

R*E*S*P*E*C*T

By [Stephen M. Klein](#)
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Hindsight Is 20/20

As I reflect back over the last 3+ years, it is clear that most of us missed the boat on (i) the recession; (ii) the length of the recession and (iii) the depth of the recession. While it would have been virtually impossible to predict (ii) and (iii), in hindsight we should have seen the makings of a serious economic slowdown. After more than a decade of sustained growth, history has taught us most good things must eventually come to an end – and they did – with a resounding thud.

Fingerprints Galore

If we are to be honest with ourselves, the carnage in the banking industry could have been tempered by a more proactive approach. Pretty much everyone involved with the industry, including Congress, the Administration, the regulators, the bankers and the professionals who served the industry mostly ignored the signals. It's time everyone admitted there is shared responsibility for this debacle. Hopefully, we all learn from this painful experience and avoid repeating our mistakes.

The Imbalance in the System

Because of the fallout of the recent financial crisis, everyone is extremely guarded and cautious. Bankers, in particular, often feel frustrated dealing with the ultra-conservative regulatory environment. While it is clear that it has been no picnic for the banking regulators, some balance must return to the industry-regulatory relationship. What I have seen most vividly since I started my career with the Comptroller of the Currency ages ago is the apparent and troubling lack of respect and tolerance between the regulators and the bankers. To generalize would be unfair and irresponsible.

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But all too often we have seen or heard about the apparent lack of respect and trust that should be at the foundation of a healthy bank regulatory environment. In order for banks to fully recover and lead our economic recovery, that healthy balance must be rebuilt. Recognizing that all of us in the industry are in it together is an important first step.

The Absence of M&A and Consolidation

Given the current earnings and stock price environment for banks and the apparent regulatory hurdles in getting deals done, it is really no surprise that the predicted wave of consolidation has not commenced yet. Until bank stock prices move up, I don't think we will see the activity predicted. In addition, the level of capital expectations by regulators and the depth of loan and other due diligence by buyers are also having a chilling effect on deals. At some point, that all will gradually change, driven in part by the desire of buyers to grow earnings and sellers to find an exit strategy.

Moving Forward

It is my sincere hope that, while we should learn from our recent experience, we all move forward together, the regulators and the banks (I have largely given up on the Administration and Congress) to rehabilitate our industry and help end this endless recession. As one of my old regulatory buddies used to say "Washington DC is an island surrounded by reality." That never has been more true than now. In the spirit of Aretha Franklin, building mutual R*E*S*P*E*C*T between the banks and their regulators should be an admirable and mutually productive goal.

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