



Federal Financial Analytics, Inc.

## **Petrou Points to Boom-Bust Risk in Corporate Finance**

Thursday, October 23, 2014  
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FOR IMMEDIATE RELEASE

New York, NY – In [remarks](#) today, Federal Financial Analytics’ managing partner Karen Petrou focuses on sharp shifts in corporate finance that may well augur boom-bust risk akin to that in mortgage finance preceding the 2008 crisis. “A combination of yield-chasing due to current monetary policy and a battery of new rules creates huge demand that banks cannot easily fill,” she said. “Further, it is not at all clear that non-banks can or will be able to sustain mid- and large-firm financing needs – smart money comes and goes fast,” she added. Banks are officially called commercial banks because of the critical nature of lending to small, medium, and large companies, but recent market trends accelerated by bank-centric rules are redefining the sector, she concludes.

“If the only problem for commercial banks resulting from a loss of commercial-lending clients is lost profitability for the banks, so be it,” Petrou added. However, we simply do not know if the shift from relationship to transaction financing is resilient enough to support borrowing under conditions of market or macroeconomic stress. “It is urgent, I believe, to ensure that the new regulatory framework has no unintended consequences

in this critical area,” she concludes. “Once a market restructures itself, it is very hard to put it back together again if policy-makers come to decide that banks must indeed play a vital role in this sector.”

*Federal Financial Analytics, Inc. has provided objective advice on financial-industry policy and strategic issues since 1985. Clients include large financial-services firms, regulators, investors in this sector and others whose names may be found on the firm’s website. The firm does not lobby for clients.*

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