

The Bear's Lair: Index Credit Default Swaps and the Subprime Mortgage Crisis

[Get access >](#)

Richard Stanton , Nancy Wallace

The Review of Financial Studies, Volume 24, Issue 10, October 2011, Pages 3250–3280, <https://doi.org/10.1093/rfs/hhr073>

Published: 30 August 2011

Abstract

During the recent financial crisis, ABX.HE index credit default swaps (CDS) on baskets of mortgage-backed securities were a benchmark widely used by financial institutions to mark their subprime mortgage portfolios to market. However, we find that prices for the AAA ABX.HE index CDS during the crisis were inconsistent with any reasonable assumption for mortgage default rates, and that these price changes are only weakly correlated with observed changes in the credit performance of the underlying loans in the index, casting serious doubt on the suitability of these CDS as valuation benchmarks. We also find that the AAA ABX.HE index CDS price changes are related to short-sale activity for publicly traded investment banks with significant mortgage market exposure. This suggests that capital constraints, limiting the supply of mortgage-bond insurance, may be playing a role here similar to that identified by [Froot \(2001\)](#) in the market for catastrophe insurance.

© The Author 2011. Published by Oxford University Press on behalf of The Society for Financial Studies. All rights reserved. For Permissions, please e-mail: journals.permissions@oup.com.

Issue Section: [Articles](#)

You do not currently have access to this article.

Sign in

 [Get help with access](#)

Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

Sign in >

[Register](#)

Institutional access



Sign in through your institution

[Sign in through your institution](#)

[Sign in with a library card](#)

[Sign in with username/password](#)

[Recommend to your librarian](#)

Institutional account management

[Sign in as administrator](#)

Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

The Bear's Lair: Index Credit Default Swaps and the Subprime Mortgage Crisis - 24 Hours access

EUR €53.00

GBP £44.00

USD \$58.00

Rental



Read this now at
deepdyve

This article is also available for rental through DeepDyve.