Stories

By: Paul J. Thompson- President and CEO of Country Club Bank, and MBA Chairman

If you didn't know me before my role as MBA Chairman you are probably now figuring out what those who know me are already too-well acquainted with: I like to tell stories. Stories that are true (for the most part), funny (I hope) and contain some embedded lessons. Often they are self-deprecating—I've got plenty of material with which to work—long and full of tangents that ultimately (I think) get back to the point—sort of like this opening paragraph. So with that…

My father was born and raised in St. Joseph, MO, but his mother was raised on a farm near Agency, Missouri.

Dad always admired the work ethic of his mother and farming relatives who were raised on that Agency farm and, I believe, wanted to make sure that his "city" boys knew the value—and reward—of hard work. Accordingly, I'm convinced he purchased a 40-acre farm in Farley, Missouri to serve as my brothers' and my "outdoor classroom".

Part of that hard work included distributing salt licks, fetching renegade cows from the neighbor's pasture and clearing brush from fences. We would assemble the brush in a pile and then burn it. Although I was probably only 12 years old at the time, to this day I can vividly recall Dad throwing some more gas on a small—but already burning—pile of brush when the flame from the burning brush followed the line of gas all the way back up to the spout of the small gas can Dad was holding. With that, he flung the can away and yelled "Hit the deck!"

Fortunately, the can didn't explode and we were all treated to orange sodas in exchange for not sharing this little anecdote with Mom. The moral of the story: Be careful when throwing gas on a burning fire, lest you get burned.

This may be sound advice for FDIC Chairwoman Sheila Bair to consider as well. Particularly given the following—and all too familiar—headlines which appeared in just one day's business section of the KC Star: **"**Regulatory Action Nears**"**, referring to a local bank; "Fannie, Freddie Fallout is Felt", referring to the industry's increasing reticence to make, and the accompanying difficulties for consumers to qualify for, a loan; "Housing Construction Drops to a 17-Year Low" and "Inflation Data, Financial Woes Sink Stocks"—all those headlines juxtaposed against the August 19th Wall Street Journal lead article "FDIC Presses Bank Regulators to Use Warier Eye".

The WSJ article discloses that, in private meetings, FDIC officials have pushed for other agencies (OTS, OCC, etc.) to more forcefully downgrade the CAMEL ratings of banks. (Keep in mind that FDIC premiums are now based on a bank's CAMEL rating). Further, according to the article, Ms. Bair would like to see more banks downgraded to 4 or 5 and, accordingly, be placed on the FDIC's Problem Bank list.

While I respect Ms. Bair for trying to deal with the issue, I am concerned that her sentiment may permeate down through the FDIC and to other regulators and their examiners. The sentiment becoming the de facto regulatory culture spreading faster than the Asian Bird Flu Pandemic that we are still waiting for.

A present symptom of this culture may be manifesting itself in the so-called "non-performing, performing real estate loans"—so dubbed to describe loans that are performing as agreed but whose underlying value has, according to recent appraisals, fallen below the original loan-to-value limits.

Reportedly, some examiners have classified such loans and/or, asked the bank to obtain new appraisals. At least one regulator has suggested that appraisals as recent as three months old may no longer be relevant.

Throwing all this "additional gas on the fire" may combust into what Richard Dorfman, President of the FHLB-Atlanta, referred to as a "vortex of cynicism" when he addressed bankers at the ABA summer meeting for state association officers and executives.

Think of this vortex as the opposite of "irrational exuberance", where pessimism in the financial markets leads to self-doubt and continues spiraling downward, resulting in a self-fulfilling prophecy of economic malaise.

Given the present political/economic picture, I do not envy the responsibilities of Chairwoman Bair and other banking regulators. While certainly nobody in their right mind expects a "kinder, more gentler" approach to regulatory supervision, too harsh of a regulatory response—in effect throwing more gas on the fire—may have the unintentional consequence of actually putting more of the FDIC fund at risk. This the result of asset values declining as the economy is swept into the vortex to which Mr. Dorfman referred.

If that happens, there won't be enough orange sodas in the world to fix the problem.