

Critical Review >

A Journal of Politics and Society

Volume 21, 2009 - Issue 2-3: Causes of the Financial Crisis

43,465

Views

266

CrossRef citations to date

50

Altmetric

Essays

CAUSES OF THE FINANCIAL CRISIS

Viral V. Acharya & Matthew Richardson

Pages 195-210 | Published online: 13 Jul 2009

Cite this article <https://doi.org/10.1080/08913810902952903>Sample our
Politics & International
Relations Journals>> Sign in here to start your access
to the latest two volumes for 14 days

Full Article

Figures & data

References

Citations

Metrics

Reprints & Permissions

Read this article

ABSTRACT

Why did the popping of the housing bubble bring the financial system—rather than just the housing sector of the economy—to its knees? The answer lies in two methods by which banks had evaded regulatory capital requirements. First, they had temporarily placed assets—such as securitized mortgages—in off-balance-sheet entities, so that they did not have to hold significant capital buffers against them. Second, the capital regulations also allowed banks to reduce the amount of capital they held against assets that remained on their balance sheet. If the assets were rated AAA, the banks could place them in off-balance-sheet entities and sell them to investors. The AAA-rated

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings

Notes

1. Coval, Jurek, and Stafford [2009](#), therefore, calls these kinds of tranche products “economic catastrophe bonds.”
2. See Rajan [2008](#) for an early hint of this problem with bankers’ pay. Acharya and Volpin [2009](#) provides a model explaining why pay may have risen in the banking industry, and why at the same time risk-management (governance) quality deteriorated, due to greater mobility of risk-takers across financial institutions. Acharya and Richardson [2009](#) provides a detailed account of such governance failures (see, especially, chs. 7 and 8).
3. The following account is taken from UBS’s “Shareholder Report on UBS’s Write Downs,” prepared for the Swiss Federal Banking Commission, 18 April 2008.

Related research

People also read

Recommended articles

Cited by
266



About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All 

Essential Only

Settings

Information for

Authors

R&D professionals

Editors

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2024 Informa UK Limited [Privacy policy](#) [Cookies](#) [Terms & conditions](#)

[Accessibility](#)



Taylor & Francis Group
an informa business

Registered in England & Wales No. 3099067
5 Howick Place | London | SW1P 1WG

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings