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Subprime Mortgages – Rise And Fall

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History of Crises

- **Wall Street Crash (1929)**
- **Oil Crisis (1973)**
- **Black Monday (1987)**
- **Japan Asset Bubble (1990)**
- **Asian Banking Crisis (1998)**
- **Dotcom Bubble (2000)**



Background of sub-prime crisis

- **Sub-prime lending defined**
- **Regulatory Push**
- **Erroneous assumptions**
- **Financial instruments like CDOs
and CDS.**



Growth of Sub-Prime Lending

- **Started surging in mid 1990's**
- **Increased from 8% of all mortgages in 2001 to 20% by 2006**
- **Became a USD 1.5 trillion industry by 2007.**



Role of Stakeholders

- **Borrowers**
- **Mortgage companies**
- **Investment Banks**
- **Rating Agencies**
- **Investors**
- **Regulators**



What went wrong ?

- **Rise in interest rates**
- **Drop in housing prices**
- **Defaults by the borrowers**
- **Swelling into an international crisis**



Role of Rating Agencies

- **Error in Judgment ?**
- **Conflict of Interest ?**
- **Element of Complacency ?**



Does Credit Rating Add Value ?

- Provides independent, unbiased, third party opinion
- Helps in investment decisions



The story of Big Three

- **History**
- **Revenue / Assignment composition**



How to encourage competition in the rating industry

- **Role of rating agencies**
- **Role of regulators**
- **Role of investors**



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FOOD FOR THOUGHT!



Thank You

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