

Speech given by Sharon Zaffirini, June 9, 2011, at the TAMU A.R. Sanchez, Jr. School of Business Beta Gamma Sigma Induction Ceremony.

Thank you for the privilege of allowing me to speak at this occasion and congratulations to the new inductees into Beta Gama Sigma for their achievement.

When Dr. Prieto asked me to speak about Ethics, I thought - I'm going to tell you what you already know. Anyhow, I hope that you do. Ethics is in knowing right from wrong and acting on the side of the right. It is about something deeper than business conduct. It's about character.

In the Midwest where I come from people will say of a person, "He's as good as his word." "His word is his bond." In other words the measure of a person isn't the size of his bank account or his house or his car but the strength of his integrity.

As a child growing up in a blue collar family it was drilled in to me that about the most shameful thing I could do was knowingly tell a lie; that one must tell the truth even if the consequences are hurtful. To look another person in the eye, be it a parent, spouse or business client, and knowingly deceive that person, you are playing him for a fool. You're showing no respect for him and no character in yourself.

Ethics is truth. Truth can't be sliced and diced or marinated into something else. It is what it is, fully formed, rock solid. Truth can be the foundation on which you stand or if you scoot away from it, sooner or later it'll likely haul up and smack you down. Anyway, I hope that it does.

Ethics means to be honest. You might gain in the short term by being dishonest but it could cost you in the long run. You could be jailed or sued for deceptive practices. Even if you aren't jailed or sued, people will get your number; that what you say isn't worth the air pumping the words out of your mouth, and, by extension, the product that you are trying to promote. People will say, "He's all Stetson, no cow. All show; no substance. If you gain that reputation, people won't believe you even when you tell the truth. At the end of the day the most valuable thing that you possess and must protect at all cost is your good name.

Our economy has been knocked down. A lack of ethics is a major part of it – the mad stampede for the big bucks in business and finance and real estate even though in the process you're cutting corners and stomping people down.

Enron is an example of ethics failure. I can't pretend to know all of the intricacies involved in creating the myth of that business giant except, as I understand it, it used the same limited assets to leverage and borrow against again and again, creating the mirage of a mighty spreading oak with no roots. The upper management had to have been culpable in what was going on – but they loved their high living – the ski chateaus and private boxes at the Astros games. At the same time hundreds of their employees toiled away in the branches believing that they were working for a solid company and encouraged by management to invest in their retirement by buying Enron stock. They didn't know; Wall Street didn't know that the viability of this company was a mirage.

In a fraud this massive, collusion had to have been involved. Renowned attorneys advised Enron, a respected accounting firm audited them. All had to have known the score – especially the accounting firm who did their books or should I say cooked their books. If this accounting firm had exposed the deception, it would have cost them what was probably their biggest client whose fees supported their salaries, the impressive building that housed their offices, and the show that made THEM look like a great success. They perpetuated the deceit and like all deceit it couldn't sustain itself. Something built on nothin' eventually falls. Several of the executives of the accounting firm as well as Enron executives were sent to prison.

And good riddance. A lot of people had been taken in by the myth of Enron, invested their retirement in it and were financially devastated. H. L. Mencken said, "Conscience is the inner voice that warns us somebody may be watching."

I've been a realtor for fourteen years. I've seen what was happening on the ground level in real estate. About eight or nine years ago I made out my first contract offer on a home in which the buyer paid no money down. I was so surprised that I phoned the mortgage broker for my customers. He said that they were doing an 80-20 loan. As you may know if you pay 20% or more down on the cost of the house that you are purchasing, you do not have to buy mortgage insurance. Mortgage insurance insures against your defaulting on the loan. All lenders require mortgage insurance for loans that exceed 80% of the cost of a house. In procuring this required mortgage insurance, the buyer pays a pretty hefty premium up front then pays 40 to 100 dollars or so per month depending on the size of the loan - until he's paid down 20% of the principal.

The 80/20 loan circumvented the buyer's having to buy mortgage insurance. If you think about it, the two-loan 80-20 meant that the buyer was borrowing 100% of the cost of the house. Now, the primary lender holding the 80% loan - and the lender most at risk if the buyer defaults - was not deceived by the secondary 20%

loan that exempted the buyer from buying mortgage insurance. Those first and second loans were spelled out in the contract. Apparently the underwriters for those primary loans looked away or saw it as approved practice. The market was hot. The underwriters, lending agents often had monthly quotas to fulfill in order to get bonuses or even keep their jobs. I would blame management for the pressure that they applied and for intentionally not policing what was going on Or accepting it – because it made their bottom lines look so good. These 80/20 buyers also often avoided paying closing costs by rolling them into the cost of the house and having the seller pay them. Many buyers went to the closing at that time without bringing any money or very little money to the table. Having invested nothing in the property, what did these buyers stand to lose if they hit bad times and walked? And their mortgage had no insurance against their default.

Another example: I'd have a potential customer phone me to help him find a house. He'd be busting his buttons with pride because he'd just been prequalified for \$150,000 with a builder. I'd send him to another mortgage broker that wasn't allied with the builder, whom I knew was a straight arrow. A day or so later the buyer would call me - crestfallen. The lender that I'd sent him to prequalified him for barely \$100,000. In other words, lenders who were tied to builders sometimes overqualified buyers. In addition, many of their loans were ARM's or adjustable

rate mortgages in which the buyer would be paying maybe 4% interest for the first year or so after which the interest jumped to 12% or more. The buyer might struggle a few months with that higher interest rate then he'd give up. Now, the builder WAS filling up those houses. You'd see subdivisions where the new houses were still going up on one end while the foreclosures had started on the other.

Also, in the past, buyers could get loans even if they had bad credit scores. They just had to pay a higher interest rate to cover the higher risk. You take a buyer who already isn't responsible for paying his bills and he has a big monthly payment with inflated interest rate – how long before he starts skipping payments?

None of the previous practices are permitted now. Mortgage lending has tightened considerably.

Now leap those bad loans up to the big investment banks like Lehman Brothers or Bear Stearns. As I understand, they'd roll a few good loans into a heap of bad ones, get a triple A rating from Standard and Poor on what was mostly worth bull manure and sell them as filet mignon. Then someone else would shake those bundles apart, rebundle them and sell them again, diluting the values even more.

MBA's coming out of Wharton or University of Chicago would be making millions within a few years feverishly repackaging and reselling - nothing. Now, these young investment managers, or whatever you call them, that got caught up in this hothouse atmosphere of fast and easy money by repackaging and re-spinning like gangbusters might end up with a Lamborghini or a house in the Hamptons, but what, in reality, did they create? A new product? New Technology? A Factory? What they created was a huge economic meltdown that nearly sank the country. And none of these investment banks was required to have the capital on hand to cover investments that went south. Regulation and regulation technology failed. I understand there are high-speed super computers that can still game the system. As far as I know, the regulation still isn't there.

Years ago agronomists from my alma mater, Kansas State University, in conjunction with agronomists and scientists from Mexico City and other universities, were working on a new strain of rice. They labored for years in their testing fields in their straw hats, rubber boots, worn jeans. You'd ask one of these agronomists - wouldn't he like a Porsche or an Italian Villa and he'd laugh his boots off as he stooped in his test field digging up soil to take to the laboratory. What did the years of quiet toil create? India, within a few years went from a country that had to import rice to feed its people to an exporter of rice. Now these

scientists' names will never be enshrined but I believe that in their minds, they lived rich lives. The process of experimenting, creating, was so absorbing. As the French writer, Jean Genet said, "I call saintliness not a state but a moral procedure leading to it."

Being ethical doesn't necessarily mean being middle class. There is a professor of computation and applied mathematics at Rice University, Robert Bixby, who is a multi millionaire. What was the initial challenge that he took on? It was airline crew scheduling. This challenge is much more complex than you imagine. An airline has hundreds of planes taking off and landing every day from hundreds of locations. Each airline is staffed with a pilot, copilot, attendants – each of whom has a home base and is supposed to work a certain number of hours and be off a certain number of hours. There are other complexities involved - enough to create 13,000,000 variables. Dr. Bixby and his colleague worked out a mathematical model then created the software for it. Nowadays, an airline with a powerful computer and this software can feed into it and have staffing scheduling feed back out within 3 minutes. Dr. Bixby did other models and software to deal with other complex time, distance, and distribution problems. In 1988 they founded a company that provided software solutions. They sold the company to a French

corporation who in turn sold it to IBM. I've heard that this innovator is in the process of founding another company.

Now, I'm sure Dr. Bixby loves the financial reward – but like many innovators, I'd wager that what grabbed him was the challenge. It took thousands of hours of determined work to triumph over it.

It's not useful to simply have a good idea. As Benjamin Franklin said, "He that lives on hope will die fasting." You have to be willing to work hard and be so gripped by the process of getting there that the quest for the solution is half the joy. The truly successful person is never knocked on his knees by failure. He's intrigued by it, picks it apart – how? Why? Our greatest inventor – of the light bulb, electric generator, moving pictures, the gramophone, and thousands of other inventions, Thomas Edison, said, "Invention is one tenth inspiration, 9 tenths perspiration."

Always have your eyes wide open, see a need that no one else does, or a new way of doing something. If, in your work, you sense that something is not on the up and up, you're instincts are probably right. Investigate, say something, or walk.

You must carry your own inner compass that lets you know how what you are doing impacts others. You do not live and work in isolation.

Always remember that there are principles that can never be compromised.

Abraham Lincoln who presided over the bloodiest war that this country has ever fought at a cost of over 600,000 lives and the decimation of a whole section of this country – but freed over four million men, women and children who had been held in bondage said, “Important principles may and must be INFLEXIBLE.

Ethics is a choice. It is the choice that only YOU have the power to make. Justice William O Douglas said, “My faith is that the only soul a man must save is his own.” The choices that you make are about the quality of your life and the quality of your character.