

## Abstract of the articles

### **MORTGAGE MARKETS IN CRISIS: RISK-BASED COMPETITION AND LESSONS**

JÚLIA KIRÁLY–MÁRTON NAGY

In the summer of 2007, a global financial crisis has emerged which still has not come to an end. The outbreak of the turmoil was the upsurge in the default rate on sub-prime mortgages. Since that time, the signs of the mortgage-market crisis have shown up in other European countries. One of the common causes of the crisis was the predatory lending, the loosening of credit standards as risk-based competition intensified. Its several elements can be observed on the domestic mortgage market as well. Fortunately, this crisis has evaded us now, but it is the time to learn the lesson.

### **SOME THOUGHTS ABOUT PHENOMENA'S OF SUBPRIME**

ERIKA MARSI

The aim of this paper is to draw attention to some phenomena, one or two correspondences in connection with the subprime crisis. In this article, I study some causes which led to the subprime crisis, among the others; like the growing extent to which households are indebted, the absence of essential credit risk monitoring which takes place by the process of securitization, the lack of transparency, and the anomaly of calculating market risk rather than credit risk by the capital requirements of the securitized subprime mortgages. I also reach some points of Basel II approach. Finally, I analyze some questions of moral hazard, which takes place by the bailout of companies became bankrupt, comparing the efficiency of the American and the European approach.

### **THE SUBPRIME CRISES AND THE SUPERVISION OF THE FINANCIAL INSTITUTIONS**

MIHÁLY ERDŐS–KATALIN MÉRŐ

If we want to summarize the supervisory conclusions of the current financial crises, we are not in a pleasant situation since we do not know its end, and full scope, yet. However, this crises has raised already several questions, and issues to be discussed which have not been the relevant ones for the financial regulators and supervisors before. In our paper we analyze the impacts and lessons on the whole financial sector; on the banking, insurance, capital market and the pension sector. The cornerstone of this turbulence is a financial invention, the originate-to-distribute model, which risks were not assessed and mitigated by the financial regulators, supervisors, and rating firms. Moreover they underestimated it.

We have identified as the most important issues: the impact of the change of the banking model on the supervisory approach, the supervision of the liquidity, the appropriateness of

the credit risk management, the role of the intermediaries (agents, brokers), and the incentive systems of the business model.

While we were preparing this article, we had to remember an important lesson: under the time period of a crises you may expect new challenges every day.

### **WHAT TO DO? – HOW TO WAY OUT FROM SUBPRIME CRISIS**

MÁRIA MÓRA

A number of prestigious international and European, professional and political organizations are looking for actions and changes to be taken in financial systems in order to avoid or mitigate crisis similar to the subprime crises. Current article summarizes possible solutions selecting from subjective point of view without any demand of completeness. The article shows the principles to be considered in regulatory actions and it points out the fields which are the most important. The article deals with the following proposals in details: enhancement of transparency, evaluation standards, the role of rating agencies, prudent regulations, liquidity management, Basel II (CRD rules).

### **SUBPRIME CRISIS: HOW BANKS RAISE CAPITAL: SOLUTIONS, ADVANTAGES AND RISKS**

TAMÁS MÓRÓ

The total write downs resulting from the subprime crisis now exceed more than 500 billion USD in the banking sector alone. In this paper we examine the techniques and methods applied by the banks of raising mostly equity-type capital.

Banks have to achieve a Tier 1 capital ratio of 4% in order to be adequately capitalized, but most financial institutions aim for a higher figure, usually above 8%. However, in many cases in has not protected them from financial distress, because of the way capital ratios are calculated. In order to comply with these requirements banks had to raise capital which are considered equity by their regulator.

Banks issued four major types of equity or hybrid securities: ordinary shares, preferred shares, preferred convertibles and mandatory convertibles. One of the most common method was a simple rights issue, which in many cases resulted in a steep fall in stock prices as well as making it difficult and more expensive to issue other forms of securities. Therefore the banking sector turned to other methods, by issuing hybrid securities. For the banks the advantages of issuing hybrids are: postponing a dilution of the common stock, attracting new types of investors and being able to raise the necessary capital. We examine the advantages and disadvantages of each security in this paper, coming to the conclusion that just the sheer size of this capital raising forced the banks to be very innovative.