Notes From Washington—Part I

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

The last 30 days have witnessed unprecedented actions in the financial services/insurance industry. We have seen the quasi-nationalization of Fannie Mae and Freddie Mac ($200B), Lehman Brothers go bankrupt, Merrill Lynch escape its own demise by being bought by Bank of America, AIG kept on life support by the federal government ($85B)—all this preceded, of course, by the federal bailout of investment giant Bear-Stearns ($29B). Now comes talk of a $700 billion rescue plan—the details of which have to be vetted out.

Most seem to agree that the U.S. government had little choice but to intervene in order to restore confidence in the market. Whether or not the intervention will effectively restore confidence in the markets remains to be seen.

What is certain is that a change to the regulatory oversight for the financial services industry is coming. What that change will look like will probably be determined in the next congress. As ABA President Ed Yingling noted when addressing Missouri bankers last week during the MBA Washington visit, "Next year will be one of the most important years in our history with regard to public policy—bankers need to be involved politically to make sure these public policy issues go our way."

It's going to be an uphill fight. I heard House Financial Services Chairman Barney Frank say, "The private sector got us into this mess and we need the government to get us out." That's a far cry from Ronald Reagan's inaugural speech when he said, "The Government is not the solution to our problems; Government is the problem."

I would submit that, in reality, it should be somewhere in the middle (but probably closer to Reagan's view). When it comes to the role of government in a free-market society, Ben Franklin's phrase, "An ounce of prevention is worth a pound of cure" comes to mind. More specifically, where was the government in <u>preventing</u> this situation? Where's the federal oversight of the insurance industry? There is none; it's done at the state level but that doesn't preclude the federal government from picking up the tab when the State of New York isn't properly monitoring AIG.

Who was monitoring or placing a governor on Fannie and Freddie? Apparently no one. Where was the SEC on the auction rate security mess? Then there is the short selling issue—the SEC let the "up-tick" rule expire a year ago. The "up-tick" rule allows a short sale transaction to be executed, but only after the underlying stock has had an increase—i.e., up-tick, in price. Had such a rule been in place and enforced these past 30 days, we may not have seen the precipitous fall of stocks within the financial services sector of the market that was the result of short sellers feeding on (shorting) weakened stocks like piranhas on a wounded fish. Ultimately, the SEC jumped in and prohibited short selling on certain stocks but it was too little and way too late.

Now consider the credit unions. Their primary regulator, the NCUA, has been described by one federal legislator as its primary "cheerleader" as opposed to its regulator, as the NCUA pushes credit unions further from their stated mission.

Then there is Federal Farm Credit System (now named Farm Credit Service, or FCS). Undeterred by the loss they received when Congress decoupled their Horizons project from the farm bill, FCS did an "end run" on Congress and went to their own cheerleader regulator, the FCA (Farm Credit Administration) to ask for a Horizons-like lending authority. The FCA <u>obliged</u> them. Hopefully, government won't shirk its duties again and Congress will deal them a swift and painful blow for purposely trying to circumvent Congress.

One thing is for sure, however, it was certainly an interesting time for the Missouri bankers to be visiting the nation's capital. We were at "ground zero" when these decisions were being made and announced. In fact, apparently it was during our visit with House Financial Services Committee Chair, Barney Frank, that he had learned of the $85B AIG intervention plan, resulting in his early—if not brusque—departure from our midst.

I wish to thank all the bankers who made the effort to join us in D.C. Your presence was needed and appreciated. I believe those that did attend got their money's worth. Our meeting schedule was as busy and ambitious as it was interesting. We met with, and/or were briefed by, individuals from the following organizations: the American Bankers Association, the Conference of State Bank Supervisors (CSBS), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comp-

troller of the Currency (OCC), the Department of Homeland Security, Eric McClure of the Missouri Division of Finance, the Treasury Department and the Office of Thrift Supervision (OTS).

In addition, we met with both Senator Bond and Senator McCaskill, as well as House Representatives (or members of their staff), Jo Ann Emerson, Russ Carnahan, Kenny Hulshoff, Roy Blunt, Todd Akin, Sam Graves, Ike Skelton, Lacy Clay and Emmanuel Cleaver.

So as you can clearly see, we got a lot accomplished in the three days that we assembled in Washington, D.C. However, we worked in some fun and camaraderie as well, having attended a Nationals baseball game and also having enjoyed cocktails/dinner at the fine restaurant, Smith and Wollensky's. A special thanks to the sponsors of those events, including Sandler O'Neill Partners for the ball game, Stinson Morris & Hecker and Shughart Thomson and Kilroy for the cocktails/dinner, and the FHLB-Des Moines for providing all the ground transportation.

In the next Chairman's column, I will attempt to recap some of the issues we covered with our regulators/examiners.

In the meantime, stay positive! Missouri banks remain in good shape as evidenced by the information shared with all by Missouri Division of Finance Commissioner, Eric McClure. Again, if you didn't attend, you missed out! Accordingly, make plans to join us again next Fall in Washington, D.C.—your industry is calling.