

Listening 1: Commercial banking ▶ 1.30

Listen to Tony Ramos, a recruitment manager at HSBC in London, talking about investment and commercial banking, and answer the questions.

- 1 How does Tony Ramos describe commercial banking? 'A kind of _____ .'
- 2 What was Tony Ramos's job before he moved into recruitment?
- 3 What does he say commercial banking actually consists of? Fill in the gaps.

'... you're kind of working in a ¹ _____ , you're working you know with, like, ² _____ , kind of what the day-to-day job consists of, actually ³ _____ people with their businesses, ⁴ _____ those businesses, seeing those ⁵ _____ ...'

- 4 What does he say students wrongly think it consists of?

Reading: The subprime crisis and the credit crunch

Deregulation in the 1980s was one of the factors that led to the subprime crisis.

Read about the crisis and then put the sentences below in the right order.

When American house prices began to fall in 2007, many 'subprime' borrowers, defined as those with poor credit ratings and consequently a high risk of default, stopped paying their mortgages, as their debt was greater than the value of their house. Unfortunately, the institutions which had issued the mortgages had created financial products called mortgage-backed securities (MBS) and collateralized debt obligations (CDO), which had been bought by many financial institutions including investment banks, hedge funds, insurance companies, pension funds, mutual funds, and so on. This process is called securitization: financial assets like mortgages which produce a cash flow are pooled (grouped together) and converted into securities that are then sold to investors.

MBSs and CDOs give their buyers the right to receive the payments on the underlying mortgages,

and banks bought them because they believed that house prices would continue to rise, and households would continue to make their mortgage payments. But when many subprime borrowers stopped paying, the value of subprime related securities fell dramatically. Many banks in the USA, Britain and elsewhere lost billions of dollars on their MBSs; some went bankrupt, and others had to be rescued by governments. It is estimated that banks around the world will eventually have to write off \$1.5 trillion of worthless subprime MBSs (now often referred to as 'toxic debt'). These losses destroyed much of the capital of the world banking system, leading to a credit crisis or a 'credit crunch': a massive reduction in the amount of credit available for banks to lend to other banks, businesses and households.

- ___ American house prices fell and many borrowers stopped repaying.
- ___ Lenders granted mortgages to 'subprime' borrowers.
- ___ Some went bankrupt, and others had to be rescued by governments.
- ___ The mortgage lenders sold mortgage-backed securities to financial institutions.
- ___ The value of MBSs fell to almost zero and many banks lost billions of dollars.
- ___ There was a credit crisis as there was little capital left for lending and borrowing.



Tony Ramos



HSBC headquarters in London