

The banker and the campus uproar: Ethical dilemmas for finance professionals

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ABSTRACT

This case introduces students to the types of conflicts of interest and ethical dilemmas sometimes faced by finance professionals. The case presents an ethical dilemma in which business students accuse a bank's recruiter with predatory lending. The recruiter is a loan advisor from the local branch of a major bank. After witnessing an on-campus presentation by the recruiter, a group of business students charge her with predatory lending. This charge is based on suggestive but inconclusive evidence. These students demand that the faculty advisor to the university's finance student organization bar the bank's representatives from future speaking or recruiting visits. The case challenges students to consider what is legal vs. ethical behavior for financial services professionals. The case also forces students to contemplate ethical decision making in a complex organizational setting with multiple stakeholders and incomplete information. Finally, the case can be used to: (1) motivate a discussion about the causes of the 2008 banking crisis; and (2) raise student awareness about the potential conflicts of interest faced by finance professionals employed in other (non-banking) financial services industries.

Keywords: professional ethics, conflicts of interest, financial services, predatory lending

Note: This case is fictitious, but it was inspired by actual events. All of the names (for individuals and for organizations) appearing in this case are fabricated.

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INTRODUCTION

Background

This case presents students with a real-world example of conflicts of interest and ethical dilemmas in the financial services sector. The case is noteworthy in that it focuses on real banking activities, yet the drama unfolds among business students and their finance professor at a university. This latter feature helps make the case engaging and accessible to business students. The case questions are developed to prompt critical thinking by students on the topics of financial, ethical and organizational behavior. The teaching notes include suggested answers to case questions. The notes also include a discussion of ethical guidelines for financial professionals. The dilemma presented in the case gives students opportunities to consider different stakeholders' points of view. Students are challenged to choose the appropriate course of action for major stakeholders and defend their choices.

Learning Objectives and Suggested Use of the Case

The learning objectives of the case are for students to:

1. Identify ethical dilemmas faced by finance professionals and demonstrate an understanding of ethical considerations as a financial service provider.
2. Consider the difference between legal and ethical behavior for finance professionals.
3. Identify the differing motives of stakeholders in an organization and the difficult ethical choices they must sometimes make.
4. Select the best course of action for key decision makers and defend these choices in such a way that demonstrates consideration of ethical factors.

This case is intended for use in finance courses or courses covering business ethics. Students do not need previous exposure to an ethics course, but an introduction to ethics and organizational behavior might be useful.

CASE NARRATIVE

Cristina Rodriguez stepped out from behind the podium with a huge smile, as she drank in the burst of applause from the 30 plus members of her alma mater's Finance Club. She had just finished telling these students how she had gone from being a struggling student like them, to her present position as a loan advisor with Money Center Bank (MCB), a large US bank.

In two short years since her graduation from college, she had tripled her income. She was earning even more than her husband Julio! She could now pay for so many things she had denied her two toddlers while she struggled through school. Not that long ago, Cristina had been on the other side of the podium, another member of the audience at these monthly Finance Club meetings at Borderlands University (BU). (BU is a mid-sized school in a U.S. town, close to the Mexican border.) Now she was the guest speaker.

Inviting finance industry professionals to speak to the campus Finance Club was supposed to bring the "real world" to the campus, and Cristina's talk had been far from boring. She seemed elated with the high energy in the room as she concluded her presentation. Very few of the other invited speakers could boast of a rise as quick and spectacular as hers. Her message was to tell them how they could do the same thing she had done, and experience the same kind of success. MCB was looking for new loan advisors. Instead of rushing out the door of this

Finance Club meeting, many of the students were clustered around her, asking more questions. One young woman even asked her where she bought her suit!

“Cristina, won’t we have to leave this region of the country to get a high-paying job like yours?” one student asked. Cristina responded. “No, that’s the beauty of this! My husband and I both have tons of relatives who live near here, so I really did not want to move for a job. Money Center Bank wants more grads like me-- bilingual applicants who will be able to serve all the Spanish-speaking customers in our area. In fact, most of my customers are Spanish-speaking. So if you keep your grades up, and are willing to work hard, you can be standing up here where I am now in just a few years. MCB will be on campus to interview just before graduation in the spring, so be sure to sign up to get on the spring recruiter’s schedule!”

The echoing din of chattering students died down as the last boisterous cluster squeezed out the door, leaving Dr. Chris Moore feeling quite pleased with himself. Dr. Moore was the faculty advisor to the Finance Club and Cristina had been one of his better students. He felt the reflected glow of her success and he approached her with an outstretched hand.

“Well, Cristina, thank you again for volunteering to speak to the Finance Club. I haven’t seen this group so excited all year!” said Dr. Moore.

“It was my pleasure, Dr. Moore!” said Cristina. “I know what they’re going through. It’s not easy being the first in your family to go to college, and with kids and a husband, you wonder sometimes if it’s worth it. I just want them to know that with Money Center Bank, their story can have a happy ending, like mine.”

Dr. Moore replied. “I know what you mean, Cristina. I was the second in my family to go to college, and then on for my PhD, and that’s one of the reasons I love teaching here. It feels great to be able to help along first-generation students.”

Cristina continued. “Getting my degree at BU was the best thing I ever did! Sometimes I can hardly believe how things have changed in two short years! Now I really enjoy the chance to give something back to BU, Dr. Moore! Let’s do it again next year!”

And so the Finance Club had continued to invite Cristina for repeat performances several times over the next few years. But now, in the fall semester of 2007, somehow, things had changed. Dr. Moore was feeling uncomfortable, and he was not sure why, but he thought it was something more serious than Cristina’s 20-minutes-late arrival on this visit.

Breezing into the lecture hall wearing blue jeans and with chewing gum in her mouth, Cristina arrived with two junior bank employees in tow. With no apology for her tardiness, she jumped right into her talk.

“Wow, you guys, I’ve just flown back from Vegas! MCB wined-and-dined me, all-expenses-paid, because I was a top producer of loans this year! And my colleagues Jake and Sharon here will tell you what a great company this is to work for! This is their first year, and they already earned a huge bonus!”

A hand shot up in the audience. “You said you are ‘a top producer’ of loans. I thought people just came to the bank when they needed a loan. How do you ‘produce’ a loan?”

“Well,” Cristina shot back, “I’m technically called a ‘Personal Loan Advisor,’ but the name of the game is really sales. When I make a home equity loan, it’s like making a sale where I earn a commission, and sales is really just helping people to get what they want. Most of my clients don’t know much about finance and they look to me for advice. So, I tell people that taking out a home loan can help them save money, and at the same time, buy what they want and need right now. Between the lower interest rate on home loans versus credit cards, and the tax advantages of the deductible interest on home loans, I help people save money while getting that

new car or paying off their credit cards. It's really silly to pay high rates for credit card debt when our home equity loans charge less interest!"

Another hand in the air: "But in the long run, what happens if a family borrows too much with a home equity loan and can't repay? Won't they be in danger of losing their house?"

"Well yes, but my job is not to tell them how to manage their lives. These are adults. They can choose what they need and want. I just help them to get the money to do what they want, and usually I'm saving them money on the interest rates. I can only get them those low interest rates because their house is their collateral. That's what makes the loan less risky for the bank."

A loud whisper was heard from the audience: "Less risky for the bank, but not for the family that might lose their home."

Just then Cristina's cell phone rang, and holding up her index finger, she turned her back to the audience and spoke into the tiny device "Hola chica!" Whispers and laughter continued for a few minutes between Cristina and her caller. As the audience began to get restless, one of the junior bank employees, Jake, got some nervous chuckles when he jumped up and said "She's probably closing a deal on a loan right now!"

Clipping the phone back onto her jeans, Cristina turned to face the class, saying "Let me tell you about selling financial products. You don't sell money, you sell dreams. Before Thanksgiving and Christmas, I call a bunch of the bank's women customers and say 'Wouldn't you like a new dining room set, or new carpeting, when the family visits for the holidays?' Other times I call bank customers and say, 'Have you had a big car repair bill in the past year?' (and almost everybody has), 'Wouldn't you be better off in a new car? What if I could lower your monthly payments and put you in a new car?' Maybe they would like to build a backyard pool for the summer. I show them the possibilities. Then we both get what we want! That's how I became a top producer for MCB."

A soft-spoken young woman wearing faded jeans with a BU sweatshirt raised her hand hesitantly. At Cristina's nod, she began "I don't think I could call people up like that. Isn't that just like telephone sales? Aren't people rude and hang up on you? One reason I majored in Finance was so I wouldn't have to do jobs like telephone sales."

With a slightly patronizing smile, Cristina said "It's not like that at all! First, we only contact people who are already customers of MCB and you have to tell them you are with the bank. That usually worries people, they think they are overdrawn or have done something wrong, because the bank never calls otherwise, right? So then you reassure them, and they are so relieved! Then you explain to them that you're a professional financial advisor, that you're calling to help them out, to give them access to money."

With that, Cristina stepped back behind the podium and said "Well it's really been a blast, kids! I expect to see the best among you earning the big bucks at MCB soon!"

After a polite smattering of applause, students quietly filed out of the room. Dr. Moore recalled Cristina's first visit---what a difference! Had the students, the banking industry, or Cristina, changed in the past few years? Or had they all changed? Dr. Moore felt old.

It had been less than a week since the Finance Club meeting. The three students filing into Dr. Moore's office that Tuesday looked stressed and worried. One student introduced himself: "Dr. Moore, I'm Alejandro Candelaria. You might remember me from the Finance Club meetings. I'll be taking your corporate finance course next semester and I'm really looking forward to it."

After exchanging a few jokes about Moore's class, Alejandro got to the reason for their visit. "Last term, Maria, Sandy and I worked together on a research paper for our Business Ethics class. Our topic was "Predatory Lending Practices." From what we learned, we think Cristina Rodriguez and Money Center Bank are becoming "predatory" in the consumer home-equity loan business."

At this point Sandy interrupted "Dr. Moore, we also know some things about Money Center Bank that you might not. One of my old roommates, Josh, who graduated last year went to work for MCB, just like Cristina. He called it a meat-grinder, just chewing up people with the pressure to constantly bring in more loans. There was no consideration at all for the families who might be harmed by taking on more debt than they should. It was all about sales quotas, and you either make your quotas or you are out. He couldn't take it, and he quit. He said he didn't want to push people into taking on massive debt, especially if they were financially unsophisticated. And if customers complained about how high their new monthly loan payments would be, Josh was supposed to tell them that interest rates would most likely come down soon, so he could get their loan refinanced later with lower monthly payments. He knew that interest rates could go up as well as down."

Maria chimed in "Yeah, I remember Josh saying he thought banks were supposed to be so conservative, how could they be pushing these home equity loans like that? But he found out later that MCB didn't usually keep these loans, they just quickly sold them to somebody else. He said even if it was legal, he thought it was just not right. And the Spanish-speaking angle? He thought the bank was taking advantage of Hispanic customers. We even found a consumer watchdog blog that claimed some big banks are charging higher interest rates to Hispanics and African-Americans, can you believe it? So Josh said that was why they wanted Spanish-speaking recruits---so they could take advantage of their own ethnic group! How disgusting!"

Alejandro resumed: "Here's the bottom line: first, we think Cristina and Money Center Bank encouraged financially unsophisticated customers to take on unhealthy levels of debt; and second, we suspect the bank charged higher interest rates to Hispanic and possibly other ethnic minority borrowers. We think these behaviors make them guilty of unethical predatory lending." Alejandro had spoken as if reading from a paper. He must have memorized these words so he could be very precise in delivering these charges.

Alejandro concluded "We all agree that because of this unethical behavior, Money Center Bank should not be allowed to make presentations or recruit at future Finance Club meetings. You should put a stop to this."

Dr. Moore was stunned. "These are very serious allegations. Yes, I agree, the lending practices described by Cristina did seem aggressive, maybe too aggressive, but she claimed that she was usually reducing her customers' total interest payments. Since we don't have the data on these home equity loan customers, we don't have enough information to make a certain judgment that these loans were not in the best interest of the borrowers."

"How can you take Cristina's side, Dr. Moore? Aren't you always preaching to us about ethics and disclosure?"

"Now hold on, Sandy. I'm not taking any side here, not yet anyway. These are some very disturbing claims, but not, I'm afraid, totally backed up by facts—at least not yet. I will say I'm very impressed by your professionalism! You've done your homework, and you've presented a good argument. And I certainly don't want, and I don't think the university administration wants, to support any practices that might lead to people in our own town losing their homes. But we

need more data to prove your point. And even if we discover harder evidence of predatory lending, the question of what to do about it is not so simple.”

With clenched fists, Sandy looked like a frustrated boxer fighting for his ideas. “But Dr. Moore, you’re the advisor to the Finance Club. You can decide whether Cristina comes back or not.”

“If only it were that easy!” Moore said sympathetically. “You’re not seeing the bigger picture, Sandy. As a professor in a business college, I’m supposed to help our students get good jobs. I do that by maintaining good relationships with financial industry employers. Money Center Bank is one of the best employers of BU grads, especially our finance majors. Some BU business students, perhaps even some of the Finance Club members, may want to interview with MCB. How would these students feel if I banned Cristina and MCB from presenting at future Finance Club meetings? I can just picture a delegation of students protesting such a ban! I’m sure the business college dean would love that! And what about other financial institutions? Would we have to screen each bank or insurance company or brokerage firm to determine if they meet some level of ethics—a level which is determined by us, and is apart from what is legal? And if we actually did implement some strict ethical screening of potential employers, how many of them would be willing to jump through all our hoops just for the privilege of coming to our campus to recruit?” Aren’t we trying to attract them to come hire our students?”

In the dejected silence following Moore’s little lecture, Alejandro spoke. “So you’re saying we should do nothing, just ignore the whole thing.”

“No, Alejandro, I’m not saying ‘do nothing.’ We probably should do something. But until we have more information, I’m not sure what that something ought to be.”

Discussion Questions

1. Why would a bank consider making a mortgage loan or home equity loan to a homeowner who could not make the scheduled loan payments--wouldn’t this end up hurting the bank?
2. After considering Cristina’s likely motives, incentives and behavior, do you believe she had conflicts of interest that were so serious she would knowingly recommend loans that were harmful to her clients’ interests? Explain your answer.
3. Cristina likely understands the risks and benefits of home equity loans much better than most of her clients. Do you think that finance professionals such as Cristina have an ethical obligation to only recommend financial products that they believe will benefit their clients? Explain your answer.
4. Whatever are Cristina’s motives, do you think she is guilty of breaking predatory lending laws? Explain your answer.
5. Suppose you were in Cristina’s situation, with a family to support and a high pressure loan advisor job. Considering all available options, and the likely consequences of those options, would you recommend home equity loans that were harmful to your clients, if it increased your current annual income? Explain your answer.
6. Suppose you were in Dr. Moore’s situation, with all of his incentives and options. Would you consent to the students’ demand and prohibit Money Center Bank representatives from recruiting at future Finance Club meetings? Explain your answer.

7. Conflicts of interest (between a professional and a client) and ethical challenges exist in all types of professions, including medical, legal, business, and academic. Can you identify any conflicts of interest that exist for other finance professions?
8. Studies on group dynamics and organizational culture have demonstrated that an individual is more likely to engage in unethical behavior when that individual is in a group rather than alone. Further, a member of a group is more likely to engage in unethical behavior when their group supports the unethical behavior (S. Robbins and T. Judge, *Organizational Behavior*, 14th ed. Upper Saddle River, NJ: Prentice Hall 2011). Is there any evidence in the case which suggests that the group and/or organization may have influenced Cristina's behavior to be less ethical than it might have been if she had not been a member of her work group or organization?

TEACHING NOTES

Suggested Answers to Discussion Questions

1. Why would a bank consider making a mortgage loan or home equity loan to a homeowner who could not make the scheduled loan payments--wouldn't this end up hurting the bank?

Making these types of bad loans often did not hurt a bank, at least in the short run. In the years leading up to the financial crisis of 2008, banks increasingly sold off the vast majority of their new mortgage loans or home equity loans soon after they were originated. These loans were typically bought by investment bankers or government sponsored enterprises that combined the loans into large portfolios. Securities were then created that gave the security owner a claim on the cash flows produced by the giant loan portfolio. (This process has been used for all kinds of loans and is known as "securitization.") Finally, the securities were sold to individual investors all over the world.

As long as the homeowners continued to make their loan payments, investors in these securities continued to receive their expected income. If homeowners failed to make their loan payments, investors lost money. However, the banks that originally made the loans to the homeowners did not lose money because these banks did not keep the loans. Banks essentially were collecting a fee for each mortgage or home equity loan they made, whether or not the loan was eventually repaid, and were transferring the credit risk of the loan to the investor.

Many observers believe that, because banks no longer directly suffered the consequences of making bad loans, they focused too much on generating high loan volume and not enough on analyzing the creditworthiness of borrowers. During the years 2004 to 2011 homeowners experienced increasing difficulty in paying back their loans and many lost their homes. The annual number of foreclosures in the U.S. climbed from 640,000 in 2004 to over 3.9 million in 2011.¹ Eventually, the high default rate among homeowners caused substantial losses for investors and financial institutions who bought securities backed by mortgages and home equity loans. Investors were discouraged from further buying these securities and the process of securitizing home loans ground to a halt.

¹ This foreclosure data appeared on the Statistic Brain website (<http://www.statisticbrain.com/home-foreclosure-statistics/>) which gathered data from RealtyTrac, the Federal Reserve, and Equifax.

2. After considering Cristina's likely motives, incentives and behavior, do you believe she had conflicts of interest that were so serious she would knowingly recommend loans that were harmful to her clients' interests? Explain your answer.

Ample evidence suggests that Cristina's compensation structure created serious conflicts of interest. She stated that her income was commission-based and that her income went up with each additional home equity loan she made. Cristina never mentioned any negative consequences that she would face if one of her clients failed to repay a loan. Cristina never mentioned evaluating a potential client's credit worthiness, so we might assume that her top priority was not the client's ability to repay the loan. She states that her job title includes the word "Advisor" but that "the name of the game is really sales."

Further evidence suggests that, over time, Cristina's ethical and professional standards deteriorated. On her most recent visit to BU, she showed up 20 minutes late for the Finance Club meeting, she was wearing jeans instead of a suit, she was chewing gum, and she (unapologetically) took a phone call during her presentation to students. None of these actions suggests that Cristina feels a deep respect or concern for her audience. We might wonder whether she has respect or concern for her clients.

Despite all of this disturbing evidence, we still cannot be certain that Cristina acted unethically in her dealings with clients. As Dr. Moore indicated, we do not have detailed information regarding the home equity loans Cristina has made. We don't know what lending standards she applied. Those standards may have been appropriate. We don't know how many of Cristina's loans have gone bad, relative to some suitable benchmark.

What could motivate Cristina to act in her clients' best interests? Even if we are convinced that Cristina is completely self-interested, she may be concerned about maintaining a good reputation. A good reputation is an important asset in many business settings. If word gets around town that Cristina has consistently pushed harmful loans on her clients, she may find it harder to win new clients or repeat business. We also know that Cristina and her husband have many family members in town, so she may be concerned about what those family members might hear.

3. Cristina likely understands the risks and benefits of home equity loans much better than most of her clients. Do you think that finance professionals such as Cristina have an ethical obligation to only recommend financial products that they believe will benefit their clients? Explain your answer.

Most people would answer "yes" to this question simply because they think it is wrong for a person to benefit from misleading or harming others. Beyond that, consider what a "no" answer would mean for the financial services sector and the world. From a macro perspective, the financial services sector serves a critical role in supporting a modern economy. Financial services have developed to manage risks and to channel funds from those with excess capital to those with a need for capital. When financial services firms and markets work well, individuals benefit in a variety of ways. These benefits include increased employment opportunities, increased wealth, decreased risk, and smoother consumption patterns through time. However, when financial services firms and markets work poorly, these benefits are reduced or they disappear entirely. If finance professionals are allowed to mislead clients into financial ruin on a widespread basis, then the public will become cynical and distrustful of financial services. The public will shun financial services, the economy will suffer, and society as a whole will be worse off.

Recognizing the importance of ethical behavior in the financial services sector, regulators and professional organizations have promoted a code of ethics for finance professionals to follow. For example, in October 2005, the Federal Deposit Insurance Corporation (FDIC) sent a letter to affiliated financial institutions reminding them about the importance of developing a corporate code of ethics. The FDIC specifically addressed the involvement of an internal auditor in monitoring a corporate code of conduct and ethics policy: “Internal controls against self-serving practices and conflicts of interest should be monitored with an effective audit program to identify operational weaknesses and to ensure corrective action and compliance with laws, regulations and internal policies.” (FDIC, 2005) With this letter, banking regulators also requested the creation and enforcement of a corporate code of ethics. However, there is not yet a standardized professional code of conduct for loan officers (or loan advisors) like Cristina.

For personal financial advisors who choose to earn the Certified Financial Planner (CFP) designation, there is a formal code of ethics which they agree to follow. The CFP written code of ethics includes the following passage “Integrity demands honesty and candor which must not be subordinated to personal gain an advantage. Certificants are placed in positions of trust by client, and the ultimate source of that trust is the certificant’s personal integrity.”²

For financial analysts who choose to earn the Chartered Financial Analyst (CFA) designation, there is a formal code of ethics which they agree to follow. Among other things, the CFA code of ethics requires that members must: “Place the integrity of the profession and the interests of clients above their own interests.”³

4. Whatever are Cristina’s motives, do you think she is guilty of breaking predatory lending laws? Explain your answer.

This is a difficult question to answer for a few reasons: (1) as noted in the discussion of question 2, we do not have sufficient details regarding Cristina’s loans to even determine whether they were in her clients’ best interest; and (2) conduct that harms a client’s interests, or that meets some definition of predatory lending, does not necessarily violate the law. The following examples of predatory lending were taken from the Office of the Comptroller of the Currency (OCC) website:

- Collateral or equity “stripping”: The practice of making loans that rely on the liquidation value of the borrower’s home or other collateral rather than on the borrower’s ability to pay.
- Inadequate disclosure: The practice of failing to fully disclose the true costs and risks of loan transactions.
- Risky loan terms and structures: The practice of making loans with terms or structures that make it more difficult for borrowers to reduce their indebtedness.
- Padding or packing: The practice of charging customers unearned, concealed or unwarranted fees.
- Flipping: The practice of encouraging customers to frequently refinance mortgage loans solely for the purpose of earning fees.

² Information regarding the CFP code of ethics was gathered from the CFP website (<http://www.cfp.net/docs/for-cfp-pros---professional-standards-enforcement/2008principlescomparison.pdf?sfvrsn=2>).

³ The CFA code of ethics information was gathered from the CFA Institute website (<http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx>).

- Single-premium credit insurance: The requirement to obtain life, disability, or unemployment insurance for which the consumer does not receive a net tangible financial benefit.

Various federal laws, such as the Truth in Lending Act and the Federal Trade Commission Act, have provisions designed to deter predatory lending practices. States have also passed their own laws to deter these types of lending practices. However, unethical behavior is not the same thing as illegal behavior. Ultimately the question of whether any of Cristina's loans violated an anti-predatory lending law would be up to a specific court with jurisdictional authority to decide. Cristina's conduct may have been unethical by most standards. Her conduct may have met some definitions of predatory lending. However, neither of these conditions is sufficient to conclude that her conduct would have been found to be illegal in a court of law.

5. Suppose you were in Cristina's situation, with a family to support and a high pressure loan advisor job. Considering all available options, and the likely consequences of those options, would you recommend home equity loans that were harmful to your clients, if it increased your current annual income? Explain your answer.

Most people would answer "no" to this question, because answering "yes" would be admitting to a willingness to deceive. However, it is probably an easier question to answer because it is just hypothetical. If you were really in Cristina's shoes, the pressure to make more money, to provide for your family, might become intense. Still, you would have options. Assuming you could keep your current job and behave ethically, you could accept lower current income while treating your clients well. This should allow you to develop a good reputation with clients over time, so that in the long term your income might rise (from word-of-mouth referrals and repeat business). If you could not keep your current job and behave ethically, you could simply find another job. Of course, making either of these choices might reduce your income, require more effort on your part, or both. The final option is to keep the same job and behave unethically. Many people would find this psychologically difficult, at least in the long run. Imagine going to work every day with the knowledge that you are misleading and harming people for your own personal gain. Many of us would not find happiness in this strategy because we want to be proud of our careers and ourselves.

6. Suppose you were in Dr. Moore's situation, with all of his incentives and options. Would you consent to the students' demand and prohibit Money Center Bank representatives from recruiting at future Finance Club meetings? Explain your answer.

Dr. Moore's incentives in this situation can be summarized as follows. His primary job is to train students to successfully enter the finance profession. He is also responsible for maintaining good relations with off-campus employers, so that students might have greater access to career opportunities. These responsibilities suggest Dr. Moore should be very student focused. Finance students and the business college dean (who oversees Dr. Moore) no doubt agree that helping finance students get jobs should be a high priority. However, it probably should not be his only priority. In a broader sense, Dr. Moore works for the taxpayers who support Borderlands University and they support that school to benefit a large community, not just a relatively small number of finance majors. Those taxpayers likely would not approve of finance professors who knowingly helped place finance students in jobs where they mislead the public and triggered widespread financial ruin.

Dr. Moore's options are as follows. First, he could try to ban MCB from recruiting at upcoming Finance Club meetings. This would obviously please the small group of Finance Club students who are requesting this action. Dr. Moore himself is suspicious of Cristina's business practices and is uncomfortable with her recent presentation. However, taking this action might be upsetting to the business college dean and could anger students wanting to interview with MCB. They probably would demand to know why Dr. Moore took this highly unusual step and his evidence that Cristina is guilty of predatory lending is somewhat flimsy. Even if he had hard evidence that Cristina knowingly abused her clients, would this justify banning the entire bank? Could we assume that all employees and departments within MCB were equally guilty? What about other banks? Should we assume they are all guilty too?

Dr. Moore's second option is to just refuse the students' demand to ban MCB recruiters. This probably would infuriate the Finance Club students making the request. They seem to have limited power, but they might complain to high level university officials and they might start spreading the word publicly that Dr. Moore supports predatory lenders. Where might that lead? Would they go to the student newspaper? More importantly, they have brought up an important issue. Dr. Moore is genuinely concerned that Cristina may be behaving unethically (perhaps illegally) and may be harming homeowners in the local community.

There is a third option that might work best. Dr. Moore could decline the students' request, but offer them an opportunity to make their case against MCB. Rather than just completely ignoring the students' demand to ban the bank's recruiters, he could invite the students to present their evidence of predatory lending at an upcoming Finance Club meeting. At that meeting (and in his classroom lectures), Dr. Moore could discuss his own concerns with MCB or any other financial institution. Moreover, he could discuss other conflicts of interest in finance. Free speech and academic freedom are honored at most universities in the U.S. Dr. Moore could allow recruiters on campus to speak freely to the Finance club and Dr. Moore could speak freely himself. He could encourage critical thinking on conflicts of interest and ethics. Students would then hear from recruiters, professors, and fellow students. With the benefit of a thorough discussion of the issues, students could then make their own informed decisions regarding where to work and how to treat their future clients.

7. Conflicts of interest (between a professional and a client) and ethical challenges exist in all types of professions, including medical, legal, business, and academic. Can you identify any conflicts of interest that exist for other finance professions?

Professionals usually have an informational advantage over a client. Sometimes, for personal gain, a professional misleads a client. Some surgeons have recommended surgery for a patient that doesn't need it because it increased the surgeon's income. Some lawyers have charged for more hours than they actually worked. Some business people have misrepresented the benefits or the risks associated with their products. Some academics have falsified data used in research. No occupation is immune to conflicts of interest.

Within the financial services sector, the particular conflicts will vary from industry to industry and from firm to firm. Several of the more well-known conflicts are as follows. Stockbrokers, insurance salespeople, and financial planners sometimes get paid a higher commission or they get paid higher fees for selling products that do not benefit their clients. Unfortunately, some of these professionals put their own interests above their clients' interests when recommending products.

Some security analysts have recommended that their brokerage firm clients buy a particular stock even though the analysts believed the stock was already priced far too highly. Security analysts sometimes did this because they were pressured by investment bankers within their own securities firm. Investment bankers make money by bringing in top managers of firms that will issue new stock or new bonds with the help of the investment banker. If the same securities firm offers both brokerage services and investment banking (underwriting) services, this can create a conflict of interest. If a security analyst tells his/her brokerage clients to sell XYZ company's stock, this will make it harder for an investment banker (in the same securities firm) to attract XYZ company's underwriting business. Consequently, some security analysts have publicly told their clients to buy a stock while privately telling colleagues the stock should be sold.

Finally, investors often rely on bond ratings firms to report on whether a particular company's bond is risky or safe. Companies that issue bonds with riskier ratings end up paying higher interest rates to borrow money. However, bond ratings firms get paid by the companies that are issuing the bonds. If a particular bond ratings firm gives XYZ company a risky bond rating, then XYZ might take its business to another bond ratings firm that gives safer bond ratings. This system gives the bond ratings firm an incentive to mislead investors by telling them that bonds are safe, even if they really are risky. Consequently, some bond rating agencies have falsely reported that a risky bond was a safe bond.

8. Studies on group dynamics and organizational culture have demonstrated that an individual is more likely to engage in unethical behavior when that individual is in a group rather than alone. Further, a member of a group is more likely to engage in unethical behavior when their group supports the unethical behavior (Robbins and Judge, 2011). Is there any evidence in the case which suggests that the group and/or organization may have influenced Cristina's behavior to be less ethical than it might have been if she had not been a member of her work group or organization?

Yes, it does appear that Cristina's behavior has been influenced by her work group and by the organization, for at least two reasons.

First, Cristina's behavior changed over time, both in her behaviors towards the students during her talks, and possibly towards her loan customers. In her early visits as a new employee of the bank, Cristina was a model of professionalism and courtesy. A few years later, Cristina's rude behavior in being late to arrive, and in taking a cell phone call in front of her audience, suggests lack of professionalism and respect for others. We wonder if these changes are due to the influence of Cristina's work group and the overall culture of the larger organization.

Second, Cristina may have shifted the responsibility for assessing the morality of her job behaviors from herself to her company. It appears that Cristina accepts without question what her job requires of her. As long as her superiors in the organization are rewarding her with raises, bonuses, and promotions, she assumes her behaviors are appropriate. She says that the bank would not permit anything that was unethical. So Cristina has avoided her responsibility to consider the morality of her behaviors, by rationalizing that her company would not permit and even reward behavior that was unethical. The ethical sensitivity of Cristina's superiors at the bank comes into question in this case.

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