Welcome and Introductory Remarks, 2014 Credit Markets Symposium
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Good morning. I'm Jeff Lacker, president of the Federal Reserve Bank of Richmond. It is my pleasure to welcome you to our eighth annual Credit Markets Symposium. We are once again delighted to bring together market practitioners, financial industry policymakers and academics for an open and honest dialogue about current issues in credit markets.

Since 2007, the year of the first Credit Markets Symposium, we've had a number of fruitful discussions in this forum. Many of them have been focused on the process by which credit markets have been recovering from the financial crisis. At this point, conditions have certainly improved, but many challenges remain — not the least of which is navigating a landscape that has undergone a number of significant regulatory changes, with more to come.

Those changes will be our focus over the next day and a half. In particular, we have organized discussions on:

- the implementation and impact of the Volcker Rule;
- trends and expectations for leveraged lending;
- how firms have been affected by the transition to a central counterparty;
- and the ever-popular question of the fate of the housing finance GSEs, as well as the broader question of the government's proper role in housing finance.

These sessions will be led by a diverse group of panelists with strong representation from both industry and the regulatory community. In each session, our goal is not merely to review the details of a specific regulation but also to have an engaging discussion about the implications for your work and for the credit markets more broadly. To that end, we have allocated time during each session for Q&A, and we encourage you to use that time to ask questions and share your perspective.

We're also honored to have with us keynote speakers Edward DeMarco and Phillip Swagel. Mr. DeMarco is the former acting director at the Federal Housing Finance Agency. We're looking forward to hearing his perspective on housing policy and the residential mortgage market. Mr. Swagel is a professor of international economic policy at the University of Maryland's School of Public Policy and was the assistant secretary for economic policy at the Treasury Department from 2006 through 2009. He will share with us his insights on financial regulatory reform since the crisis.

Before I hand things over to Matt Martin, the regional branch executive here in Charlotte, I would like to note that it is especially appropriate to be having these discussions in 2014, the Fed's centennial year. As you are probably aware, the Federal Reserve Act was signed in December 1913, and the regional Reserve Banks opened for business in November 1914. The commemoration of the our centennial is an opportunity to reflect on how the financial system has evolved — sometimes for the better, and at times, to be frank, for the worse — and how regulators and market participants have coped along the way.

At the time the Fed was founded, banking laws sharply restricted branching, and as a result there were 27,285 banks when the Fed was founded.[1] Banking laws also made it cumbersome to issue bank notes, our main form of hand-to-hand currency. The result was a fragmented banking system with critical structural weaknesses. Moving crops to market strained the monetary system every autumn, driving up interest rates and drawing in gold from abroad. And banks would suspend withdrawals during periodic panics, disrupting people's ability to make payments. These issues gave rise to a broad banking reform movement focused on "The Currency Problem." The primary goal in establishing the Federal Reserve thus was "to furnish an elastic currency" that would expand and contract appropriately with the needs of the economy.[2]

The world looks very different today, of course. The gold standard is a thing of the past, and an elastic supply of payment instruments — both paper and digital — is taken for granted. Branching restrictions have largely disappeared. Surely the Fed's founders would be amazed by the fact that they can withdraw money from the same bank whether they're in California or North Carolina (not to mention being amazed by the machine that allows them to do so). And I doubt that the founders envisioned the 30-year fixed-rate mortgage, much less synthetic collateralized debt obligations.

Alongside the dramatic changes we've seen in banking and credit markets since the founding of the Fed, we've also seen a significant evolution in the role and operations of the Fed itself. In the beginning, lending to banks through the discount window was our method of supplying currency to meet swings in demand. Over time, however, we shifted to relying on open market purchases of U.S. Treasury securities to carry out monetary operations. Under this approach, Fed lending operations are divorced from monetary policy and have become pure fiscal policy actions, in which Treasury securities are sold to the public to raise funds for the Fed's borrowers. It seems likely that the Fed's founders would have been amazed by the uses made of Fed lending in the recent crisis.

There are some who praise the Fed's credit market interventions and advocate an expansive role for the Fed in promoting financial stability and mitigating financial system disruptions. They construe the founders of the Federal Reserve System as motivated by a broad desire to minimize and prevent financial panics, even beyond simply satisfying increased demand for currency. My own view, which I must note may not be shared by all my colleagues in the Federal Reserve System, favors a narrower and more restrained role, focused on the critical core function of managing the monetary liabilities of the central bank. Ambitious use of a central bank's balance sheet to channel credit to particular economic sectors or entities threatens to entangle the central bank in distributional politics and place the bank's independence at risk. Moreover, the use of

central bank credit to rescue creditors boosts moral hazard and encourages vulnerability to financial shocks.

But I recognize that there is a range of views on this topic both outside of and within the Federal Reserve System and, I am sure, within this room. That's why events like this are so important, to bring people together to share their ideas and opinions about the many important issues related to our credit markets today.

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In addition to the disclaimer I just offered for myself, I will go ahead and offer a blanket disclaimer for the Federal Reserve officials moderating panels today and tomorrow: The views and opinions they express here are their own and do not necessarily reflect the official opinions of the Federal Reserve Bank of Richmond, the Federal Reserve System, or any other regulatory agency or individual. While we will be covering a variety of topics over the next two days, to the extent that we discuss topics for which the Board of Governors is writing rules but the comment period has closed, participants from the Federal Reserve may be limited in what they can say.

Finally, I would like to thank our hosts here in Charlotte for putting together an excellent event. Our Charlotte branch first opened in 1927, at the urging of local bankers, but Charlotte was actually one of the cities that competed vigorously with Richmond to be one of the original Federal Reserve cities. I'm sure, however, that the wonderful hospitality you will receive over the next day and a half will put to rest any concerns that there is still lingering resentment over losing out to the River City.

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[1] U.S. Bureau of the Census, "Historical Statistics of the United States, Colonial Times to 1970, Part 2," Washington, D.C.: U.S. Government Printing Office, 1975.

[2] See Jeffrey M. Lacker, "A Look Back at the History of the Federal Reserve," Speech at Christopher Newport University, Newport News, Va., August 29, 2013.