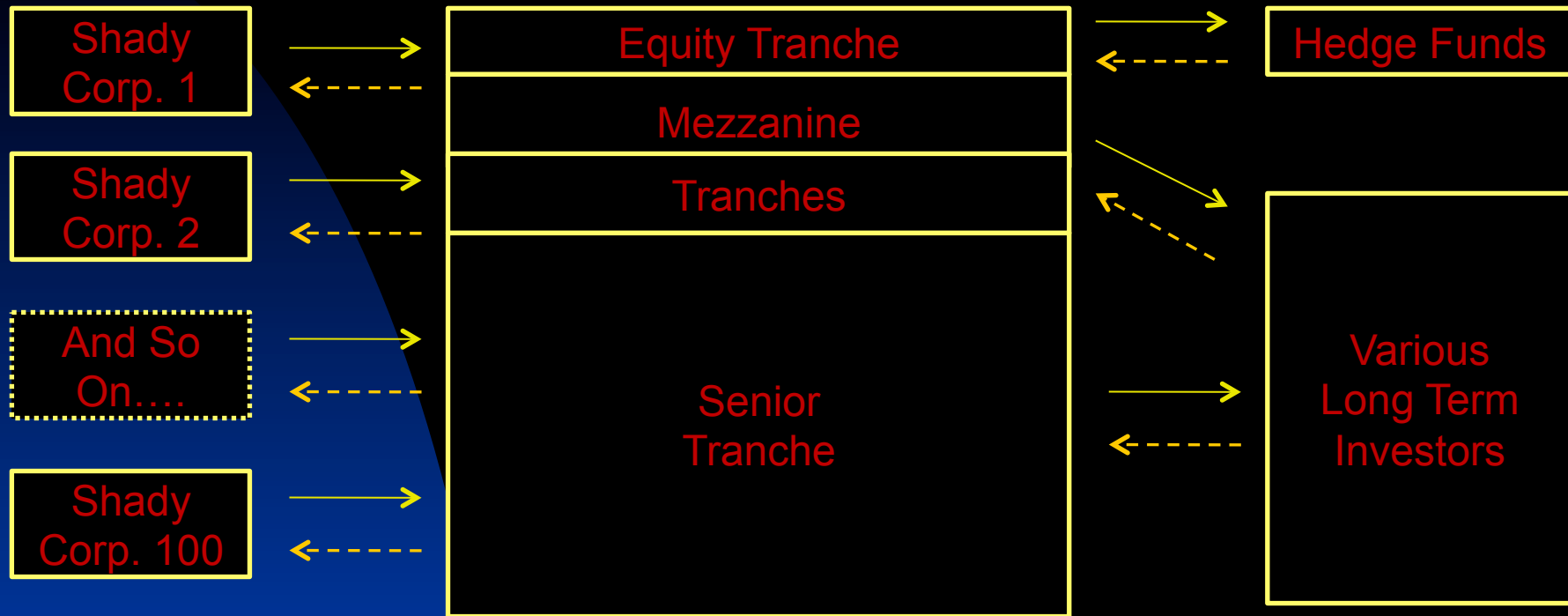


The Great Financial Crisis: Who Caused It ?

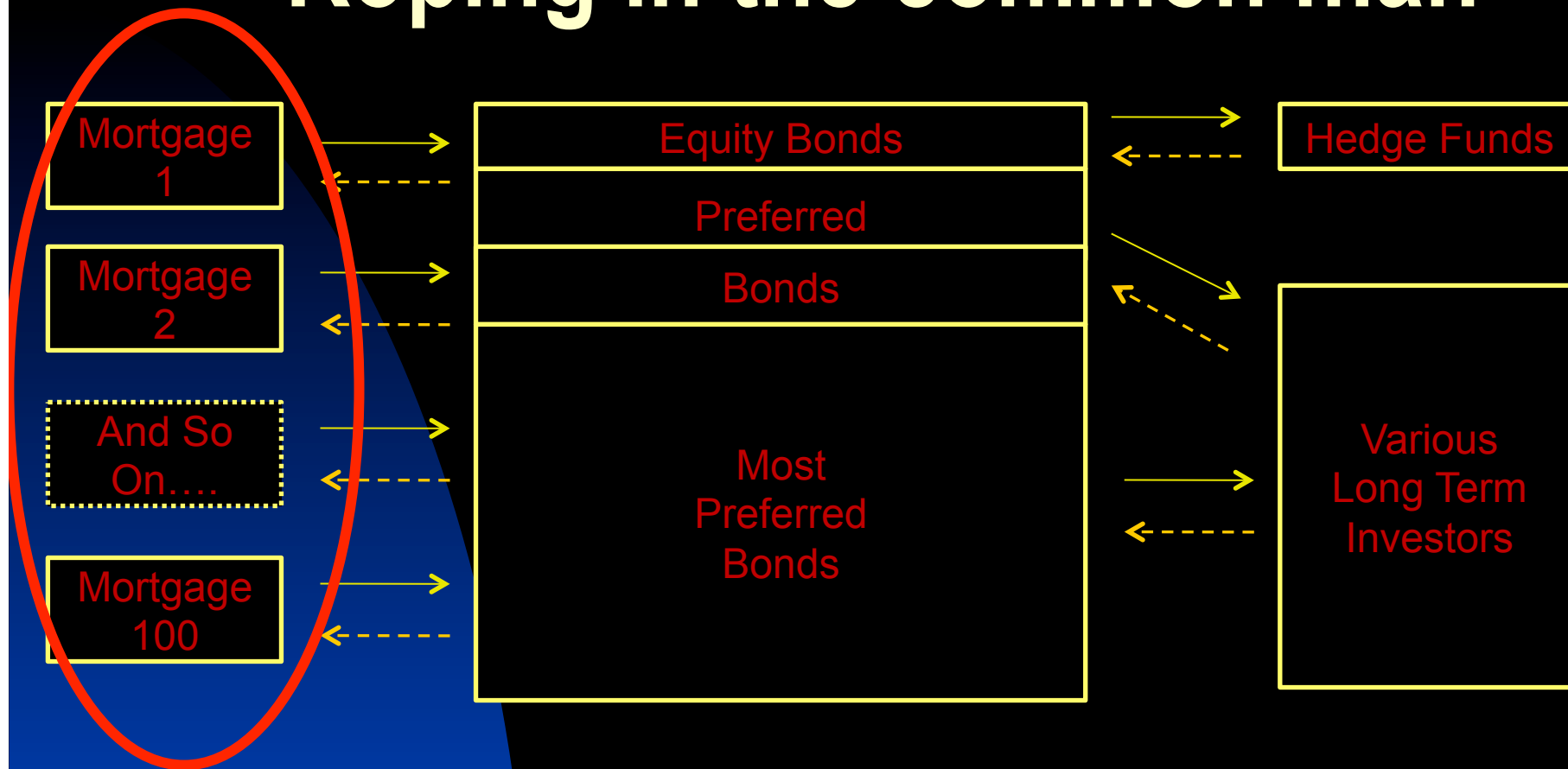
Anindya Sen

Slicing The Pie



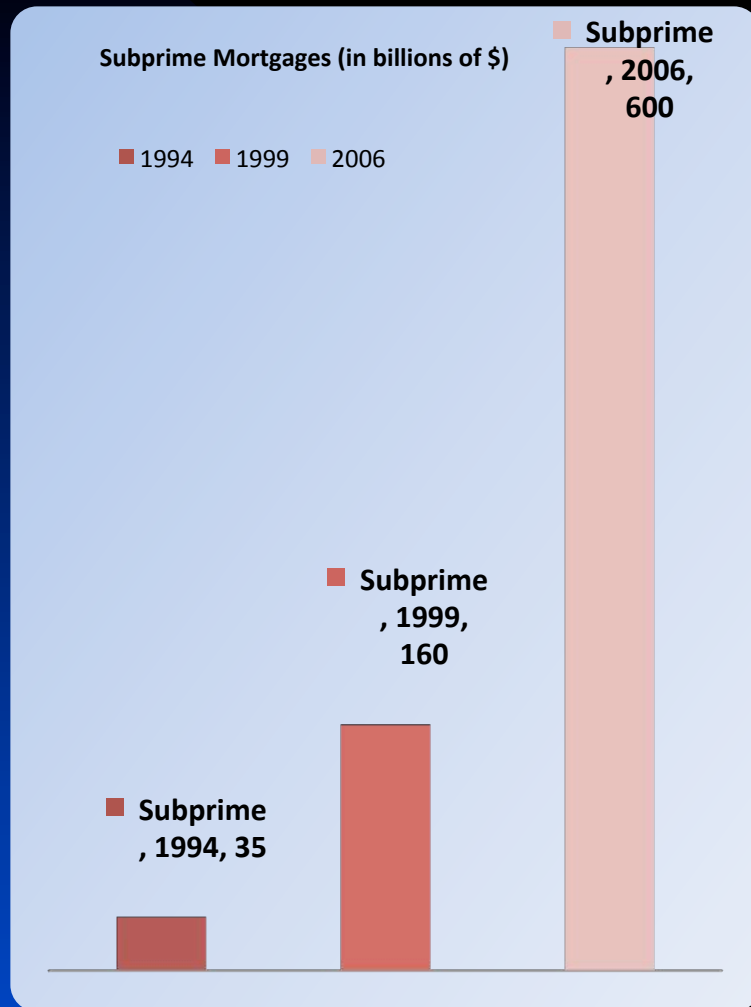
“Weapons of financial mass destruction”...

Roping in the common man



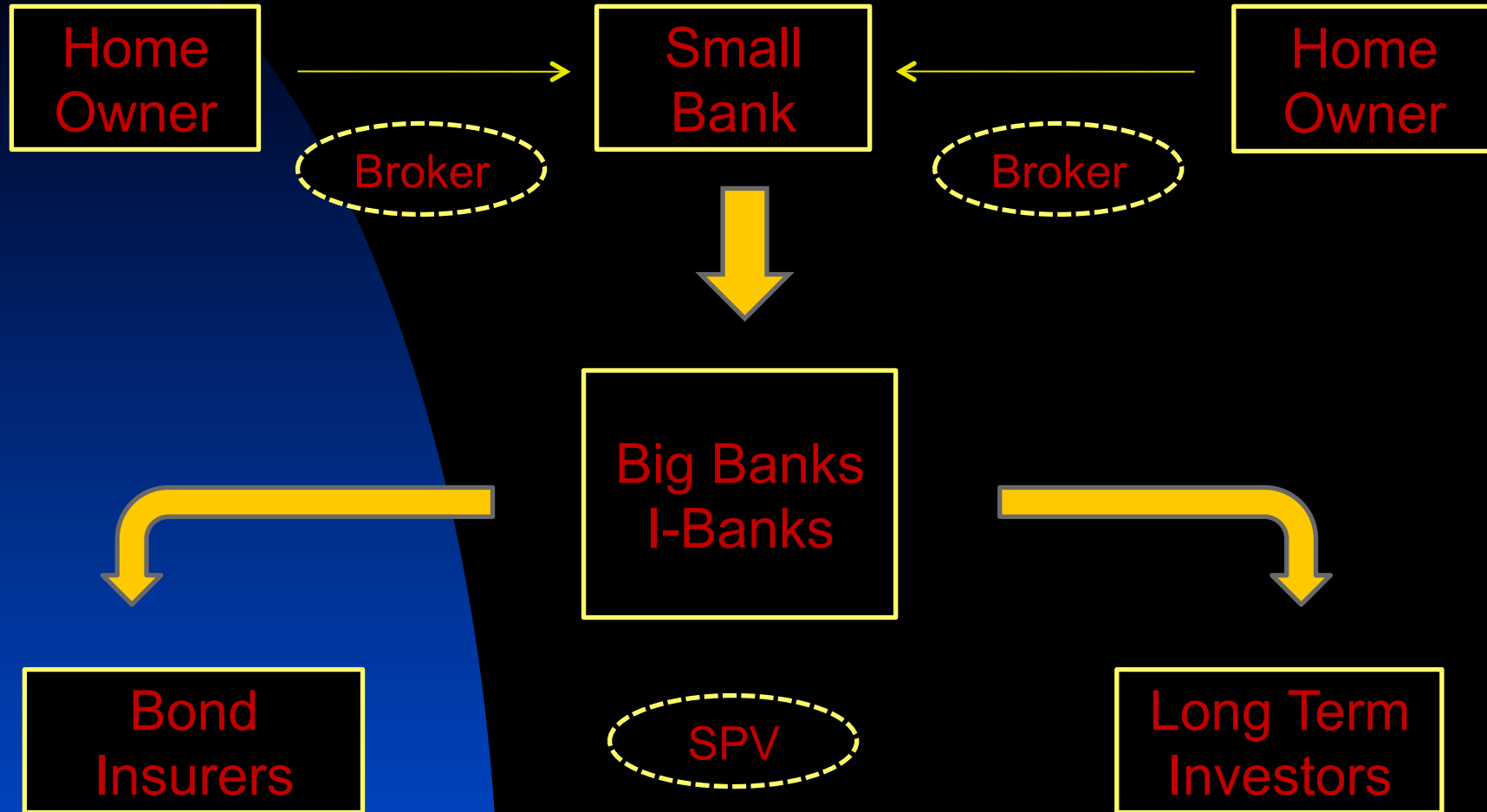
Onwards to subprime crisis....

Subprime Mortgages



- “Teaser rates” subject to increase in future
- Credit checking non-existent
- By 2006, 20% of US mortgages are of subprime category

The Big Picture



Inevitable Reckoning



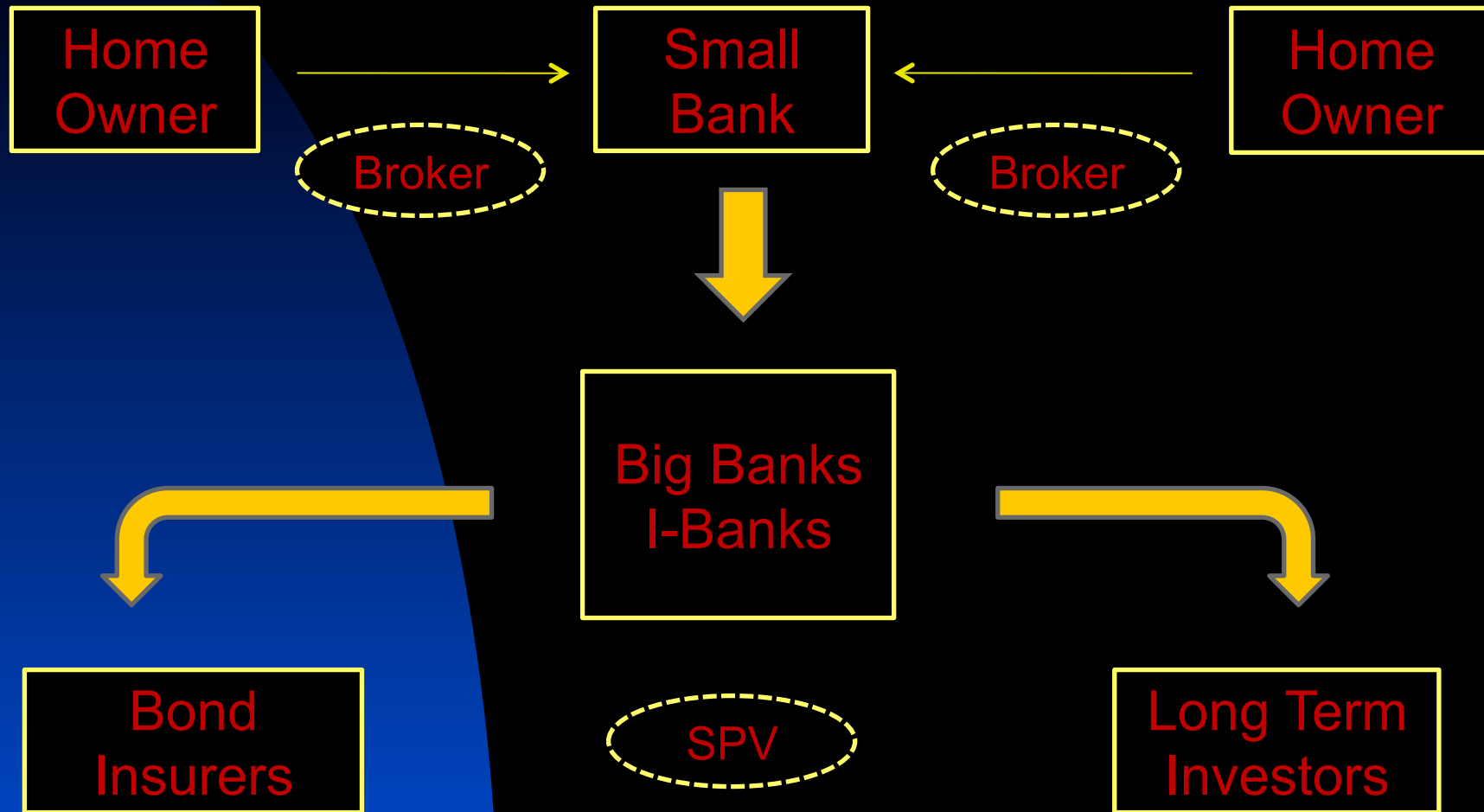
Financial Crisis Highlights

- Over \$1.5 trillion lost on toxic assets.
- Near collapse of US mortgage industry
- Investment banking disembowelled
- Total government bailouts exceed \$2 trillion in US and Europe.

Highlights and Aftermath

- Global contagion. Worldwide recession.
- Greek financial crisis
- **Rise of Populism**

The Big Picture



Washington Mutual

- “The Power of Yes”.
Referral fees for brokers.
- Revenue of home lending unit grows from \$700 m to \$2 billion in 2002 – 2003.
Number of branches increases by 70% to 2200 in same year.
- Sep 15, 2008 - Share price drops to \$2 per share from \$30 one year back.
- Sep 25, 2008 – Seized by Treasury.
Auctioned off to JP Morgan for \$1.9 bn.

The Unthinkable Happens



- **Sep 14, 2008 –
Lehman Brothers files
for bankruptcy.**
- **Merrill Lynch sold to
Bank of America.**
- **Sep 16, 2008 –
AIG on the brink.**

American International Group

- AIG Financial Products – Group of 377 in London starts insuring CDO tranches in 2001.
- Revenues of AIGFP rise to \$3.26 billion in 2005. Average employee comp - \$1 million per year.
- Sep 30, 2007 – AIGFP reports \$350 million loss on CDO insurance portfolio.
- Sep 1, 2008 – AIGFP portfolio loss rises to \$25 billion. Share price falls to \$1.25.
- Sep 16, 2008 – US govt bails out AIG with \$85 billion

Ratings For Sale

“We obviously cannot ask payment for rating a bond. To do so would attract a charge that our ratings are for sale.”

Edward Vogelius, Moody's VP, 1957



Early 1970's – Moody's begins charging issuers for ratings

2005 - \$715 million revenue from rating structured finance products.
41% of total revenue !

Spurious rating of mortgage backed securities – Widely trusted in the market.

Napping At The Wheel



“Not only have financial institutions become more resistant to shocks, the financial system as a whole has become more resilient.”

Alan Greenspan, 2004

Favouritism Inc



- **Former CEO of Goldman Sachs**
- **As Secretary of the Treasury, bails out AIG so they can repay Goldman**

Miscalculation



- Decides not to bail out Lehman Brothers to “send tough message to markets”
- Collapse of Lehman causes huge panic

So Where Are We Now ?

- Investment banks back to business as usual
- **Effort to improve regulatory environment**
But not enough ?
- **Recession officially over, but....**