



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

*Rating Agencies: too lenient?*

### **Narrator**

Determining the riskiness of securitised products was a responsibility of rating agencies.

These are private companies employed to carry out assessments of bond issues.

As the markets grew in complexity, the analysis they provided was relied on more and more.

### **Lord Skidelsky**

“Once securitization happens, then you need rating agencies and their role becomes increasingly important.”

### **Narrator**

Some questioned their ability to see a downside when the times were so good.

### **Vince Cable**

“The problem with the rating agencies in practice was that nobody wanted to take the punchbowl away.

Like everyone else, they were creatures of fashion and tended to underestimate systemic risk when the market was booming.”

### **Narrator**

As they were paid by the issuers of the bonds that they rated, many saw this as a clear conflict of interest.

### **Vince Cable**

“They’ve always said that this didn’t compromise them because they maintain Chinese walls between these two activities but it does raise a basic question about how objective they really were.”

### **Howard Davies**

“The rating agencies are on the role call of people who have a serious charge to answer.

At one point there were twelve triple A companies in the world - because to be a triple A company you have to be quite something - and there were 64,000 triple A securitizations.

Now, clearly something was going wrong there and they were accepting complicated structures which had turned out were built on sand.”

### **David Llewellyn**

“In my view they had the effect of inducing people to believe that some of the instruments that they were buying were less risky than in truth they were.”

### **Peter Hahn**

“What we had at the end in securitization and structured credit markets was alchemy.

If you remember the Middle Ages, it was turning lead into gold and in reality, we started with high quality mortgages and packaging them into high quality bonds.

In the end, what we were packaging was garbage and telling everybody it was gold.”

**Tetsuya Ishikawa**

“It was like an elastic band which you keep on twisting round and round and round – it was bound to snap at some point.”