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SIX QUESTIONS TO GEORG ERBER

»After the Crisis is before the Crisis«

1. The aftereffects of the international financial crisis are still being felt, particularly in the financial sector itself. Securitizations (mortgage debt which is consolidated and then resold) were a primary culprit in precipitating the crisis. Dr. Erber, are these securitizations a thing of the past?

Far from it! Initially, we actually did believe that this business model would collapse with the US subprime mortgage crisis, but recent figures show a definite recovery of the securitizations market. We saw no significant correction of European portfolios, even after the crisis. This continues to be an attractive business model, particularly for investment banks.

2. In this case, would you say that we have failed to learn lessons from the past?

That much is quite clear. There has been barely any regulation of the securitizations market. Instead, we have simply relied on the crisis not repeating itself soon. It was assumed that there would be plenty of time for corrections later, which proved to be a misconception.

3. Is there an explanation for this resurgence of securitizations?

Securitizations offer investment bankers and borrowers the opportunity to refinance more cheaply than with conventional methods. At the same time, creditors, such as large pension funds, also have a great need to regularly include large volumes of high-quality papers in their portfolios.

4. Is there perhaps then the risk of a new real estate bubble or even another financial crisis?

Yes, there are definitely massive problems in the commercial real estate sector at the moment. Even the

rating agencies have started to scrutinize their valuation models. They are obviously concerned about recourse claims against them. As a result, a lot of investment banks, and also German commercial banks, had to withdraw securitizations from the market, which is certainly an unusual step.

5. One of the problems in the past was the opaque nature of securitizations. Has this situation changed?

Only to a very limited extent. There are no reliable statistics. It is often unclear who actually even holds this paper. It is, after all, tradable and can be resold. Furthermore, the majority of transactions take place within the shadow banking system where special-purpose vehicles, hedge funds, and private equity firms are particularly active. This is evidence that the problem of market transparency remains unresolved.

6. What is the risk if that doesn't happen?

The crisis could reoccur at any time. It wouldn't have to be triggered by problems in the residential real estate sector as it was the first time round in the USA. The crisis could be repeated in the commercial real estate sector. There are also those governments that have made use of securitizations and then ended up in difficulty. This applies, for example, to European countries in economic crisis such as Greece.

Interview by Karsten Zummack.



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