Prime crisis essay

Due to the sub prime crisis which hit the United States and other European nations, some of the financial firms were affected. Therefore, since the crisis gives a clear representation of tight liquidity further than the financial institutions in the U. S there is a likelihood of more damage on the financial firms which will result to the holding back of liquidity.

The crisis can also affect the firms in such a way that the economy will be distorted. The demand for the productivity of the firm will lead to lack of assurance on the consumer hence reducing the present and future expenditure. The exposure of the subprime crisis to the rate of exchange as well as the movement of the price of the commodities had a great effect on the dollar. Once there was depreciation on the dollar, there is a possibility of the increase on the profit of the firms which lean on the export hence reducing the profit of those who depend on the imported contributions heavily.

The hike in the price of the energy is a likelihood of increase in the energy profit on the producers leading to the reduction of the profit of other companies . According to S&P a supervisory body in the United States, the full amount of the losses to be reserved by the international sector of investment from sub prime, asset-backed safety measures, could arrive at $285 billion but spoken out that the end of engrave downs was in sight for huge organizations of finance. Therefore, there are worldwide effects of sub prime crisis in the diligence of banking, predilections of risk, proceedings and also on the economy. The immediate effect of sub prime crisis on the banking industry is the scratch which opening the hole in the models of the commerce banks, the volume of eradication and the revenue while restraining the options of ALM and this led to a large percentage decrease in the net effect in the available credit.

There was also a long-standing effect on the banking industry from sub prime crisis which indicates that there is a return of the economy to many years back. Therefore there is an implication that non-payment of loans is the remaining option since banks have restricted funding and income options. There were also risk predilection effects since the sub prime crisis brought about spectacular changes both in shareholder and lender preferences. The structured assets of all ratings were avoided in favour of straightforward securities of cash. Due to the concerns about the availability of resources and light value menaces, the merchants are under their own steam from the low-risk bazaars such as Munis. Due to the sharp decrease in the influence used by all the contributors in the market, there has been an enormous reduction of the liquidity in the market as a whole which is as a result of the indications in the crumpling of putting up with and Stearns.

In litigation, the disaster of sub prime has brought about susceptibility to the users and their consultants to dissimilar categories of maintenances. Therefore, the borrowers bring allegations against their lenders for the contraventions in TILA on top of the appropriateness of the regulations of the loans. There is a possibility of end investors suing the lenders, dealers and the deception agencies of evaluation, appropriateness of multifaceted possessions which are prearranged. The forced bankruptcy of $3 trillion in the classified prearranged label of resources has brought about grudging in the financial bazaar and the economy of the U. S of enormous amount of liquidity which cannot be reinstated by the banking organization . Due to the different effects the sub prime crisis has brought about, several consequences have resulted from those effects.

Therefore, the present prices are the best sheathing indicators that the underneath in the covering of the U. S market lies in 2009, which indicates that no amount of interest rate FED ease can change the fact that housing market means that in reality, prices must be re-established to home assessments which would cause a considerable reduction in prices in a number of bazaars. According to the collected data by the FDIC on the banking industry, it gives indications on where the U. S banking stands today in the procedure of modification and future assumptions on the levels of loan non-payments. There is an indication on the data on the table (Appendix I) that there has been a spectacular reduced speed in the profitability of the rise in non present possessions and other authentic owned estate. Therefore there is a decline in the number of performing depositories although the industry is not yet in close proximity to the disaster .

There is an indication (on chart 1 of the Appendix) that there are no charges on foul loan or non-payments for the Citibank NA and its huge peer reservoirs. Regardless of almost a year of market disorder on the subject of the quality of the acknowledgment of sub prime possessions, great rates of bank bankruptcy are moderately low. As there is experience of relapse on the rate of bank non-payment, which then leads to exceeded continuing standards, there is a possibility of the banking diligence in the U. S facing great confrontations in economics since early 1990s and perhaps 1930s. On chart 2, there is an indication of no charges on unclean loans or non-payments for Washington Mutual Bank FSB and its outsized bank peers in the assembly of investment specialization.

There is also a jagged supplement in the WaMu charge off presentation following the close of the 2005 achievement of Providian the sub prime credit card issuer. In the year 2007, WaMu acclaim card selection gave information of 1, 000 pb on no arraignments to the FDIC . There is an indication of no charges on unpleasant loan or non-payments for FIA Card overhauls, the beneficial credit card unit of Bank of America with addition of previous MBIA industry of $170 billion. There is a note on the enormous prickle in close group charges of non-payment in the period of 2002 which was as a result of a record of 8-10% by other numerous banks.

There is an easy and rational conclusion that the upward swing in the non-payments of loans which is currently in progress will give investigation or surpass the current climax after the extent and duration of the channel in the bank loan non-attendances are analyzed. This is according to the experience in the period of 1993-2001 and that of 2004-2007 with the company of the enormity of the increase within the precedent seven years . Due to the sub prime crisis in the U. S, there is an ease spread of financial trouble through banks and prevaricate funds.

This is because most of the hedge funds tend to engage in grouping performance, whereby there are many momentum companies following the current tendency. The hedge funds give a classical employment of heavy influence. When there is increase in markets there is a tendency of triple combination emphasizing on the upward move but when there is fall, the trouble multiplies. This comes by when the price of the possessions descend and the depositors want to extract their resources. This will automatically result to the hedge finance selling the assets lashing the prices further down . Due to this, the banks which lend money to hedge fund would have to ask for control cut by a simple edge call as that of Bear Stearns.

More and more assets will again have to be sold, resulting to other grouping hedge funds coming under anxiety to do sales hence giving ferocious curve yet another turn. The sub prime crisis in the U. S has resulted to large high profile prevaricate funds like Renaissance Equity Hedge fund. Goldman Alpha and Man's AHL fund have had dreadful weeks. The hedge resources that need quick cash do not sell the sub prime assets because the cost might be at a throw away but instead they do sales of other assets like shares and that is the reason why there is a contamination spread away from sub prime.

Due to the sub prime crisis in the U. S, there is an exposure of banks to credit market afflictions in different ways; these includes means of trading losses on credit implementations which are contained in their own books. CP endorsement loans, fixed loans to mammoth LBOs and also through lending the prevaricate funds. In addition to that, the equity businesses of the speculation banks may end up suffering if there is fall in the stock bazaar.

Their businesses of recommendation could enter into the depressions if the M&A explosion of which the LBO effervesce has been the most pulsating feature-comes to a conclusion. The exposure of the bank spreads contamination in a variety of ways, for instance there will be more reluctance on risks if the bank gets hit on the numerous obverses. Therefore there will be no possibility of banks discontinuing funding the LBOs and the sub-prime liabilities. Another consequence of the exposure of the banks is that this could lead to the banks becoming less enthusiastic to funding the evade funds, mediums and other particular principle automobiles and this could be another unplanned consequence .

Due to the exposure of the banks, there is a possibility of financial companies starting to find it hard to turn over the accessible liability agendas forcing the presence of delay in the developments of investments which could be even worse. There could also be a cautioun between banks on letting borrowing to take place amongst each other. Therefore it was to prevent the lending that the central banks swamped the promotion with liquidity causing the central bank to be at a high risk. Though the central bank tried to take action to the deception, it definitely managed to immediately coerce the rates of interest down to the stage which was representative. Although the central banks felt they had no liquidity injection in a row of two days, there is a suggestion that there has been no standard come back into the inter bank bazaar.

Therefore the end result of this is that there will be no more confidence lending from the banks to each other till they are sure of who is on the dangerous experiences and losses. There are gossips still spinning in the region of the market about how a number of banks will be in problems. If there was a possibility of knowing the main source and the causers of the risk there could be a possibility of coming up with the solution of solving the sub prime crisis. The crisis has caused too much suffering amongst businesses since most businesses cannot be back to normal until the victims are blacklisted since everybody is treated as a suspect . There have been different and greater changes in the economic situation since the sub prime crisis came up in 2007.

There has been a dramatic depreciation of the U. S dollar to the relative currencies and also a steady rise in the oil prices as well as other commodities in the market. The exposure of the commodity together with other prices of commodities has been brought out by the effect of expansion, the responsibility of accounting for the rates of exchange and the price of the commodity engagements in the clarification of the stock value changes. The Sub prime crisis has led to a critical understanding of the movement in the major currencies and the prices of possessions by the use of a deterioration structure. There is also sensitivity in the coefficients to the currency and the movement on the price of the commodity from the previous fall off in combination with the actual movements in the major rates of exchange and the prices of the commodity after the occurrence of the sub prime crisis. There is a continued negativity and numerical consequence of the coefficients by the constraint of liquidity together with the sensitivity of the demand .

It is hard to tell who are at risk since banks and other financial organizations cannot reveal any information to the market which is detailed because the other players in the market can make use of the information to do business alongside them. It is not going to be simple for banks to borrow much money since they will be expected to put up guarantee. This will result to the taxpayers bearing a burden of providing money to the banks since the central banks will not be willing to supply large sums of money to the banks which they think they will lose though usually they insist on rock-solid hard copy which is like the government bonds to act as security . Due to the Sub prime crisis in the U. S, there has been expansion of the mortgage credit in the U. S housing market are the main spotlight of increased depositors, economic markets and legislators.

Due to the continued increase in the mortgage non-payments which has led to evolvement of many problems, there has been a fast expansion in the mortgage credit and prices of houses from 2001 to 2005. There has been a sharp fall in the standards of the mortgage securities with some loses amounting up to 70% to 80% of their rates in less than a year. Therefore there is a grave menace posed by the weakness in the U. S accommodation market to both the monetary and profitable movement.

Due to the development in the supply of credit to high dormant fasten codes in the U. S; this has been the reason of increase in the rates of non-payment. Because of the importance of the supply of the mortgage liabilities from 2001 to 2005 in a one average difference increase, there has been an effect on the normal difference increase in the rates of non-payments of the mortgage from 2005 to 2007. This implies that a single add to the average difference in the approval of the price of the houses, will lead to three times increase in the standard difference of the charges of non-payment of the mortgage. In order for the degrees to be put in the perception of the past, the comparative increase in the rates of non-payment mortgage, fro 2005 to 2007 for high dormant stipulation zip regulations are twice as large as the virtual increase during the downturn of 2001. The increase in the supply of credit is as a result of the financial improvement through the securitization which permits the jeopardy of loans to be disseminated to non conventional companies in the bazaar of mortgage .

The relative growth in the securitization of mortgages in high dormant stipulate fasten policies from 2001 to 2005 is strong. Correspondingly from 2001 to 2005 there was a high growth of credit and growth of default rates from 2005 to 2007 which are considerably superior for the zip conventions with a bigger augment in protection. The sub prime crisis caused high ongoing costs for sub prime mortgages compared to the prime loan which is a distinctive feature to the perception of the borrower. Due to the failure of recovery for majority of the manufacturing in 2001, there was an encouragement to the centralized Reserve to move forward the interest charges low. This held back the downturn but gave rise to the inflation of housing price, explosion in the construction, volatile growth of non conventional sub prime finances, liability financed consumer circumstances for expenditure and superior shortages for trade . These consequences of sub prime crisis brought about the additional trade in the other parts of the world hence doing the distribution of sub prime assets worldwide.

The trade surpluses continued as other countries followed leading in the growth of their exports blocking the approval of their legal tenders against the dollar in order for them to maintain their antagonism since a greater portion of their assets was advanced in the dollar. Consequently, the long-standing interests did not rise even when there was increase in the Federal Reserve for the immediate charges in 2004. There was a prompt on the investors on the low interest rates which could lead to dangerous lending increase at the moderate qualities of risk. Theoretically, the unsuccessful tackling of the problem in the trade areas of shortages could generate the comebacks of courses of action in the financial guiding principle areas which can give definitive formation of bigger problems.

Large insufficiency of trade cause real misrepresentations the end result of those which are costly though that may take time to materialize. On the global economy, according to the analysis and the Federal Reserve there are expected consequences which involve the U. S economy likely to face reductions in the second and third sections of 2008 which approximately analysis of one percent. Therefore according to the treasury secretary, there is a promised sluggish development rather than narrowing through swerve procedures which remains to be seen whether the data of redundancy of 2007 which is perturbing in United States is a fraction of the monthly development . There has been an unimportant exposure of the banks in the United States to the Sub Prime crisis. Therefore there is a possibility of a number of banks in the United States book marking loses in the market of the foreign offices to the recognition of the copies.

The estimation total loss by the Business Standard is US$4 billion for a portion of banks which are believed to providing quite little. There is a direct effect fall out of the collapse of the Sub Prime mortgages to the American institutions which is believed to be quite important . There is a clear implication that there could be a feeble or no growth of economy in the United States. Also there is an estimate by the World Bank that high revenue countries would make a diminutive growth of about 2. 3% against 7.

5% for other nations which are on the rise. Due to the low increase opportunities in the United States, according to the World Bank there is a possibility of high revenue countries dragging elevated income countries at their back. The compassionate part of the protuberance is that, low growth in countries which are industrialized would keep the price of the commodities high hence reducing the risks of price rises in the countries on the increase hence adding motivation to the growth. The financial contraction in the United States would show the way to less demand for goods which are imported hence crashing the imports. The positive reception of other currencies is due to the capital flows which have been put emphasis on are free and the flexibility of the financial markets which are likely to be made worse by the slimming down in stipulation in the United States. The United States response policy is of great importance since it will ensure that the Dollars do not give an extreme rise, an assignment that will entail active fumigation operation whereby these operations of sterilization throughout the market stabilization bonds will entail an additional economic burden on the government for the cost of interest of the attachments.

Also due to the rise in the power costs there has been no possibility of the adjustments on the purchaser prices due to the comparisons of political coalitions. Therefore there is a likeliness of increase on the government monetary pressure which gives an implication that the dollar might appreciate hence lowering the oversee sells and the financial stress which is causing worries in the United States institutions of finance . Due to the Sub Prime crisis, there are areas which are of great concern to the economy of the United States which include the formation of the resources in terms of the investments in deposit and technology, after hitting the highest point in the middle of the year, there is a sign of stagnancy and depreciation. In the course of 2008 and 2009, there is a likeliness of the main effects of the deceleration are likely to be brought out, which will need to be balanced by the expenditure of the capital for the infrastructure and more proposals, especially in some segments like authority, aviation and transport from the government. Another effect will be the stability of the trade shortfall to a high level and increase hence giving an indication of lack of opposition in the economy of the United States. There is a caution of control on the capital flows which is encouraging banks to diminish their rates of lending in order to encourage expenditure and development.

Therefore there is a task of scheming price increase and excess liquidity and this task materializes at a fractious point . There is a likeliness of repeat in the growth rates which had been experienced in the past years which is due to the restructuring program of economy which is not yet completed though it touches the exterior areas. There has been no success by the government in bringing out the reforms which can work in the financial sector in competition like for the consistency of the taxes in the United States. There is a requirement for lowering the Gross Domestic Products in the U.

S which a great anticipation to the citizens since it has always been promised to them. The sub prime crisis has had a great impact on the economy of United States since it has brought about delay in the development of infrastructure, education, indemnity and health and big gaps on the economic strategy .