

# Anatomy of a Financial Crisis

Paula Tkac  
Federal Reserve Bank of Atlanta  
February 5, 2009

Disclaimer: The views expressed here are my own and do not represent the views of the Federal Reserve System.

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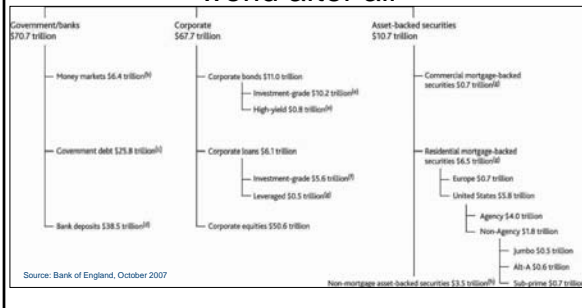
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## Global asset markets...it's a small world after all



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## 'Contagion'

- Securitization
- CDO's and Structured Finance (tranches)
- Heterogeneity
- Opacity
- Counterparty Risk
- Illiquidity
- Uncertainty

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Questions?



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The first wave – March 2008



Liquidity Facilities: PDCF, TSLF

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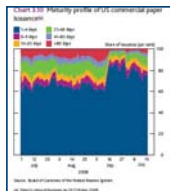
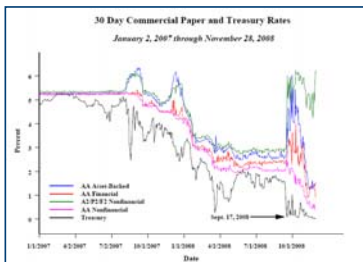
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The second wave – September 2008



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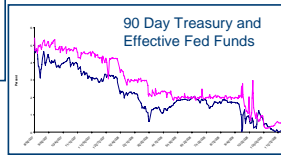
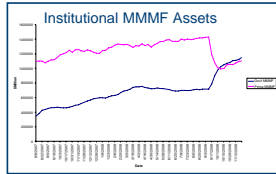
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## Flight to quality



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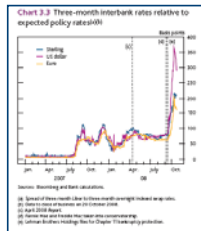
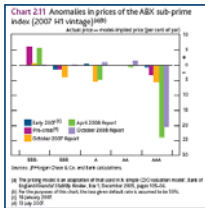
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## Continuing symptoms: liquidity premia and interbank rates



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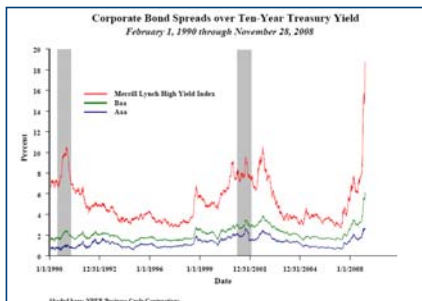
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## Corporate debt is not immune



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## Nor are equity markets



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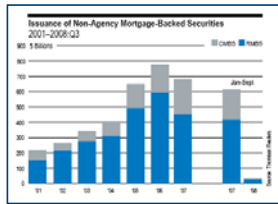
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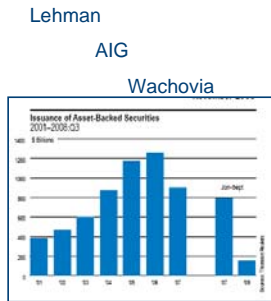
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## Market shutdown... firms in crisis



CITI

Merrill Lynch



Lehman

AIG

Wachovia

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## Questions?



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## More treatment...

- Fannie and Freddie conservatorship
- Commercial paper funding facility
- MMMF guarantee
- MMMF liquidity support
- Asset backed security facility
- TARP – equity purchases

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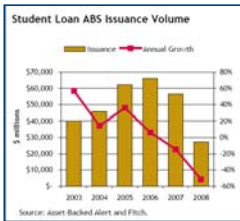
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## Impact on student loan market



- FFELP (1965)
  - 80% of loan market 2007/2008
  - Gov't guarantee
  - Funded by ABS
- ECASLA (5/2008)
- CPFF (10/2008)
- ABCP/ED conduit
- TALF (2/2009)

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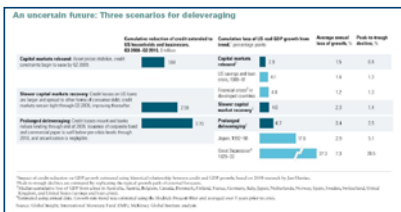
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## Prognosis?



Source: McKinsey Quarterly

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## Questions?



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## More information

National Student Loan Program  
1300 O St.  
Lincoln, NE 68508  
800-735-8778 [www.nslp.org](http://www.nslp.org)

Financial Literacy, ext. 6858  
[nslpfinancialliteracy@nslp.org](mailto:nslpfinancialliteracy@nslp.org)

Business Development, ext. 6618  
[pamv@nslp.org](mailto:pamv@nslp.org)

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## AFC Money Watch

Subscribe to [AFC Money Watch](#), NSLP's biannual newsletter.

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*Organizing Your Personal  
Financial Paperwork*  
**Thursday, March 5, 2009**  
**1 pm Central/2 pm Eastern**

Register in the "Workshops & Webcasts"  
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Thanks for attending!

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## Anatomy of a Financial Crisis

The financial market turmoil that began in August 2007 can perhaps best be understood with a medical analogy -- the credit markets are sick and have ceased to function normally. Since credit provides the lifeblood of a market economy, this financial crisis affects not only banks and financial institutions, but the real side of the economy as well. This presentation will trace the genesis of the crisis from its beginnings in the relatively small US subprime mortgage market, through the contagion to virtually every sector of global asset markets, to 'main street'. The Federal Reserve and the US Treasury have undertaken a variety of measures in an attempt to treat the symptoms and the causes of the crisis. How do these 'treatments' fit together? Have they been successful? Finally, the presentation will offer some thoughts on the future for both credit markets and the real economy.

Slides 2 and 3: How do concerns about defaults on U.S. subprime residential mortgages affect equity and debt markets throughout the world?

Slides 4-10: How has the crisis evolved over the last 18 months?

**August 9, 2007:** halting of redemptions in 3 funds at European bank BNP Paribas

**March 2008:** Systemic risk - Bear Stearns

**Summer 2008:** Fanny & Freddie Conservatorship

**September 2008:** Lehman bankruptcy, AIG, Merrill Lynch

What are the particular market indicators that are cause for concern?

- Liquidity Premia in Asset Prices
  - Fire Sale Prices
- Flight to Quality
  - Demand for US Treasury Securities
- Issuance of Asset Back Securities Decline
- Market for lending beyond 3-5 days is very limited
- Corporate Equity and Debt Markets become affected

Slide 11: The multi-dimensional policy response by the Federal Reserve and the US Treasury

Slide 12: How has the Student Loan Market been affected by the turmoil?

Slide 13: What is the prognosis for the credit markets and the economy going forward?

- Credit market policies seem to have been effective in stabilizing markets for commercial paper and mortgage backed securities
- The issue of 'toxic assets' on bank balance sheets remains unresolved
- Pending the anticipated announcement of the Obama administration's plan for the remainder of the TARP funds
- The current recession is 'different' in that it combines a real economic downturn with severe financial stresses
- Prediction going forward is even more difficult than usual