

# Balancing company interests vs. the public interest



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## Financial Crisis of the Housing Market

Tragedy struck in mid-2007 when the financial crisis struck the United States economy and most importantly, anyone who was currently involved with the housing market. This crisis is known to anyone involved in the corporate world as the crucial point where the country plunged into a long and very deep financial recession with no end in sight. What followed was massive effects that were taken seriously and impacted a lengthy unemployment surge, and major declines in the gross domestic product. Unemployment which had always been overlooked, resulted in a decline of jobs which struck early 2008 and lasted through the next year or two. Unemployment rates trickled to 7.8% or higher (TFCIC, 2017), which was something not witnessed for decades.

Many individuals have identified the source of the crisis to be poor risk controls, high leverage, and a blind eye from corporate fools avoiding the housing market when trying to find ways to turn a profit. In all reality, it was the unethical behavior of these individuals that led to the crisis, almost as if they had drunk the expired Kool-Aid when they should have checked the expiration date. On the flipside, it is easy to point out those reasons as the cause for the financial crisis on the housing market, but the picture was much broader. It was the collapse of ethical behavior that fell first before the housing market. Once the financial industry realized there was no turning back, they were now free to behave in whatever manner they wanted to. From there, top executives disregarded short-term interest and pretended that the longer-term impact would not hurt their customers. It was at this point that they simply showed no remorse for the damage made on the

American economy, their firms employees, or the many Americans who simply were living the ‘ American Dream.’ In order to fully understand the beginning, middle, end and the future of the economy and housing market, an in-depth look must be conducted not so much towards financial entities, but to the unethical behavior displayed throughout the crisis. This will be analyzed through a 5-dimension analysis examining elements during the financial crisis such as the personal ethics of the financial crisis, organizational ethics, social ethics, moving forward post-crisis, and lessons learned from the financial and housing crisis.

### Personal Ethics of the Financial Crisis

Throughout the years since the financial crisis and the downfall of the housing market, it has been repeatedly said that greed was the root cause for the monumental event. A selfish and excessive desire for money that was needed was one of few traits that executives were displaying. When someone wants to increase the input of cash flow within a corporation or major player in the financial market, they’ll do whatever it takes to achieve that. It is then when decisions are flawed, and tunnel vision becomes active. Other unethical behaviors such as the ability to restrain the desire for success, cowardice, unprofessional conduct, and lack of strength were clearly visible. For example, managers who can plainly see what was going on, refused to stand up and say something or evaded any much-needed decision making that could possibly risk their careers or the life of the company they are working for. All of this led to various situations of injustice such as: “ withholding of important information, unlawful advertising,

unethical operations to generate higher commissions, manipulation of corporate stock options” (Arbogast, 2013).

When considering various virtues of the common banker during the crisis, one virtue sticks out like a sore thumb, prudence. Prudence became difficult to conduct during this time due to the environment surrounding the individual, leaning more towards high-growth, low interest rates, and many opportunities to turn a profit. All of these elements then contribute to the most perfect environment surrounded with poor management and poor decision-making. This was not just the thinking of one banker, but practically every banker as they tried to take advantage of what was occurring around them. Realistically in the mindset of a banker when there is so little to lose and so much to gain, selfishness and a potential ‘ cash-out’ before the storm then becomes a goal that needs to be achieved. Being careless with that kind of attitude is what initially caused many financial institutes to suddenly go from looking highly successful, to paddling for dear life hoping that the crisis would go away overnight.

Greed as mentioned is just one of many unethical virtues that surrounded individuals during this time, but according to human activity studies conducted by Spencer (2010), greed is a natural virtue that every human feels at all times. So, if greed is always present, then why did it take so long for it to present itself at the initial phase of the crisis and not previously in the United States or other countries? There could be an argument made that all of the pieces of the puzzle aligned which made it easier for individuals to seize the opportunity, therefore creating an environment filled with bankers with greed as their motive to act unethically. Between the social, legal and <https://assignbuster.com/balancing-company-interests-vs-the-public-interest/>

institutional changes that were occurring, perhaps created a shift in society's values, and resulted in the mindset of 'greed is good'. It could also be that during this time, prior to the crisis social issues such as a relaxed legal system, constant economy values, and a stable housing market all but ensured that these individuals, executives, higher management and financial figures knew they could act unethically only because that was what was expected of them during those circumstances.

### Organizational Ethics of the Financial Crisis

While it is easy to point the finger at certain individuals acting unethically during the financial crisis, it is much easier to point the finger at organizations and corporations on a grander scale. There are two reasons why these directors, senior managers, and analysts within these organizations failed not only the economy but the nation as a whole, and they are bad governance and a serious lack of professional competence. Bad governance manifested itself in risk analysis, which according to Jin (2013) means that key management representing these organizations began to start making major risks, knowing that they are below sea level during a time where a loss was unacceptable. Prior to the first phase of the crisis, these executives entrusted young and unexperienced professionals to handle financials, top-level decisions, and risk assessments. Not paying so much attention to what was going on underneath their noses, they simply checked off tasks as they saw them without even thinking about possible risks and outcomes. The correct definition of a manager is "a person who controls the activities, business dealings, and other aspects of a company or organization" (Cohan, 2012). So why was it that these managers and

executives at the organizational level, just assume that their subordinates and unexperienced individuals were doing what was billed ' correct business practices?'

Secondly, lack of professional competence was also a major contributor to the unethical actions conducted by organizations nationwide. Professionals in the financial sector are tasked with providing an effective and top-end service in order to efficiently coordinate all transactions that occur within a company. This in turn allows the company to retain business and maintain the trust and confidence of all clients pertaining to the business. This was a major contributing factor that led to the demise of the financial market and most importantly to the housing market. These top-level executives have an ethical obligation to everyone beneath them to include clients, employees, and most importantly stakeholders who rely on the company to provide returns and safe business practices. This is not possible of course when financial holdings such as Lehman Brothers Holdings provides incorrect financial data based on incorrect calculations. Lehman Brothers at the time were one of the major players in the financial spectrum and this was displayed prior to the firm filing for chapter 7 bankruptcy. In a conference call occurring on March 14<sup>th</sup>, 2007, per Green (2013) Lehman's chief financial officer said, " that the risks posed by rising home delinquencies were well contained and would have little impact on the firm's earnings". He also said that he did not foresee problems in the subprime market spreading to the rest of the housing market or hurting the U. S. economy. This of course was not accurate and forecasted incorrectly, the direct result of not having the competence to underscore the junior associates and effectively

operate a financial corporation with all risks accounted for and due diligence. This was the beginning to the end for Lehman Brothers holding as on September 15<sup>th</sup>, 2008, they had filed for bankruptcy and was considered to be the “ the largest bankruptcy filing in history, as its assets far surpassed those of previous bankrupt giants such as WorldCom and Enron” (Green, 2013). Lehman Brothers Holdings is just one example as to how unethical decision making at the executive level led to the biggest financial crisis since the great depression.

### Social Ethics of the Financial Crisis

As mentioned earlier, ethical lapses from the unexperienced young financial professionals who knew they were knee deep in the water and tried to find a way out cleanly contributed to one piece of the puzzle for what became the financial crisis of 2008. Such behavior impeded the proper functioning of legal, institutional and social mechanisms which in other mechanisms would have slowed the effects of those behaviors. Until this day, many financial experts and economists still deny that they had any part or role pertaining to the crisis. If that was the case then the crisis was ‘ caused’ by the “ fortuitist confluence of events such as credit expansion for a long period of time, and a failure in monitoring, preventing, and controlling such mechanisms that had been created” (Cohan, 2012). Therefore, if anyone was to ‘ blame’ it should be the consumers, entrepreneurs, analysts and executives of financial institutions who simply did not act ethically. It comes down to being selfish, trying to keep incorrect financial data from key players and providing false results. Sadly, these actions led to giving poor people access to the housing market, and quite possibly the suppression of certain financial regulations

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that shouldn't have been approved to begin with. All of this was being done in an attempt to recover silently and pretend that all was well, when it really wasn't.

If that was what was really happening, then the actual cause of the ' crisis' would be that someone, either politicians, bankers, or experts, did not fulfill certain technical duties that become moral duties when giving back to the society. Giving back to the society was an obligation they owed which was then the welfare, safety, economic growth, and the assurance of safe financial practices that citizens of this nation demand. They simply thought for themselves, allowed for unethical decisions to be made and executed resulting in bluff loans and mortgages that society and its citizens could not simply afford. All of this lying and covering up led to many citizens being confused about what they were entitled to, what they owed, and what exactly was going on with the financial trust they had in those bankers and executives that assured them all was well. These same citizens were then now witnessing the rise and duration of unemployment, decreasing of job security, difficulties in maintaining economic stability and the uncertainty of keeping their housing and living conditions steady. All because of lies, unethical decision making, and numerous attempts to cover up mistakes done at the highest level in the financial food chain, the executives who failed to do their jobs properly.

### Moving Forward Post-Crisis

No one could have predicted excesses such as too much leverage, poor risk controls at the highest level, and improper business practices prior to the



crisis itself. The same goes for any predictions made about how fast the economy and the housing market could recover after the dust settled. It is 2018 and the housing market is barely starting to look subtle, and that's optimism at its finest. During the crisis, society had thought that these individuals, and executives, somehow on one early morning decided to take a stroll down Wall Street and somehow all inhaled some sort of disease that blocked any common sense or proper decision making. What they also attempted to figure out was how was it that the whole financial and housing market collapsed all at one, nearly every big-name firm such as Lehman Brothers Holdings was destroyed or badly crippled, and how the economy was unrecognizable all of a sudden. Regardless of the image that was portrayed towards those individuals, the nation needed to recover. The housing market needed to prosper in ways that it prospered prior to the crisis. Families who had lost their homes and jobs, needed to figure out how to regain stability in their lives. Young financial professionals needed to find a way to recover that positive image they once had and seek employment again. The ethical behavior across the whole financial industry was destructive and it was no secret.

What followed was the identification of solutions, created by the smart individuals who did not try to cover up mistakes, who played the game by the rules, and most importantly, attempted to properly fix the problem with well-thought out solutions when they were needed the most. The following are several ways that these ethical business men attempted to resolve an issue that many others simply could not fix:

- The financial industry needed to adopt a laser-like focus on its customers and their

welfare, in any event placing client interests far above the compensation interests of its

executives. Of course, it was the least they could do for a society that was broken by unethical decisions.

- The industry needed to eliminate its infamous conflicts of interest, and money-making processes.

- The industry needed to demand ethical behavior across the board from its

executives and employees, even if it is sometimes inconsistent with desired short-term profits, and this behavior needed to start from the very top.

#### Dodd-Frank Wall Street Reform and Lessons Learned

In response to the crisis, the Dodd-Frank Wall Street Reform (Dodd-Frank Act) was created in hopes that it could be a long-term solution and an avenue to correct the unethical conduct of major financial institutions who were conducting unsafe business practices. This act mandated that all taxpayer money never be used to 'bail out' financial institutions and minimizing the powers of the Federal Reserve to provide life into financial institutions that suffered from the crisis (Spencer, 2010). Additionally, the Dodd-Frank Act directs all regulatory agencies to issue a massive series of regulations, creates safe bureaucracies, and imposes costs to financial

institutions in order to comply with all financial requirements (Spencer, 2010). This was simply the answer to the financial crisis that should have been passed prior to all of the lying, corruption and selfish acts that created the financial and housing market crisis.

If there is anything that should be taken seriously, are some of the lessons learned on the consumers side of the economy to ensure that there are safeguards in place in case slouchy executives or unethical financial institutions have not learned from the first time. Below are three lessons learned:

- Your home isn't always an investment : One of the biggest mistakes made by home buyers during the crisis was believing the value of their home would only go up, even in the short term. That kind of thinking led many homeowners to overborrow from banks in order to come out even in a sense. This was not the correct solution to the problem.

- Every homeowner should have an emergency fund : This should be a given either way, crisis or not. According to Arbogast (2013), most financial planners recommend that most homeowners have at least six months of expenses set aside in an easily accessible rainy-day account. Just in case something like the crisis occurs again, the homeowner's family would be protected, and stable living conditions would be attained.

- Buy what feels comfortable, not what you qualify for : Just because a mortgage broker tells you that you qualify to purchase a home for a certain amount doesn't mean you have to spend that much. Banking lenders likely

don't know all of your financial priorities, or goals, and in the end it is your money and not theirs to an extent.

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