2017 Greater Washington Finance Symposium

THE BUCK NEVER STOPS

Like any other business, the financial industry faces changes and challenges, from shifts in the dollar to the impact of national recession and recovery. And, as is true in every industry, the bottom line in finance is relationships – whether between individuals, banks or global powers. The Greater Washington Finance Symposium, hosted by the Washington Business Journal and Manatt, Phelps & Phillps, LLP, recently brought together a panel of leading financial experts to talk about their complex industry and today's dynamic economic climate. Business Journal publisher James MacGregor led the candid discussion between panelists Edmond Lelo, Head of Middle Market Banking, Mid-Atlantic Division, Wells Fargo; Joseph Passaic, Partner, Financial Services, Manatt, Phelps & Phillips, LLP; and Mark Vitner, Senior Economist, Wells Fargo.

Q: Looking at the banking market here in greater Washington, there has been a fair amount of consolidation. What opportunities are available for your bank to grow locally with national consolidation?

MARK VITNER: We see this market as very strong. The education level is high, and there are many entrepreneurs and a lot of R&D staff in companies. We're following customers, making sure of our service to them: That's what we do. The difference is how we deliver. By finding opportunities and focusing on the client, we form long-term relationships and get to know their business.

Q: Joe, one of the complaints about the Dodd-Frank Act was that it was a reactionary piece of legislation. As you look back, what were the best aspects of that bill, if any? And does the Financial CHOICE Act keep any of those parts?

JOSEPH PASSAIC: It depends on what side of the aisle you're on. It's fairly partisan and I would say that some might have been an overreaction to the financial crisis. There have been many changes in the CHOICE Act, providing regulatory relief, for example, in terms of how many times you stress test over a year or two years. I think that is a positive decision. You might say that the CFPB [Consumer Financial Protection Bureau] was a good thing since certain parts of it did provide for consumer protection. Obviously, in the new bill it's substantially cut.

Q: If the Financial CHOICE Act passed, what impact would it have on the availability of credit and capital in the global market?

"We can do more with people we know. It's relationship building, like anything else, and you want long-term relationships."

"The mall is now in our cell phone. You can go shopping from home at 11 p.m., and get a better discount and delivery within two days."

EDMOND LELO

Head of Middle Market Banking, Mid-Atlantic Division, Wells Fargo

"With financial regulation, regulators should take into account the impact on the economy and job creation."

"One important theme of the Financial CHOICE Act is Title III – demanding accountability from financial regulators and devolving power away from Washington."

JOSEPH PASSAIC

Partner, Financial Services, Manatt, Phelps & Phillips, LLP

"I would say the most dangerous four words in finance are 'It's different this time.' It's always different."

"Spending time and money to lower your taxes is a wasted resource when you should be growing your business."

MARK VITNER

Senior Economist, Wells Fargo

MARK VITNER: I have to be careful because we're urged not to talk about any legislation that's still pending; I'm not advocating a position one way or another. If you look at what has been happening to the banks in the last few years, they've had to merge in order to get the economies of scale to cover their regulatory costs. Community banks typically provide financing at a level that regional and large national banks do not. And because of their need to get bigger in order to cover their regulatory costs, that niche has effectively been squeezed out of the market. So there are certain functions where there are very few companies lending today. There is this whole eco-system in the way that the economy works – and we need all the parts to be functioning correctly. We're in the banking business but we need community banks. We need a strong community banking system.

JOSEPH PASSAIC: I agree with that. I think that it's much more difficult to deal with because of the compliance. If we do have regulatory relief, whether it be by the Administration or by Congress, I think that would solve a lot of the problems. And it has to trickle down really to the examination level, to being more pro-business and pro-banking.

Q: I understand that some lenders out there have gotten very particular when they start to look at financing in multifamily projects. Talk a bit about what you want to see from a project, and what your outlook is for multifamily here in greater Washington.

EDMOND LELO: Real estate construction and transactions have slowed in the last few months due to disconnect between seller's and buyer's expectations. Wells Fargo has not pulled back but is watching certain segments such as multifamily very carefully. Our goal is to build long term relationships. This includes but is not limited to knowing the developers, understanding their goals and objectives, quality of the products, locations, cash flow, and their experience.

Q: Mark, you talked about low unemployment and how interest rates will be low by historic standards. How much of this is CEO confidence in the expectation that the regulatory environment is looser, and how much of it is due to marketing fundamentals?

MARK VITNER: So – how much of this is from the expectation that things are going to get better, and how much is it is that things actually have gotten better? In 2016, the economy and corporate earnings were struggling under the weight of lower oil prices, a stronger dollar and slower global economic growth. All those forces began to wither in the second half of 2016, and so the corporate earnings improved. But there's a difference in what triggers the stock market and what ultimately drives it. Over time, the stock market reflects the fundamentals; but at any given moment, it reflects everything else.

From left, Mark Vitner, Edmond Lelo and Joseph Passaic discuss the dynamic economic climate during the 2017 Greater Washington Finance Symposium, hosted by the Washington Business Journal and Manatt, Phelps & Phillps, LLP. PHOTO BY KATE STILES, MANATT, PHELPS & PHILLIPS, LLP

Q: Regarding the removal of regulations on lenders: Joe, why were these regulations in place to begin with? And what are the risks of removing them?

JOSEPH PASSAIC: Obviously, there are important regulations on lending that have been around as long as I have been involved. Some of them deal with the percentage of capital you lend, how much you lend to one borrower. And regulations regarding the quality of collateral are important. I think one thing to keep in mind is that regulators may at times over exercise their authority, particularly at the examination level, as opposed to what the actual regulation says. Those are issues that banks can handle themselves but at the same time, there would be regulatory oversight because those banks are insured by the FDIC.

Q: We've obviously been seeing consolidation banking over the last five years. Edmond, are you expecting to see additional mergers locally in other industries – and what specific industries do you think will be most impacted?

EDMOND LELO: The market is experiencing strong M&A in various industries to benefit from the current rate environment. M&A is primarily in the retail segment where customers are taking advantage of new technology to get great customer service at competitive prices.

Q: Mark, what do you see now as a potential risk to the current economic expansion – and are you surprised by the resiliency of that expansion?

MARK VITNER: I'm surprised that we've had eight years of 2 percent growth and got the unemployment rate down to 4.3 percent, given how deep the recession was. One area with a great deal of growth has been private equity in general. But in terms of where we're vulnerable, I see excesses in almost everything that has grown very rapidly during this expansion. What causes a recession is that during the good times people take on too much risk, and then something happens that causes everyone to shy away from risk. What typically triggers a recession is policy mistakes, or because taxes are increased too much at the wrong time. Or the Fed moves too aggressively because policy changes impact the economy with a long and variable lag. So the last interest rate hike will actually have a peak impact on the economy a year later – and it may be too late to undo it. The other thing is that this recovery has been so narrowly focused. Over 85 percent of new apartment construction has been confined to just 15 rapidly growing larger metro areas, including Washington D.C. Most of these new projects have been confined to one or two sub-markets and the overwhelming majority have been high-end projects.

Q: In just a few words, what is the one thing you want people to leave with today?

JOSEPH PASSAIC: That there will be deregulation of the financial markets.

EDMOND LELO: Despite the fact that I spoke about downsides, we are optimistic.

MARK VITNER: Reform and optimism.