2008, despite the fact that we were in a recession, bank lending actually increased, and yet you wouldn’t know that. Bankers have to get across the message that your doors are open – banks want to make loans.

“Third – People question whether or not our entire industry is bankrupt. It is simply not true. If you look at who’s saying this, there are two groups. People who don’t know anything about banking and finance, but are just repeating the story, and some that actually give numbers, but who have never been in the bank that they’re talking about. What they do is they take crude numbers and they extrapolate based on the idea that all the assets of these institutions will be sold at a fire sale tomorrow.

“Fourth – All banks are being bailed out. The truth is that less than 5% of the banks in the country have taken funds under the Capital Purchase Program, and, with the exception of two banks, these are healthy banks that were asked by their government to take the money.”

“Here’s the bottom line,” said Yingling: “ABA is working with the media and with the Congress to try to correct these misconceptions, but we can’t do it all. You have to do it, too. You must make it part of your plan to communicate with your employees, your customers, your communities, your local press, your state legislators, and your Congressmen. Because if you don’t do it, there’s a vacuum. And that vacuum will be filled by the wrong message, you can bet on it.

“We are facing a fork in the road,” Yingling told the bankers. “Down one path is a great future for traditional banking. But the other path is dominated by policy mistakes, and if we let those mistakes happen, we’re going to be handcuffed for decades to come.” BJ

[This article was posted on February 27, 2009 on the website of ABA Banking Journal, [www.ababj.com](http://www.ababj.com), and is copyright 2009 by the American Bankers Association.]