



## **The banking crisis: cause and effect**

### *Casino Banking*

#### **Narrator**

As pressure to improve returns increased, “boring” retail banks started to resemble their “sexier” investment banking siblings.

A culture of excessive bonuses was created and the age of “Casino Banking” was born

#### **Lord Skidelsky**

“The banks just felt free to enter the investment market without restriction basically they became retail banks with casinos attached to them.

And of course, the casinos were using depositor’s money to make risky loans.”

#### **Narrator**

After Labour came to power in 1997, the regulatory system became a tripartite responsibility of the Bank of England, the Treasury and the Financial Services Authority.

The Bank would oversee monetary and financial stability, while the FSA would ensure market confidence, compliance with regulation and that risks were being well-managed.

In less than a decade, this new system would be tested to breaking point.

Meanwhile, the banks were looking for new ways to free up their capital. The most popular method was called 'securitization'.

Existing loans were broken up into chunks, repackaged and then re-sold on to other banks and new investors.

This was creating flows of money on a previously-unimaginable scale.

#### **Tetsuya Ishikawa**

“The basic concept of it was to help remove a set of assets that was on a bank balance sheet to a set of investors that wanted to take the risk and were probably better positioned to take that risk.

If you are transferring over a 50,000 dollar mortgage, and you’re having to do 100 million dollars worth of 50,000 dollar mortgages that’s a lot of mortgages that you have to analyze. So if you put them into one, into a single security that covers all of them, then the analysis is done only on that one security.”

#### **Narrator**

Some of the early securitization deals happened in surprising areas.

#### **Peter Hahn**

“As securitization became a more accepted tool, going from the mortgages to car loans and credit card loans, more and more creative uses were found for it.

Archive – Top of the Pops Hi, it’s Thursday evening and once again we’d like to welcome you to another edition of Top of the Pops.

#### **Peter Hahn**

David Bowie sold royalty rights to his music library through a securitization. And what that really meant was that he was able to put those future royalties into a securitization company and sell bonds against the future royalty stream.

So in a sense, he monetised his future income - he got his future income today.”

**Narrator**

In the wider financial markets, securitization was growing at an extraordinary rate.

**Tetsuya Isikawa**

And the euphoria really just gathered an enormous amount of momentum, because every day we were getting news of another client who wanted to get involved - a Japanese bank came knocking on our door, and this was just our door, saying they had 50 billion dollars to invest. That was an astronomical amount of money - and bear in mind that that was one Japanese bank.

And you had this massive wave of investors just constantly wanting to put more and more money to use...”

**Narrator**

As the banks looked for other ways to free up capital, they created ever more complex forms of securitised debt.

**Tetsuya Ishikawa**

“There were lots and lots of investors looking to expand, their investment universe into securitizations and also into the structured credit universe of collateralised debt obligations.”