



# Subprime mortgage crisis

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2. **Causes of Subprime Mortgage Crisis**
3. **Subprime Mortgage Crisis phases(+EU)**
4. **Responses**

# 1. Subprime mortgage

: A type of mortgage loan granted to individuals with **poor credit scores**, who would not be able to qualify for conventional mortgages



# Credit markets

**Prime**

High credit

High income

**Alt-A**

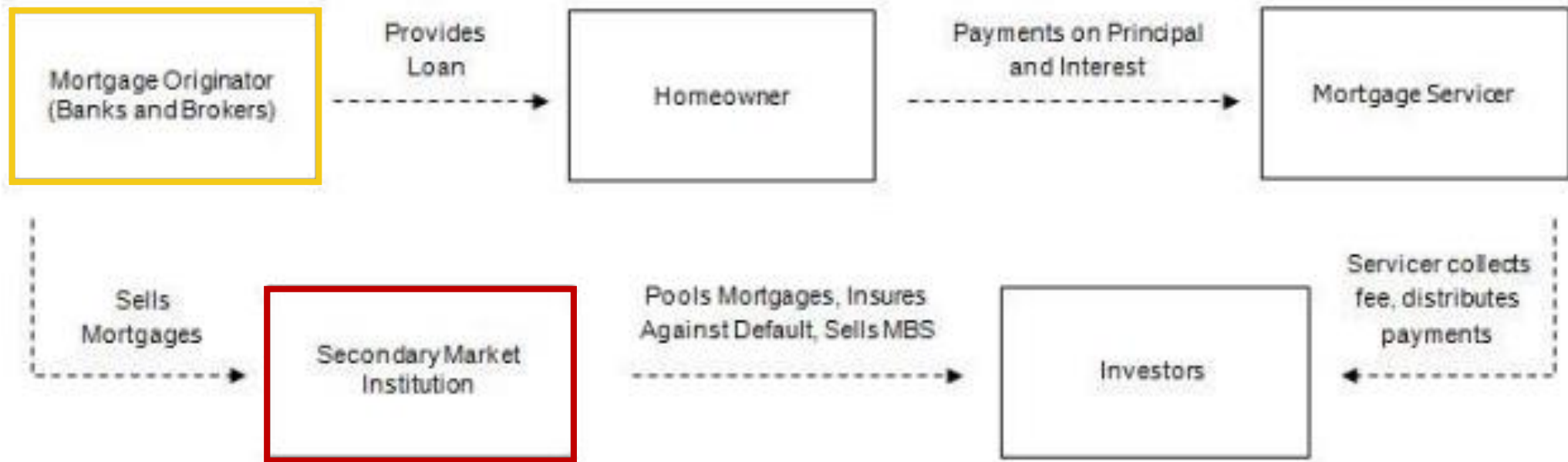
**Sub-  
Prime**

Low credit

Low income

# How mortgage market operates

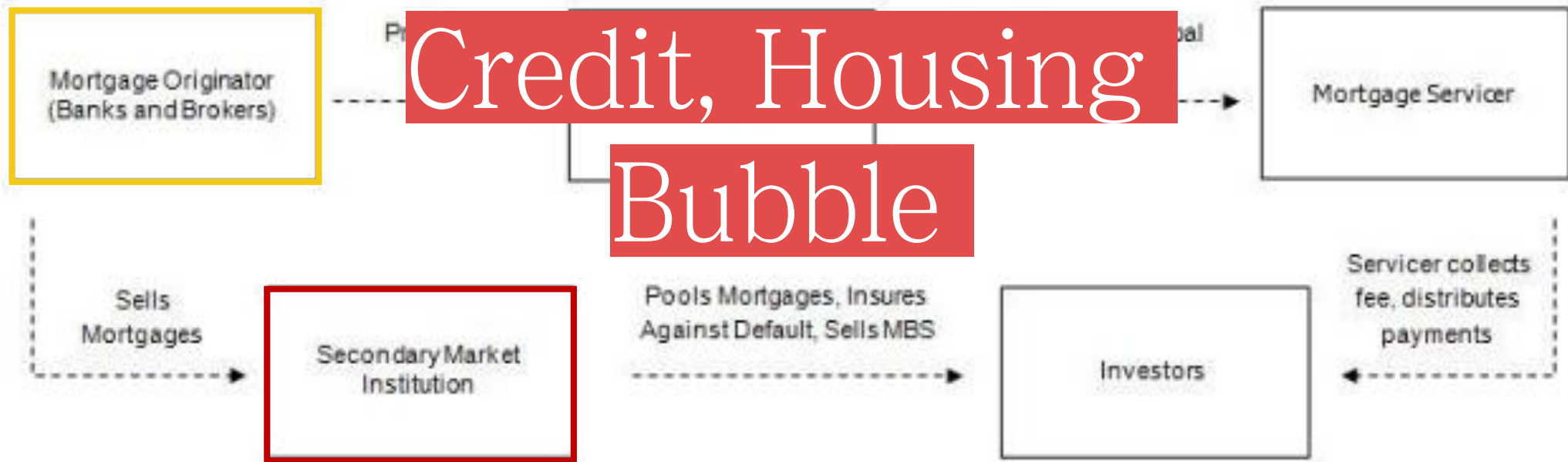
## 1. Primary mortgage market



2. Secondary mortgage market : MBS - Mortgage Backed Securities /  
CDO - Collateralized Debt Obligation(54%)

# How mortgage market operates

## 1. Primary mortgage market



2. Secondary mortgage market : MBS - Mortgage Backed Securities /  
CDO - Collateralized Debt Obligation(54%)

## 2. Causes of Subprime Mortgage Crisis



### 3. SMC Phases in the United States

- Default rate rose to 13%
- Mortgage companies shut down
- *New Century Financial* into **bankruptcy**

Early 2007

- Visualized loss & poor performances of financial firms and investment banks in succession

2007. 10~11

2007. 8~9

- BNP Paribas shock
- damage in lots of finance companies
- the financial market confusion ↑

Late 2007~

- **Collapse** of *Bear Stearns*
- Impact on the real economy
- Awareness and attention to the crisis



## Impact on EU

- Subprime mortgage loans becoming insolvent  
→ Global economic downturn
- De-leveraging in financial institution in the U.S  
→ Depreciation of the currency & Foreign debt burden ↑  
Financial deficit of firms and difficulty in fund-raising

five consecutive quarters of  
NEGATIVE economic growth

## 4. Responses



1. Just appreciation
2. Open Market Operation & Lowered the target for the Federal funds rate from 5.25% to 2% → Liquidity
3. Try to revise wrong practices in subprime mortgage loan
4. TFA/TSLF  
Bailout of financial sector



- Macroeconomic policy coordination for reflation  
U. K–France–Germany
- Financial system restructuring  
ESRC/ESFS  
(European Systemic Risk Council)  
New guidelines for bank restructuring

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**Thank you 😊**