



The way I see it...

BY PAUL KINDINGER

Who's minding the store?

NOT long ago we observed the memory of September 11, 2001. That was a tragedy of horrific proportions and history will long remember its significance. Incredibly, almost seven years to the day, we awakened to another horrific tragedy – the Wall Street meltdown during the week of Sept. 15, 2008. NAEDA's wakeup call was received a few days before on Sept. 12.

Bear Stearns, Fannie Mae, Freddie Mac, Merrill Lynch and Lehman Brothers – the newsmakers at this writing – had been absorbed in the nick of time by other entities, gone defunct or bailed out. In the financial world, these are huge names – and it appears other big names stand to suffer the effects of a system plagued by short-term memory and uncontrollable greed.

Shortly after Lehman Brothers declared bankruptcy, I received a call from NAEDA's brokerage house informing me that we have a small amount invested in a Lehman Brother's bond. At first I was not too upset, probably more relieved that it was a relatively small amount of money at risk compared to our total portfolio. But the more I thought about what this news was really communicating, the more upset I became. Why? Think about this... our bond was A+ rated when it was purchased. This past March it was downgraded from A+ to A. Most analysts and brokers would still suggest an "A" rated bond was pretty darned safe. On Friday, September 12, 2008, the bond was still rated "A." On Monday morning, September 15, 2008, Lehman Brothers declared bankruptcy.

Think about that for a second – from an A rating to bankruptcy over the course of a weekend. Then, following the announcement, high-ranking government officials made the rounds on network TV to reassure us all is well in "Middleville." Well, my question then is the same as now: who's minding the store?

Where were the regulators and the analysts who were supposed to be watching over situations like this? Did we, in the blink of an eye, change the fundamentals of our entire economy? If someone was truly minding the store and knew such a tragedy was in the offing, why weren't we alerted? A lot of questions immediately surfaced but, not surprisingly, few answers followed.

For what it's worth, here is my take on the situation. First, we continue to pay more and more for a government that does less and less. The SEC and other regulatory agencies were asleep at the switch. If they weren't asleep, they're just plain inept.

Second, a lot of this can be traced to ignoring sound business practices and granting money to individuals who were simply not able to repay loans if there was any change or shock in the economy. The premise was that real estate, wages, etc. were going to continue to climb at the torrid pace they were on and nothing could go wrong. Nothing was further from reality.

Instead, housing prices fell, gas prices nearly tripled and the stock market tanked. Besides, not requiring purchasers and speculators to have a stake in the game, i.e., a down payment, is asinine. In some instances, mortgage companies conspired with appraisers to over-value property based on rapidly rising market conditions and used no-doc loans to lure the uninitiated.

Third, let's give a call to pure greed. Once the bad loans and bad paper started making the circuit with no oversight by regulators, it was like a drunken party where there was plenty of money to be made and good times to be had by all.

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So, what is the answer? My mind is probably too simplistic, but I think it boils down to this: get back to business basics, use common sense. Next, get regulators to do their jobs or replace them with principled people who will do the jobs. Regulators are supposed to help protect us and offer us reassurance that when someone represents a company's financial condition as "X," that we'll have a high level of confidence that, in fact, it is "X." Finally, punish greed. Don't look the other way or simply allow the people responsible for these actions to walk away with golden parachutes or bloated stock option packages. Hold them accountable.

You can probably tell that I'm highly upset with the few overzealous, greedy people who created a lot of the financial mess in which we find ourselves. Throw in some misguided government laws and regulations (that made it too easy for many people to get loans that stretched their financial capability to the limit) and a good measure of greed and you have the recipe for disaster. With that said, I'll close by saying without hesitation that I still believe in the ability of people to "do the right thing." I believe we can learn from this debacle. We will be better in the future and we will recover.

In my observations, I have learned it is difficult, if not impossible, to bury the good in people for long periods. We must have faith that something better will come of all this. In my opinion, one thing is certain: Unless we have confidence in the markets and institutions that oversee them, we have nothing. We must restore consumer confidence... and that's the way I see it. ■

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