SWIMMING WITH SHARKS AND ETHICAL BANKING

by Steve Brown

The odds of an accidental death due to a shark attack are 1 in 91,530. These odds are even higher for a shark attack in a branch. While bankers are more likely to be hospitalized because of a stapler injury (odds 1 in 85k), sharks still scare us. If you see fins in the water, stay out.

This brings us to our topic of the day, which is about ethics and maintaining ethical behavior in banking. There are many definitions of ethics, but for most it means someone will act in a way consistent with personal, corporate and societal values. Not everyone is ethical and some seem to drift in and out of ethics as fluidly as a shark swims though the ocean.

Having a bedrock of principals is extremely important in banking and doing so begins with being honest and telling the truth. Having respect for others, maintaining personal responsibility, individual accountability and maintaining trust in all areas of the business and work relationships is critical. Everyone at the bank must share in a personal responsibility to protect a strong ethical reputation if the bank is going to ensure ongoing behavior is appropriate.

There are many ways to accomplish this, but some jump out for all banks to consider. For instance, bankers should remind staff to start with something as simple as doing the right thing for customers and each other. Next, make sure information is clearly communicated, truthfully and accurately throughout the bank. Treat others as you would like to be treated. Fourth, comply with all laws that govern the business or oneself. Finally, ensure everyone takes accountability for decisions and actions, including reporting concerns or potential violations at the bank. All employees, management and directors should be expected to act lawfully, ethically and professionally in the performance of their duties at all times. For that matter, management should ensure that any suspected acts of dishonesty, misconduct or conduct that is inconsistent with ethical standards are investigated in a prompt, fair and thorough manner.

Since ethics are crucial to maintaining a healthy bank, we suggest thinking about some key questions to ask when faced with a situation that may not be obviously clear. Start by asking whether what you are doing could hurt the reputation of the bank, is questionable, or just plain feels wrong. Then, consider whether such actions would look bad to friends, family or others, such as shareholders. Think about whether you could defend your actions in front of a court in context of polices or guidelines of the bank. While maintaining strong ethics is everyone's job, it is up to management to set the standard and make sure that ethics are the foundation for bank culture.

Unfortunately, these days, banking ethical standards are repeatedly being called into question by the media. While bankers have always maintained a high level of professionalism and ethics, even the hint or appearance of an impropriety can get the waters chummed. Given all of the sharks swimming around the industry these days, ensuring the bank's reputation is maintained is fundamental.

BANK NEWS

TBTF

In a speech before the Nat'l Assoc. for Business Economics yesterday, FDIC's Chair Sheila Bair said the industry needs a clear mandate to close large banks as well as a prefunded structure in which to take over a bank that presents systemic risk.

MBS

Because of excess liquidity looking for a home and the Gov't purchase program, yields on agency mortgage backed securities fell to the lowest level compared to Treasuries on record. As of this morning, the spread between the two instruments narrowed to 63bp. This means that after adjusting for optionality, servicing and transaction cost, the US homeowner can now borrow approximately 16bp cheaper than the US Gov't.

Beneficial Owner Info

FINCEN, the FFIEC and the SEC put out guidance (FIL-8-2010) on what banks are expected to do to obtain beneficial ownership information when they detect heightened risk related to an account or customer

Volker Rule

According to a detailed proposal released by the Treasury, any financial institution that engages in proprietary trading for their own account would be subject to additional capital and leverage limits. Originally, it was expected only large banks would be subject, but the wording is such it appears any company prop trading stocks, bonds, options, commodities or derivatives would be targeted.

TARP Exit

Comerica said it will sell $800mm in stock to help it pay back TARP funds.

No Change

A study by Manpower finds 73% of companies plan to keep their payrolls the same through Jun, as they remain cautious about hiring.

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