

# Financial crisis

Business



Summary The paper addressed several issues related to the financial crisis, and reached several conclusions, which will be underlined in the following paragraphs.

One major conclusion is that the financial crisis would not have happened if the regulators and other institutions responsible for supervising the financial system, would have taken the appropriate measures to keep the system sound and well functioning. Signs of their inability to fulfill this task were the easiness in getting a bank credit, lack of regulation, too low interest rates, and toxic mortgages.

Moreover, some of the major financial institutions, considered “ too big to fail” had many deficiencies in their corporate governance practices. These institutions have wrongly assessed the level of risk of their operations and exposed their business, as well as the other stakeholders to enormous losses. This behavior was encouraged by credit rating agencies, which due to some conflicts of interest, failed in correctly judging the level of risk of many of these institutions, and downgraded some of them when it was too late to make a difference.

Other cause which leaded to the collapse of the financial system was a combination of excessive borrowing, higher risk taking, and lack of transparency. Major U. S. banks failed in their assessment of risk by taking too much leverage, by providing credit too easily, and by not disclosing correctly all the information of their operations to the public.

The government played also a role in this financial crisis. By not taking the appropriate actions to stop this crisis, the government only created more panic and uncertainty in the financial markets. It also failed in ensuring that regulators are doing their job objectively, and in the best interest of all

parties in the financial markets.

Finally, the crisis can also be attributed to mortgage securitization and to over-the-counter derivatives (mostly to credit default swaps). The complexity of these instruments, and most of all the lack of regulation in this matter caused a chained failure of the entire financial system.