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## The (Continuing) Information Problems in Structured Finance

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### Abstract

The key problem facing markets today is information. Structured finance products are inherently complex and difficult to value. Hence, the marketplace is inherently opaque. Without adequate information, investors will not invest in either primary or secondary markets. In primary markets, such reluctance results in decreased lending. In secondary markets, such reluctance results in a steep lemons discount, arising because investors do not know the value of assets but are otherwise able to transact (which is not the same as a liquidity crunch, where investors know the value of investments but are nonetheless unable to transact). Regulators have done little to address the fundamental information problems that perpetuate the current crisis. The veracity of bond ratings has been called into question. The major Nationally Recognized Statistical Rating Organizations (NRSROs) have allowed their ratings to reflect different economic magnitudes of risk for different financial products. At the heart of these difficulties (particularly with respect to wide differences in the degree of economic risk attached to various ratings) are the conflicts of interest inherent in an issuer-pays ratings industry whose products are protected as opinions under the First Amendment.

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