

Hsbcs lending decisions and the subprime mortgage crisis case study examples

[Business](#), [Management](#)



The following paper discusses the decline of HSBC in detail and what were the major causes for it. The subprime mortgages, the main cause of financial crisis that hit not just USA but the entire globe, has been discussed in depth. The paper also mentions some of the policies that are now adopted by HDFC to combat bad debt and to ensure it is not repeated again. In the race to gain more customer base, huge financial corporation's overlooked many key factors which when cumulated, resulted in the financial crisis of 2007.

Introduction

The global recession that affected the global markets was mainly due to the defaulted mortgages. Multiple events led to the downward fall of mortgage businesses. Amongst other banks that caused the financial recession, HSBC, which was the third largest bank at the time, was a leading sub-prime mortgage lender. The US financial meltdown was mainly triggered due to the large volume of defaulted subprime mortgages, of which HSBC played a rather big role. To add to the subprime mortgages was the rising property prices which further caused the financial meltdown. In order to grab more market shares, financial institutions competed with each other more fiercely. While doing so, the poor working class and those with bad debt history were also targeted and allotted loans. Unable to pay, the default rates increased drastically giving rise to a severe financial crises which affected the entire globe.

What problem did HSBC face in this case? What management, technology, and organization factors were responsible for the problem? Did HSBC management correctly identify the problem?

The main reason for the crisis was HSBC's large lending trends for subprime

mortgages. Subprime mortgages are essentially targeted towards the low income group who even though present a risky state of default; they produce a good business opportunity to the lender. Subprime customers are essentially low-income group individuals with low possibility of repayment. Even though lending to such income group is usually avoided, during the peak property boom, HSBC in order to gain more customer base relaxed its rules and indulged in acquiring such subprime customers. This was the major flaw that HSBC did, merely in the race to gain larger customer base. HSBC had sophisticated information systems and analytical tools for predicting the risk presented by subprime mortgage applicants. Why did HSBC still run into trouble? If HSBC had a solution to the problem all along, why was the right solution not used?

Another important factor that added to the crisis was the lack of use of technology. The credit card rating system used by HSBC and other lenders is provided by Fair Isaac Corp. called FICO score. Even though FICO score is used widely, it is not a very reliable tool for scanning. They did not provide a comprehensive data of subprime borrowers and also could not distinguish borrowers based on those whether the down payment was made or not. These models did not take comprehend the state in case of fall in housing prices. Yet HSBC in its quest to gain more customers, went ahead with the FICO scores to screen the incoming applicants. Thus even though the analytical tools were sophisticated, it was not enough to realize the crisis and hence HSBC ended up with a lot of bad debt.

What solution is HSBC relying on to deal with its problem going forward? Will these solutions be sufficient to turn the subprime mortgage business

around? Are there additional factors for which HSBC has not accounted?

What are they?

In order to deal with the ongoing problem and to avoid repetition of the crisis HSBC made changes in its policies as well as personnel. The first step it undertook was to cease the stated income loans and made it mandatory to obtain FICO score for loans. Another major change adopted was the appointment of Tom Detelich as the head of HSBC Mortgages. In addition it also doubled its number of customer representatives. Such representatives follow-up with defaulters and discuss to decide on a much manageable return terms.

HDFC also realized the potential of information technology and used it to its full capacity by helping them to recognize those customers who would not be able to make their monthly payments. HDFC also utilized the business analytical software developed by Experian-Scorex. This software essentially helps in arranging scoring models as well as in segregation of portfolio. It is a great tool for management of customer relationship as well as assists in risk management decisions.

These tools along with management training should enable HSBC to formulate the right strategies for every applicant, assess the viability and worth of the applicant and accordingly formulate a custom made loan offer that is not merely beneficial to the customer but also to the lender.

What are the possible consequences of HSBC changing its approach to subprime lending? How might these changes affect the business? How might they affect the customer? How might they affect the U. S. economy?

The changing attitude and policies adopted by HDFC can solve the sub-prime

mortgage challenges to a great deal. Such changes even though might be more intensive in nature; it could prove much difficult for customers and businesses to earn loans. Today in order to regain the lost market, businesses require loans and to enhance the business. But the strict policies now adopted by HDFC and other such financial markets will result in gaining loans a much more difficult task. Customers, especially in the low income group will be faced with many challenges while acquiring loans. But on the other hand these changes will definitely help the US economy to again get back on its feet; even though economists predict a minimum of another two years to solve the crisis, such constructive step can help the world economy at large to get stable, slowly but steadily.

HSBC made a decision to pursue subprime mortgages as a segment of its business. Explain how this was a structured, unstructured, or semi structured decision. Then, present your opinion about where in the decision-making process HSBC went wrong. Finally, apply the decision quality concepts of accuracy and comprehensiveness to this case.

HSBC's decision to treat subprime mortgages as a business was an unstructured decision as it did not take into account the many variables. In its hurry to compete with the giants and gain a larger market share, HDFC in fact created a pool of bad debt. The decision making process could have been more in depth and the management at HDFC should have deliberated extensively into the policies to avoid the crisis. The management should have acquired the correct and comprehensive data in order to ensure that the bank was saved from bad debts especially from the subprime mortgages.

Conclusion

The subprime mortgages were the major cause of the financial meltdown faced not just by America, but the entire globe. Globalization caused the entire world to feel the effects of financial recession. Solving the issues, in order to stabilize the economy is the need of the hour. Like HDFC, financial markets need to review their stands and apply appropriate strategies that will heel control the economic recession.

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