CAUGHT IN A VISE OF MIXED MESSAGES

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The list is long and includes evolving parameters around receipt and use of TARP monies (notably, the Capital Purchase Program); our attitudes toward lending vs. our credit standards; and our overall responsibility toward our borrowing customers.

This last point has seemed at times to be a thinly disguised version of politicians’ attitudes about what responsibilities we may have to their constituents. Perhaps it’s belaboring the obvious to note that each of our banking customers is a constituent to at least three elected federal officials (two U.S. Senators and one Congressman). Just because we have overlapping constituents/customers does not mean that we have coincident interests or responsibilities.

Unfortunately, the source of our most pressing current problems as community banks seems to be political at the national level. Let’s first acknowledge that some of our problems are of our own making. Some banks made injudicious lending decisions and are now anywhere from marginally to significantly undercapitalized by current standards. Serious and widespread concern about the condition of banks and banking is a legitimate political issue.

Congress voted to provide capital support for banks. Banks need capital to support lending activities and capital had become overleveraged. The aid was a necessary step to helping certain members of the industry maintain a prudent and responsible flow of credit to their communities. But there was another, less-noticed purpose of the bank capital assistance program. It was to help banks that were otherwise sound to acquire troubled institutions and thereby keep potentially large volumes of impaired assets in the private sector and to lessen the burden on the Deposit Insurance Fund during a time of nearly unprecedented potential strain.

Those very members of Congress calling for additional bank lending seem to have forgotten this other purpose. Both are legitimate public concerns—adequately capitalized banks that are able and willing to lend to worthy borrowers and banks capable of absorbing sick institutions with fewer demands on DIF.

As an industry we can accomplish both; but it’s no fun to be beaten up publicly for conservative lending policies while politicians score debating points with our customers at the expense of our reputations.

Why have the sins of a relatively few been inflicted on the reputations of all of us?

Examiners are political creatures, owing to the fact that they work for agencies of federal and state governments. They are charged with the responsibility of monitoring the safety and soundness of banks which largely means assuring prudent use of our depositors’ money. They usually perform their jobs apolitically and effectively.

Just as some of us are seeing the return of some normalcy to our markets, there is frequent and disturbing anecdotal evidence that examining staffs are attempting to enforce very conservative lending standards. These examiners are working with the same lenders who have only just begun to feel confident enough about overall business conditions to resume a semblance of normal lending activity. So we as an industry are caught in a vice between political pressure to lend and from examiners to be more conservative in the day-to-day application of our lending policies. [See the news story, “Bankers to Washington: Are we lending or not? Bankers confront regulators over mixed lending messages,”]

I’ve been a banker for a long time. I know that a banker has serious responsibilities toward depositors, borrowers, and stockholders. A conservative and well-run banking business requires the constant assessment and balancing of these responsibilities.

But we have no natural constituency in elected national officials. They are supposed to be looking out for the public’s interest—but that’s been pretty hard to discern at times lately.

I just hope that we as an industry have the wisdom and temerity to say to anyone who is not a depositor, borrower or stockholder “Enough! I know my business. Just let me do my job!”

What do you think? What are you seeing out there in the field?

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.