



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

*More lending, more spending*

### **Narrator**

Collateralised Debt Obligations or CDO's are a mixed bag of high risk and high yield and low risk and low yield debt, and they quickly became one of the most popular vehicles for shifting assets off balance-sheet.

The upsides of securitization and the increased flows of cheap credit were being felt right across the world.

It was creating a virtuous circle of rising asset prices, investment and growth.

Small businesses were reaping the rewards of this economic confidence, as Ken Jones explains.

### **Ken Jones**

"In 2004 we had gone from strength to strength, turnover went from two to two and half K up to 850 K in four years.

We didn't really have to look for our work. Most of our work came in from word of mouth or people looking at our website, so we never had to go and physically chase work and it grew at a steady rate."

### **Narrator**

The world's deregulated, free-market economies were, by now, an all-powerful economic and political force, and seemingly invincible.

But money was being put into more unreliable investments and the system was creating problems of its own, as banks that had been selling securitised products began to invest in them as well.

### **Tetsuya Ishikawa**

"You had pretty much everyone on the face of the planet arguing that the free markets were so successful now, that these regulatory frameworks were no longer required.

And in that context, banks then became these very short-sighted very profit driven institutions that went after the quick buck."

### **Narrator**

In 2005, so-called 'sub prime' borrowers in the US began to default, as US interest rates rose.

Mortgage Disaster story from Archive "I was told, if I wanted the house, I had to sign then and there on the spot. So I just signed hurriedly. I was looking for a place for my children and myself and it was like, either you sign or you don't have a home. So I just signed. I was under the impression that I had a fixed rate of \$625 a month; I had no idea that I had a variable rate that would escalate every 3 to 6 months. So my mortgage went from 625 dollars a month to 1098 dollars a month. I received this notice the beginning of September – it was plastered to my door. It was bad enough it broke me down but I had to do everything to keep my children in control because I really didn't want them to know what was actually being done.

People I thought had my best interests; they were only out for a dollar...."

**Narrator**

Loans like those taken by Eleanor Hall, made up a proportion of the world's outstanding securitised debt, and as these repayments began to fail, the knock-on impact was felt around the world.

**Tetsuya**

"Where the securitization market really kind of became so euphoric and lost sense of its bearings was the demand for these securitization products encouraged mortgage originators to just go and write any mortgages, because the more business they did, the more money they could make."

**Nicola Horlick**

"The crisis that came about is the fault of everybody.

People wanted to go and take out 100% mortgages and sometimes 120% mortgages, you know, and they moaned if they couldn't get them and people happily signed up for ten credit cards with credit limits of £10,000 each.

People have to take responsibility for their own actions."

**Peter Hahn**

"One of our biggest issues in the last 20 years individuals had been offered an amazing amount more choice in financial products.

I have an MBA and a PhD and that qualifies me in a certain way.

But for the man on the street who really couldn't get a mortgage 20 or 30 years ago because he was a weak credit, the fact that he could now, in 2005, borrow all the money he wanted, more or less, put a certain responsibility on him to understand that what his risks were."