THE ART OF THE LOAN IN THE 21ST CENTURY: PRODUCING, PRICING, AND REGULATING CREDIT
41ST ANNUAL CONFERENCE ON BANK STRUCTURE AND COMPETITION

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Welcoming Remarks

It is clear from the long and distinguished history of this conference, as well as the myriad of changes that occur each year in banking and across the financial landscape, that we will never run out of timely and important topics to discuss at this conference. These changes have yielded enormous benefits for businesses, consumers, and the financial industry itself. But the complexity of these issues requires a diverse and expert array of viewpoints to help us understand them.

That's where we come in. Over the years we have done our best to bring together leading academics, regulators, and industry executives from around the country and in some cases from around the world. This year, we will present as our featured speakers the heads of two federal bank regulatory agencies, the chairman and CEO of one of the largest banks in the country, and the coauthor of one of the most important federal laws affecting how all companies, not just financial institutions, do business. Each year the program gets stronger, and this year is no exception.

The insights of such leading experts and participation by the most influential members of the banking community are the primary reasons why this conference has grown from its humble origins in 1963. The first conference had just 20 participants. They agreed to hold a follow-up meeting the next year, and over 40 years later we our still meeting each spring to discuss issues of importance to the financial system.

Early conference themes centered on the structure of banking markets and how that structure affected bank performance. Later meetings expanded the discussion to broader regulatory issues and moved beyond the narrow focus of banking to the entire spectrum of financial markets and institutions. In recent years the conference has tackled the issues of corporate governance, government-sponsored enterprises, and the behavior of financial markets over the business cycle.

We return to a traditional theme this year with “The Art of the Loan in the 21st Century: Producing, Pricing, and Regulating Credit.” Our topic reveals how the fundamental issues in banking are still ripe for analysis. While making loans and extending credit still generates the majority of profits in the banking industry, the manner in which banks make loans has changed substantially in recent years. Technological change, deregulation, and increased competition have redefined the position of banks in the financial services market.

Advances in information processing and communications technologies, and new financial products and markets, have eroded banks’ traditional information advantages. Today, the concept of the “relationship loan” is largely limited to small business lending. Businesses of all sizes increasingly obtain credit in the broader financial markets and from nonbank financial institutions.

These changes have forced banks to evolve their business model. Banks have adapted by focusing more on loan origination and servicing, providing back-up credit facilities, arranging loan syndications, and helping firms issue securities and hedge risk. These lines of business rely less on interest margins and more on fee income, and they pose a different set of strategic, operational, and regulatory challenges. The art of business lending has changed.

Business borrowers have clearly benefited from this new financial environment, which delivers a wider and more affordable menu of credit possibilities. At one extreme, some of the smallest companies can now access capital markets in ways that only the best prognosticators could have imagined. At the other extreme, large companies benefit from the competition that commercial banks now provide to investment banks.

Household borrowers have also benefited. Home ownership is at record levels, and we enjoy greater access to automobile and credit card loans. These changes are partly due to increased competition, but they are also partly due to a new way of producing credit—a technology-driven approach in which credit analysis, product distribution, loan funding, and risk management have become separate and specialized activities. In other words, the art of consumer lending has changed as well.

These ongoing changes have important implications for the structure and performance of the financial industry, for innovation and risk in the financial system, for the creation of credit and its distribution, and for macroeconomic growth and stability.

We have assembled some of the most qualified and respected members of the financial community to consider these issues.

To lead off today’s discussion, we present an old friend to our conference, Chairman Alan Greenspan. Alan first addressed this conference in 1988, in his first year as Chairman of the Federal Reserve Board. He also serves as Chairman of the Federal Open Market Committee, the System’s principal monetary policymaking body.

Chairman Greenspan didn’t just inherit the respect and authority that comes from being head of the Federal Reserve. His accomplishments are long and noteworthy, including a 30-year career as chairman and president of Townsend-Greenspan, a stint as Chairman of the President’s Council of Economic

Advisors under President Ford, and chairman of the National Commission on Social Security Reform from 1981 to 1983. This was aptly nicknamed the Greenspan Commission. Always ahead of his time, Alan recognized the need to reform Social Security long ago and was a reformer before it became popular.

Alan Greenspan has now delivered the keynote speech at this conference for 17 of the last 18 years.

It is a great honor to have the chairman as our keynote speaker.

Please join me in welcoming Alan Greenspan.