The Bottom Line

By Howard Headlee, President, Utah Bankers Association

Lessons Learned From the Banking Crisis

As we celebrate the rare event these days of Congress enacting bipartisan legislation to fix some of their actions during the financial crisis (Dodd-Frank), perhaps the time has come to also have an honest discussion about how the regulatory agencies reacted during the crisis.

When you think about the depth and breadth of the crisis, it is amazing there wasn't far more carnage in the banking system. I believe we can attribute that to the resolution lessons we learned from previous crises and the policies we implemented as a result.

That's why I believe an independent, scholarly look back on the policies and performance of the bank regulatory agencies during the crisis could be incredibly beneficial during the next downturn and this is the perfect time to be identifying mistakes and formulating a better plan.

There are many things that happened during the crisis that I think deserve a closer look, but perhaps most important was the massive transfer of capital out of our banking system and into the pockets of well positioned investors who gladly bought assets for pennies on the dollar knowing that the main risk they faced was the passage of time.

As a result, most of that capital is no longer driving CRA investments, it is no longer being leveraged by deposits and lent into our communities and local economies. Is anyone monitoring the performance of these assets, or how these investors faired? Are there steps we could be taking now to structure that process to retain those gains in the industry, or at a minimum, in the fund to the benefit of the surviving banks? Recognizing that some of the big winners were other banks, this seems like a relevant question.

A thorough, independent study might give us confidence that the FDIC is getting the most it can from the sale of these temporarily distressed assets. It wasn't rocket science what private investors were doing, surely a group of the smartest risk managers in the world could figure out a way to respond to future asset volatility in a way that preserves bank capital to the benefit of all the communities and local economies we serve.

These issues cannot be addressed in the heat of the moment, but are best addressed after the storm settles and we have regained our balance and perspective. If Democrats and Republicans in Congress can agree that now is the time to correct some of the errors they made during the crisis, perhaps the time has come for our regulators to do the same? ■