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Testimony by

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I am pleased to be here to discuss the condition of the U S banking system, especially at a time when the industry's performance appears to be so robust. But first, Mr Chairman, I want to take this opportunity to personally thank you for the working relationship we have enjoyed over the years. You have probed the basis of economic policy with impressive insight and while at times we have disagreed, as President Ford used to say, never to the point of being disagreeable. You will be leaving the U S Senate shortly with an impressive list of legislative accomplishments. Under your leadership during a period of unusual turmoil and challenge, the Banking Committee has focused importantly on the safety and soundness of American depository institutions and the protection of the federal deposit insurance funds. It has also begun the process of modernizing the banking system.

Given the industry's experience as recently as three years ago, its current condition is a positive testament to its resilience and strength. This condition and the progress it reflects bode well for the industry's future, a future enhanced by the recent enactment of the Riegle-Neal Interstate Banking and Branching Efficiency Act.

The U S banking system, like the U S economy more generally, has undergone an important transition in recent years in response to technological and financial innovations and in the face of intense competitive pressures, both domestically and abroad. We can only expect such trends in the banking framework to continue. Managing this process and adapting to new market practices will be a significant challenge to the banking system and to the regulatory agencies. It is important not only that the industry be allowed to adapt, but also that it build on the progress it has made in managing its risks.

Despite recent stress, the many changes and innovations in financial markets worldwide, and the increased role of nonbank competitors, the U S commercial banking system remains the centerpiece of the nation's financial system. In that role, banks should continue to be held to high standards of risk management because of their central role and because of their access to the government safety net. Such standards should be set, however, with an understanding of how financial markets work and mindful of the lesser constraints and requirements imposed on their nonbank competitors. Moreover, we should not lose sight of the necessity for banks to take risk if they are to perform their essential economic function.

In my remarks this morning, I will offer the Federal Reserve's views of the progress the industry has made in recent years to rebuild its strength, and what needs to be done to ensure that the industry remains strong and accommodates the nation's economic growth. Current conditions are very good, but the industry, the regulators, and the Congress need to look to the long term as well.

The Past

As recently as 1991, much of the industry was under severe stress. During the last half of the 1980s, nearly 900 commercial and savings banks failed, and even in 1991 and 1992 more than 100 banks failed each year. At more than 1,000, the number of "problem" banks in 1991 also remained unacceptably high, although well below the peak of nearly 1,600 institutions in 1987. That 1991 figure was especially disturbing because, by then, it included some major institutions, which boosted the assets of problem banks to more than \$600 billion.

These difficulties had many of their roots in events that occurred more than a decade before. Throughout the 1980s and into the 1990s, much of the U.S. banking system was faced with serious asset quality problems. Problem loans to developing countries plagued many of the nation's largest banks, beginning in the early 1980s. Later, declining energy prices hurt many banks, especially those in the southwest, and then came agricultural problems in the midwest. Finally, excessive lending to commercial real estate markets--combined with the 1990-1991 recession--produced the banking industry's last round of problems.

This series of events caused the volume of nonperforming assets and the number of commercial bank failures to rise sharply. Nonaccruing loans and foreclosed real estate more than doubled, from \$43 billion in 1984 to the peak of \$95 billion in 1991, and banks failed at intolerable rates. By year-end 1991, the cost of resolving these failures and reserving for expected losses had nearly drained the industry's Bank Insurance Fund (BIF) and had prompted the Congress to enact major banking legislation.

The Present

Today, the condition of the banking system is sound and much improved from only a few years ago. This progress was brought about by a host of factors that included changes to bank policies, writing off large amounts of bad debts, substantial increases in capital, changes in standards adopted by the Congress and the regulatory agencies, a stronger economy, and the decline in the level of market interest rates.

Responding to their asset quality problems and to changing market conditions, many banks made strategic decisions to restructure their activities, cut dividends and operating costs, expand revenues and, in general, develop more efficient operations. The industry also devoted increased attention to establishing and maintaining sound credit standards. To some extent, a widespread strengthening of these standards worsened the so-called credit crunch that the economy experienced a few years ago, but it was a necessary process by bank management. This adjustment of overly aggressive loan policies that led to some of the problems of the late 1980s and early 1990s illustrates the eventual costs of pursuing unsustainable growth.

These efforts to improve operations and credit standards have had highly salutary effects. Since 1991, U.S. banking organizations have recorded two consecutive years of record profits and have substantially improved their capital ratios, all while absorbing net charge-offs of nearly \$50 billion in bad debts. As a result, the industry has largely overcome its recent problems and repositioned itself for further growth.

The regulatory agencies facilitated this process by encouraging and, at times, urging many of the industry's actions and by helping banks identify weaknesses in their investment and loan portfolios and in their operating controls and procedures. The Federal Reserve placed particular emphasis on discouraging expansion by institutions that did not have strong financial and managerial profiles. Throughout this process, the risk-based capital standard, reinforced by the prompt corrective action provisions required by Congress in the FDIC Improvement Act of 1991, served to guide managerial and supervisory actions and highlighted the benefits of being well capitalized.

Current Condition The industry's improved condition is demonstrated in nearly every measure of financial performance. In addition to the past two years of record earnings, U S commercial banks were on pace at mid-year to report still higher profits in 1994. The industry's return on assets (ROA) reached 1.23 percent in 1993, the highest level in decades. Since then, the industry's ROA has declined slightly to 1.17 percent, but in large part only because of changed accounting rules that increased the reported assets of major trading banks.

These strong earnings, moreover, extend throughout the industry. Last year and during the first six months of 1994, more than 60 percent of all U S. commercial banks had ROAs larger than 1.0 percent, an historical benchmark of strong profits, while less than five percent of them reported losses--the lowest level since 1980. However, in an important shift from conditions during the 1980s, the earnings of large banks--those with assets exceeding \$10 billion--are now also historically high, with almost 70 percent of these institutions reporting ROAs above 1.0 percent.

Shareholders' capital offers the greatest protection from unanticipated or sustained losses and is the principal shield for the Bank Insurance Fund. At 7.8 percent of assets in June 1994, the industry's equity capital ratio was the strongest in nearly 30 years, and the average Basle risk-based capital ratio was 13.2 percent. These measures are well above regulatory minimums and, once again, represent substantial progress by banks of all sizes. Large banks have historically had lower capital ratios than smaller institutions, at least partly because of their greater diversification, and they still do. Nevertheless, large banks have also strengthened their capital positions substantially in recent years and now have an average risk-based ratio approaching 12 percent. Among commercial banks operating in

September, only 36 institutions, with aggregate assets of about \$3 billion, failed to meet the minimum capital standards at mid-year

Asset quality is also much improved, as a result of the stronger credit standards and substantial charge-offs of nonaccruing loans and foreclosed real estate. Since 1991, problem assets have declined by more than one-half, to \$42 billion. Moreover, by maintaining their loan loss reserves through adequate provisions, commercial banks have increased the reserve coverage of their nonperforming loans from 84 percent in 1991 to 181 percent at midyear 1994.

All of this improvement is reflected in the smaller numbers of failed and problem banks, which may provide the best indicators of the industry's improved condition. In contrast to the large number of commercial banks that failed each year from 1985 through 1992, 40 banks failed in 1993, and only 11 commercial banks comprising total assets of only \$1 billion have been closed through mid-September of this year. The estimated cost of their failures to the BIF is small. Even during the 1960s and 1970s, the industry often experienced 8 to 10 failures each year.

The number and assets of problem banks--those rated CAMEL 4 or 5--also continue to decline. With \$42 billion in assets at midyear, the remaining 338 problem commercial banks, out of a total of 10,700 banks, are much smaller on average and far fewer than was the case only several years earlier. Building on the substantial progress achieved in 1992 and 1993, the number of problem banks fell by 21 percent during the first six months of 1994, while problem bank assets dropped more than 80 percent.

This recent improvement in problem institutions, bank failures, and related resolution costs marks a highly welcome and long-awaited turn of events. At its current rate of progress, the BIF is likely to reach the required 1.25 percent of insured deposits within the next year. That time frame is much earlier than many analysts had projected only a few years ago and is well within the time period authorized by law. This improvement in the BIF represents, however, a situation that may require Congressional attention in the near future because of the respective insurance premiums paid by banks and thrifts. As the BIF reaches its target level, one would expect its currently high premiums to decline to their more traditional levels. That would certainly be a welcome event to commercial banks. Any such decision to lower BIF premiums, though, while maintaining the higher premiums required to rebuild the Savings Association Insurance Fund (SAIF), could seriously undermine the competitiveness of thrifts.

While the industry's performance is highly encouraging, experience has shown that future problems--even when they are impending--are sometimes overlooked, and that banks need adequate general reserves for such occasions. At present, we see no major problems looming, but we should recognize that the risks are always there. The industry's average reserve balance, equal to 2.4 percent of outstanding loans and leases, however, remains high by historical standards and, when combined with the improved asset quality and capital ratios, seems adequate for the industry as a whole.

I would note, though, that some banks have sharply curtailed or eliminated their provisions for possible losses in response to the improved outlook for future charge-offs and the relatively high level of reserves. Indeed, many commercial banks made no loan loss

provisions during the first half of 1994. I am not questioning those decisions at this time, particularly because these institutions, in particular, tend to have higher than average reserve ratios. Nonetheless, I would urge the industry to guard against letting reserves decline too far. Although asset quality has improved sharply, banks should ensure that their loss provisions and reserves remain adequate to support unidentified losses and the pace of loan growth.

In recent months, I have begun to receive reports from examiners and from surveys that banks are competing more aggressively for loans, and that they are relaxing their credit standards. Lending margins, in particular--and especially for medium and large corporate customers--have declined, and loan covenants and collateral requirements have eased. These developments have benefits to the economy and, in part, reflect the easing of standards that had been sharply raised as banks rebuilt their capital positions. It is too early to know if banks are easing excessively, but our examiners are sensitive to such concerns.

Increased Trading and Derivatives Activities. During recent years, many of the country's largest banks have sought to increase their revenues by expanding their trading operations and by developing greater expertise in derivative products. This approach is, in large part, a natural response by these institutions to financial and technological innovations and changing market demands. As I have suggested in previous testimony, this is not a strategy that should be discouraged, although we need to be vigilant that new and complicated instruments are issued only within the framework of strong risk management controls. Large corporations that once looked to banks for financing now have other funding sources and turn to banks

principally for other financial services, including assistance in managing market risks. Banks that have sufficient expertise to advise, innovate, and make markets in complex financial products see this shift as providing them with new and important sources of noninterest revenues.

This trend is reflected in the increased volume of trading and derivatives activities of banks. Trading account assets of U.S. banks, for example, nearly doubled in size from \$67 billion at the end of 1991 to \$122 billion at the end of 1993. During the first six months of 1994, these assets climbed much further--to \$228 billion, but principally because of an accounting change, rather than real growth. Although their effects are less transparent, off-balance sheet positions also continue to grow, whether measured by notional or replacement values, or by the credit equivalence measure specified by the Basle Accord.

Revenues from trading and derivatives activities grew commensurately through last year and were highly useful in helping some large institutions rebuild their capital and earnings and recover from credit-related difficulties of the past. These revenues last year were exceptional, though, and were widely recognized as such at the time. In the first half of this year, with rising interest rates, most large trading institutions experienced sharply lower trading revenues. Nevertheless, only three of the 50 largest banking organizations suffered net losses from their trading activities during the first half--and those losses were quite small. While the experience was unpleasant to many of these institutions, it may have provided a useful reminder to the industry that position-taking has its risks.

Stock Market Response The securities market has responded favorably to the industry's improved condition. Common share prices of the 50 largest bank holding companies currently trade at an average of about 150 percent of book value, compared with an average of 90 percent at the end of 1990. This higher valuation rate has increased the market value of these 50 companies by more than \$100 billion.

Almost all of the gain in stock prices took place during 1991 and 1992, as the industry's net interest margins and earnings improved. This year, stock prices for the group as a whole have been relatively stable, despite the declines in trading revenue reported by some large institutions. Many analysts had expected trading revenues, typically concentrated among the largest institutions, to decline from their exceptionally high levels in 1993 and had built that prediction into their earnings forecasts. Although the declines in some cases were greater than projected, shares of the money center companies have, on average, continued to outperform the broader market so far this year, as measured by major equity indexes.

Thoughts About the Future

As we consider these favorable conditions, we need to remind ourselves that there are, and will continue to be, difficult challenges ahead. Some of these challenges will be familiar ones that tend to reappear at different stages of the economic cycle. One can easily predict, for example, that loan losses will again rise the next time the economy slows materially or enters a recessionary period. Banks are in the business of taking risks, and such risks inevitably translate into some losses, if that did not occur, banks would not be performing their economic function.

Nonetheless, credit risk, the risk that a customer will default on an obligation, has been and remains the most critical risk to commercial banks and one that must be managed carefully. It may also be the risk in banking that still demands the most subjective judgment, despite constant efforts to improve and quantify the credit decision making process. Unfortunately, bankers and sometimes their supervisors tend to forget that point and other lessons of the past, as memories fade and conditions change. Bankers pursue faster loan growth, and supervisors hesitate to criticize aggressive practices as long as economic conditions remain favorable. We need to achieve a proper balance to prevent excessive risk-taking, while not discouraging banks from taking risks in responding to legitimate needs of their customers.

Other challenges will be less traditional, as banking takes new directions in the years ahead. Although the underlying risks may not be new, they may be packaged in new products, activities, and organizational structures that bankers must learn to manage and regulators must learn to supervise. The development of new products, such as complex derivative instruments, and the general trend toward asset securitization offer banks useful ways to reduce risks and generate revenues, but they also carry risks of their own. That is why the supervisory effort is increasingly focusing on the evaluation of risk management systems.

Competition in financial markets only continues to grow, as the number and types of mutual funds multiply and more nonbank institutions compete aggressively to make commercial and consumer loans. Technological changes will continue to modify the environment in which banks compete. These and other events will require continued efforts

by banks of all sizes to operate efficiently, to innovate, and to find new opportunities for growth. Indeed, many large banks are responding to these forces by emphasizing their market risk management skills and by continuing to expand interstate. However, the competitive abilities of small banks in offering plain vanilla banking services look secure for well into the 21st century, although they, too, will increasingly use new technology to deliver banking services.

In recent years, both small and large banks have been able to maintain their competitive position. Indeed, research conducted within the Federal Reserve System, as well as by the American Bankers Association, has suggested that, when properly measured, banking's share of financial intermediation has not declined by as much as is suggested by conventional indicators. Moreover, by some measures banks appear to have more than held their own. This new research attempts to incorporate not only traditional statistics, such as bank loans, but also the estimated "credit equivalent" amounts of the many new off-balance sheet activities, estimates of certain off-shore banking operations, and other adjustments to the data that attempt to account for the effects of technological change and globalization. These results are interesting and provocative, and give quantitative meaning to something we all knew--that banks are adapting to, and participating in, the changes sweeping the financial services industry, as well as being severely challenged by them.

In the last analysis, however, whether banks are expanding, holding their own, or losing market share is largely irrelevant--unless the changing share is being driven by outdated legal barriers or subsidies. It has always seemed to me that there should only be two tests for evaluating potential permissible activities at banking organizations: (1) will the

activity facilitate the efficient deployment of assets, capital, and human resources to meet the public's need for financial services, and (2) is the risk acceptable on safety and soundness grounds?

Our experience with Section 20 affiliates and trading activities of banks suggests that securities and trading activities meet these tests. This experience also clearly demonstrates that supervision by the Securities and Exchange Commission of Section 20 affiliates, and the banking agencies of both Section 20 affiliates and bank trading activities, has more than met the challenges during periods of market stress. Moreover, it seems obvious to me that the public is well served by additional competitors offering underwriting services. These benefits would be particularly strengthened as banks use their expertise for regional and smaller customers.

Keeping pace with industry practices requires that the regulatory agencies constantly review their supervisory policies and techniques. In large part, as I noted above, emphasizing the importance of sound credit practices is still paramount, and such time-tested procedures as conducting frequent, full-scope, on-site examinations that are centered around a review of asset quality should remain solidly intact. For many banks, though, these reviews should be supplemented by an in-depth assessment of their risk management techniques and controls. These efforts should cover trading and nontrading operations and the role of these institutions as derivatives dealers and end-users.

When evaluating market risks, examiners will need to focus on the overall nature of a bank's trading activities and exposures and on its policies, risk management systems and controls, rather than on specific positions that can change quickly. Examiners

should also emphasize the importance of testing a bank's exposures to a variety of different market conditions, which becomes more feasible as technology improves. Rigorous stress testing is one of the most important aspects of managing market risks and one to which banks should devote more attention.

Fortunately, the basic nature of most major banking organizations makes them relatively strong and well diversified to withstand a great deal of stress. Their ability to absorb large credit losses in recent years and to recover as they have attest to that point. Moreover, the consistent profitability of trading activities of almost all large banks suggests that these institutions are able to manage the associated risks.

However, developing more sophisticated risk management and examination techniques and attracting and retaining qualified staff become more important as financial products grow more complex. Doing that will be a challenge to banks and bank supervisors, alike. Indeed, as I contemplate the future of banking, I am concerned about the continued ability of the government to recruit, reward, and maintain a supervisory staff with the technical skills to evaluate the trading positions of banks--particularly as the private sector competes for people with the same skills.

Once again, the growth of derivative instruments provides a prime example. Some forms of derivatives have long histories because they meet a fundamental economic need to transfer risks among willing individuals. Although some of the more recent variations of derivatives are highly complex in their design and behavior, they meet a market demand and should continue to grow. We must deal with their complexity and learn how to

manage and use these instruments wisely, understanding their role and implications for the entire financial system

For its part, the Federal Reserve is taking steps to ensure that its examiners have the proper training and guidance to evaluate these complex activities and is also participating actively through international efforts to advance sound supervisory policies and procedures worldwide. In recent months, the Federal Reserve has issued policy statements dealing with sound management and examination practices regarding trading and derivatives activities, developed a Trading Activities Manual, and established capital markets coordinators at each Reserve Bank in order to enhance communications, provide training, and transfer supervisory resources as needed throughout the Federal Reserve System. We also continue to support efforts of the Basle Committee on Banking Supervision to develop capital standards for trading and derivatives activities and are working through that body and through the G-10 central bank governors to develop related reporting and disclosure standards.

As the regulatory agencies and the Congress consider the industry's evolving role, I should repeat that banks must be allowed to take risks, they will thus make mistakes and some will fail. Permitting them management flexibility to perform their function, however, is necessary to foster innovation and promote economic growth. Our target should not be to avoid all bank failures. Rather, our responsibility, as regulators, should be to ensure that mistakes, and in extreme cases failures, do not disrupt the marketplace or impose undue costs on the federal safety net.

It is a balancing process, with real economic costs on each side. Regulatory burden is an important concern and should be kept at a minimum, but the cost of regulatory

laxity can also be high. FDICIA's requirements of frequent and comprehensive examinations and prompt corrective action have been useful provisions and should help us to maintain a proper balance.

As we proceed through the 1990s, we should focus on enhancing supervisory practices, rather than on developing new laws and regulations. Risks need to be evaluated in the context of individual institutions and at a level of detail that typically requires an on-site presence. We must assure ourselves that a bank's established policies and procedures adequately control for risk, are consistent with the principles of sound banking, and that its practices follow these principles. A specific financial instrument, for example, may adequately hedge or reduce the market risk of one bank, but be an unacceptable investment for another, depending upon the specific mix of assets and liabilities each institution holds and upon the institution's ability to evaluate and manage its risks.

Once again, stress testing may play an important role in managing and measuring risks and is likely to be a key factor in constructing a minimum international capital standard for market risk. Stress tests, though, must be structured carefully in order to reflect the nature of risks faced by individual banks. Additional disclosure, which permits increased market discipline, can also perform an important role and may help deter excessive risk taking.

The supervisory process must also adapt to new concerns of the public as banks develop new products and services. The sale of mutual funds, for example, must be accompanied by assurances that issues of full disclosure of investor risk are addressed by institutions. Unfortunately, surveys suggest that some banks have not yet implemented the

necessary procedures to ensure that the uninsured nature of these investment products is disclosed to their customers. In its supervisory role, the Federal Reserve has attempted to assure good industry practice through the issuance of guidelines, rather than through complex and burdensome regulations. It will be up to the industry to demonstrate that this flexible approach is adequate.

Community Reinvestment and Fair Lending

Let me now turn, Mr. Chairman, to some issues that I know have been of serious concern to you and to this committee--the problem of racial discrimination in our credit markets and related concerns about the effectiveness of the Community Reinvestment Act.

The Board and the other supervisory agencies have been troubled by indications that some of our citizens have experienced unwarranted difficulties in obtaining credit due to discriminatory practices. Although we may never truly know the magnitude of the problem, its existence seems undeniable and requires prompt and decisive action.

Whether discrimination is a product of habit and culture, or the deliberate acts of individuals, the consequences are the same. Unfair practices resulting in credit decisions that are not based on legitimate economic factors harm our society and impair our economy, not to mention reduce the profit opportunities of our banks. Discrimination in lending directly limits the ability of its victims to own homes, build businesses, create job opportunities, or accumulate wealth. It stifles economic development and opportunity in our communities and neighborhoods. On a broader scale, discrimination in credit markets

restricts the free flow of capital, reduces the demand for goods and services, and robs our economy of financial and human resources that can contribute to economic growth

Let me assure you that we are doing our best to deal decisively with the problem. The agencies have been quite aggressive in communicating our expectations on equal credit opportunity to senior management of financial institutions. We have augmented our examination procedures, strengthened examiner training and sponsored numerous educational programs for bankers on fair lending issues and "best practices". We continue to coordinate our activities with other federal agencies having responsibilities under our fair lending laws.

None of this, of course, is a substitute for action by financial institutions. We believe that these issues must be addressed aggressively by the financial services industry itself. We will continue to encourage institutions to reexamine their marketing, employee training, and loan underwriting practices to ensure that all aspects of the credit granting process are fair and free from unintended discriminatory consequences.

The agencies also have been engaged in a comprehensive process to reform implementation of the CRA. Proposed changes to CRA regulations were published by the agencies earlier this year, and well over 6,000 comments from the public have been received and reviewed, a record number. The agencies are now in the final stages of preparing revised regulations for further public comment.

As you know, we were asked by the President, as well as by members of Congress, bankers, community groups and others to make the CRA evaluation process more objective by clarifying what is meant by good CRA performance. We were also asked to

reduce the regulatory burden of the legislation on financial institutions. The need to consider a number of competing, if not incompatible, objectives championed by many parties has made this a difficult process. The unprecedented volume of comments on the proposed regulation helped to clarify some issues, but highlighted deep divisions on others and did not simplify our task.

Ultimately, actual performance--not paperwork and procedures--should be the primary focus of CRA evaluations. But it would be a serious mistake if the desire to make CRA assessments more objective produced instead government credit allocation. That would not only destroy one of the major strengths of the CRA--the flexibility that enables banks and their communities to design programs that respond to the unique needs of their local markets--but would also reduce the efficiency, and ultimately the growth, of our economy.

In short, further quantifying what is meant by good CRA performance, while avoiding additional regulatory burdens and damaging credit allocation, requires a delicate balance. The regulatory agencies will shortly consider a new proposal, and we hope that an acceptable and workable balance can be reached.

Congressional Action

Just as banks and the regulatory agencies must constantly review their operations and rules, so too should the Congress periodically revisit and update the banking statutes. Some recent actions are quite encouraging, and I congratulate you and the Committee for your success in enacting the Riegle-Neal Interstate Banking and Branching Efficiency Act, as well as the Riegle Community Development and Regulatory Improvement Act of 1994. In the context of

the condition of the banking system, the interstate banking legislation, in particular, should have positive and important implications for the long-term health and competitiveness of U S banks

While these recent developments are favorable, we at the Federal Reserve Board have long encouraged the Congress to take still further steps to expand bank activities. As the Committee knows, nonbank organizations are competing aggressively for the traditional customers of commercial banks. Much has been done to address this situation and to ease the competitive problems banks face, particularly in the area of securities sales and underwriting. Most of that relief, though, has come from the agencies' limited flexibility to revise or interpret their regulations. More sweeping statutory changes are needed, regarding both securities and insurance products. The test should be what is good for the economy and for consumers of financial services--within the constraints of acceptable risk taking for institutions with access to the safety net.

Conclusion

In conclusion, Mr. Chairman, the banking system is stronger now than it has been in many years, and it seems well prepared to meet the nation's credit needs. Indeed, the pace of progress in the 1990s has been most remarkable and much faster than one could have reasonably expected a few years ago. Maintaining a healthy banking system is vital to the country's welfare. Accordingly, we must remain vigilant against new threats and costly problems that can arise quickly with little forewarning.

One risk that is always present is that presented by uncertainty and change. To confront that risk the industry must be willing and able to adapt. The U.S. banking system has consistently demonstrated its strength in this regard and is acknowledged as the world's leader in financial innovation. Some current laws, however, constrain the industry in ways that no longer serve their purpose. The banking industry, the regulatory agencies, and the Congress can all take credit for the positive events we have seen in recent years, but we must share responsibility for the industry's future as well. We should be willing to acknowledge change and adapt to new challenges.