

Session 60097573

slide question

W3 PBL 6: Take-home International Anecdote of Financial Crisis

International Example:

Liar Loans/NINJA Loans of the GFC (Global Financial Crisis).

The origination of the GFC came from crash of the US housing market bubble in 2007–08. Inflated house prices were supported by..

- Liar Loans: Loans with fraudulent documentation.
- NINJA(No Income No Job Assets) Loans: Loans unsecured by collateral or serviceability.

*Concept check: Define collateral and serviceability.

- These and other subprime (poorer credit quality) loans made up to 25% of the US mortgage market; the subprime market. By comparison, Australia's subprime sector was just 2% of the overall market.

<http://www.abc.net.au/7.30/content/2011/s3288513.htm>

http://www.abc.net.au/4corners/special_ed/20070917/subprime/

There was no prudential regulation and enforcement to stop such fraud and flawed financial products from contaminating the US financial system and artificially inflating house prices.

The subsequent default of the subprime market precipitated the collapse of the wider US housing market and catalysed the GFC in 2007-08. **The GFC was the most severe global economic recession since the Great Depression in the 1930s.**

The US has attempted to introduce regulation via the Dodd-Frank Act to curtail the excesses of its financial intermediary system. As to why US regulation was unable to prevent the Subprime crisis, there is a complex and ongoing struggle between political forces that advocate market regulation versus free market discipline in the US. One of Donald Trumps campaign promises was to repeal Dodd-Frank.

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