



FINANCIAL CRISIS 2008

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Shahjalal University of Science and Technology**

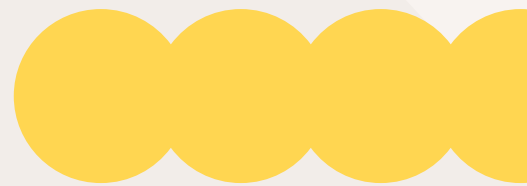


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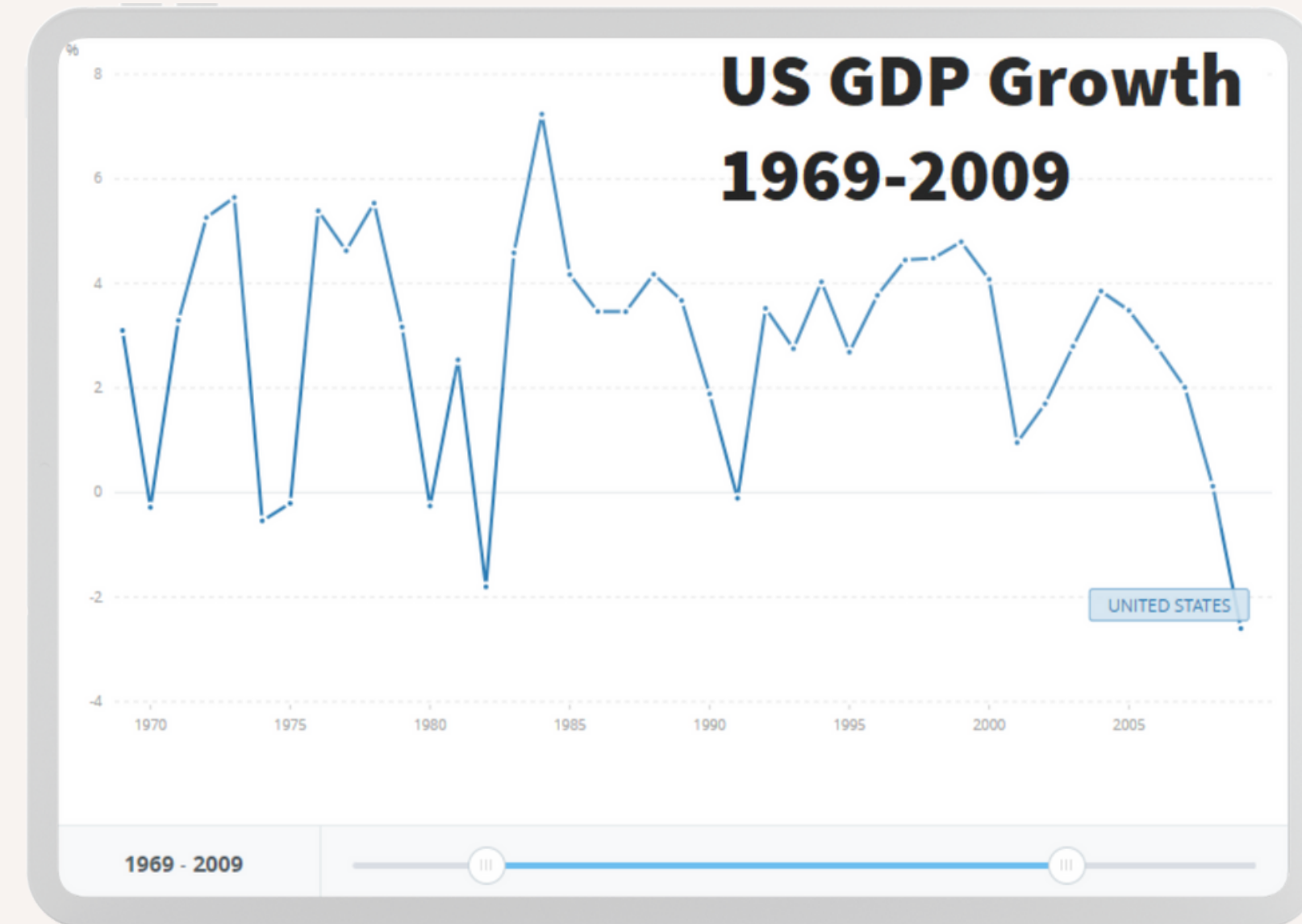
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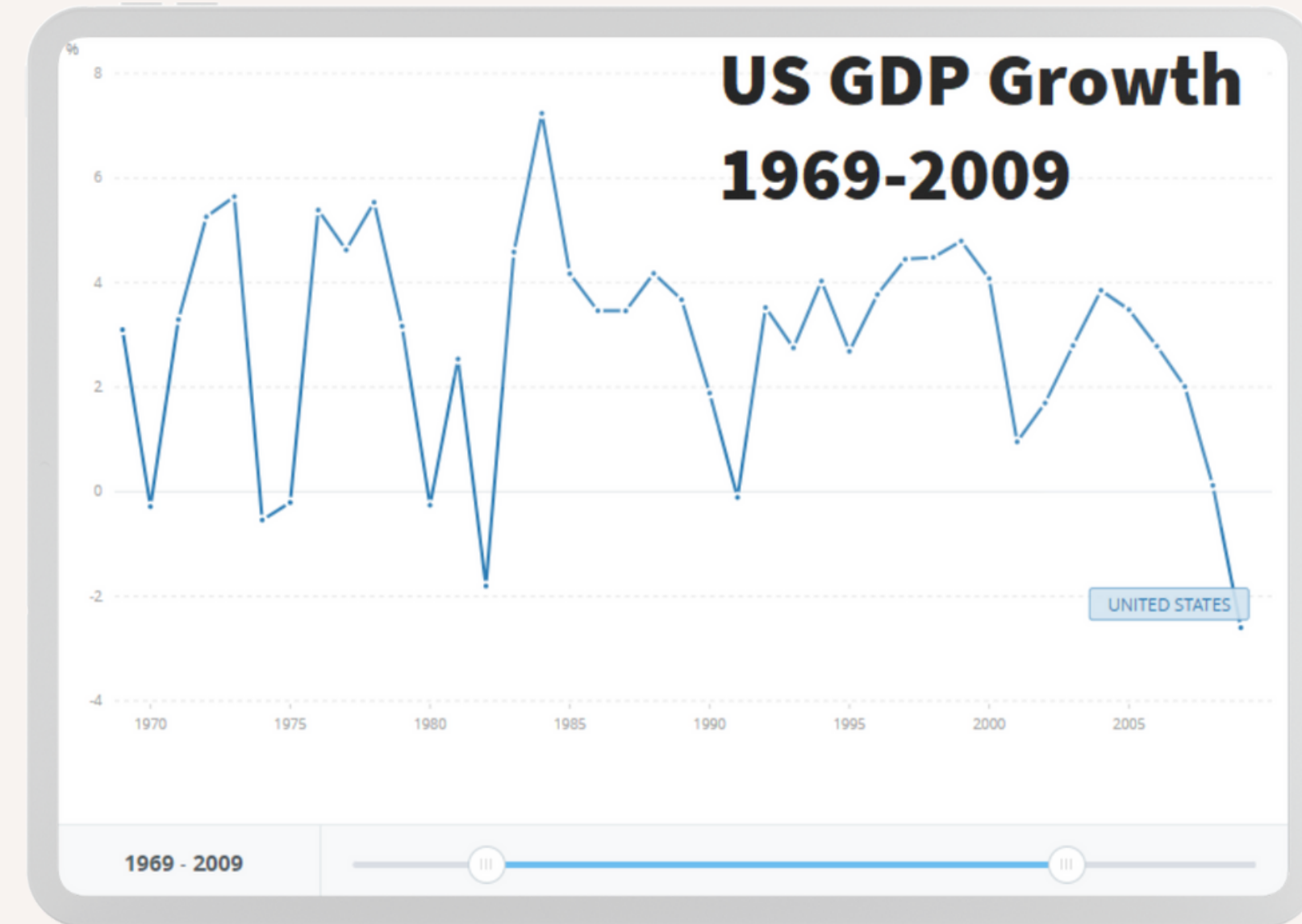
Introduction

- ▶ Financial Crisis is a situation where significant financial assets suddenly experience a sharp decline in value
- ▶ 2008 financial crisis crashed real estate market of America and thus financial institution went bankrupt.
- ▶ In this crisis, housing price fall by 31.8%

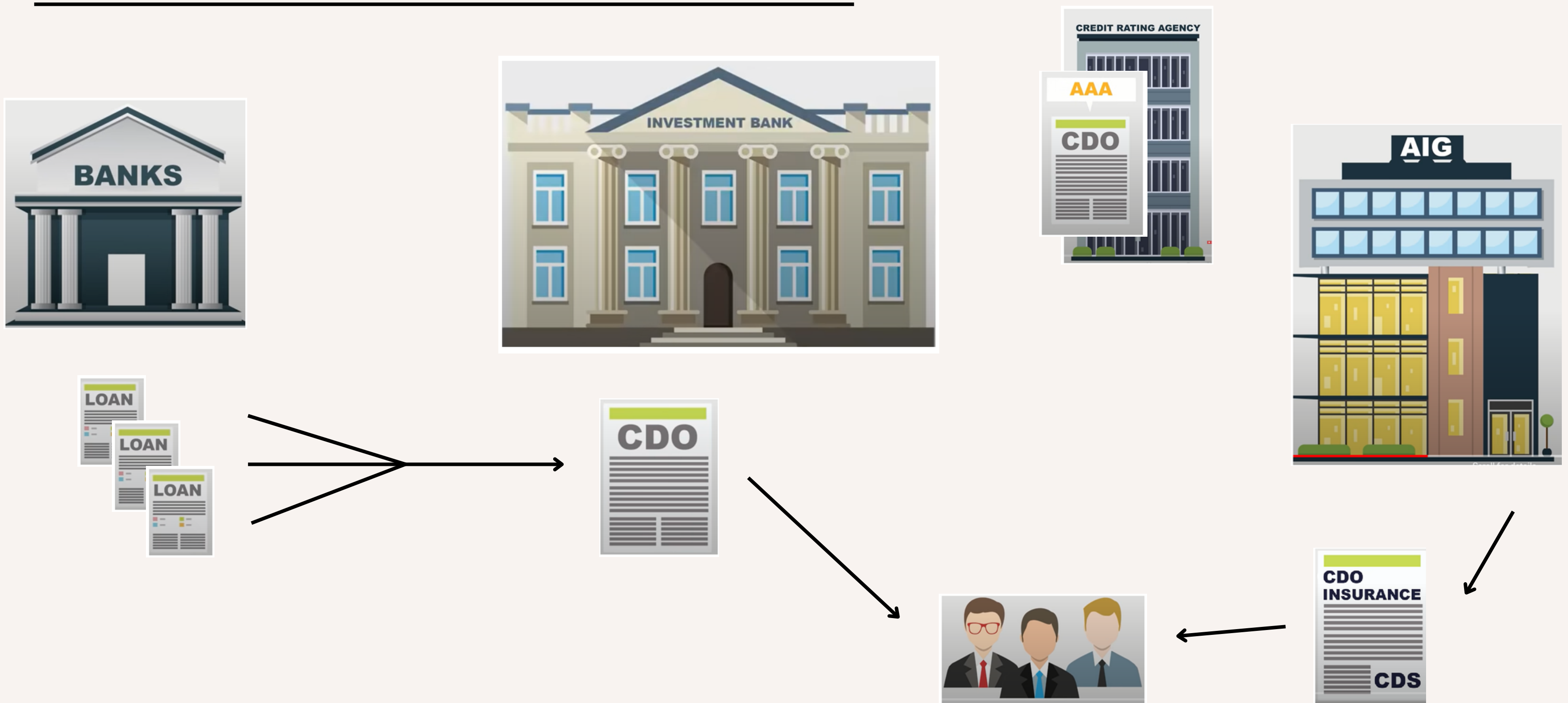


Introduction(continued.)

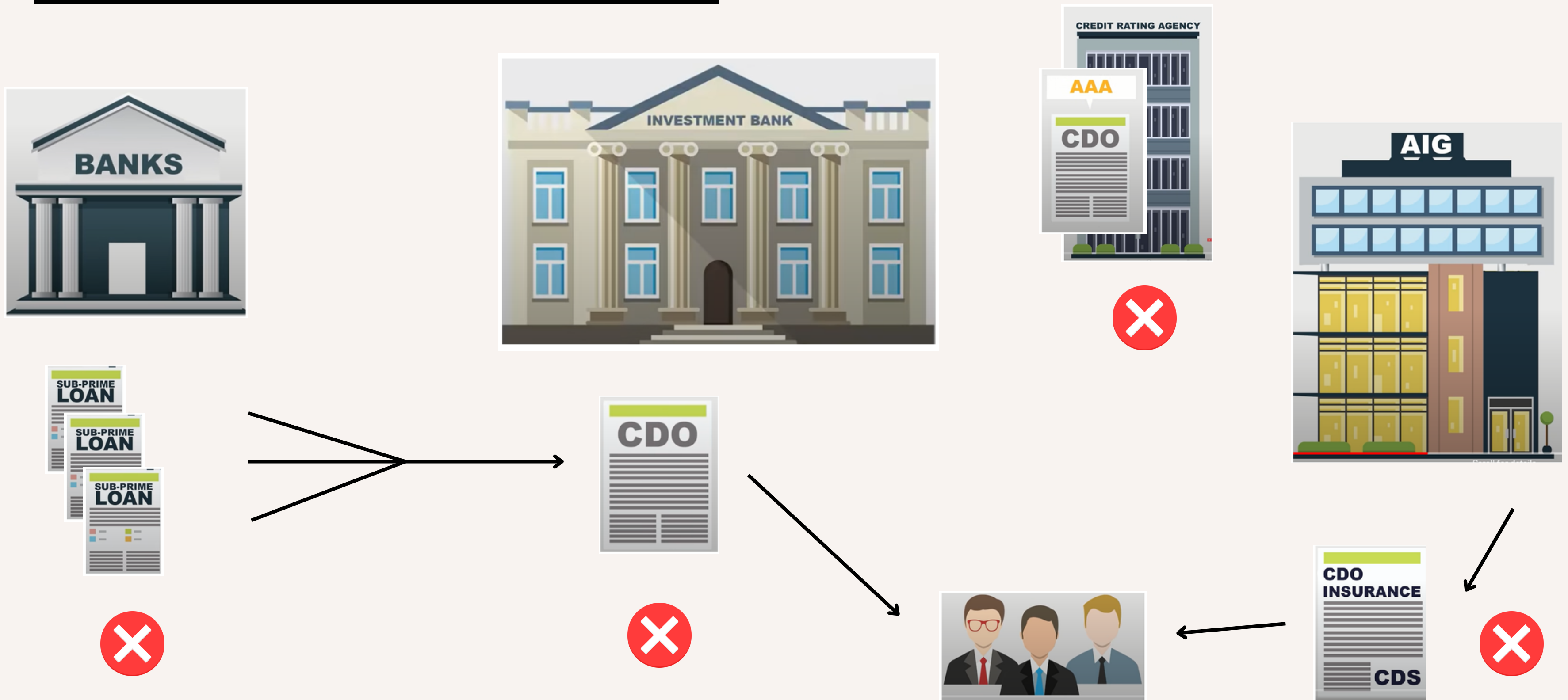
- ▶ Financial instruments called Subprime mortgages, Collateralized debt obligation, Collateralized debt insurance were behind this crisis.
- ▶ Institutional failure is evident in this crisis.



Visualization of 2008

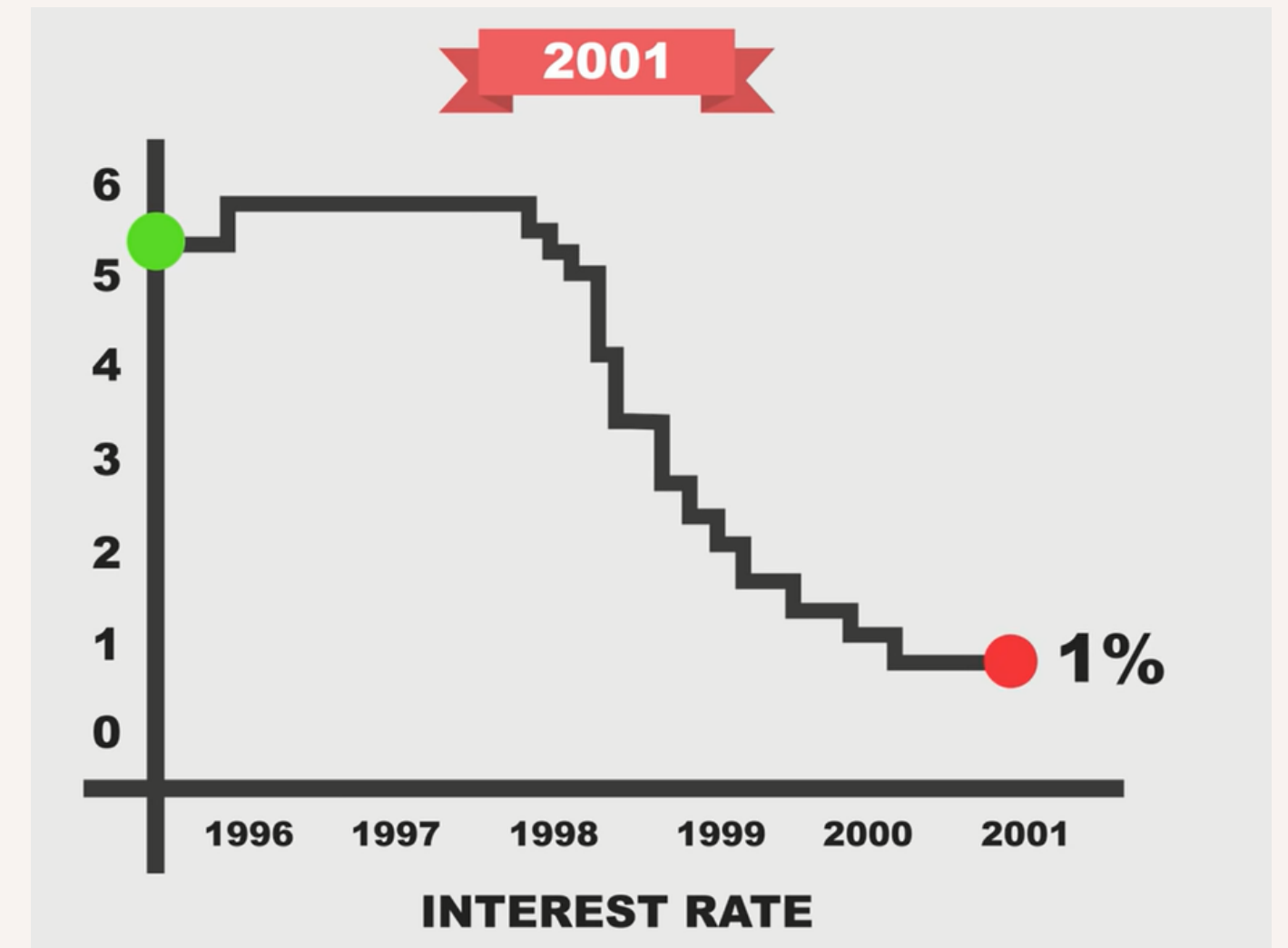


Visualization (contd.)



Reason of 2008 crisis

- ▶ US interest rate is too much low about 1%.
- ▶ Increased borrowing by banks and investors
- ▶ Regulation and policy errors
- ▶ Banks avoidance of lower risky securities



Reason of 2008 crisis (continued.)

- ▶ Regulation error in financial system
- ▶ Policy gap by FED
- ▶ Incorrect pricing of risk by institution



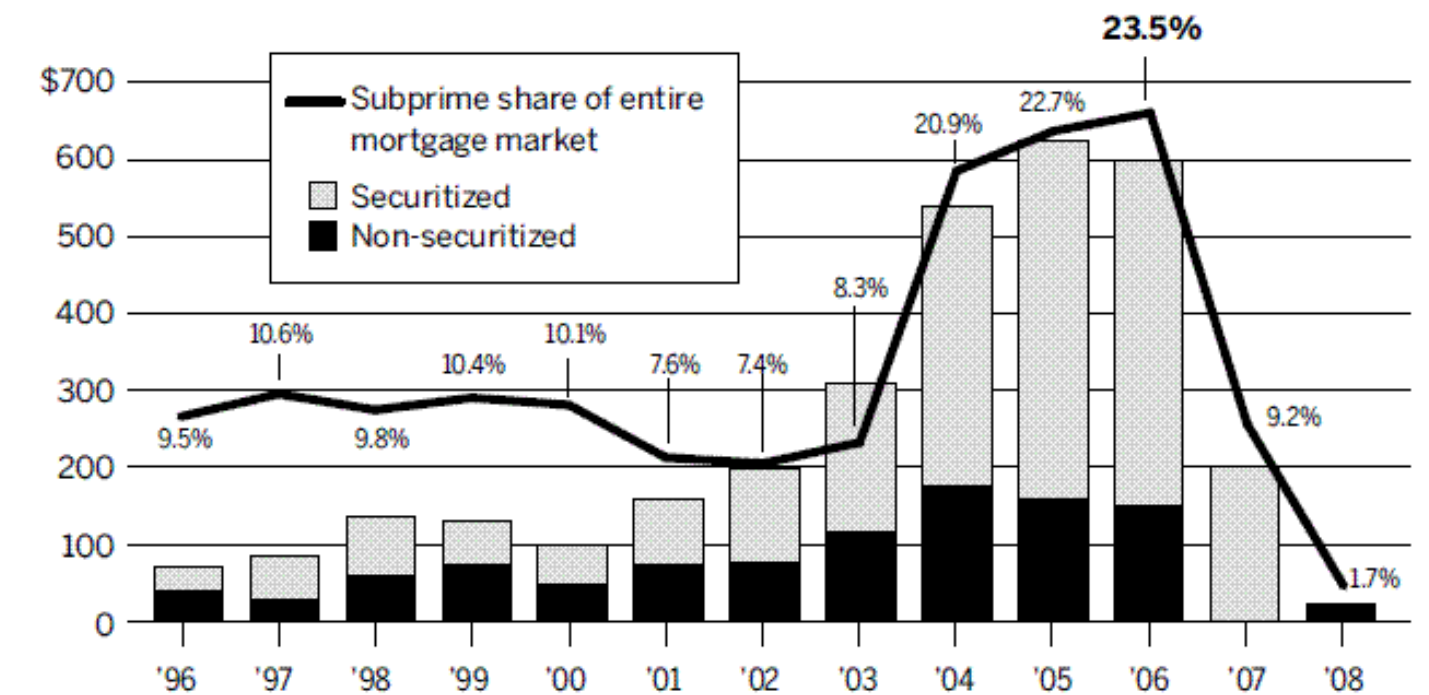
Development of 2008 crisis

- ▶ Banks are issuing subprime loans more and more without risk coverage.
- ▶ Investment banks consistently buying subprime loan and making CDO
- ▶ Credit rating company didn't update their position on subprime CDO
- ▶ Insurance company's issuing risk coverage out of their capability.

Subprime Mortgage Originations

In 2006, \$600 billion of subprime loans were originated, most of which were securitized. That year, subprime lending accounted for 23.5% of all mortgage originations.

IN BILLIONS OF DOLLARS

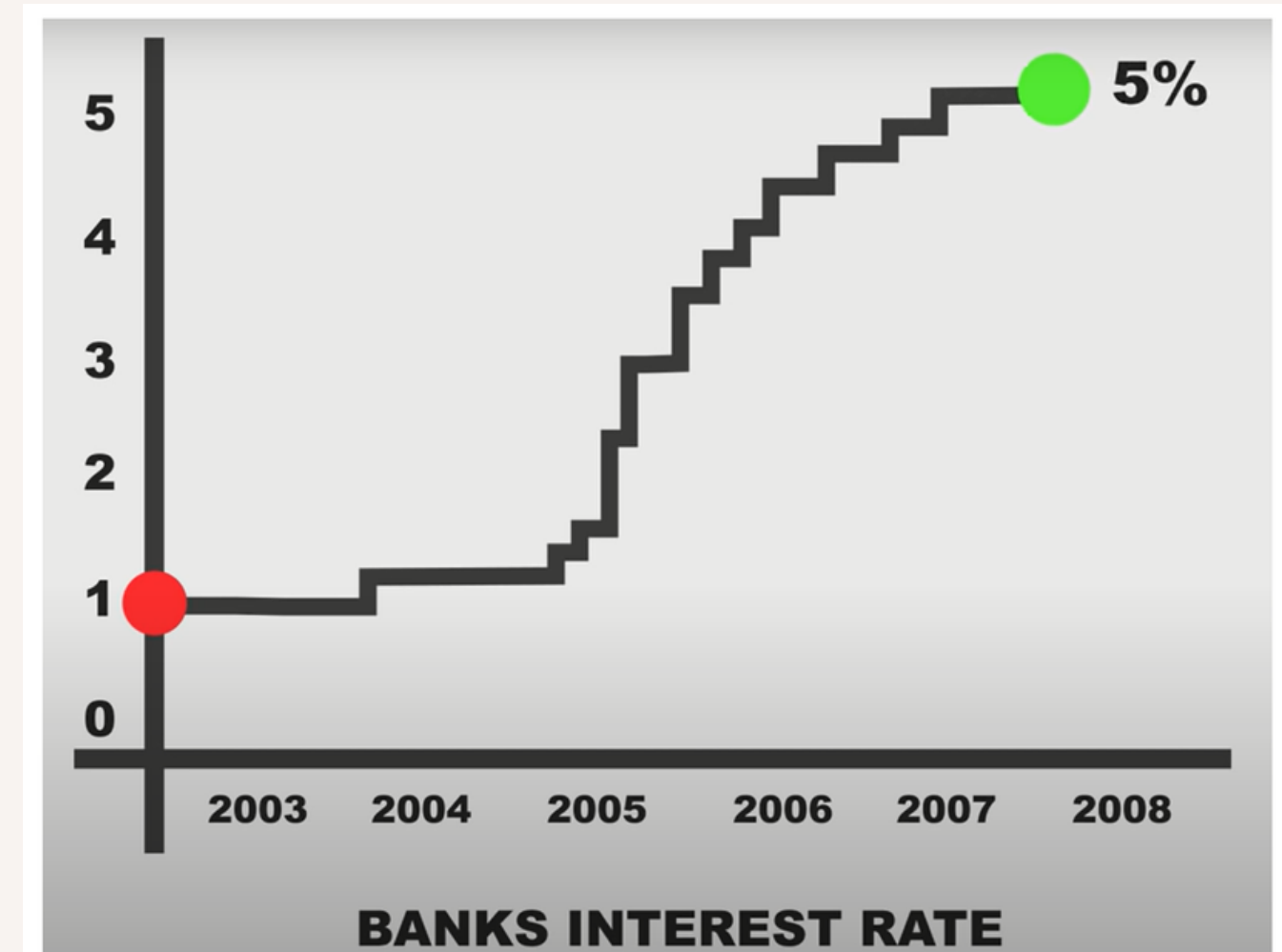


NOTE: Percent securitized is defined as subprime securities issued divided by originations in a given year. In 2007, securities issued exceeded originations.

SOURCE: Inside Mortgage Finance

Development of 2008 crisis (continued)

- ▶ FED raised the interest rate upto 5%
- ▶ 50% of home loan receiver pay nothing
- ▶ Not recognizing prior research predicting the situation



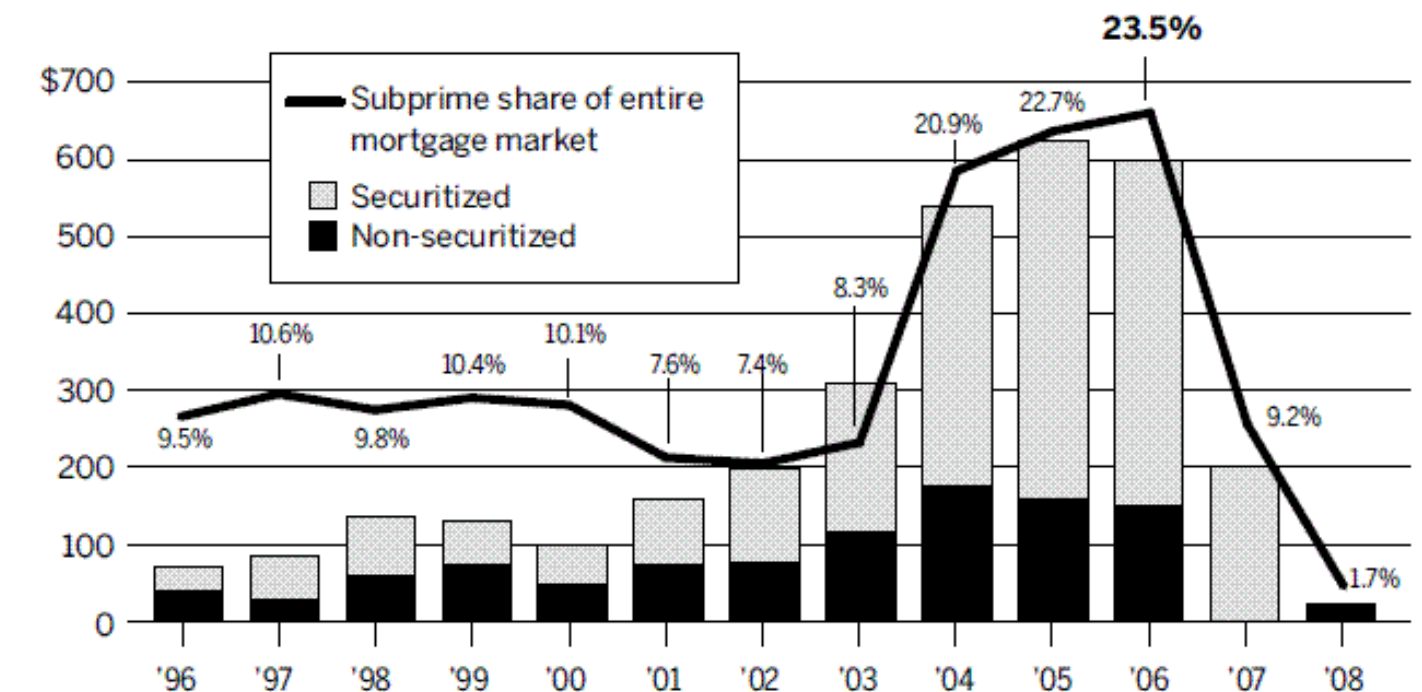
Consequences of 2008 crisis

- ▶ Real estate price fell record low by 12.4% in the final quarter of 2008
- ▶ Banks started to auction at large bulk of default loan house with almost no demand.
- ▶ Investment Banks had large number of CDO with no investors
- ▶ Big investment company like Lehman Brother went bankrupt.

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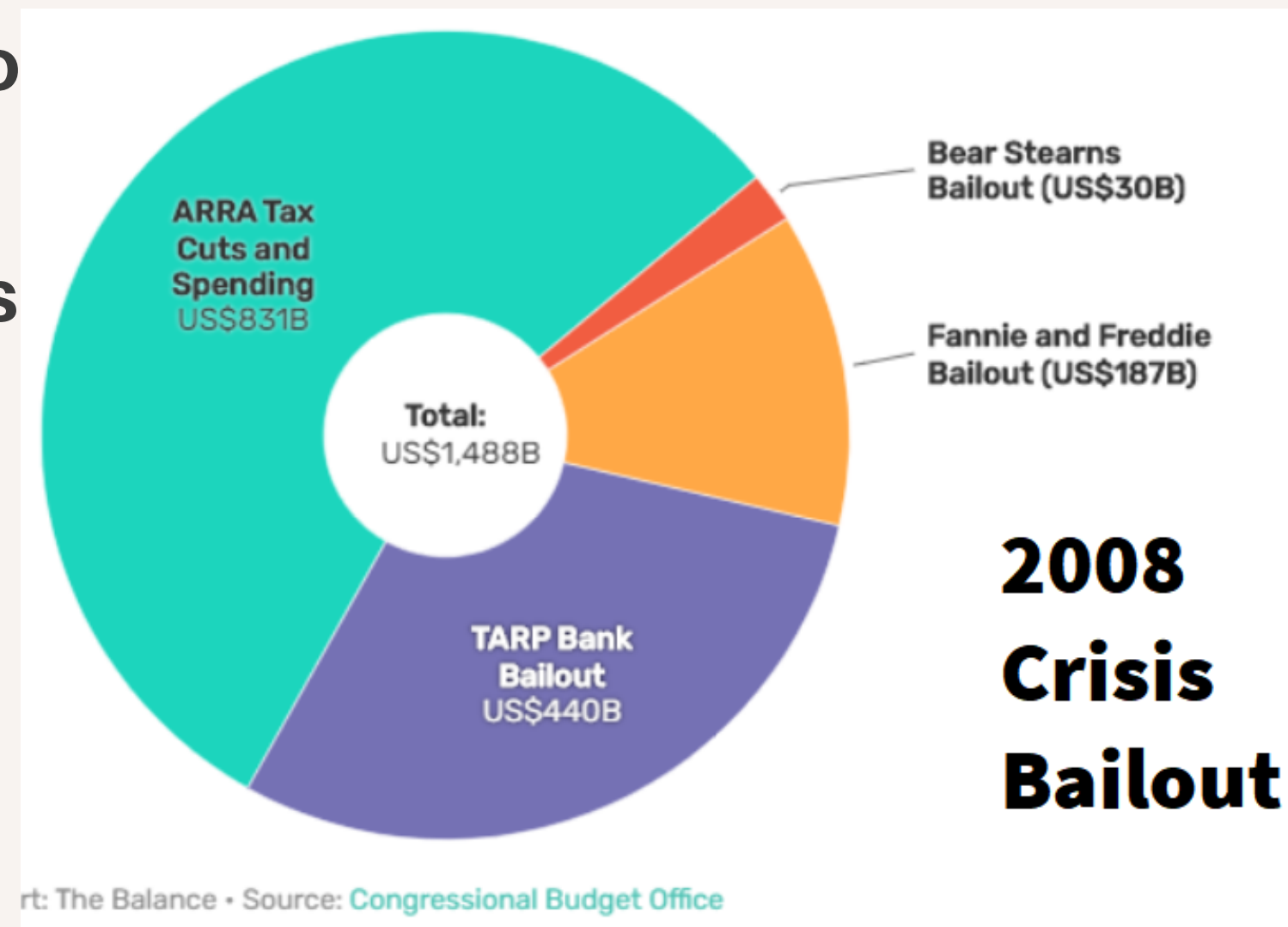
Consequences of 2008 crisis (contd.)

- ▶ Insurance companies failed to meet the large number of risk coverage money.
- ▶ Government provide AIG, one of the big insurance company \$85 bn bailout
- ▶ Banks and other financial institution lost \$450 bn in this crisis
- ▶ Economies connected with America fall into recession due to open market economy



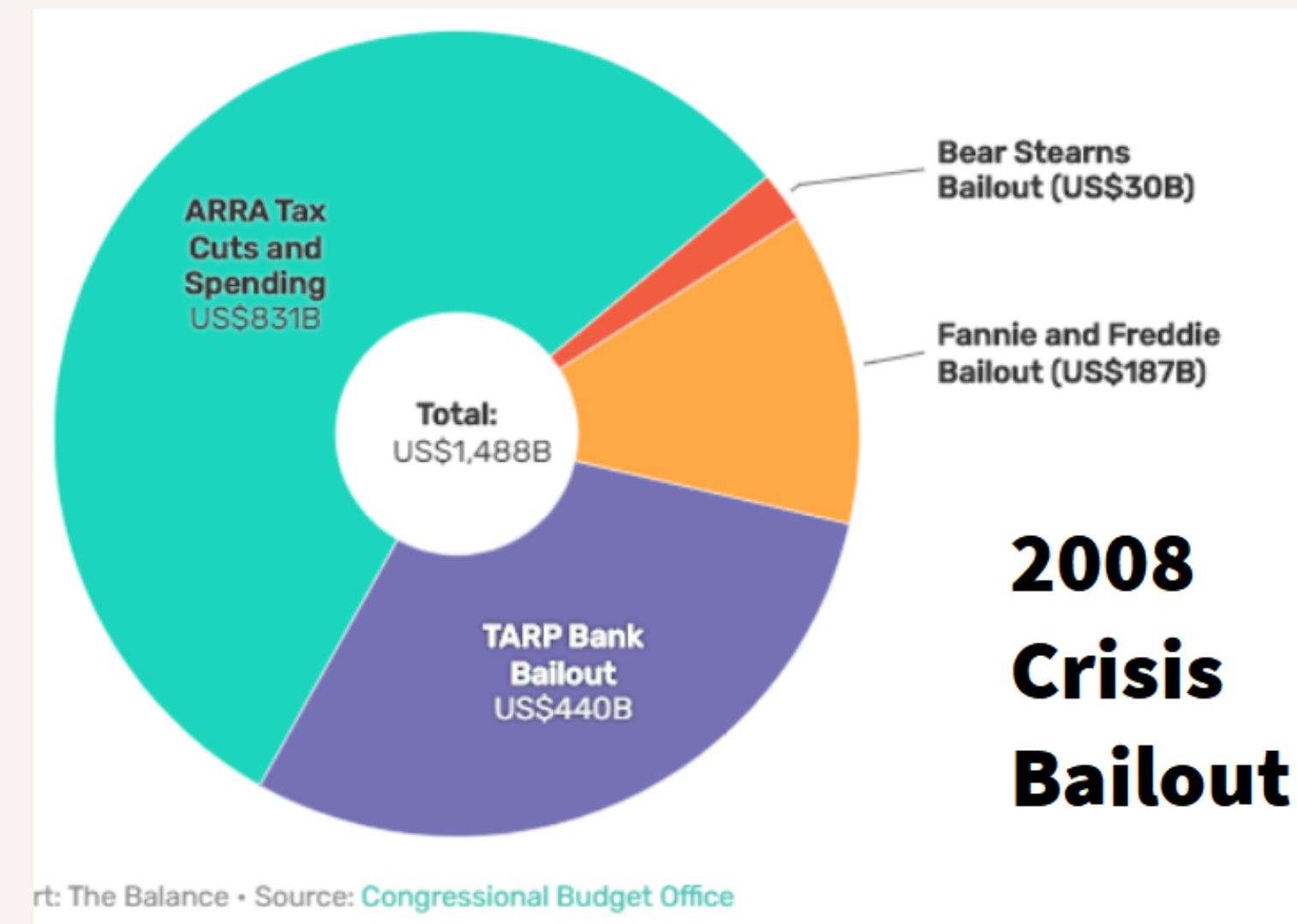
Conclusion

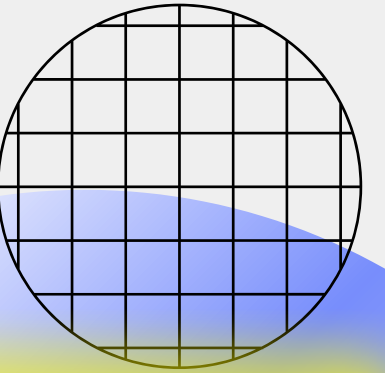
- ▶ Congress passed the Dodd-Frank Wall Street Reform Act to prevent banks from taking on too much risk.
- ▶ The United States enacted fiscal stimulus programs that used different combinations of government spending and tax cuts.
- ▶ Fed lowered the interest rate close to zero to recover the economy.



Conclusion (contd.)

- ▶ Dodd Frank act key take ways are
 - ▶ Financial council
 - ▶ Regulate credit rating agencies
 - ▶ CDS are heavily supervised
 - ▶ Banks has limited using the money
 - ▶ FED emergency loan reform





Thank you

Do you have any questions?

