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## The Role of Mortgage Securitisation in The Financial Crisis and How to Restore The Market's Health

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### **Abstract**

This paper examines the role of mortgage securitization in the financial crisis and the way that policymakers responded. It then puts forward a preferred approach to restoring a healthy Residential Mortgage Backed Securities (RMBS) market. The intellectual case for banks buying RMBS is that the trading of these securities between lenders allows each lender to diversify its credit risk exposure so, for example, a mortgage bank in Germany could diversify away from a concentrated exposure to the German mortgage market with exposures to other markets with a low correlation of risk because, for example, they are on different economic cycles. In practice, however, banks were often buying securities with higher yields to enhance profits. In looking to build a more stable securitization market, policymakers should focus on these weaknesses: building a domestic cash investor base, mark-to-market accounting, and collateralized debt obligations.

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