STUDY GUIDE

WHY THE RIGHT IS RIGHT

KEY TERMS: conservative, liberal, civilization, happiness, risk

NOTE-TAKING COLUMN: *Complete this section during the video. Include definitions and key terms.*	**CUE COLUMN:** *Complete this section after the video.*
What is the simple answer to “Why are you Right?”	How do liberals tend to approach problems, and life itself?
What is the necessity for conservatism?	How do conservatives tend to approach problems, and life itself?
What is an important, compassionate way that wealth created by conservatism can be used?	

DISCUSSION & REVIEW QUESTIONS:

- Mr. Gutfeld makes an important distinction between conservatives and liberals in the KINDS of risks that they may take -- that conservatives "...take risks with their own lives, not with society." What are some examples of each, and why is this distinction so important?

- Mr. Gutfeld gives an example of a conservative taking a risk by building a business in a free market -- in other words taking a 'calculated' risk in an arena that has strong, proven success. How does this type of capitalistic risk-taking support liberalism, either directly or generally? Can you think of some examples where this is the case?

- Considering your answers to the last question, do you agree with Mr. Gutfeld's assertion that "conservatism makes what liberalism takes"? Why or Why not?

- Based on what you have learned in the video about how conservatives and liberals take risks, what could you conclude are some important differences in how a conservative would approach investing in the stock market versus how a liberal would approach investing in the stock market?

- How do you think the values of conservatives and liberals compare in terms of achieving happiness and building civilization? Does Mr. Gutfeld make his case that "...conservatism doesn't compete with liberalism, it sustains it"?

EXTEND THE LEARNING:

CASE STUDY: PNC Financial Services

INSTRUCTIONS: Read the Bloomberg article, "PNC: A Profile in Conservative Risk Taking" then answer the questions that follow.

- How did PNC identify and approach potential risks?

- Were their decisions conservative or liberal? How can you tell?

- If so, how did the results of PNC's actions sustain liberalism?

From Bloomberg Business:
http://www.bloomberg.com/bw/stories/2009-09-04/pnc-a-profile-in-conservative-risk-takingbusinessweek-business-news-stock-market-and-financial-advice

Companies & Industries

PNC: A Profile in Conservative Risk Taking

September 04, 2009

PNC's James E. Rohr views pay as long term and sees in success the absence of surprise

PNC Financial Services chairman and chief executive James E. Rohr has skillfully steered the nation's fifth-largest bank by deposits through one of the most treacherous times in banking since the Great Depression. PNC's auspicious destiny was set in motion by decisions made earlier in the decade to avoid subprime and set a comparatively conservative risk profile—decisions that now seem prescient. Here, Rohr discusses life as a big bank in the TARP era, what regulation is needed going forward, and what he thinks the financial industry has learned from it all.

How were you able to avoid the siren call of the mid-2000s that was the subprime mortgage market?

In the early 2000s, Fannie Mae and Freddie Mac were very, very competitive and basically were reducing the profitability of the basic mortgage business, so that you couldn't generate a good return. At that point the industry was starting to move toward subprime.

We looked at how subprime worked over a long period of time. The assumption we made is that even if you assumed you got your money back from the house, the operating expenses during foreclosure and foreclosure management in a downturn eliminated any profitability. In other words, our analysis was that it would end in tears. As a result, we elected to sell our mortgage business and stay away from subprime. That was a key decision we made in 2001 and 2002.

Walk us through the decision to become involved in the TARP program.

The regulators encouraged us, as you know, to participate in the Troubled Asset Relief Program, (TARP) and take TARP money. If you recall—and everybody forgets this—the TARP investment was originally designed to only go to the strong banks. It wasn't to go to the weak banks. In that promotion, if you didn't take TARP money, then you could be perceived as a weak bank. For example, National City didn't receive TARP money and they got a lot of notoriety about being a weak bank.

Do you think there will be a permanent change on how executives are compensated or how compensation is communicated?

When I look at our proxy statement, it's extraordinarily transparent on how the CEO and others are paid. And we've essentially eliminated all of the perks. There is no country club or airplane usage. Any airplane usage has to be fully reimbursed at 100 percent basis. So that's very important. That's a good trend. I think the government will continue to stay involved, but the philosophical statements that they've made will get

down at some point to the specific ratios. But we expect to repay TARP, so I don't think we will be significantly impacted by it.

I think the way people are paid will change, and I think transparency will continue to be very bright. The way we pay our people around here, much of it is long term and much of it—two thirds of it—is incentive based. So you win when the shareholder wins, and we think that's the way it should work.

What about the rules being considered to provide greater transparency on some of the more complex financial products?

I think the derivative world is a world that clearly needs more transparency, as do the players that are in it. The hedge funds are now a major part of our financial system. To the extent you want to understand systemic risk, you need to understand the positioning of the hedge funds as well as the insurance companies because they are so large.

We're dealing with this new, much lower yield environment. What will be the unintended consequences of people trying to chase ways to get more yield?

People will always look for yield, but I think people will look more on a risk-adjusted basis than they did before. People chased yield throughout the early 2000s and, to some extent, lost their company. It's interesting; people say the market didn't work, so we need stronger regulation. I do think we need stronger regulation, especially in the area of systemic risk. I don't think there's any question that we—as a country or an industry—didn't understand or manage the systemic risk as well as we should have by far. There's no question about that.

But the idea that people went out on the risk curve in the credit space the way they did with subprime, for example, they're not going to go back out there. We were talking to a newspaper and the reporter said, “The market didn't work.” The market didn't work? You want to go ask Lehman Brothers whether the market didn't work? You want to ask Bear Stearns or Merrill Lynch? People took too much risk, and nobody could have foretold that the housing market would have fallen the way it has. But I think if you step back, you can tell there was too much risk and if you leverage yourself 38 to 1, you have too much risk. And people won't go back to that. This market taught a lot of people a lot of lessons.

Do you think Lehman Brothers and Bear Stearns and some of the other large banks that had problems were handled fairly by the Treasury and the Fed?

I think the Fed and the Treasury did an extraordinary job. I think there was more systemic risk in play than anyone knew. When Bear Stearns was sitting on top of a massive swap book I don't think anyone wanted to know or could fathom how the failure of that book worked its way around the world. I think by putting Bear Stearns in safe hands it clearly saved us from a tremendous amount of damage. And I will tell you, if AIG had failed I think all of Wall Street would have failed the next day.

How should a board like yours be looking at risk?

You've got a significant portion of the talent on the board on the risk committee, and that has worked very well for us. We have a number of risk committee meetings—more than any other committee— and we give them a tremendous amount of information. There's a lot of discussion at the risk committee, and they probe management regularly, but they're not trying to tell us what to do. We have answers to the general questions that they have and that's important.

Has your relationship with your board changed at all as a result of the financial crisis?

I don't think so. I think the chief executive has an obligation with the board to be totally transparent. A fellow who was on our board years ago told me, “All surprises are bad.”

That's true for the most part in life and it is clearly true with the board of directors. Whether we're going through good times or troubled times, we're jointly trying to manage the company, and so if there's a difference between where the CEO and the board want to go, then you have a significant problem. If you are not keeping the board fully informed about what's happening in the company, then you have an opportunity to have a gap and then surprises, and those are bad.

Communicating with the board is something that's been important to me since I got the job. Some times are better than others, but communicating and being totally open with the board allows you to build your reputation or your relationship with the board on an integrity basis. To the extent that a board doesn't trust the CEO or it doesn't trust the management, then it's time to make a change.

For the complete interview with James E. Rohr, visit www.directorship.com/rohr.