

Banking on Integrity: Navigating Ethical Crossroads in the Financial Sector

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Abstract. This case study focuses on the ethical challenges and white-collar crimes involving two senior bank executives, referred to here as Mr. North and Mr. Holck, within the context of the financial industry. Through a qualitative research approach, including interviews and court records, the study explores the circumstances leading up to their legal convictions while preserving their anonymity. Both cases highlight critical decisions on nonperforming loans faced by the executives that had significant ethical, legal, and operational repercussions for their banks and their own careers. The study aims to provide insights into the complexities of ethical decision-making in high-stakes banking environments. Relevant theories include behavioral ethics, moral disengagement theory, and groupthink theory.

Keywords: groupthink theory, behavioral ethics, commercial banking, risk management.

1. Introduction

What happens when the pressure to perform collides with the responsibility to do what's right? In the high-stakes world of commercial banking ethical boundaries can blur under the weight of targets, incentives, and collective reasoning. This case study invites you to examine two real-world scenarios involving senior bank executives—Mr. North and Mr. Holck—who crossed the line from ethical gray zones into white-collar crime. Based on firsthand interviews and court records, this narrative reveals how routine decisions about nonperforming loans and credit worthiness spiraled into legal and reputational disasters, not just for the individuals involved, but for the banks and communities that they served.

As future leaders and decision makers, you will be challenged to navigate complex organizational cultures, ambiguous rules, and intense performance pressures. This case provides a platform to analyze ethical decision-making using frameworks like behavioral ethics, moral disengagement, and groupthink. By critically engaging with these scenarios, you will develop the judgment to identify

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warning signs, challenge unethical norms, and understand how ethical missteps, even by high performers, can unravel careers and institutions. Many of you may encounter pivotal moments in your careers where you are asked to thoughtfully balance what best supports your personal goals with what serves the needs and priorities of the organization and community. The stories of Mr. North and Mr. Holck provide a proverbial front row seat for their respective pivotal moments.

2. United States vs Mr. North

Mr. North served as the Chief Credit Officer at Wilmington Trust Company and faced legal challenges related to misleading financial statements during the 2007-2010 financial crisis (U.S. Attorney's Office, District of Delaware v. William North, 2018). Mr. Holck, in a separate case, made a swift decision that led to his conviction for honest services fraud (*U.S. v. Holck*, 398 F. Supp. 2d 338 (E.D. Pa. 2005)), underscoring the ethical pitfalls in banking practices. Both cases offer distinct perspectives on the consequences of ethical lapses in the banking sector.

Mr. North received his first management position at The Philadelphia National Bank/CoreStates. He grew impressively into a Commercial Banking leader in the bank and thereafter in other banks with significant increases in responsibility. His character, and sense of right and wrong were a hallmark of his time.

Mr. North was the Chief Credit Officer at Wilmington Trust Company when the great Recession began to manifest itself in the Real Estate sector. Wilmington Trust was a heavy lender to home builders in Delaware. Several banks began to report significant increases in non-performing loans (NPLs). These designations meant that contractual loan payments were overdue by 90 or more days. This deterioration in real estate and systemic weakness in the Banking industry worried the Federal Reserve and other regulators. Surprisingly, Wilmington Trust was reporting acceptable levels of NPLs. At the same time, The Treasury created the Troubled Asset Relief Program (TARP) to provide capital to banks on accommodating terms to buffer losses and maintain liquidity. Wilmington Trust took \$330 million in TARP money in December 2008 in the form of Preferred Stock sold to the US Treasury. Wilmington Trust continued to report a more positive outlook than its competitors. In early 2010 they also announced a \$287 million stock offering.

The rosy picture presented by Wilmington Trust was illusory and based upon a loan accounting practice not used by any bank within the industry. If a loan matures it must be repaid or renewed within 90 days or reported as NPL in the bank's quarterly and annual financial statements. Wilmington Trust historically did not report matured loans as past due if it believed that the loan would be renewed or repaid. This practice during stable times may not have led to significant underreporting as compared to peers. However, during this period, the