The Democratisation of Finance? Financial Inclusion and Subprime in the UK and US

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Abstract and Summary of Contribution

Focusing on the United Kingdom (UK) and the United States of America (US) in the period since the mid-1990s, this thesis analyses the changes in retail financial markets and associated questions of financial democratisation, financial inclusion and exclusion. Specifically, it concentrates on the rise and crisis in the subprime sector of mortgages and consumer credit markets which targeted borrowers who had previously been excluded on a range of grounds. The analysis offered situates these changes and developments in the financialisation of economic life; processes understood as produced through three co-constitutive forces: financialised accumulation, financialised risk management, and financialised discipline. Together, the financialisation of accumulation, risk management and discipline are shown to have driven forward changes in retail finance in general and the rise of subprime in particular, apparently furthering financial inclusion and enabling homeownership. However, experiences of financial inclusion are shown to have been ambiguous, marked by increased levels of indebtedness and rates of interest higher than those prevailing in mainstream markets. Moreover, the forces of financialisation are also shown to have contained contradictions and tensions that were crucial to the crisis in the subprime sector. The crisis, then, is held to raise yet further analytical and policy questions about the problems and prospects of market-led financial inclusion. Ultimately, the thesis argues that unless policymakers support and re-start a closely regulated subprime sector, stark exclusion will characterise post-crisis financialised economic life in the UK and US.

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List of Abbreviations

ABSs	Asset Backed Securities
ARMs	Adjustable Rate Mortgages
BBA	British Bankers Association
BIS	Bank for International Settlements
CAB	Citizen Advice Bureaux
CAQDAS	Computer Assisted Quantitative Data Analysis Software
CBO	Community Based Organisations
CCJs	County Court Judgements
CDFIs	Community Development Financial Institutions
CBOs	Collateralised Bond Obligations
CDOs	Collateralised Debt Obligations
CDS	Credit Default Swaps
CLOs	Collateralised Loan Obligations
CLTVs	Combined Loan-to-Values
CMBSs	Commercial Mortgage Backed Securities
CML	Council of Mortgage Lenders
CPI	Consumer Price Index
CRESC	Centre for Research on Socio-Cultural Change
CRD	Capital Requirement Directive
CRL	Centre for Responsible Lending
DTI	Debt-To-Income
ERM	Enterprise Risk Management
ESF	European Securitisation Forum
ESRC	Economic and Social Research Council
Fannie Mae	Federal National Mortgage Corporation
FED	The Federal Reserve
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FHLBs	Federal Home Loan Banks
FICO	Fair Isaac Corporation (Credit Score)
Freddie Mac	Federal Home Loan Mortgage Corporation (FHLMC)
FRMs	Fixed Rate Mortgages

FSA	Financial Services Authority
FSB	Financial Stability Board
G-20	Group of Twenty
Ginnie Mae	Government National Mortgage Association
GMAC	General Motors Acceptance Corporation
GSEs	Government Sponsored Enterprises
HAC	Housing Advice Centre
HCA	Homes and Communities Agency
HUD	Housing and Urban Development
HOPI	Home Ownership Protection Initiative
HPCDS	Housing Possession Court Duty Scheme
IFAS	Independent Financial Advisory Services
ICTs	Information and Communication Technologies
IVA	Individual Voluntary Agreement
LCHO	Low Cost Home Ownership
LLR	Lender of Last Resort
LP	Loan Performance
LTV	Loan-To-Value
MBSs	Mortgage Backed Securities
MER	Mortgage Effectiveness Review
MPPI	Mortgage Payment Protection Insurance
NAO	National Audit Office
NINJA	No Income, No Job or Asset
OFHEO	Office of Federal Housing Enterprise Oversight
OFT	Office of Fair Trading
PSAs	Pooling and Servicing Agreements
PPI	Payment Protection Insurance
PPIP	Public-Private Investment Programme
PWG Report	President Working Group Report
QE	Quantitative Easing
RMBSs	Residential Mortgage Backed Securities
RPI	Retail Price Index

S-CMs	SelfCert Mortgages
SPVs	Special Purchase Vehicles
TALF	Term Asset-Backed Securities Loan Facility
TARP	Troubled Asset Relief Programme
TBL	Transactional Based Lending
TSC	Treasury Select Committee
VAT	Value Added Tax

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ADDA	American Dream Down-Payment Act 2003
AMTPA	Alternative Mortgage Market Transaction Party Act 1982
CCA	Consumer Credit Act 2006
CFMA	Community Futures Modernisation Act 2000
CRA	Community Reinvestment Act 1977
GHA	Government Housing Act 1989
Glass-Steagall Act	Known as The Banking Act 1933
GLBA	Gramm-Leach-Bliley Act 1999 (Also known as Financial Services Modernisation Act 1999)
HMDA	Home Mortgage Disclosure Act 1975 amended 1994
HOEPA	Home Owner Equity Protection Act 1994
RESPA	Real Estate Settlement Procedures Act 1974
SMMEA	Secondary Mortgage Market Enhancement Act 1984
TILA	Truth in Lending Act 1968
TRA	Tax Reform Act 1986

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Declaration

I declare that the work contained in this thesis has not been submitted for any other award and that it is all my own work.

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1 Introduction

1.1 The Unlocking of Consumer Credit and Mortgage Accessibility

Government support for homeownership was a consistent feature of UK and US economies throughout the twentieth century. But, from the early 1980s, with the Thatcher government's 'right to buy' scheme in the UK and following the introduction of the Community Reinvestment Act (CRA) 1977, along with other government tax and housing policies in the US, the perception that held sway amongst policy makers and commentators was that the inclusion of low income individuals and households into homeownership: "(1) generates financial security, (2) promotes a sense of responsibility and control over one's environment, (3) plays a role in stabilising neighbourhoods and strengthening communities, and (4) creates job opportunities and promotes economic growth" (HUD 1995:1). Consequently, publicly provided homes were privatised and financial and economic policies were designed and promoted to encourage the individualisation and independence of homeownership (Nellis and Fleming 1987). By the mid 1990s and 2000s, the Anglo-American economies also began to witness an unprecedented opening of the financial market and house price appreciation, enabling greater credit and mortgage inclusion through the market mechanism.

According to Aitken (2006:2), the promises and popularity of homeownership and finance generated a growing appetite for mortgage and consumer credit amongst more people, and markets came to embrace individuals and households who were at the 'fringes of capital'. Increasingly, these types of borrowers and the risks associated with their borrowing were readily met by specialist subprime lenders. The

subprime loan providers that operated as a consequence of the financial liberalisation policies and the wider financialisation techniques arguably, then, began to scramble for market share and for fee payments. These developments were initially captured by financial media headlines as the emergence of the era of the "democratisation of finance" (Friedman 1999). This could be described, in short hand, as a credit market economy made to '*work for all*'. 'Financial inclusion' therefore takes on an unproblematic and unambiguous meaning, as the market comes to include and embrace 'non-status' and 'higher risk' borrowers who, for example, have a low income or an impaired credit record either as a consequence of previous repayment problems, or no established history (Kempson and Whyley1999a, Munro et al 2005, Staten and Yezer 2004).

Such developments coincided with the growing concerns of policymakers that focused on 'regulating exclusion from the financial market' (Bond and Krishnamurthy 2004:1), and employing vigorous neoliberal or market-led economic approaches towards financial exclusion and inequality. The argument of the neoliberal approach is that greater choice and access can be promoted through banking deregulation, advances in information technology and increased competition, which will ultimately enhance the banking of the poor and excluded (Williams, Nesiba, and McConnell 2005; Barr, 2004). As Langley (2006:1) argues, for example, 'the transformation of the Anglo-American mortgage finance,' has thus been typically understood by policy-makers and financiers as a consequence of the advance of processes of disintermediation and securitisation. That is, the displacement of bank-based or intermediated finance by financial services based on the assumed competitive efficiencies of the capital markets. Moreover, as part of the policy drive to financial market inclusion in the US and UK, government initiatives

sought to improve the ‘financial literacy’ and ‘financial capability’ of the population. This included policies that, following neoliberal assumptions, seek to equip financial consumers with the baseline calculative skills and information to participate in the financial market.

In contrast, when viewed from the perspective of the cross-disciplinary literature on ‘financialisation’ and ‘risk’ (Krippner 2005, Leyshon and Thrift 1999), the ‘democratisation of finance’ and rise of the subprime market is a consequence of new calculative technologies of fragmented risk management procedures. This not only serves to showcase the future uncertainties that remain in subprime lending, despite the calculations made through the prism of 'risk', but also draws attention to the so-called 'risk-based pricing' or ‘swift action’ approaches of subprime lenders. These approaches are predicated on putting the need to ‘*recycle finance’* above the market value of the subprime borrowers (Munro et al 2005; Leyshon and Thrift 1999, 1995; Burton, D. et al 2004*)*. Subprime lenders, therefore, strategise networks of lending that target and create borrowers who typically pay rates of interest well above those that prevail in mainstream or prime sector (Kempson and Whyley 2000) and install new forms of financial disciplinary regimes that, ultimately, increase the borrowers’ vulnerability (Munro et al 2005*)*.

Following from this perspective, it is to be argued in this thesis that the dynamics of market-led financial inclusion carried forward in subprime mortgage and consumer credits networks are ambiguous, and therefore are far more problematic than tends to be acknowledged by policymakers and neoliberal economists. The notion of the ‘democratisation of finance’ as the extension of finance and bank credits to those who are previously excluded presents some problems. The policymakers’ focus on

providing solutions to these problems through various political and legislative interventions (McDonald 2005) seem to be elusive vis-à-vis the spate of indebtedness, bankruptcy and foreclosures. In the US, there has been a vigorous re-appraisal of the Community Reinvestment Act of 1977, while in the UK there are a number of policy initiatives and legislative actions aimed at key issues such as consumer education and an accessible, affordable, competitive and transparent credit market (Collard and Kempson 2005, FSA 2000, Consumer Credit Act 2006). What has not been clear or addressed is the fundamental question that is raised by a market-led approach to financial inclusion: how to balance affordability, transparency and profitability on the one hand, with the often desperate and fragmented needs of the indebted borrowers on the other.

The ambiguities of financial inclusion are further complicated by the nature and diversified networks of consumer credits, and also by the rungs of the consumer classifications employed by lenders. According to Chinloy and MacDonald (2005), consumer classification is aimed to determine the rate of interest payable vis-à-vis the processes of risk-based pricing. Each subprime borrower is measured on the balance of profitability, not on the balance of financial inclusion. Credit applications are riddled with choices between consumer providers, as each subprime lender advertises itself in the media as better than the rest. However, the basis for determining the differing characteristics of each subprime lender continues to be opaque for consumers. For example, the FSA's, Mortgage Effectiveness Review (MER) of March 2008 draws a distinction between the behaviour and financial capabilities of prime mortgage market consumers on the one hand, and subprime mortgage market consumers on the other. The report finds that unlike in the prime mortgage market, brokers play significant roles in the subprime mortgage market

such as designing disciplinary tools and the assessment of risk information, while the subprime mortgage consumer's 'overriding consideration is to find the cheapest deal or APR' (FSA, MER 2008:6). Much the same point could be made that subprime borrowers jostle over the choice of subprime lender through the sales pitches of fee-hungry brokers, thereby increasing vulnerability to opportunistic sales and lending. The adverse end of the subprime market provides an assumption that subprime lenders are profiting from poverty (Palmer 2002), calculating risk premiums that takes cognisance of only profitability.

On the one hand, then, academic research suggests that it is the wheel of profitability in subprime lending that is pushing a continuous rise of 'consumerism' and the associated debts, debt consolidation, re-mortgaging, equity release and mortgage foreclosures of the borrowers. On the other hand, this conclusion challenges the dominant assumption amongst policy makers that the subprime market is truly a '*democratisation of finance'*, and is 'filling the gaps' left by the prime or mainstream mortgage and credit markets. Therefore, the obfuscatory nature of subprime lending terms and conditions, alongside the convoluted nature of subprime borrowing and issues of financial inclusion, poses significant questions about the role of government in a financialised economy.

1.2 The Research

Grounded in the experiences of the UK and US, the research provides a critical analysis of: the financialisation of economies, the boom in mainstream and subprime mortgage and consumer credit lending, the subprime mortgage crisis and responses to the crisis by policy makers. Throughout the analysis, the ambiguities of financial inclusion are to the fore. As many commentators have noted, drawing boundaries

around the subprime market is problematic and complex. However, we recognise that it can be seen to include secured and unsecured credits such as first mortgage, re-mortgage, debt-consolidation (equity release), automobile loans, credit cards and personal loans. Overall, the research aims to consider the conceptual and operational complexities of financialisation processes as they relate to the democratisation of finance vis-à-vis the upsurge in subprime lending. It is informed by a critique of the neoliberal market approach to financial inclusion, and stresses the asymmetric spiral effects of subprime borrowing, and unhealthy dependency on borrowing by the borrowers.

Much research on financialisation focuses on the increasing roles of finance in neoliberal globalisation, the rise of the shareholder value, the dominance of the capital market, the conflagration of 'the rentier class' (Epstein and Jayadev 2005, Epstein and Power 2003) and the current corporate and financial crisis. In contrast, the subject of this research is distinctive, offering an alternative perspective on financialisation that concentrates on its implications for everyday borrowing, financial inclusion and exclusion. Existing research has explored financialisation and everyday life, but almost exclusively in terms of everyday saving, investment and the 'coupon pool' (Froud et al 2002). Meanwhile, away from the literature on financialisation, research already carried out in the UK and US has not vigorously questioned the extent and the context of new forms of financial inclusion/exclusion within the regime of 'democratisation of finance' and the 'credit for all' practices of the subprime market. Instead, some research has focused on predatory lending to high risk borrowers, affordable credit, foreclosures, defaults and prepayment, counselling and mortgage termination (Munro, M et al 2005, Collard and Kempson 2005, Staten and Yezer 2004, Immergluck and Smith 2005, Heitfield and Sabarwal

2004, Hartarska and Gonzalez-Vega 2005). In summary, this research is structured around the following five questions:

i. What are the principal critical insights provided by the literature on 'financialisation' for our understanding of market approaches to financial inclusion?
ii. In what ways has the rise of the subprime market related to the wider trends of financialisation and the growth of large-size, long term (example mortgage and remortgage) credit?
iii. How are the experiences of 'financial inclusion' and 'financial exclusion' represented by policymakers, academics and the industry publications, and in what ways does the rise of the subprime market problematise the simple dichotomy between inclusion and exclusion?
iv. Did the growth of subprime finance feed a 'democratisation of credit', or are the experiences and inclusions of subprime finance problematic in particular ways?
v. Given the above, what are the implications for policymakers of the rise, boom and the subsequent crisis in subprime finance?

1.3 Structure of the Research

This research is in three substantive parts divided into eight chapters. Part One, consisting of three chapters (Two to Four), begins by offering a re-conceptualisation of processes of financialisation, financial inclusion and exclusion. It provides the theoretical tradition upon which the research is conducted. This is done by way of a cumulative but critical analysis of the prevalent key theories, knowledge and

practices of financialisation, financial inclusion and exclusion that articulates an alternative interpretation.

Chapter Two engages with the theoretical underpinnings of the concepts of financialisation with the view to mobilising and establishing the theoretical particularity of the research. In summary, the chapter conceptualises the processes of financialisation as entailing three sets of co-constitutive forces: 1) financialised accumulation, 2) financialised risk management and 3) financialised discipline. It is argued that financialised capital accumulation is at the root of the growing innovative modes of large scale financial consumption through increased issuance of securitised instruments or 'paper wealth'. In a similar manner, is the contemporaneous increase in the management innovation that enables the slicing and dicing and trading of risk as investment units or coupon pools (Froud et al 2001). The management of risk is then forestalled by disciplines (punishment and reward) geared towards ensuring returns and continuity. For example, the disciplinary regime of shareholder value is arguably meant to whip up corporate managers' responsibility and rationality in their risk and investment decisions.

Chapter Three, using the concepts of the three co-constitutive forces of financialisation developed in Chapter Two, engages in analytical inquisition of their operation in the 'prime' or mainstream mortgage and consumer credit markets. The chapter articulates that the three constitutive forces of financialisation - accumulation, risk trading and discipline - pushed open the margins of competition. As a result, new forms of competitive but financialised growth emerged to widen alternative sources of consumer credits and residential mortgages. The chapter shows that, following intensified competitive pressures, the traditional and relatively strict

models of issuing credit in the mainstream market were relaxed to coincide with public policy's push for inclusion.

Chapter Four provides in-depth analysis of the rise of subprime as driven forward by the three co-constitutive forces of financialisation. The analysis stresses how the particularly aggressive operation of the three forces of financialisation in the subprime market paved the way for greater lending competition, and innovative approaches that fed a significant growth of consumer credit for a greater number of people. It is shown that the competitive strength of the subprime credit market induced the zest and the ability of more people to access both large and long-term credits. Underpinned by a new ownership culture orchestrated by regulatory, legislative and public policy changes, the chapter further analyses how growth of various networks of subprime credits played to the conjecture of 'democratisation of credit' and financial inclusion for all. It is shown that the especially acute operation of the forces of financialisation in the subprime sector became manifest in forensic marketing strategies that pushed profitability over responsible lending. It is argued that while there were very little regulatory or safety nets, the guarantees for affordable credit inclusion were isolated from guarantees for accessible credit – types and sizes. This produced the trajectory of lender eccentricity and the borrowers' vulnerability that spiraled downwards and inevitably led to the subprime mortgage crisis.

Part Two, comprising of two chapters (Five and Six), presents the analysis of the subprime mortgage crisis and responses from the conceptual paradigm as the rise of 'debt for all'. Drawing again on the theoretical framework developed in Part One and emphasising the significance of the three co-constitutive forces of financialisation,

Chapter Five analyses the correlation of forces and the subprime mortgage crisis of 2006 and the subsequent global financial crisis of 2007. It analyses the correlation of the practices of these forces and the crisis. In terms of financialised accumulation, the chapter shows that this produced the peril of excessive leveraging through complex mechanisms such as collateralised debt obligations (CDOs) and credit default swaps (CDSs). In terms of financialised risk management, the chapter analyses how securitisation and the excessive practice of the 'originate and distribute' model in the subprime sector fed into a reckless speculation binge on risk and yield. In terms of financialised discipline, the chapter shows how the rise of diverse types of lending such as NINJA loans reproduced moral hazard and vulnerability, which could not be adequately addressed by the mechanisms of risk-based pricing.

Chapter Six analyses the responses of government to the crisis. The chapter shows that the government responses to the crisis were not categorically focused on the subprime mortgage and credit market. Instead the responses were aimed at re-starting the financial economy and the real economy through the financialised processes of accumulation, risk management and discipline.

Part Three consist of two chapters: Seven and Eight. Chapter Seven draws inference from the analysis of the responses to the crisis in Chapter Six, (for example the reverberating call for a new regulatory framework for the financial market that would effectively halt and reverse the financialisation process) and takes an alternative position to analyse the implications on financial inclusion. This is done through the prism that the financial crisis has drastically pushed downwards the economic relevance of credit and mortgage inclusion in the consciousness of public

policy and policy makers. While it is common knowledge that the UK and US governments have respectively fanned the increased processes of market-led financialised inclusion, through the rise of subprime in particular, it is now not clear what the governments' position is on tackling financial inclusion. So, the experience of the subprime crisis raises questions, for example: If mortgages held by certain kinds of borrowers are indeed more prone to increased repayment delinquencies, foreclosure and home repossession, does that indicate that there are inherent limitations to public policy that promotes financialised inclusion and homeownership for all?

Chapter Eight provides an overall concluding reassessment of the findings of the research. It discusses the general policy changes after the subprime crisis and, taken together, provides some suggestions on the future of financial inclusion. It also considers the limitation of the dissertation, which begins to point towards further areas for research.

1.4 Summary of Argument and Contribution

Issues of financial inclusion/exclusion have attracted considerable attention amongst social scientists since the early-to-mid 1990s (Leyshon and Thrift 1995). Typically, most studies concentrate upon questions about the causes, problems, and role of government in solving financial exclusion (see Kempson and Whyley 2009). This research provides an alternative approach to understanding the dichotomy of financial inclusion/exclusion. By way of critical analysis, I argue that an analysis of the processes of financialisation sheds new light on the public policy drive to solve financial exclusion through neoliberal, market-led initiatives, and on how the

parameters of financial inclusion/exclusion have been re-shaped both before and after the crisis of 2006-8.

While existing critical research largely focuses on 'fringe finance' and predatory lending (Aitken 2006, Burton et al 2004, Wyly et al 2006), the argument developed here is thus particularly grounded in the often neglected questions about the relationships between the transformations in the financial market and the so-called 'democratisation of finance'. In this regard, the 'democratisation of finance' is argued to be the opportunities of 'choice' created by the financial market, whereby through the rise of the subprime market and production of higher risk individual borrowers who were previously denied access to credit can voluntarily choose to take responsibility for of their obligations and who are disciplined to pay 'higher prices for the risks' they pose. In this way, instead of outright exclusion and/or redlining, as was the case before the mid-to-late 1990s, I have argued that accessibility and financial inclusion have been recast and reworked as the choice the individual borrower makes. These developments are typically neglected in existing critical studies which emphasize predatory lending. For subprime borrowers, I argue that the hardship of high-interest rate charges and fees is mitigated by the opportunity of credit transition (see Courchane et al 2004). So, focusing on the UK and US, I argue that governments have consciously taken actions that promote a market-based culture of financial inclusion and a society where households and individuals are integrated through processes of financialisation. These actions, in forms of financial market deregulations, reforms of retail banking and legislation[1], are argued to have strengthened the financial market institutional infrastructure and increased the use of technology in amortising risk. In this way, it is argued that

[1] See List of Statutes in Page VI

processes of financialisation and especially the rise of subprime paved an alternative way of thinking about the salient shifts in the characterization of risk and the lending of large-size long-term credit to a greater number of previously excluded people.

The argument made in this thesis about financial inclusion/exclusion and the 'democratisation of finance' is underpinned, more broadly, by a contribution to the growing literature on processes of financialisation. While united by a concern with the growing power and influence of financial market over the productive economy, contributors to the financialisation literature have had relatively little to say about the relationships between financial markets, social life and the consumer economy in particular. This thesis, then, takes the financialisation literature in new empirical directions, linking the growing reach of transformed financial markets with developments in retail finance which make possible consumer credits and mortgage-funded house purchases.

Moreover, the contribution that is made here to the literature on financialisation is also theoretical and conceptual. Grounded in competing epistemological traditions, the financialisation literature tends to be dominated by the contrasting research agendas of political economy and cultural economy approaches. For example, on the political economy side, those who follow an institutional agenda argue that financialisation increases the salience of structures and networks of power that operate through the financial markets and their intermediaries (Crotty2002). Others that draw from the Gramscian concept of hegemony argue that financialisation advances the structural power of capital, particularly through the ideology of mass investment and so-called 'shareholder democracy' (Harmes 2001). Likewise, some post-Keynesians interpret financialisation as the rise of a new financial governance

structure, manifest in a ‘coupon pool’ culture in the Anglo-American economy (French and Leyshon 2004, Froud et al 2001). Also of particular interest from a political economy perspective are those who follow Polanyi’s idea of the ‘great transformation’, and suggest that contemporary financialisation is primarily an increase in ‘financial disintermediation’ and ‘financial socialisation’ that echoes the rise of the self-regulating market in the nineteenth-century (Watson 2007, Morin 2000). From the perspective of cultural economy, however, processes of financialisation are typically understood as discursively assembled, as materializing not through the power of financial market institutions and elites but through webs of power-knowledge which are specific to particular market networks. This opens-up the transformations of the complex relationships between finance and society to a form of critical scrutiny that is prepared to take seriously the constitutive significance of risk calculations and techniques, for example.

In making a theoretical and conceptual contribution to the financialisation literature, then, this thesis combines political economy and cultural economy perspectives. Such a combination of apparently opposed positions is made possible by a realist epistemology where boundaries of outcomes should not be imposed while interpreting/understanding ‘independent’ social/economic phenomena whose outcomes effect each other (Marsh and Stoker 2002: 20 & 31, 2010: 192 & 317). In drawing together political and cultural economy perspectives, this thesis thus develops three concepts that provide the bedrock of the analysis that is offered: financialised accumulation, financialised risk management, and financialised discipline. Each concept refers to a specific set of forces which, taken together, are held to be co-constitutive in processes of financialisation. These forces are argued to have driven forward changes in retail finance in general, and the rise of subprime in

particular, apparently furthering financialised inclusion and enabling greater homeownership. However, experiences of financialised inclusion are also shown to have been ambiguous and to have contained contradictions and tensions that were crucial to the crisis in the subprime sector. The crisis, then, is held to raise yet further analytical and policy questions about the problems and prospects of market-led financial inclusion.

Ultimately, arising out of the distinctive arguments made here about financial inclusion/exclusion, and underpinned by the contribution to the financialisation literature, the thesis provides an alternative vantage point from which to consider government responses to the recent financial crisis. The latter chapters of the thesis thus show that government and industry responses to the crisis have tended to contribute towards reassembling and resurrecting the co-constitutive forces of financialisation processes: financialised accumulation, financialised risk management, and financialised discipline. However, it is also stressed that such pro-financialisation responses have been geared mainly towards restarting the mainstream or prime markets for mortgage and consumer credit. In contrast, responses to the subprime market specifically are argued to have been undertaken on the basis of the assumption that it was developments in this sector of the market that were crucial to causing the crisis (see Wyly et al 2008, Sanders 2008). This assumption runs against the history of financial inclusion/exclusion which has evolved through civil and community campaigns for open and accessible credit markets, and also against the rise of credit market segmentation and the logic of financialised inclusion more broadly (see Dymski 2005a, Leyshon 1994, 1995, Immergluck 2004). In contrast to this assumption, however, it is posited here that aside from differences in the risk characteristics of borrowers, the financialised

systems of operation and/or ownership in the subprime market and the prime market were broadly the same (See Chapters Three and Four). Thus, by way of conclusion, the thesis recommends that unless policymakers support and re-start a closely reformed and regulated subprime sector, stark exclusions will characterise post-crisis financialised economic life in the UK and US.

1.5 Methodology and Research Method

There is a growing and dichotomous debate amongst political scientists and social scientists on the appropriate methodological design of research. This seems to have presented 'two ends' of approaches in politics research: a 'problem-driven approach or a method-driven approach' (Shapiro et al 2004:1-2). The issue that arises is how to link them organically and empirically: that is, should politics research be approximated on clear extremes of subjectivity or objectivity? For instance, the problem-driven approach is criticised for being overly theoretical, lacking empirical robustness and close to mere journalistic writing, while the method-driven approach is criticised as over-laboured with abstractions, models and mathematics that makes understanding difficult (Shapiro 2004).

Aware of the above outlined problems and the primary and secondary audience of the research, the methodology of critical analysis (inductive and deductive) has been employed here in order to establish evidence to make a balanced contribution to knowledge. Therefore, in order to ensure that the choice of the methodological approach does not lead to a very theoretical or very abstract study, I employed a choice of pluralist research methodology. The choice of a pluralist research method was built upon the awareness that the research cuts across inter-disciplinary problems that 'had both subjective and objective components to it' (Layder 1998:8,

Sil 2004). In this context, pluralism of method, referred to in social science research parlance as 'triangulation' (Fielding and Fielding 1986), provided the opportunity to draw on cumulative examination of data from various sources (Silverman 2000). These sources included data from existing and emerging literature, semi-structured interviews, participatory workshops and conferences. As a result, the cumulative examination of data from different sources helped to formulate a comprehensive standpoint on each research question examined (Miller, G and Fox, K.J 2004:36). This, most particularly, paved the way to "get a true fix on the situation [of study] by combining different ways of looking" at problems and balanced evaluation of the subprime market and financial inclusion (Silverman 2000:177).

Overall, triangulation was utilised as both a research design and method. Primarily, this was because it helped this study to engage in 'direct checking…and cross checking [of information from one source] with other sources of data' (Foster, P 1996:91). For example, the subprime mortgage crisis that started in late 2006 and fed into the subsequent global financial crisis of 2007, presented the challenge that previously formulated research questions and became 'the topic of the moment' for all: the media, politicians, social and political commentators. It was therefore the use of different sources of information that helped the researcher to maintain focus and also be able to harness the relevance of each data outcome (Burnham et al 2003). Despite these unique advantages of the choice of triangulation method, there was also the awareness that this method could be criticised as more of an ethnographic and observational research design that perhaps poses the researcher with the difficulty of combining complex data from different sources. In tandem with Fielding and Fielding's (1986) suggestions, this problem was counteracted through the initial formation of a strong theoretical perspective. The analytical framework

focusing on processes of financialisation was assembled from the combined perspectives of political economy and cultural economy. These approaches helped to format and formulate strong theoretical concepts to handle the complexities of data that were obtained. In this way during the data collection the triangulation method was thematically embedded into the objectives and questions of the research. It also helped the researcher to take a balanced approach to the framing of knowledge as well as enabling a greater chance for reflexivity throughout the research process and data analysis (Burnham et al 2004).

1.5.1 Data Collection Process

In line with the views of Bryman (2001), the research develops from continuous appraisal of prevailing and emerging academic, policy and industry debates. As earlier emphasised, the data collection method was entirely qualitative. In other words, the research was conducted in a flexible approach that provided the opportunities for speedier follow up of emerging findings or developments (Pole and Lampard 2002, Bryman and Burgess 1994). In this light, the data collection process was carried out through an overlapping use of primary, secondary and tertiary sources. The choice to allow the overlapping of the primary and secondary sources of data collection assisted in tackling the complexity of the subprime market and the complexity of the financial crisis. This choice also enabled the comparison and analysis of information without having to be restricted to the boundaries of whether sources are primary, secondary or tertiary data collection.

However, because the subprime mortgage crisis started just three months after the commencement of the research, most of the data collection, which ordinarily could be classified as secondary data, sufficed to form my primary sources of data.

Therefore the primary data collection comprises of participation in industry and academic conferences and workshops and in-depth search and use of library resources, internet and electronic search engines, materials from institutional, industry and third party publications[2]. The use of internet and bibliographic search engines provided me with the advantage of contemporaneous access to on-line journals, current publications by both government and non-government organisations in the UK and USA. However, aware of the criticisms of the use of search engines, especially with the reproduction of large content with little or no central index, I constructed key words searches which enabled me to sever unnecessary materials. In the same light, the use of these search key words was utilised in recognised search pages such as financial institutions or organisations (for example Bank of England, BIS, Fed), government and non–governmental agencies (for example FSA, CML, Fannie Mae, FHA, HUD). It was also used in other major search engines and information gateways including: Google Scholar, Bath Information and Data Services (Bids), Northumbria University Nora Electronic Database Subject, British Library Direct, Social Science Research Network (SSRN) electronic library (Dawson 2003).

Again, as emphasised above, because of the limitations brought about by the subprime crisis, the data from telephone and face-to-face interviews which could have constituted our primary data collection, sufficed as the secondary, but very useful source of data. It is equally important to also emphasise that the use of information or resources was not placed on strict demarcation of primary, secondary or tertiary sources. In other words resources were used in their order of relevance to

[2] These included material from: Financial Services Authority, Bank of England, Federal Reserve Bank, Financial Inclusion Task Force, Joseph Rowntree Foundation, Council of Mortgage Lenders, National Community Reinvestment Coalition, National Association of Mortgage Brokers, and British Bankers Association.

the research. So, it is noted that the interviews (face-to-face and telephone) were conducted following a naturalistic procedure. This process allowed for flexibility with how and when to use choices of ‘open-ended’ and ‘probing’ questions (Devine 2002:198) during interview. The choice of this procedure was informed by its less-structured and more conversational allowance that helped pave the way for the interviewees to ‘feel at home’. Making the interviewees and respondents relaxed provided me with a better atmosphere for easier elaboration of issues in order to get ‘real’ and more accurate responses to interview questions (Devine 2002).

However, the semi-structured qualitative interview method can be criticised with respect to its apparent remoteness and that its results cannot be replicated by another researcher. Also, the sample size of interview respondents can be criticised as not a ‘true’ representation of the population whose outcome cannot make an irrefutable generalisation. However, emphasis was placed on understanding the views of the interviewees (subjects) rather than the mathematical elicitation devices of the highly structured methods, which deals more with objects than subjects. So, following Foster (1996:91), it was ensured that there was monitoring and reflection “on the research process during and after the fieldwork” and also during and after each interview. This approach provided the prospect of less probability of intrusiveness with the overall data collection and analysis. In general, therefore, the choice of a semi-structured interview method does not hinge on its result being the same if repeated by another researcher, or on the vastness of population studied, but on the relevance of the result. In other words what was of primary importance in the choice of this method was its credibility to lead to making a contribution to knowledge, especially within the field from which this research develops.

In this light, it is noted that the original design of the choice of interviewees was to be made in two perspectives of 'top-down' and 'bottom-up.' The 'top-down' choice of interviewees were to include elites, comprising of policy makers and individuals well informed and at the top echelon of financial institutions, that are directly or indirectly engaged in the subprime lending market in the UK and US. It was hoped that these elite interviews would provide access to valuable insider practitioner information and insights (Marshall and Rossman 1999). But, as the subprime mortgage crisis emerged, access to elite interviewees became problematic. Further, the few elites interviewed, as Marshall and Rossman (1999) warned, posed the problems and challenges of reliability because of their evasiveness to the interview questions. In other words, questions may merely be answered by the elite interviewee in line with the "wishes and predilections of the interviewer" and some elite interviewees' stage managed their answers by being intrusive; taking charge and turning the interview around to their personal or institutional advantage (Marshall and Rossman 1999: 114). Overall, effort was made to circumvent these problems through use of tenacious and vigorous communication models and good knowledge and "accurate conceptualisation of the [research topic and] problem" (ibid, p.114).

Once again, it is important to emphasise that the emergence of the subprime mortgage crisis by late 2006 and the subsequent global financial crisis of 2007 onwards, made accessibility to policy makers and elites within the financial market difficult. The researcher wrote letters and emails, sent faxes and made telephone calls to 30 known subprime lenders and associations in the UK and US including: Residential Mortgage Lending, Intermediary Mortgage Lenders Association, Consumer Banker Association, Countrywide Plc, HSBS Plc, Council of Mortgage

Lenders and British Bankers Association, but received no replies. The researcher also sent letters to known policy makers and government agencies including: the Financial Services Authority (FSA), the Chairman and Members of Treasury Committee, HM Treasury, Financial Inclusion Task Force, Chairman/ Members of Senate Finance Committee, Chairman/Members House Committee for Finance and Banking, but received no responses.

On the 'bottom-up' choice of interviewees, the original design was to include local subprime lenders and borrowers within Newcastle upon Tyne. It was aimed that the local lenders and borrowers would share their "opinions, concerns, desires and experience" (McNabb 2004:140-1) with the subprime market. It was also hoped that the 'bottom up' choice of interviewees, especially with borrowers, would provide the researcher the opportunity to assess and corroborate the data obtained from the elite interviews either as 'victors or victims' of subprime credit and mortgages. For emphasis, 'victors' of the subprime market are those who think that subprime lending had helped them overcome their financial problems and agree that the subprime lending was a way of democratisation of finance and financial inclusion. In contrast, the 'victims' of the subprime market are the borrowers and users of subprime credit and mortgage products who think they were worse off (with debts, IVAs repossessions) and to them subprime lending was a bad means to financial inclusion.

Again, the emergence of the subprime mortgage crisis and the subsequent credit crunch affected the responses from the letters sent to local lenders and money advice groups in Newcastle upon Tyne. Letters were sent to Northern Rock Plc, Future Mortgages Ltd, Independent Financial Advisory Services (IFAS), Leeds Building

Society, and Newcastle Building Society, but there were no replies. On the access to local borrowers, the inability to gain access (telephone or direct) to local lenders also undermined the capability to obtain access or data about individual local borrowers. The Newcastle Citizen Advice Bureau (CAB), Housing Possession Court Duty Scheme (HPCDS), Housing Advice Centre (HAC) were contacted with the view to negotiate and build a confidential bridge of access to those at the fringes of credit markets and/or in debt problems, but for confidentiality practices CAB, HPCDS and HAC declined to provide any information or allow me direct access to individuals to be interviewed. Instead, they advised me to read some of their publication online. In partial response, national CAB policy research officers based in London were interviewed.

Despite all these drawbacks, the semi-structured interview data collection proceeded with choices of interviewees obtained across industry representatives, consumer representatives, economists, financial and mortgage experts (which include anonymous interviews with traders in Wall Street) and leading academic researchers. In all, a total of twenty three interviews were undertaken out of which two were anonymous, five were conducted face-to-face, while sixteen were through telephone interviews (see Appendix 1). For the telephone interviews, in order to ensure that they were carried out in a manner that was as natural as possible, the interviewees were given the choice to decide when it was best to conduct the interview. Also in order to avoid any audio or technical problems the researcher ensured that the interview was conducted in a quiet environment with the aid of noise-proof recording equipment.

As earlier indicated, in order to ensure that a balanced contribution to knowledge was made, there was also engagement through participation in workshops and conferences both in the UK and in the US. The participation in workshops and conferences formed the tertiary method of collecting research data. It is noted that at those workshops and conferences that the researcher participated, it provided opportunity for the researcher to seek responses from notable participants by asking relevant open-ended questions. For example in National Community Reinvestment Coalition conference in Washington DC (10 -14 March 2009), the researcher was able to participate actively with the conference activities organised for over 200 frontline credit counsellors from across the US. It provided the opportunity for the researcher to participate in seminar sessions and speeches delivered by distinguished senators, House Members and community activists. These include most especially the speeches by Barney Frank (Chairman, House Financial Services Committee) and Rev. Jesse Jackson. The researcher also participated in the NCRC lobbying sessions at the Chambers of US House Members for the introduction of 'policy recommendations for economic recovery'. These policy recommendations included the 'Community Reinvestment Act Modernisation Act of 2009', 'The Helping Families Save Their Homes Act 2009' and 'Protecting Consumers from Unreasonable Credit Rates Act 2009'. In all the NCRC conference provided immense opportunity for the researcher to discuss and obtain direct accounts from about 10 credit councillors about subprime mortgage lending and credit practices across the US.

1.5.2 Data Analysis Processes

The choice of the data analysis process was mostly influenced by the underpinning conceptualisation of the processes of financialisation. As the process of

financialisation was conceptualised through the intersection of political and cultural economy, the three co-constitutive forces of financialised accumulation, financialised risk management and financialised discipline were identified. It therefore became imperative that the data analysis was roundly styled and formatted in line with these concepts. In particular, the basic analytic tool of the research data focused on the conceptual critical analysis of indexed interview responses and of documents. Interview data was therefore conceptually coded with the view to make a final selection of the conceptual codes that mostly reflect the objects of the research. It is important to note that the coding was not carried out with any computer assisted qualitative data analysis software (CAQDAS), though the researcher appreciates the benefits of some CAQDAS. As Barry (1998:13) pointed out the use of some CAQDAS not only helps to automate and speed up the task of data analysis, they also facilitate 'instant access to data once coded...provide creative aids' for both 'theoretical development' and the integration of 'different modes of analytic thought'. However, having obtained data from various sources through 'triangulated' data collection and also the persistent flux of research data as a result of the subprime mortgage and global financial crisis, the researcher considered use of CAQDAS to be inadequate. CAQDAS would alienate the researcher from current and emerging data and would, ultimately, affect the reliability and relevance of data analysed. Also, the strict use of CAQDAS would have led to the handling of fast-changing social variables that emerged from the financial crisis in a highly quantitative, structural and concrete manner rather than the qualitative approach which this research had been designed (Barry 1998, 1995, Mason 1996).

Also, mindful of the complex nature of the data already collected and that more complex data continued to emerge from the government and industry responses to

the crisis, a fluid approach was adopted to enable cross-fertilisation of the data coding, analysis or interpretation of them without constraints. In this respect, coding and categorisation were two key indexing styles that aided the pattern of the initial structure of this research and its framework of data collection and meaningful data interpretation. Hence, the categorisations of the data were done in their order of relevance, ensuring that relevant materials were not left out or unretrieved from materials which were counteracted by new information (Silverman 2000). Equally, in the selective coding, an open mind was directed towards identifying "broader theoretical possibilities, propositions or [new] points of view" as they emerged (McNabb 2004:146). The indexing or coding of data helped to reduce the problems of complexity and variance. In all, as earlier stated, efforts were taken to eschew the problem of bias by objectively matching each coding and categorisation within one of the three identified conceptual specificities of the processes of financialisation.

1.6 Research Ethics

The research did not involve working with vulnerable adults or children. The target interview participants were adults with the capability to provide informed consent and did not require clearance from the UK Criminal Record Bureau. However, the use of semi-structured interviews does raise some ethical issues. In order to ensure strict conformity with ethical procedures for interview, introductory letters were sent to all organisations and individuals invited to participate. This letter, in accordance with Northumbria University's Ethics in Research and Consultancy Policy and the School of Arts and Social Sciences Ethics Framework, was accompanied by standardised informed consent and research information forms (ASS-RE4 and ASS-RE5). Form ASS-RE5 provided participants with an overview of their role, explanation of the research itself, how anonymity and confidentiality can be

maintained should the participant request it, risks and any possible inconveniences, as well as details of required time commitment and location. It is important to note that some of our interviewees were willing to be referenced and did not require anonymity. In the course of the interview, participants were informed that their participation was voluntary, was without payment and that they were at liberty to withdraw at any stage. The participants were required to give formal consent by signing and returning the informed consent form (ASS-RE4). It is to be noted that because of the elitist calibre of the people interviewed, mostly by telephone, almost all interviewees provided their consent through exchange of emails and/or orally during the interview without requiring signed written consent. In the course of the interview, they volunteered to be quoted and for their names to be published in the research.

However, the transcriptions of interview materials were carried out anonymously and recorded interview materials were only used as necessary. Equally, the interview participants were offered copies of their interview transcript for their approval but declined. Rather some requested, if possible, a copy of the research when completed. However, there was a continuous appraisal of 'the sensitivity of the rights' (Bulmer, 2001:46) of those who had volunteered for interview, in keeping with our recognition that 'people can feel wronged without being harmed: [and also can] feel they have been treated as objects of measurement without respect for their individual values' (SRA 2002:14). In particular, all audio materials and transcripts were only accessed by the researcher and where necessary, by the supervisory team. Above all, the audio material was stored in secure electronic file, which will be deleted and destroyed after a period not exceeding five years from the completion of the research.

Part 1

Credit for All:
An Exploration of the Borrowing Boom

2 Understanding Processes of Financialisation

2.1 Introduction

In the UK and US, access to credit and homeownership has long been characterised by exclusion and redlining of individuals and places as 'risky', 'unstable', and 'unsecure'. Recently, however, a greater number of people and places, who were previously excluded, were more than ever before included in the credit market. There was arguably a dramatic increase in accessibility and availability of 'credit for all'. This chapter seeks to address the following question: in what ways does understanding of the processes of financialisation begin to assist the analysis of changes in credit and mortgage accessibility and availability for 'high-risk' and low income people and places?

The progressive deregulation from the mid-1980s opened up networks of financial processes and activities which, by the mid-1990s and onwards, arguably culminated into what is now more accurately described as the processes of 'financialisation'. Financialisation has become a powerful concept and has attracted a wide range of theoretical perspectives from across a range of social science disciplines, such as economics, geography, sociology, political economy and cultural economy (Martin et al 2008:122).

In this chapter, rather than discussing each individual perspective across the various disciplines, an analysis of the process of financialisation is undertaken from the organisational framework which suggests that, at their core, debates over understanding of financialisation are between the perspectives of political economy and cultural economy (Ertuk et al 2008). Though there are some identifiable

specifics and cross-boundary approaches on financialisation within both political economy and cultural economy, it is the fruitful debates between, and insights available from, these perspectives that matters. The chapter is divided into four main sections. Section one analyses the debates on financialisation in order to identify key issues and concerns that cut across the understanding of financialisation present within both the political and cultural economy traditions. Overall, the section identifies three co-constitutive forces - financialised accumulation, financialised risk management, and financialised discipline - to be common theoretical concerns shared by political and cultural economy perspectives on financialisation. Sections two, three and four respectively continue the assessment of financialisation in these terms by examining via analysis of the new approaches, financialised accumulation, risk management and discipline in further detail and in relation to a mass market for consumer credit. This paves the way for an analysis of credit and mortgage accessibility and availability in subsequent chapters in Part One of the thesis.

2.2 What is Financialisation? Political and Cultural Economy Perspectives

The fluidity and complexities in the financial structures and processes of the contemporary global economy have continued to exacerbate its contested implications on socio-economic relationships. This has led to streams of ideas and theorisations amongst cultural economy and political economy scholars, aimed at presenting clearer insights into the categories of changes in global economic environment. Perceptions about ‘what is going on’, ‘what is promised’, or ‘what can be delivered’, seemingly fall into vast interpretational complexities instead of uniformed empirical understanding of the changes in economic fundamentals and their implications (Peterson 2003). Consequently, there are stand alone and overlapping interpretations of ‘financialisation’. It is important to first of all identify

the broad distinction across the competing theoretical perspectives, and then elucidate those that provide key insights into the understanding of financialisation.

The tendencies in the political economy and cultural economy perspectives on financialisation, as Erturk et al (2008:34) point out, depend "on the paradigmatic understandings of the economy". According to them, the political economists "conceive of the economy as a machine of quantities and relations between categories like profit and liquidity whose logic is discovered and operates independently of analysis". In the same vein, they also argued that cultural economists engage on a social construction of "how the economy is formatted by discourses [and] performance ... so that the world can become more like our theories" (ibid). There remain, of course, problems of demarcating political and cultural perspectives on the economy and their theoretical approaches to financialisation. But, as will be shown from exploration of existing study, there are key issues and concerns common to both perspectives that need to be taken into account in order to offer an adequate understanding of the various faces of financialisation (Palan 2002:15, Krippner 2008:196, Engelen 2005:1). For example, there would seem broad agreement that though there is no agreed date of the commencement of financialisation, the present-day financialisation is a powerful and well-established process arising from post-1980s' market deregulation and innovations in the wholesale and retail markets (Caprio 1994:2, Ertuk et al 2008:164-5). So, although there is no uniform perspective, it has been argued that the "theoretical lenses used to frame financialisation are those of accumulation and innovation" (Ertuk et al 2008:165). To this, we would add the concern with discipline and disciplinary power is also common to cultural economy and political economy perspectives (Langley 2008). These perspectives will be considered in turn.

It is important to note that for clearer conjectural analysis, cross-references are made to studies from other social science perspectives.

2.2.1 Political Economy Perspectives on Financialisation

In this section the researcher takes assessment of the political economy approach to an understanding of financialisation. Before doing so, it is necessary to indicate that from the various ways that the concept has been used, it is difficult to clearly demarcate the key political economic perspectives on financialisation. However, it still remains pertinent to argue that some of the emerging literature takes key conjectural lines of understanding and assessment of the processes of financialisation. For example, some regulation theorists' conjectures on financialisation emphasise the dynamics and modes of growth (see Aglietta 1979, Boyer 1990, Albritton 2001). Equally, it will be argued that some neo-Marxist/structuralists' theoretical perspectives on financialisation are focused on the power of finance: regimes of accumulation or over-accumulation and their inherent volatility (see Amin 1997, Arrighi 1994, Brenner 2001 & 2002, Epstein and Power 2002, Harvey 2008, Nesvetailova 2007 & 2008). In the same light some neo-Gramscian/historical materialists' perspectives on financialisation are arguably focused on increased investment and mobility of capital investment (see for example Harmes 2001a, Dumenil and Levy 2001, Pratt 2000). Also, some post-Keynesian/social democratic conjectural frameworks on financialisation are arguably focused on the financial governance structure of firms and shareholder value (see Froud et al 2000 & 2006, Lazonick and O'Sullivan 2000, Morin 2000). In the same vein, others who take a 'sociological institutional' approach that draws on Karl Polanyi's analysis of the 19th and early 20th century 'great transformation' view financialisation as underpinned by the growing power of financial institutions and

financial market as opposed to the state (see for example Krippner 2005 & 2008, Crotty 2002).

Thus, using a deductive analysis, a broad-mix discussion on the varying political economist theoretical conjectures on financialisation suffice. In this way, the aim is to highlight the key themes of the political economy understanding of financialisation and assess how they are linked. On this note, beginning with the perspectives of some regulationists, financialisation represents the 'immediate experience' of the bureaucracies of the capital market, whereby economic commodities and their 'economic outcomes' are regulated not by government but by the logic of the capital market (Boyer 1990:31, Albritton 2001:217-8). To this end financialisation is the regulated ascendancy of a new form of a finance-led growth regime whereby the participants are subject to the government and principles of the market (Aglietta and Breton 2001, Aglietta and Reberioux 2005, Boyer 2000). In this format, capital accumulation is a venture between financial mechanism and financial actors with the minimal regulatory intervention of the government. However, there is a caveat to this perspective. According to Boyer (2000), the 'power ascendency' of finance does not work in isolation with the real economy. Boyer argues that if it happens that a friction emerges between the operation of the financial economy and the real economy, or if the making of a 'strategic decision...relates to the whole society', then 'the public interventions are superior to [the financial] market mechanism' (ibid p. 274-6).

In the same vein, neo-Marxist and sociological institutionalists stress that financialisation is the natural microeconomic offspring of the liberalisation and deregulation process of the financial sector, consciously rolled out from the early

1980s by government. To this end, financialisation denotes the rise of new financial economies whereby the public and private operates through increased financial accumulation (Epstein and Power 2002, Epstein and Jayadev 2005, Crotty 2005, Stockhammer 2004, Krippner 2005, Dumenil and Levy 2004a). In particular, therefore, the financialisation process will be argued to have brought about the emergence of a new form of the continuous drive for profit making and capital accumulation. According to Krippner (2003:30, 2005:174), following the views of Arrighi (1994), financialisation is a new 'pattern of accumulation [by both corporate and public] in which profits accrue primarily through various financial channels rather than through trade and commodity production'.

This new pattern of accumulation, according to neo-Gramscians' perspectives on financialisation, includes the emergence of "mass investment culture" as a result of the shift to a "more liberalised and securitised national financial system" (Harmes 2001:1 & 13). To them, financialisation represents the increased influence of ICTs in investment, accumulation and consumption. In other words, financialisation is summed up as the acceleration of greater openness and competitiveness of the financial market which has brought about increased access and exposure to financial information (such as credit and saving facilities) as well as contemporaneous investments and consumption opportunities for more people (Harmes 2001, Pratt 2000). Similarly, Watson's (2007:7) perspective on the financialisation process is that it represents two key developments: the increased private participation in the financial market and the unprecedented capital mobility, whereby there are "deliberate" investments of private money in any chosen location and on any chosen person.

Alongside a transformation in patterns of accumulation, some political economists have also stressed that financialisation has induced within the economic life the rise of a new and/or different types of financiers and different types of financial motives (Power et al 2002). Accordingly, Epstein (2005:3) argues that financialisation is the "increasing political and economic power of a particular class grouping: the rentier class." Put in another way, financialisation is the rise in portfolio incomes, which are growing from the expansion of financial activities and services by privileged actors in both financial and non-financial institutions (Krippner 2003, Power, Dumenil and Levy 2004, Epstein and Abrena, 2002). In this context, Epstein (2005:3) drawing from the views of the Marxist economist, Rudolph Hilferding (1970), further describes financialisation as "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies". Of major interest and in striking difference to Epstein's (2005) explanation is the theory that financialisation is the emergence of 'financial motives'.

These financial motives could be identified and argued to be the differing increase of financial diversification amongst financial actors or the rentier class. It is noted that the financial diversification ranges from management and trading of risk, to accumulation expansion or profit prioritisation (Ertuk et.al 2008). The question is how has this happened? Arguably, the aggressive opening and restructuring of banks and the financial market through deregulation and other regulatory accords or frameworks, such as Basel II, has brought in an explosion in the making of new accumulation motives or new economy (Knights 1997, Poter 2005). According to Leyshon (2004: 265) this new economy is underpinned by "processes of disintermediation and growth in new kinds of financial instrument." A critical

insight into Leyshon's (2004) perspective depicts the financialisation process as the common and expected consequence of the deregulation exercises taking place in Anglo-American economies. That being the case, deregulation triggered the making of a complex financial system which is heavily reliant on the effectiveness and competence of the private sector for its continuity (Poter 2005:62-3).

In other words, according to Poon (2009), financialisation is driven by 'risk tolerant' private investors and investment banks that are pooled together by the logic of 'risk and profit' to build financial relations based on the innovations and management of risks. It will be said therefore that financialisation is a process that dismantled the restrictive boundaries of financial subjects, investment and risk tolerance through the intensification of competition and innovations. The intensification of competition, according to Stockhammer (2004), is largely brought about by the shift from old manager restrictive risk-assessment capitalism to more profit-driven 'shareholder value' capitalism. It is noted that the implication of shareholder value driven capitalism is contested. For some commentators underpinned by Agency Theory, the shift to shareholder value provides social benefit especially in paving the freedom for more people to participate in the financial system as either shareholders or stakeholders who can self-govern their perceptibility to risk. On the other hand, some writers argue that it provides opportunity for the enrichment of the rich few and thereby the promotion of class struggle, interest and inequality (see Dumenil and Levy 2001, 2004). The outcome, therefore, according to Stockhammer (2004), is that financialisation is a process of which the end product leads to the slowing down of the means for production-led accumulation. However, Krippner (2005, 2008) contrasted this position with the perspective that financialisation increases and is increasing opportunities for accumulation and wealth creation through intense

market competition for interest and profits by networks of financial actors (lenders, intermediaries and borrowers).

Overall, it will be summed up that theoretical conjectures about the processes of financialisation amongst political economist are diversified but without much separating them. As noted in their commentary on the development of theoretical conjectures on financialisation, Ertuk et al (2008:350) argues that whilst political economists disagree on a common perspective about financialisation, "most researchers accept that financial intermediaries in and around the financial markets..." have brought about the presence of finance in all aspect of relations in the economy, affecting the 'real economy', the state, individuals and households. Processes of financialisation thus feature new forms of accumulation that, while including innovations in the financial sector, also entail disciplinary pressures (for example, shareholder value) that are felt throughout the economy.

2.2.2 Cultural Economy Perspective on Financialisation

Though cultural economy is not the same as the emerging field referred to as the 'social studies of finance', one common denominator of both disciplines is that they focus on the discourse and experience of individuals and communities, but unlike political economy, cultural economy provides a mixture of conjectural approaches on financialisation to assess individual or societal experiences of finance. Broadly, cultural economy includes post-structural approaches that emphasise discourse, representations and embodiment of finance (see Thrift 2001, Langley 2004 & 2007, and Martin 2002). It also includes the actor-network theory approaches that stress the materiality of the financial market such as the models, techniques and calculations

through which finance is constituted and/or 'performed' (see Leyshon and Thrift 1997, Mackenzie and Millo 2003).

According to Erturk et al (2008:241), the cultural economy discourse approach on the financialisation process is a "hybrid discourse which combines the cultural sensitivity to narrative and performance with traditional political economy thematic about distributive inequality and macro-instability". At least in theory, the cultural narrative tends to cut across the epistemological and/or logical separation between 'concrete political situations' and the operations of the free market and social relations (Best and Paterson 2010: 2-6). In other words, arguably, cultural economists strive to provide an enriched narrative of "the complication" and the "diverse consequence" of the performativity of finance (Erturk et al 2005:5-6, Mackenzie and Millo 2003). Thus to some cultural economists, financialisation signifies the rise and operation of a complex financial market which is more than ever before, engineering a wider spread of a financial bubble into complex networks and new relationships (Thrift 2001: 412-413). Put differently, it is the rise of a new inclusionary financial economy where new kinds of subjects are enabled into the microcosm of financial investment and consumption. To this end, the understanding of the financialisation process includes and constitutes the ongoing discourse of the complex networks of changes in everyday finance and credit market place.

Accordingly, Langley (2007:540) conjectures that the complex networks of financial activities have made uncertain the subjects of finance. He argues further that financialisation is the rise of a new apparatus or government of financial and credit discipline, aimed at the increasing types and places of financial subjects. There are clear parallels here with Cutler and Waine's (2001) political economy perspective on

financialisation as a new form of market capitalisation that marks the change in corporate business culture towards formulation of new sets of internal and external relationships. In other words, financialisation is the building of sets of relationships that aims to call participants to discipline (individuals and corporations alike). As others stress more broadly, financialisation is the emergence of increased financial socialisation embedded within the government of discipline, such as risk pricing (see Morin 2000, Jurgens et al 2000).

In all, the cultural economy perspective is arguably underpinned in the narrative and discussion of 'uncertainties' about the performances and implications of the financialisation processes (Langley 2008). Such discussion includes the discussion of the uncertain implications of networks of changes in risk diversification. As shown earlier, some political economists agree that the key implication of increased diversification of risks is that it helped corporate and financial managers to increase profits and capital accumulation (Lazonick and O'Sullivan 2000, Williams 2000, Feng et al 2001). To cultural economists, the implication of the diversification of risks is that increased accumulation increases the performance of private financial subjects such as individuals and households. That is to say that increased capital accumulation influences the extent and capacity of the expansion of the corporate (external) business relationship. Also, it influences the reengineering of finance into everyday experience of consumer lending and borrowing.

To sum up, it is to be argued that most of the cultural economy perspectives on financialisation provide further insight into Blackburn's (2006:1) political economy view that financialisation can be equated to accumulation, based on the "systemic power of finance and financial engineering" in all facets of the economy. As Cox

(1996) noted, the engineering of growth on the power of finance produces complex and constructed relationships. Most of these constructed relationships are built on financial consumption that drastically "reject state intervention" on the choices of consumption (ibid p.31), but accept that which basically promotes choice through the market discipline. In a rather more discursive framework, Martin (2008:249, 2002) also argues that financialisation "involves many processes" which jointly encourage financial socialisation and social identification based upon the volume of financial consumption. The significance of this theoretical perspective is the understanding of financialisation as the development of everyday economic experience of financial consumption. To this end, the everyday consumer's experience of financial consumption has become interwoven and proximate with the occurrences at "capital markets through securitisation" (Langley 2006:284). In this way, the financialisation process encompasses the increasing financial activities and innovations on risk management and accumulation which work together for the creation of financial consumption or consumer credit and debt relationships. However, as we earlier pointed out, the creation of consumer credit and debt relationships are volatile and uncertain, but can be governed within the new networks of financialised disciplinary parameter (Langley (2007:3&8).

2.2.3 Key Insights of Political and Cultural Economy Perspectives on Financialisation

The key insights to be drawn from the above analysis of political economy and cultural economy approaches are that both perspectives seemingly complement each other in the understanding of processes of financialisation. Thus, there are key issues which arguably cut across the political and cultural economy conceptualisation of financialisation. In this regard, both the political and cultural

economy understanding of the processes of financialisation agree to the emergence of financial innovations which have brought about changes in three key identifiable issues. It is, first, notable that most related political and cultural economy literature on financialisation recognises tremendous changes in the nature and approaches to capital accumulation (in forms of increased use of instruments of securitisation) by banks and financial institutions. Second, political and cultural economy conceptualise that underpinning the tremendous changes in capital accumulation is the intrinsic innovations on the manner and nature of risk trading and management (in forms of originate and distribute and risk disintermediation) by banks and financial institutions. Third, both political economy and cultural economy studies underscore the growing changes in the internal and external disciplining apparatus of reward and punishment (in forms of shareholder value, credit score and risk-based pricing). In all, it is important to note that the above three key issues arguably operate as the co-constitutive forces that advance the growing weight and power of finance, the expansion of scale of operations and behavioural changes on risk and on how risk taking comes to be perceived. Also, on changes in the models of services of banks, brokerage houses, finance companies towards households and individuals.

Having above drawn out the key issues and concerns that political and cultural economy perspectives raise about financialisation, the subsequent sections use the three co-constitutive forces (accumulation, risk management and discipline) to provide further assessment of financialisation. In particular, it is aimed that further examination of these co-constitutive forces will facilitate an approach to characterising, explaining and assessing the structural and procedural changes that have occurred and are occurring in the Anglo-American consumer credit and residential mortgage market. Yet, it is important to note that the examination as

carried out in the subsequent sections is undertaken in order to combine the nuances of political and cultural economy perspectives.

2.3 Financialised Accumulation

First of all it is pertinent to mention that the patterns of accumulation at any given time within the capitalist economy can be linked to some key factors, such as stability and growth, but most importantly to changes in financial and monetary policies in place. Following the 1980s' policies of deregulation, the key signs of financialisation arguably include the reorganisation of the means of wealth creation, and the changes in the modes of financial activities that led to increased participation in the financial market by both financial and non-financial institutions, as primary means of generating revenues. Financialised accumulation can therefore be conceptualised in ideal-typical terms[3], as the accruement of portfolio incomes mainly from interests, profits and dividends realised from capital market participation and financial investments, as opposed to production of goods or productive investment.

The above perception of financialised accumulation is of interest because it underscores the complex interplay between changes in both economic and market ideology and also changes in the complexities in the structure of accumulation. For example, in Keynesianism/Fordism, the apparatus of accumulation and consumerism are argued to be regulated and rooted (De Angelis 2000, Lovering 1990 Albertsen 1988), particularly in production and price stabilisation through inflationary interventions. The underpinning conjecture is that the mood and mode of accumulation is better if based on public or regulated banking and tacit management of microeconomics (Pressman 2009, Boyer 2000, Tickell and Peck 2001). However,

[3] The method of 'ideal-types' is taken from Weber (1981)

in the financialised processes of the contemporary capital economy, as earlier noted by Rudolph Hilferding (1970), accumulation is deregulated into the competence of the market. Arguably, the processes of deregulation brought into close connection the productive economy and accumulation with the structures, functions and powers, of the financial market. In other words, it is the continuous romance of the design, the structure of multinational production companies (MNCs) with traditional finance and banking institutions, that propels the engine of accumulation. It would therefore not be too unusual to say that there is no disconnection between the finance-led accumulation and production-led accumulation. Both are one unit of the processes of investment and accumulation under processes of financialisation.

In both the production and in the financial industry, deregulation has occurred in structure and in products. The operational structures of the finance industry, for example, are geared towards the primary objective to boost the circulation of investment capital and accumulation through growth in the innovations of risk. As part of the agenda of innovation of risk, the path of accumulation is consciously linked with "promised prosperity for all" (Amin 2003:1-2). Accordingly, the corporate strategies of accumulation are not only embedded in the promise of prosperity, but also on the socialisation of consumption of finance through the processes and activities of financialisation. Put differently, the high-tech transactional activities (that take place especially in the capital market) have emerged to replace other channels of investment, capital flow and consumption. Dumenil and Levy (2004:105), from a political economy perspective, argue that the liberalisation of finance is exogenously 'opening [the] commercial frontiers for free movement of [credit and] capital' within a technologically compressed time and space. Though most of the existing research on the implications of financial

liberalisation and process of accumulation seem to have been geographically focused, one key agreement is that both the developed and developing economies are witnessing greater disintermediation of financial transactions and financial consumption (French and Leyshon 2004, Laeven 2002, Levine 2001, and Lovel 2001).

It could be said that the literature on the impact of financialisation processes on investment and accumulation are growing from two perspectives. First, according to Boyer (2000), financialisation is the emergence of a new national and global 'wealth-based growth regime'. Second, according to Krippner (2005:187), it is the "increasingly privileged site of accumulation" within which other parts of the economy become dependent to foster their stability and flow of income streams. If these two views are put together, it seems the financialisation process is enhancing a new wealth for more people and at the same time creates greater accumulation for some privileged few (Epstein and Abrena 2003, Epstein and Power 2002-3). Moreover, in this regard, according to Staten and Yezer (2004:359), the growth in investment and accumulation is concomitant with the technological improvements in the managements of risk that make possible increased channels of accumulation. As the opportunity for managing risk increases, the implication is that other channels of accumulation (such as accumulation from credit expansion to people previously classified as 'riskier borrowers') will open and be maximised. However, some writers suggest that if risk management is one force that enables increased accumulation, then the "freedom of action of finance" may be tantamount to "systemic attack against social protection" (Dumenil and Levy (2001:587). But at this point, we argue that the fundamental unit for examining the financialisation

process is the degree to which it is impacting on the structure of investment and accumulation.

In order to elucidate the relationship between the financialisation process and new financialised accumulation, the new ways by which risks are structured should be taken into consideration. Drawing from the perspective of French and Leyshon (2004), the current structure of investment risks are commercially prioritised on increased expectation that increased motivation in mass credit consumption will yield a positive balance (see also Langley 2009). Put differently, each unit of actualised credit consumption serves as both investment and financial accumulation for investors and/or shareholders. In this regard, Immergluck and Smith (2005:364) argue that the increase in risk prioritisation has also triggered the 'increasing specialised and segmented units of portfolios.' In other words, portfolios of accumulation are separately and systematically created from each unit(s) of financial consumption. Arguably, therefore, the financialisation process has brought about diversified financial risk actors as well as diversified means and approaches of financial investment and accumulation. In this way, it is to be further argued that the most evident influence on the pattern of investment or accumulation is the disciplinary priorities of the actors more than any others. Presently financial and non-financial institutions and financial actors that are engaged in the creation and disbursement of credits are arguably most likely to place their priorities for capital accumulation on a model of risk disciplining structure that would shape the maximisation of each unit of investment or 'investment in risk'.

On this footing, it is far from common sense that from late mid-1990s through to 2006, financial accumulations were far more embedded in the realities of the

competition in the risk and marketing of the risks of expansionary investment of consumer finance and credits. Morrison (2005) in his work argues that there are noticeable but common changes in capitalist economies (despite some jurisdictional differences) that point out that the modes of corporate, market and public accumulations are vigorously dependent on the consumer market. He further argues that, for this reason, it made good business sense for most financial institutions to structure increased capital accumulation along the discipline of choice and consequences. Put differently, increasing financial accumulation rests on the unhinged choice of investor actors to take and maximise risk on the assumed competencies that credit consumers shall take rational decisions and be obliged to make their repayment to avoid the consequence of being shut out from further credit accessibility. Adding to this perspective, Langley (2005:86) argued that the pattern of financialised accumulation has opened a process whereby the financial consumption of individuals/household are placed on the edifice of their reasonability and "market rationality". All these put together, it seems that the balancing point of the pendulum of financial accumulation rests between the social value, the bargaining power of financial consumers and the distributive competences of the capital market (Ingham 2004, Hutchinson et al 2002, Cerny 1996). Therefore, in three distinctive ways, the continued competency of the capital market is sacrosanct to increase in financialised accumulation. First, it provides an environment for exchange of claims and obligations. Second, both for the financial and non financial institutions, the capital market provides 'limitless' avenues for utilisation of the innovations of risks management in order to accumulate. Third, the capital market creates and helps to create increased competition in the retail credit products and

services that link financialised accumulation with the consumptive economy (Donahue 2002, Boyer 2000).

In summary, there is a noticeable reconfiguration of capital accumulation underpinned by the mechanisms of the finance sector and the capital market in particular. This is promoted and made possible by deregulation and neoliberal market-led priorities which, though mostly characterised by the dominance of the rentier class, is at the same time characterised by broadening and deepening other actors (for example, individuals and households) who participate as part of financial motives and disciplines. Hence, accumulation and financialised motives and disciplines are not limited to the intersection of the financial and productive economies, but also include the consumptive and financial economies.

2.4 Financialised Risk Management and Trading

As shown earlier, the extent and extant of financialised accumulation is intimately related to a reworking of risk that combines new techniques of risk management within and across banks on the one hand, and an appetite for investing in and accumulating through risk instruments and trading by a whole host of institutions on the other hand. As such, risk enables financialised accumulation through both more lending by banks and by increased trading and speculation by banks and others (for example pensions and other investment funds). As one of the constituent forces of the financialisation processes, risk management and trading has only recently become subject to intense study by social scientists, political and cultural economists. Basically, in the growing cross-disciplinary literature on financialisation, there are competing and contrasting perspectives on the general and specific importance of risk management and trading. A common denominator of the

competing views is the seeming understanding of the financialisation process that includes a more financialised approach to the management of risk. This involves the increased and continued innovations on structuring risk, the commodification and marketisation of risk, socialisation of risk and distribution and ownership of risk. These innovations feature the rise of mechanisms which enable banks to increase their financial and capital accumulation, by way of internal creation of commercial instruments, which are then placed externally in the wholesale market to attract investors.

Financialised risk management can be said to be the creation and use of various instruments of 'structured finance' which help to build-up a chain of risk mitigation or minimisation of risk. It involves a new approach to risk which is anchored on the model of 'originate and distribute'. In this model, credit or default risks (that is the uncertainties that borrowers, individuals and institutions of all kinds, will make their repayments) are 'originated'. However, with the model, the catastrophic cost or implications of default risks are hedged against by way of 'slicing and dicing' and 'distributed' in commercially manageable sizes at the wholesale market to willing risk bearers (which includes individual investors and consumers via pension funds and mutual funds). In some of the financialisation literature, the willingness to bear risk has been observed to be a necessity and the measure of success. In this framework, the financialisation process provides the structure upon which public and private subjects are characterised by their ability to absorb, share and manage risk. It is noted that these risks are more often than not presumed necessary risks. These include risks arising, for example, from the production of real things "such as cars and shirts" (Mandel 1996: 8) and also the production of intangible services or 'good things of life' which may be unquantifiable (Martin 2005). According to Blackburn

(2006) there is a distinction between risk and uncertainty, so while the focus of financialised risk management has developed on the belief that risk is economical and can be 'quantified and calculated' cushions can only be made available to the immediate perception of 'uncertainty'.

In a more general view, the risk management and trading as a key force of the financialisation process has brought about seeming conscious proprietary acceptance of risk taking by both investors and consumers as integral to everyday life in a deregulated neoliberal economy. It is in this perspective that inference may be drawn from the "self-service" concept of Knight and Tinker (1997:126), whereby as a consequence of increased risk management, risk bearing has been made readily available "with special offers and free gifts" (ibid) to investors and consumers who are called upon to serve themselves. The ready availability of the means to take risks, share risks and/or transfer risks make the case for the key understanding of the financialisation process to be the rise of the social transformation of risk. This is of immense importance, as one of the principal features of financialised risk management and trading is a depersonalisation of responsibility for risk bearing. In effect, wholesale banks and other retail financial institutions' risk bearing responsibility is limited only to their choice of retaining profitable risks, trading off or underwriting negative or bad risk in the securities market.

As a consequence, the rating of banks and corporate institutions are based on the tracking of their past and computerised record of performances. In other words the performance of banks and other corporate organisations are arguably assessed on their ability to mix and match the new and different kinds of risk management models of 'originate and distribute'. It is perhaps not misplaced to argue that the

force of financialised management in many ways contributed to the increased capacity of banks and other institutions to manage risks more effectively and prudently than some national governments. This is because more than ever before banks and non-banks have increased use of different risk management instruments to sell off any, or all the risks of their investments to an increased number of willing private and corporate investors. These risk management or diversification instruments include, but are not limited to those used by loan/credit originators as securities to a claim on residential mortgage credit. This is commonly referred to as mortgage backed securities (MBSs). Other instruments also include asset backed securities (ABSs) which is an instrument used to make pools of small and illiquid assets into security for cash flow. Others, such as credit default swaps (CDS) are contractual instruments exchanged between, for example, a loan originator and the beneficiary to act as insurance against default. Also, with the instrument of collateralised debt obligations, (CDOs), originators can pool together and structure multiple asset backed securities by way of making their risks into grades/tranches/classes with the aim of building up portfolios that can be marketed or re-diversified for fixed stream of returns or flow of incomes.

Again, as noted earlier, the availability and increased use of these instruments have been made possible because of the changes in the model of risk management and accounting standards (for example Basel I and II committee on banking supervision). Unlike the old or traditional model of 'originate and retain', where bank managers are required to originate and retain a proportionate percentage of the risk and also ensure there is enough capital on the liabilities side of their balance sheets savings to cancel out the bank's risks, the 'originate and distribute' model of risk management allows for amortisation of risk in the securities and capital market. In other words the

new model of ‘originate and distribute’ brought about a huge transformation of the structure and sources of financial and capital accumulation. Banks, by way of the ‘coupon pool’, can raise their capital portfolio by originating coupons in one nationality and distributing them and pool incomes from investors across other nationalities (Froud et al 2001, Watson 2007). Equally with the quantitative and structural changes brought in by the Basel II (BIS International Banking Accord), banks and other financial institutions are more than ever before able to share risk and take on a market-based approach in the management of risk and corporate behaviours (Porter 2005:64-5). As argued hereafter, as the market approach employed by national and international bank regulators in assessing management behaviour attests, financiers on their part take a more proactive approach in balancing their use of various tools of risk management with tools of discipline.

Overall, as noted earlier, ‘risk’ and especially the ‘reality of risk’ or ‘volatility of risk’ and the ‘government of risk’ remains a subject of social theoretical debate (De Goede 2004). In other words, the debates on how to grasp and conceptualise the new approach to risk as something which can be calculated, quantified and valued, has attracted different theoretical perspectives from social science researchers. In his book, Beck (1999) argued that we live in a ‘global risk society’ whereby modernity is anchored in the reality of risk. In this regard risk is ‘real’, and can no longer be controlled through state and other collective mechanisms such as insurance. Risk is experienced by households, families and individuals. Hence, the reality and the uncertainty of the outcomes of risk make problematic its calculation (Becks and Becks 2002, Watson 2009). However, amongst post-structuralist writers, the contrasting perspective is that risk is just a way of calculation, and there is no such thing as risk (Langley 2008). In this sense, risk could be argued to be an opportunity,

which if quantitatively calculated, may itself produce and expand financialised accumulation. Therefore, risk is distinct from uncertainty because according to some writers, if something can be calculated, such as risk, it does not however eliminate completely the existence of uncertainties which can occur independently (Blackburn 2006). Without discrediting any of the perceptions about risk, however, it will be argued that the current increase in mass consumption of finance has been brought about by the financialised reworking of risk. In other words, the boom and bubble in the Anglo-American economy emerged as a result of close technological proximity between innovations in risk calculation and accumulation improvement (Brenner 2002).

2.5 Financialised Discipline

The focus on financialised discipline as distinct from plain, old financial discipline is necessary. This is because financialised discipline is to be understood as part of three co-constitutive forces of financialisation, following which, an analysis of how it has emerged as a calculative tool or significant innovation in 'reward and punishment' that makes new kinds of credit relationship possible is imperative. One question to answer regarding financialised discipline is how it differs from plain, old discipline. Two issues become significant an in attempt to distinguish their differences: first, the mechanism for determining appropriate risk and borrower creditworthiness (inclusion into the credit and mortgage market) and second, the mechanism for repayment punishment (exclusion from credit and mortgage).

In broad terms, and as Burton (2008) highlights, the availability and accessibility of credit is underpinned by trust and obligation shared by the lender and the borrower. Though the determination of how trust is equitably dispensed is problematic,

however, what is specific is that borrower eligibility and their reward of the quiet enjoyment of credit product is deeply rooted on their self-discipline and responsibility to repay. In other words, the plain, old financial discipline strictly weighs up and measures the risk and creditworthiness of would be borrowers through sharing and strict use of credit information and references. Arguably, therefore, the creation of credit relationships or the inclusion and exclusion of borrowers in the plain, old financial discipline operates within contractual and legal mechanisms. For example the punishment for non-standard credit references or tainted credit history of would be borrowers, is their exclusion while repayment failures are punished strictly through the legal mechanisms of bankruptcy, repossessions and foreclosure.

As argued earlier, the spread of financial investment motives has itself embodied the making of new individualised financial subjects (Cohn 2005). Hence, in forms of borrowers or financial consumers, these new financial subjects are called upon to 'play the market' to 'expand their access to credit' in order to 'find their material well-being, freedom and security 'to live by finance' (Langley 2009:14, Martin 2002:3). In this respect, 'to play the market' involves the making of an entrepreneurial-self in order to be included in the mass market of credit which is underpinned by new calculative approaches to risk. As earlier noted, the increase in capital accumulation via financialised accumulation and financialised risk management also arguably entails new disciplines of corporate management. As a matter of fact, financialised discipline now operates both in the commercial and consumer credit market. In the commercial credit market it operates through 'shareholder value', which disciplines corporate borrowers via the cost of the credit that they borrow and through bond ratings supplied by Moody, Standard and Poor,

and Fitch. Likewise in the consumer market, credit scoring and risk-based pricing form similar calculative tools used to discipline consumer borrowers via the cost of the credit that they borrow (Marron 2007, Leyshon, 1999).

Thus financialised discipline can be argued to be the emergence of new disciplinary mechanisms in which, unlike the plain, old financial discipline, lenders and intermediaries utilise calculative instruments of credit scoring and risk-based pricing to determine the 'commercial' worthiness (or profit opportunity) of would be borrowers. The insight here is that the combination of the rationality of calculative discipline with the readiness of the borrowers to adhere thereto with the calculative rationality and also their willingness to take the self-disciplinary responsibility to pay higher prices, have paved the way for greater participation in the mass market for credit and financial consumption (Langley 2007:6). It is to be argued, therefore, that the presence of calculative financialised discipline provided the necessary extra-legal regulatory regime that legitimised the rise and boom in subprime lending. As Langley noted lack of 'federal legislation did not make subprime ungovernable. In his terms, "prior to the crisis...subprime...materialised as a legitimate and highly profitable sector of the market precisely because of the legal, disciplinary, calculative and self-disciplinary apparatus that it shared with the mainstream" (ibid).

2.6 Conclusion

In this chapter, I have drawn on political economy and cultural economy perspectives to identify three principal co-constitutive forces of the process of financialisation: financialised accumulation, financialised risk management, and financialised discipline. I have further elaborated on each in turn, exploring how these forces operate together to produce financialised consumer economies. It is

argued that the increased innovations of financialised accumulation, financialised risk management and financialised disciplinary mechanisms operate in harmony to make a mass market for consumer credit and consumption (Langley 2008, Malmquist et al 1997). In other words, the co-constitutive forces brought about new opportunities for accumulation and a re-evaluation of risk which more than ever before is matched with developed "proprietary models" of underwriting risk that have arguably helped to boost financial consumption through increased and more flexible borrowing (Heitfield and Sabarwal 2004: 458). Therefore, the processes of financialisation did not just feature mass financial investment (Harmes 2001) but also led to mass consumption of consumer credit.

3 Financialisation and Inclusion in Mainstream Markets

3.1 Introduction

The chapter offers an initial exploration of the relationship between the co-constitutive forces of financialisation and the increase in prime or mainstream consumer credit both in terms of scale (i.e. more borrowing) and scope (i.e. by more people). First of all it is important to recognise that more borrowing by more people has been an object of government policy, typically under the guise of the drive for so-called 'financial inclusion'. In other words, the boom in credit is part of the pragmatic responses of the mainstream banks and other financial institutions to government initiatives in a deregulated market. Government policies have been vigorously directed towards "making banks' lending policies more supportive towards low income households...at removing economic and 'environmental' obstacles that prevent mainstream credit institutions from lending to families who are usually excluded or credit constrained" (Nieri 2007:124). But as stated above, from the conjectural perspective developed in chapter two, the boom is most appropriately understood as related to the three sets of forces of financialisation, rather than as simply and solely the outcome of government policy that produces market effects.

This aside, in the Anglo-American economies, the measures to tackle financial or ownership exclusion when compared to other developed economies have been far more multi-faced. They involve a combination of actions, initiatives and integration of solutions from the government and the market and a range of other stakeholders. However, it seems that the ubiquity of the influence of processes of financialisation

has shifted key emphasis on the discourse of financial inclusion or exclusion towards the supply and accessibility of consumer credits, especially from the mainstream financial institutions. It is argued that in order to meet the needs of the 'bankable' low and middle income households and individuals, the need for a composite solution, which will include "increasing the availability of affordable credits" from the mainstream banks, is momentous (HM Treasury 2004:47, 2002, 1999, HM Treasury and SBS 2002, Affleck and Mellor 2006, Bryson and Buttle 2005, Fuller and Jones 2003, Guene and Mayo 2001, FSA 2000).[4]

This position may be analysed to be a reaction towards the uncertainty and the dynamism of the shifting concerns on financial speculations and new opportunities for accumulation open to both the mainstream banks and their competitors. Also, it has been further necessitated by the shift in consumption values from the "older age of scarcity, discipline, hard work, budgeting and saving" (Calder 2001:31) towards a greater laissez-faire or hedonistic consumption, limited only by the immediate ability of oneself to fulfil the credit disciplinary measures or costs (Whyley et al 2000). Some recent surveys show that there is now more borrowing and by more people from a 'choice of lenders' including the mainstream commercial banks than ever before (Bucks et al 2006:32). This development has been identified as not just a means through which the mainstream banks "maintain and increase sales and profitability" but serves as a "major tool of economic growth […] management and development […] and improvement in the standard of living" (Handrinos et al 2007:19&24). The combination of the financialisation process and the 'market-

[4] See also the US Treasury Department's Community Development Financial Institutions (CDFI) Funds and the Community Reinvestment Act (CRA 1977, CRA Reform 2005), the UK government's three main areas of action : increased access to banking, increased availability of affordable credit, increased financial education (and other various policy initiatives such as Working Tax Credit, Over-indebtedness Strategy, The Consumer Credit White Paper, Saving Gateway, Child Trust Fund, Community Development Finance).

approach' towards the problem of financial exclusion may on one hand be argued to provide a positive shift towards credit inclusion. The congruency of the credit providers and the capital market may be argued further to be engendering greater asset capitalisation and availability of lendable funds from the mainstream banks. This invariably is bringing about the era of credit democratisation which, according to Lown (2005:402), is the time of greater "expansion of consumer credit to marginal borrowers…whereby everyone regardless of [*immediate]* ability to repay has the right to borrow money... ." In this light, Collard (2007:14-16) and Barr (2005:620) respectively suggest that the financial environment is witnessing an emergence of 'transactional banking services' which is enabling 'banking inclusion' through the reduction of 'discrimination in credits'.

Therefore, deregulation of the banking and financial market industry, the growing power of finance capital accumulation[5] and the innovations of securitisation alongside the new disciplines in borrowing, are in no doubt the major development and frameworks that are strengthening the inclusionary services of the mainstream financial institutions. It is in this light that Bond and Krishnamurthy (2004) argue that the financial market is helping to re-regulate financial exclusion. Before the boom in credit, high street banks were notorious in discriminatory lending modalities. Research shows that mainstream banks have internal strategies of

[5] It is important to note that some research already conducted on the role of deregulation in reducing financial exclusion sways in various dimensions. For example, Mckillop and Wilson (2007:9) and Chakravarty (2006) suggested that it has led to "customer segmentation and discrimination….and increased emphasis on risk-based pricing" but others argue that it has led to "up-market credits" such as credit cards (Kempson et al 1994:185) and a "plethora of easily available credit", Kahn and Longmead (1988:32). However, it is important to note that this difference of opinion can be largely explained by the times in which each research was conducted. For example, according to Langley (2008:164-66) the shift in mainstream bank strategy of risk avoidance and stricter curtailment of credit in the 1980s and 1990s to a more inclusive lending strategy, is because of the changes in the understanding of inclusion/exclusion. Inclusion/exclusion now forms the "conceptual touchstone for government agencies, policy makers and community activists" (p.166). Therefore at this stage of the research I take the presumption that the view that points at the increase in credit availability as a positive response to financial inclusion/exclusion is unproblematic.

classifying poor and disadvantaged people as risky and 'cherry pick' who are eligible for loans and where credit and mortgage investment are to be channelled (Dymski 2005a, Dymski and Veitch 1996, Leyshon and Thrift 1996). However, the current multiplicity of the forms of consumer credits and methods of lending now available to households and individuals, stimulate the need for us to make two guiding propositions. First, the increase in service and product competition and the processes of asset-backed financialised accumulation are diminishing rapidly the traditional mainstream 'turn away' strategy or 'risk-avoidance' from credit expansion[6]. Second, the increased consumer credit or borrowing from the mainstream bank may be the natural correlation of their increased responsiveness and responsibility. From these propositions it is to be argued, according to Nocera (1994:10), that the Anglo-American economy is witnessing the emergence of 'financial citizenship' or 'financial democracy'[7].

Overall, the chapter is divided into four sections. Section one takes an analytical overview of the discourse of increased financial inclusion. The subsequent sections provide an insight into how the innovations of the co-constitutive forces of financialisation engendered and sustained financialised inclusion in the mainstream market. Section two engages in an insight into the impact of financialised accumulation and borrowing and financial inclusion in the mainstream. Section three provides an exploration of the effects of the financialised model of risk management, (for example originate and distribute), on borrowing and inclusion. Section four

[6] According to Leyshon and Thrift (1995:313), it is the strategy that encourages the re-direction of credit away from the 'poorer social groups towards the richer groups'.

[7] It is worthy to note that research shows that the existing or probable financial democracy or citizenship is predicated on a new and different form of pricing equality or inequality (see Leyshon and Thrift 1995:1, Sinclair 2001, Kempson and Whyley 2000, Ford and Rowlingson, 1996).

seeks to analyse the link between the mechanisms of financialised discipline and the scope and scale of inclusion in the mainstream market.

3.2 Financial Inclusion

The contemporary changes in the public policy approach on financial inclusion/exclusion and consequent financial market approaches – the increase and changes in the objectives of the government of mass market for credit, provokes critical reassessment. Different frameworks of the discourse of financial exclusion within its new policy context may be argued to be anchored on the primo of the finance capital and the re-integration of the banking and financial services industry as key to 'everyday life' (Langley 2003, 2004). The increasing penetration and influence of the household consumption by the banking and financial services industry may be further argued as an emerged contributor to the coupon pool capitalism (Froud et al 2000). There is, therefore, the probable cornucopia of abilities and capability of the banks and financial institutions via the capital market to muster finance capital that will firmly foster the policy restructuring of extant socio-economic and financial disparity.

It is pertinent at this point to take stock of the question 'what is financial exclusion?' Broadly, financial exclusion could be described as the everyday banking and transactional problems and difficulties and their overall consequences as experienced by those who are within the marginal zone of the economy (Gloukoviezoff 2007). It is the 'access difficulties', 'use difficulties' and the cumulative 'cost difficulties' ensuing from other forms of social and economic exclusions (Hills et al 2002). Further cursory evidence suggests that financial exclusions are 'risks' constituting of any form of externalities that prevent the accessibility, availability, affordability

and usage of financial services and products (Andrew et al 2006, Molyneux 2007). The reasons for financial exclusion are complex and not easy to pinpoint. However, Dymski (2005:107-109) argues that financial exclusion is as a result of the 'micro-scale' of globalisation. According to him the micro-scale of globalisation is enabling increased 'movement across borders of banking firms and banking practices', which are in turn 'generating financial inclusion for the privileged and exclusion for the poor or working class.'

In general terms, the reasons for financial exclusion could be argued to be following the risks arising out of the disproportionate lacunae on the supply and demand of financial services and products between the white-collar and the blue-collar income groups. The consequences of these risks are that the demand or accessibilities of banking services and products are supplied by providers based on stratified conditions. This analysis suggests that the financial market is bifurcated so that 'different markets serve different portions of the household…' (Dymski 2005:439). It is argued that the abilities or capabilities of households, who are at low-income stratum, to "lead normal social life in the society in which they belong" are limited to bank financial capital flows and the volatility of such flows (Gloukoviezoff 2007:220, Barr 2007, Kempson and Whyley 1999b).

Viewed from a slightly different angle, Kempson and Whyley (1999a, 1999b) suggest that the disproportionate conditionality of bank financial flows and provisioning are the identifiable zones of financial exclusion. They identified four financial exclusion zones as follows: access-exclusion, condition-exclusion, price-exclusion and marketing exclusion. Analysis of the evidence from available financial and social exclusion literature seems to provide varied explanations and indicators of

the above identified financial exclusion zones or features. Prominent from these explanations are the lack of a basic bank account for everyday transactions and access to credit within the mainstream banks and financial institutions (Aizcorbe et al 2003, Kempson et al 2003). Kempson et al (2000) found that the lack of access to affordable consumer credit poses a two-face dilemma: first as constituting veritable area of financial exclusion and second as an avenue for social and financial exploitation. Other major areas are the lack of access to home-contents insurance, especially amongst the poor or near poor (Whyley et al 1998). It also includes the difficulties experienced by those on a low income to meet up with the various financial marketing conditions (Sinclair 2001, Kempson et al 2000, Kempson and Whyley1999a)[8]. In the same vein, as part of the constituents of the risks of financial exclusion, are low levels of financial literacy or academic qualification and ignorance, especially amongst individuals and households on a low income and with low education (Devlin 2005). Likewise, individuals or households, who based on past rejection and bad experience with banks or financial institutions, pose the risk of voluntarily excluding themselves from financial services and products (Andrew et al 2006:161, FSA 2000). It has also been identified that remote physical locations in which some poor individuals or households reside constitute barriers to the accessibility of financial services and products (Leyshon and Thrift 1995).

In their research, Kempson and Jones (2000), Leyshon and Thrift (1997, 1994) equally suggest that the closure of bank branches or outlets[9] in the poor city neighbourhoods and villages poses the risk of some people being financially

[8] These are the disciplinary tools/cost and risk pricing strategies of the financial institutions, for example, credit scoring and postcode analysis etc.

[9] It is argued to the contrary that the development in the transport system and the boom in electronic transactions via the internet and the telephone make location and physical exclusion to financial services more cosmetic than fact (see Pratt 2000).

excluded. Suffice it to argue that while financial exclusion may be caused by one or a combination of factors, the experience of financial exclusion includes common factors which quite often are over-looked. These include social and economic prejudice or spaces of discriminatory ecologies which are aspects of religious faith or cultural differences[10], unemployment, single parenthood, class, social welfare dependency, low-wage or level of household income, marital status, apprenticeship, non-homeowner or housing tenure, old age, impairment, immigrants and refugees, ethnicity or black and minority-ethnic (BME), minority neighbourhoods and communities (see Midgley 2005:277-8, CRA 1977, Devlin 2005, Kempson et al 2000, Gough et al 2006).

Moreover, issues of financial inclusion and exclusion are particularly acute in relation to homeownership. For the vast majority of individuals and households, homeownership is only possible through access to mortgage finance as a particular form of long-term borrowing that is secured against the home as collateral. Exclusion from the mortgage market, a notoriously conservative retail financial market, is thus necessary exclusion from homeownership. Equally, policies and processes of financialisation that feed financial inclusion in the mortgage market become, by definition, closely intertwined with the promotion of homeownership and 'asset-based' welfare more broadly. This is especially the case as mortgage markets have developed to enable re-mortgaging and home-owner loans and equity withdrawal: forms of borrowing that blur the distinction between unsecured and secured credit obligations.

[10] Some religious faith such as Islam, teach against borrowing, receiving and payment of interest. The consequence of this is that people of this faith find it difficult to get simple banking services such as a bank account, personal loan, credit card from the conventional financial institutions (see Ghazali 1994).

3.3 Financialised Accumulation and Inclusion

Having taken the earlier journey of pinpointing the literature on what financial inclusion/exclusion is typically regarded to be, I will now begin to differentiate what is meant by financialised inclusion. I do so by exploring financialised accumulation in the first instance. In the US and UK, the policy plank on financial inclusion, as indicated earlier, is embedded in the partnership between government, non-government bodies and the financial service industry. The key emphasis on this partnership is that banks and the financial service industry should "take the lead on the design of appropriate financial products" for increased opportunity for financial inclusion, while policy making remains with the government (FSA 2000:79). The introduction of the banking and financial industry deregulation policy from the mid-1980s and its continued processes, according to Foster (2007:1), has brought about the 'endless cycles' and 'explosions' of financial capital. These are evidenced by the growing deregulatory changes in the markets for credit, which include the opening of new avenues for financing of household mortgages and consumption. Arguably, in the developed economies such as the UK and US, these changes are widening the terrain of banks' profitability and accumulation.

These changes, amongst others, include the increased lending within the national geography or within 'safe' economic environment rather than the 1980s lending, whereof banks engaged in greater international lending, especially to developing countries. There are also changes in lending approach. This approach involves the provision of more credit to fund personal and residential finance, arguably marking the end of the traditional 'strategy of risk avoidance' especially by mainstream financial institutions (Crotty 2007:29). According to Montgomerie (2006:301), the readiness of mainstream banks and other financial actors to take a 'flight-to-risk' is

underpinned by the consolidation of greater competitive strategies and innovative means to capital accumulation and risk management approaches. Hence, unlike the 1980s when people and households at the margins of income were seen as 'very risky' and were methodologically expunged from the mainstream financial services and products, there has arisen a dramatic change since the mid-1990s. During the 1990s, and especially from the late 1990s and early 2000s, the mainstream credit markets came to include more people on the margins because they came to be seen as representing an opportunity or means for greater financialised accumulation and sustenance of profit (Dymski, 2005). Indeed, it is important to emphasise this innovative and competitive change of approach by the mainstream banks and other financial institutions was driven through the bridges of government legislations aimed at equality of the opportunity of credit.

Though these legislations may be argued to have provided the backbone for credit equality activists,[11] alone it was incapable of transforming the fears of the lenders regarding the poor and marginal borrowers. It is, then, the processes of financialisation (accumulation in this instance) that provided the accelerating factor(s) that propelled the changes in the greater accessibility of credits from the mainstream banks. How? The financialisation process is increasing the volume of

[11] In the UK there are legislations and government initiatives/strategies aimed at opening up access to credit and mortgage loans; examples include the Conservative government's (Thatcher administration) Housing Act 2004: Right-to-buy, the Financial Inclusion Strategy of the New-Labour government, and the Consumer Credit Act 2006. In the US there have been various federal legislative frameworks, (many of which are as a result of community and inner-city consumer activism and campaigns against credit discrimination and abuse) aimed at promoting equal access to credit and mortgage loans. For example, Truth-in-Lending Act (TILA) 1968 as part of the Consumer Protection Act is aimed at making bank/lenders ensure that borrowers are aware and understand the nature, terms and cost of credit. Equally, the Home Mortgage Disclosure Act (HMDA) 1975 is aimed at mandating lenders/banks to disclose the names and racial background of borrowers, the Community Reinvestment Act (CRA) 1977 which according to the Federal Reserve Board website is aimed at encouraging banks "to help meet the credit needs of the communities in which they operate, including low and moderate income neighbourhood", the Homeownership and Equity Protection (HOEPA) Act 1990 which helps to provide borrowers with protection from spurious high cost credit and mortgages.

financial capitalisation and systemisation of means of capital accumulation. Default risk has thus become more profitable than ever, as the risks of extending credits to those that mainstream banks would traditionally exclude are now sliced, diced and traded in the secondary capital markets as investment portfolios. Hence, lending to and borrowing by households and individuals at the thresholds of income has become more manageable as risks are far more catalogued, packaged and valued and shifted 'off-balance sheet'. The low income and/or high risk borrowers are not a redline area of business per se, instead of being rejected for credit, they are priced and included. As earlier noted, they are now 'treated as opportunity for business' or 'creditworthy' enterprise fostered through the competitive spaces for loan services (Marshall 2004:258). The contention for this development is that the provision and creation of credit spaces for erstwhile risky borrowers is also necessitated by its proxy for social efficiency and social profitability for mainstream financial institution (Ramirez 2001, Fuller and Jones 2003, Kumbhakar et al 2001).

It is in this light that Lyons (2003:252, 2001) argues, for example, that the capacity of households of divorced men and women to obtain credit in the US has increased and borrowing gaps narrowed, despite disparities in the levels of earnings, age, gender or race. This occurrence is furthered by the competitive marketing strategies and practices of commercial banks which include the downsizing and capping of interest rates, the flexibility of underwriting standards, and availability of financial products, which allow borrowers to take repayment holidays, consolidate debts or shop around for bargains (Black and Morgan 1999, Bassett and Zankrajsek 2000). Though the consequence of this development and boom in the availability and access to credit poses dichotomous views in the financial media and amongst researchers and scholars, it may be argued that the new credit inclusion strategies are impacting

on the government's goal of increasing households' standard of living. Hence the insightful deviation of mainstream financial institutions from normal or traditional techniques of risk avoidance or reduction in consumptive lending is opening greater possibilities. The fears and criticisms about the endogenous supply and exogenous demand of consumer credit-money seemingly become obviated by the increased opportunities for accumulation for the banks and the increased opportunity for consumption for the borrowers. While this view may ultimately be illusionary, the preponderance of the impact of increasing financial competitions, innovatory financial strategies and practices leading to greater availability of financial capital at the disposal of banking industry, may be cause for the policy makers' exhilaration about financial inclusion (Cruickshank 2000).

3.4 Financialised Risk Management and Inclusion

At this time of modern and electronic communication, financialised accumulation is embodied in the competitive maximisation of the available innovative market-oriented tools. Banks and lenders ability to readily capitalise loan origination through the capital markets at relatively low cost has altered the traditional mechanisms of intermediation (involving the regulatory requirements of 'capital reserve,' increased volume of deposits or savings and collateral investment to underwrite liquidity and capital risks) into the catalytic disintermediation and expansion of funds through securitisation (Montgomerie 2006). This development is further supported with a shift from the Basel I commitment for banking internal risk control, to the Basel II Accord which permitted more a market approach on banking supervision. Overall, Basel I and II were aimed at regulating banks' capital adequacy, i.e. to ensure that banks do not leap into risk ventures that ultimately cascade through the whole financial system. However, it has been noted that mega

banks were reluctant to "accept the domains of incalculability" but instead flourished their 'self or internal risk' models as provisioned in Basel II (de Goede 2004: 197-8). This is noted to have bred in the culture of commercialisation risks through different kinds of SPVs (ibid p: 198). Therefore, securitisation, categorised as off-balance sheet financing of credit, may be argued as the peak in the various contemporary growths of market innovations, market technology, financial engineering[12] and the soft policies on financial inclusion, i.e. towards greater accessibility of bank services, mortgages and consumer credits.

Historically, the securitisations of risk marked the boom in the market for home mortgages in the 1970s, and have since the mid-1990s witnessed increased growth with the advance in the mechanisms of collateralised debt obligation (CDO).[13] Currently, credit securitisation has transcended itself from residential mortgage-backed securities (RMBSs) or commercial mortgage-backed securities (CMBSs), both of which are commonly referred to as mortgage backed securities (MBSs), to other forms of credits as asset backed securities (ABSs) or consumer backed securities (CBSs) both of which are synonymously referred to as asset backed securities (ABSs). Arguably, this brought about the "capitalisation of almost everything" whereby the traditional mode of bank capitalisation or accumulation is now more than ever before knitted with the increasingly complex innovations on structuring risk (Leyshon and Thrift 2007:97). There are now various asset backed securities, for example asset backed student loans, credit card receivables, lease receivables, automobile loans, commercial bonds, leasing receivables and

[12] Financial engineering is linked with the growth of liberal accessibility, use and expansion of cash flows via borrowing opportunities to aid growth in consumption. It is also referred to as increasing popularity of 'buying on credit' (see Brown (2007), Christen and Morgan 2005).

[13] CDOs are the combination of collateralised bond obligations (CBOs) and collateralised loan obligations (CLOs), commonly referred as 'securitisation of securitisations'. An instrument that allows portfolios of MBSs and ABSs to be diced and further collateralised.

commercial loans (Estrella 2002). All these instruments, including MBSs-ABSs are understood, at once, as the embodiment of the contemporary transformations in the Anglo-American credit and mortgage financing which according to Langley (2006) has had grown in the networks of securitisation, systemic disintermediation and calculative technologies.

In general terms, practitioners highlight securitisation to be enabling the 'deepening and efficient allocation of credit' (Estrella 2002:2). By so doing, following Calomiris and Mason's (2004) suggestion, securitisation helps banks or credit originators to efficiently allocate the market risks, the interest rate fluctuation and to overcome the problem of asymmetric information associated with the structural mechanisms of speculative intermediation or disintermediation. The casual analogy is that greater numbers of risky borrowers have greater accessibility to credit, as the risk of lending and financial losses that may go with their more probable non-payment of loans are mitigated, collated and re-capitalised as securities or assets tradable in the capital market. Put emphatically, the securitisation procedure may be argued to avail safety-nets through which banks or consumer credit originators wipe-off adverse balance sheet problems, and share risks or losses with capital market investors.[14] Overall, according to Hansel and Krahnen (2006:1), securitisation is lessening the burden of consumers' accessibility to credit through the increase in the level of banks and other financial institutions' 'appetite for risk and returns'. In other words, securitisation tends to both increase the availability of distributable credit and also raises the in-flow of revenues from imbursement on the securities insured (Montegomerie 2006:301-302, see also Pryke and Freeman 1994:309).

[14] See Competition Commission (2001).

Thus, the innovation of securitisation reduces barriers and the costs of loans supplied by banks or other providers into the credit market for relatively marginal borrowers. As Ghosh and Chandrasekhar (2003: xv) also noted, the innovations on the structures of securitisation 'allowed players to trade the risks underlying an asset without trading the assets itself'. In the same vein, in their research, Loutskina and Strahan (2006:26) emphasise that "securitisation is changing the model of banking from one of 'originate and hold' to one of 'originate and distribute', thereby mitigating the effect of both deposit supply and balance sheet liquidity on loan supply"(see also Bank of England Financial Stability Report 2007). The implication, as earlier indicated is that the highly regulated mainstream commercial banks and financial institutions are more willing to approve the supply of loan or credits to more marginal consumers than they would have done previously. This development, as earlier noted has been because 'higher risk taking' provides opportunity for greater profit leverage.

For banks, regulatory requirements may pose constraints on their capability to generate new business but in order to circumvent such constraints, securitisation serves as a way through. Meanwhile, for 'non-banks' as Rosenthal and Ocampo's (1988:33-4) analysis argues, securitisation technologies enable institutions such as General Motors Acceptance Corporation (GMAC) to manage credit risk in tranches, helping to cover contingencies by placing credit risk 'with institutions that are in the best position to absorb it'. Therefore, securitisation may be argued to be providing the technology for both banks and non-banks to offload default risk, freeing up capital and generating new opportunities for lending (Hansel and Krahnen 2006:14).

There would seem little doubt, then, that securitisation technology assisted financial institutions in sloughing off credit, and liquidity risks. In this regard, publications by national and international banks and financial organisations show a rapid increase in the market for securitisation. Data from British Bankers Association (BBA) and Bank for International Settlements (BIS) show that the market for trading and securing the senior tranches of the risks of structured asset-backed securities, such as ABSs, MBSs (a process known as collateralised debt obligations - CDOs) stood at two hundred and sixty billion US dollars. In the same light, data from the European cash securitisation (2006) show a rise in the amount or percentage of debt and credit securitisation to the tune of 325 billion Euros or 15.0 percent more than the estimated 283 billion Euros in 2005. Research and works of other financial practitioners and economists suggest that cash flow CDOs provide opportunities for banks and other financial institutions to prioritise market imperfection and the movement of 'funds from investors to borrowers' (Kendall 2000:11, Duffie and Singleton 2003).

3.5 Financialised Disciplinary Inclusion

The benefits of securitisation or 'originate and distribute' notwithstanding, there are spatial and temporal contingencies still prevalent within the functionality of credit expansion. These include the uncertainties arising from contractual relationships between the lender and the variegated population of borrowers. As a result of the existence of these uncertainties, for example repayment/default risks and borrowing abuse, financial inclusion is arguably situated within the workings of disciplinary regimes. From a capitalistic or entrepreneurial point of view, the need of disciplinary regimes or frameworks grows out of the rationality of balancing these uncertainties. According to Marron (2007: 104), capitalistic rationality helps to curtail or guard

against the impropriety of the credit environment either within the ranks of policy makers, lenders and the borrowers, especially the low-income borrowers who themselves are to be included into the financial and credit market, perhaps for the first time. Therefore, the presence of financialised discipline devices helps to reward compliance, while it punishes malfeasance from any of the credit parties. In other words, the processes of inclusion by disciplining help to ensure continued opportunity of credit. So, while disciplinary devices have largely been a traditional feature of mainstream banking for the best of its history, the processes of financialised discipline mechanisms are currently not only opening up new avenues for credit participation, but also providing a subtle way of controlling participation.

The calculation of how to approximate borrowers' risk characteristics in order to keep repayment delinquencies in check is now a key ingredient of financialised inclusion. Also the interface of asymmetric information and the disembodiments of credit sources through the financial invention of securitisation has even made it more necessary for the development of disciplinary regimes to ensure that risks and the splitting of risks will continue to provide "marketable securities" (Gotham 2006:263). Though banks, regulators, and industry practitioners do not have a singular approach on how to measure or compute credit discipline, they are bonded with the key objectives or optimistic views about discipline and the discourse of credit market discipline. This is arguably because the flow of capital via securitisation of risk is most harnessed through reassurance or guarantees to investors of the existence of appropriate disciplinary mechanisms of controlling or mitigating risks such as default risk. In so doing, investors are more readily, consciously and willing to take up these risks which are protected by the specialised valuation of credit rating agencies (Baron 2000:81). Arguably, the mechanisms for

disciplining inclusion provide the platform upon which the risk responsibilities are assessed, priced and capitalised or securitised. This is what Marron (2007) calls the relationship between 'micro-risk' and 'macro-risk'.

However, in a more general but characteristically dialectical manner, it has been shown that the credit market is not uncircumvented from the improbability of borrowers' motives which in itself constitutes the greatest threat facing credit lenders. This is most imperative, drawing from the fact that the bulk of consumer credits currently flow from chains of activities between originators or issuers and underwriters or securitisers in the secondary or capital market. Accordingly, an ill-disciplined credit lending will attract no, or a high risk rating standard and if secured and collateralised, may in the life time of the credit, produce variables which may lead to endemic defaults. In order to avoid this happening, Heuson et el (2001:337) noted that securitisers gear up to "set both the price…and the credit-quality standard that qualifies a mortgage [and other sets of personal credits] for purchase". This scenario depicts that aside the opportunity for profit, originators and intermediaries such as brokers, availability of disciplinary tools or standards ensure the continued awareness of the volatilities of credit disintermediation and the need to maintain balanced moderation (Saunders and Allen 2002).

So, despite the unavailability of one-size-fits-all disciplinary measures used by originators or brokers, research shows that credit disciplinary measures provide opportunities for financial institutions to checkmate the motives of borrowers and an 'incentive to restrain excessive borrowing [by] denying the irresponsible borrower further access to credit' (Bayoumi, et al 1995:1). According to Peter Williams (2008), the availability of "tools to discipline borrowers are a necessary requirement"

for both lenders and the government, as a "healthy credit discipline is sine-qua-non to a healthy economy"[15]. In other words, the availability of disciplinary tools help to limit the uneven and proliferating 'probabilistic conception of risks' arising from credits provided to higher risk borrowers (Marron 2007:103).

Now having analysed the benefits of the availability and use of disciplinary mechanisms in financialised inclusion, the question is what are the prevalent features of these mechanisms that fed greater expansion of credit to 'traditional risky' borrowers by the mainstream banks and other financial institutions? To answer this question, it may assist us to distinguish three arrangements or regimes of legal, mass-market calculative and personal arrangements. However, it is important (as shown in Chapter Four) to note that it is the development of the calculative discipline of risk-based pricing, other than the plain, old legal discipline, that forms and underpins the growth in financialised discipline and the mass market for greater expansion of credit to greater number of borrowers.

On the legal arrangement, the underpinning expectation in this respect is founded on the philosophy that credit augmentation entails the co-responsibility of all parties within the broad spectrum of the credit market. In other words, credit augmentation involves the disciplinary contracts or legal safeguards or devices put in place to be adhered to by all credit participants in order to ensure tranquillity and greater flow of consumer credit within the consumptive and social environment. The various suggestions of researchers show that there is not much demarcation between the present and old forms of legal discipline (Saunders and Allen 2002).

[15] During an interview with the author on the 25th June 2008.

However, with the boom in credit transaction and more participation of the mainstream banks in the origination of credit, what is seemingly new is the nature of the enforcement of legal disciplinary arrangements. It is arguable that for purposes of inclusion or credit expansion and disciplining inclusion, there has been the continued development or updating of rules[16] on the procedures, operations and assessment of risks aimed to meet up with the dynamics of borrowers' financial characteristics. Hence, unlike the old strict disciplinary regime of 'repay or forfeit' (through repossession or foreclosure) the new landscape of legal discipline is underpinned by regimes of personal financial freedom of 'repay, forbearance or forfeit'. In other words banks or lenders are required to continuously assess their creditors and make onward flexible arrangements to meet with changing financial circumstances/difficulties of the creditor to enable the freedom of the creditor to make repayment as may be practicable. This entails the making of legal binding arrangements that aim to discipline on the one hand the lenders' enforceable right to retake possession and ownership, while on the other hand, disciplining borrowers to honour repayment. Arguably, it will be said that legal discipline, unlike before, is not the sole prerogative of the lender. Put differently, the processes and procedures of legal discipline or enforcement are shared and arranged between the lender and the borrower.

This is because there are now some significant changes in the provisions of the foreclosure, bankruptcy and repossession laws and practices in both the US and UK. Presently, legal steps, for example, have been taken to incorporate flexible but legally binding regulations and procedures concerning individual voluntary

[16] See for example UK Consumer Credit Act 2004 on advertisement of APR and the comment of Langley (2007) and Gilmore (2006).

agreements (IVAs). In the present context, an IVA is a disciplinary enforcement tool to which a borrower that is in repayment difficulty is made fungible at par with the limit and volume of his or her continued source of income. Arguably, the beneficial implication is that with an IVA, the borrower in repayment difficulty plays a role in making arrangements or agreement on the amount and duration of repayment, unlike in the disciplines of bankruptcy[17]. However, the underlying consequence is that within the duration of the IVA and 12 months after its completion, the IVA will appear on a borrower's credit history. Because IVA is a post-repayment legal disciplinary regime, arguably pre-disciplinary calculative devices such as credit scoring and credit reporting are more embedded in the lending and borrowing strategies that are the key tenets of the market approach to financial inclusion. Therefore, as shown in the next section, the architecture of credit risk scoring and risk pricing is aimed to prevent the faltering of domestic credit witnessed in the 1980s and early 1990s.

Calculative discipline can no more be argued to specifically include the regimes of credit scoring and risk-based-pricing which, according to Saunders and Allen (2002:9), have not got much of a dividing line between the traditional approaches (which involves branch managers' expert 'face-to-face' or 'demeanour or stature') of evaluating new borrowers. They also include industry rules, codes and ethical standards, and statistical and analytical models such as credit application scoring, and artificial intelligence techniques, for example fuzzy logic or inference systems (see Malhotra and Malhotra 2002, Jensen 1992). However, unlike the traditional approach of face-to-face discipline, the financialised disciplinary mechanisms of

[17] There is however an increasing civil society activism for the reform of the bankruptcy procedure in the US. The author on 11th -12th March 2009 participated in the NCRC lobby of the US House Members to support Obama's 2008 campaign promise to reform US bankruptcy laws to 'help Americans trapped in debts'.

credit scoring and risk pricing have been noted to be impersonal and use hi-tech, mathematical technologies that enable the added advantage for lenders' ability to track the history, value the risk behaviour, predict and measure the profit or repayment outcome of risky or underserved borrowers (Deng and Gabriel 2006). This is because the lender, with the aid of specialist credit assessors and rating agencies and underpinned by private and public bureaux of credit data, is availed to a disciplinary approach that quantifies risk criteria as part of advancing the opportunity for financial democracy or homeownership to those who qualify (Nocera 1994, Gabriel 2006). Risk-based pricing, in particular, provides greater opportunity for lenders to curtail the problems of asymmetric information and moral hazard (i.e. the falsehood or misrepresentation of borrowers' information about their financial resources) which are calculated and priced into APR or the total cost of the credit (Dell'Ariccia 2001, Heuson et al 2001). Though the conservative criticism would be that risk-based pricing paves the way for a mismatch between credit history and affordability, the positive outcome of credit scoring is that it avails lenders of the opportunity for personalised assessment of each borrower's risk, which is then priced accordingly. Nevertheless, the most common criticism of credit scoring and risk-based pricing remain that they pave the way for the deployment of risk into categories that increase the price paid by borrowers. According to Marron (2007), risk-based pricing increases the potential that lenders profit from the special risks or vulnerabilities of borrowers. In contrast, the disciplinary regimes of risk scoring and risk-based pricing have made it possible for mainstream lenders to include those who, if not for better assessment of the nature of their risk, would not have had access to the mainstream. It may be possible that borrowers pay higher APR at the initial stage, for example in a fixed 2/28 ARMs, but "if the borrower disciplines

him/herself and continue to repay..., then after the two years, he/she can transit to current APR" (Coles, 2009).[18]

In line with Adrain Coles' view about credit scoring, it is argued that the tools of financialised discipline (i.e. credit score and risk-based pricing) boosts competition. In all, it helps to enable credit or mortgage originators to expand opportunity for credit accessibility. This perhaps includes the opportunity for the greater inclusion of people who were previously underserved but (through the punishments and rewards of risk-based pricing) are now called upon to be co-responsible and "to invest care and effort in the project they seek to finance" in order to ensure their inclusion to credit (Gehrig and Stenbacka 2001:1-2). This brings to focus the issue of personalised disciplinary arrangements or self-discipline. In this regard, the right and capability for inclusion into the democracy of finance is barricaded into the competences of self-governance and shared responsibility between the borrower and the lender.

In summary, there is a shared reward and punishment for both the lender and the borrower of disciplinary arrangements for financialised inclusion. However, in the financial democratisation discourse, the intriguing question is 'why' mainstream banks or financial institutions pose restrictions or disciplinary hurdles to 'would-be borrowers' and whether these disciplines are creating new margins of financial exclusion? The answer to the above question is an open-ended analysis and is heavily dependents on another question, whether the mainstream expansion of credit is all inclusive, or whether its credit expansion is aimed at 'cutting a bit' of the competition brought about by the rise of niche subprime lenders that specialise in the

[18] Interview with the author 28 July 2008.

business of competitive inclusion of people previously excluded from the credit market. However, it will be argued that the existence of asymmetric information, the fluidity and unpredictability of marginal lending provide challenges for the wider expansion of credit by mainstream when compared to subprime. In particular, as earlier noted the problem of asymmetric information - 'moral hazard and adverse selection' - and their potential to cause panics or shocks in accumulation, especially when borrowers engage in 'hidden action' which poses the probability of the lender having to lend on riskier conditions (De Ceuster 2003:750), limits the operation of financialised discipline in the mainstream market. So, even though mainstream banks and other financial institutions have employed information sharing to 'sharpen borrowers' incentives to repay' (Padilla and Pagano 2000:1977, Bouckaert and Degryse 2006), it still remains that while there are occurrences of financialised inclusion in the mainstream, it is not as acute as it is in the subprime. However, in general, as noted earlier, calculative and personal disciplinary regimes (such as forbearance arrangements, IVA, credit scoring, risk pricing, third-party/agency supervision, entrepreneurial self-discipline etc) are all part of the same financialised discipline process that has enabled the mass credit expansion and tools in consumer credit market (Morgan and Stiroh 2001, De Ceuster 2003).

3:6 Conclusions

In this chapter, I have analysed the experiences of the expansion of credit or financial inclusion in the mainstream, and argued that it has arisen as part of a wider set of financialised processes. Thus, I have drawn a distinction between financial inclusion and financialised inclusion. In the form of three sets of co-constitutive forces, the financialised processes brought together opportunities for capital accumulation, innovation in risk management and trading and new forms of

financialised discipline that widened the imperative for the mainstream to include more borrowers. The mainstream lenders' confidence to eschew traditional 'flight from risk' and incorporate more borrowers has thus been argued to have grown from the competitive reappraisal of risk as calculative opportunity for profit brought about by the forces of financialisation. The chapter also shows that, while there are entrepreneurial transformations in the innovations of accumulation, risk management and discipline of risk there are still marginal costs that delimit the expansion of the horizon of credit accessibility to those who were previously excluded. These include risks of information asymmetry, repayment delinquency and default risks or uncertainties.

4 Financialisation and the Rise of Subprime

4.1 Introduction

Chapter Three provided analysis of how, from the mid-1990s, individuals and households previously underserved came to be included in mainstream credit and mortgage market. The analysis offered stressed that this was most appropriately understood as 'financialised inclusion', developments that were carried forward by three co-constitutive forces of financialisation. This chapter continues this line of inquiry, addressing how the three forces of financialisation contributed to the emergence and rise of a new sector of the market - the subprime. This new sector of the market expressly paved the way for a more vigorous and acute financialised inclusion of more people via the specialised targeting of those previously excluded from mortgages and consumer finance. Notwithstanding the tensions and contradictions of the subprime, it is important to note that at this stage, attention is only paid to the emergence of this sector of the market and its implication on financialised inclusion. The problems and crisis-tendencies that subprime has exhibited will be addressed in the subsequent parts of the thesis.

The chapter is thematically divided into four main sections. Section one is divided into three sub-sections; the first sub-section takes an exploratory analysis of the making of the subprime market; the second sub-section draws links between the market-led financial inclusion and the rise of subprime, while sub-section three investigates the implications of subprime on increased financialised inclusion. Sections two, three and then four further investigate how the co-constitutive forces

of financialised accumulation, risk management and discipline produced and shaped greater financialised inclusion in subprime. Specifically, section two investigates the relationship between the growth of financialised accumulation and the making of more inclusive subprime credit and mortgages. Section three then scrutinises subprime financialised risk management technologies which, on one hand, are argued to greatly influence and be influenced by increased financialised accumulation and, on the other, help subprime lenders to offset the cost of expansion of credit and mortgages to marginal borrowers and those who were previously excluded. Section four analyses the financialised disciplinary mechanisms which have served as the pedestal for greater accessibility of credit in the subprime sector.

4.2 The Making and Understanding of Subprime

Technical and calculative denials of accessibility to credits or mortgages are key elements of financial exclusion that fall short of public policy safeguards of equal economic right via market-led approaches to financial inclusion. In the debates on market-led financial inclusion, it is common knowledge that accessibility does not equal affordability, yet affordability cannot replace accessibility as it alone falls under the balance of shared responsibility and shared discipline. In other words, by simple logic, exclusion from accessibility denies opportunity for affordable credit products or transition to future affordable credit and financial products. Research already carried out indicates that with the 'individual approach to [assessment and] underwriting' of risk, subprime emerged in the UK as part of the market approach to financial inclusion (Munro et al 2005:56). According to Munro et al, subprime provides greater accessibility to credit and mortgages for borrowers 'with impaired or low credit ratings and who would find it difficult generally to obtain finance from traditional sources on normal terms and conditions' (ibid:56, UK OFT, 2002:7).

However, the question then is what is the subprime market? It is important to note that the meaning of the subprime market (i.e. mortgages and other types of credit) remains the subject of variegated debates. It means different things to different people, and amongst social science scholars there is not an agreed universal definition. There are, however, some identifiable but debatable concerns over risk and characteristics of uncertainties and tensions within subprime lending and borrowing in general. Consequently, even though there are no common agreed characteristics of what constitutes subprime finance, mortgages and loans per se, the characteristics of the borrower's financial and economic background (for example low, irregular and unverifiable income, benefit claimant, temporary employment, etc) and what the borrower intends to use the credit for, all help to determine whether a transaction is subprime. That said, arguably, the characteristics of borrowers' past credit history of unfulfilled repayments or gaps in previous borrowing also help in determining their status as subprime. Likewise, subprime could be understood from the characteristics of the lender or nature of lending, for example specialist lenders/lending that categorically target borrowers who had variegated sources of income, or target minority groups or people with undocumented sources of income (Gerardi et al 2007:7, Bajaj and Nixon 2006a). It is important to note that while it is much easier to determine who is a subprime borrower via credit history, it is not particularly easy to determine who actually is the subprime lender because of the complex chain of active participants (originators, financiers, and underwriters) through the use of credit and default risk hedging techniques such as ABSs, MBSs and CDOs.

It is therefore because of the fluidity of the identities of who is a subprime lender and what constitutes subprime loans that has informed the consistent update in the Housing and Urban Development (HUD) annual list. This indicates that a "lender can at one point be a subprime lender and at another point not".[19] This is because there are different networks of subprime credit. It is also important at this point to note that subprime is different from 'alternative' or 'fringe finance'.[20] While subprime is an alternative means for longer term credit and mortgage finance to the mainstream market, fringe finance is an expensive means of day-to-day cash. According to Aitken (2006), the concept of 'fringe finance' denotes the alternative spaces for small volume and short term credit, characterised by its discriminatory practices and brazen irregularities. Fringe finance practices, more often than not, are ridden with practices aimed at "profiting from poverty" (Palmer and Conaty 2002). They include internet and high street networks of firms, door step lenders, payday loans, and cheque cashing and pawn broking. There are quite a number of major firms in the business of fringe financing or pawn broking: for example, in the US, these include First Cash Financial Services, Dollar Financial Group, Provident Financial Group. In the UK these include Cash Converter, MoneyShop, and BrightHouse. What distinguishes these firms, despite the multinational nature of their operations, is that their services are limited to providing quick, short-term, high percentage charge means of cash.

So, how can subprime lenders be categorised? Arguably, subprime lenders should be categorised on the nature of service they provide. Overall, while there is no clear demarcation of services, such as automobile loan, credit cards, debt or loan

[19] Dimitri B. Papadimitriou, in an interview with the author on July 31 2008.
[20] Fringe finance is an important area of further research but which is not the major focus in this research. In their respective research Caskey (1994), Aitken (2006), Palmer and Conaty (2002) provided in-depth study of the makeup and practices of the fringe finance market.

consolidation, mortgage/remortgaging, there are various specialist lenders across the US and UK engaged in various or combined forms of subprime services. On subprime credit cards and personal loans, it is indeed a little easier to identify issuers as they provide their credit cards through various broking outlets or on-line on the basis of credit score. Borrowers are assessed and issued credit cards with APR that reflect the nature of their credit score. Subprime mortgage networks are more distinctive because of their highly specialised arrangements. Unlike mortgages provided by mainstream banks, mortgage companies, and mortgages guaranteed by government agencies in the US, such as HUD, Freddie Mac, Fannie Mae, most subprime mortgage lenders on both sides of the Atlantic tend to offer specialised mortgage products (through their working relationship with brokers, realtors, appraisers/credit rating agencies) that match with the special circumstance of borrowers. In other words, subprime lenders themselves act as an underwriting category for their originations that, at least in part, is related to credit scores but which also may be about low or unverifiable incomes and high loan-to-value and/or loan-to-income requirements.

In the US, for example, some key subprime lenders included New Century Mortgage, National City, Ameriquest, Associated First Capital (acquired by Citigroup), Household International (acquired by HSBC), and Countrywide Financial. By early 2007, the subprime mortgage origination and remortgaging business had grown to a significant share of the US mortgage market as a whole. According to the US Mortgage Bankers Association's (MBA's) Mortgage Originations Survey (MOS) and Subprime Mortgage Originations Survey (SMOS), seventy percent of residential mortgages originated in the US in 2006 were all subprime mortgages made available through mortgage brokers. In the UK, the

research conducted by Munro et al (2005) shows the increasing number of subprime mortgage originations, subprime debt consolidation on homes and remortgaging (Moss 2004). As with the US, large numbers of borrowers, by their financial circumstances and credit history, are unable to have access to mainstream mortgage credit. These niches were then filled by subprime lenders. Drawing from Langley's (2008) research, despite not being at the same volume like in the US, there is increasing subprime lending experience in the UK during the first years of the new millennium. He identifies that the major subprime mortgage providers in the UK include:

> 'specialist lenders such as Paragon, Kensington Mortgage Company, and Southern Pacific Mortgages - and subsidiaries of banks, building societies, and major US conglomerates - such as Abbey National's HMC, Britannia's Verso, HBO's Birmingham Midshires, Bradford and Bingley's Mortgage Express, Citigroup's Future Mortgages, GE Capital's iGroup and GMAC RFC' (ibid p:173).

Overall, subprime mortgages both in the US and UK emerged to be crucial in stabilising and balancing not just the opportunity for homeownership, but to serve as avenues for social well-being for borrowers who could not access the mainstream banks. It is important to note that in the 2000s, the growth in subprime lending in the US does coincide with an increase in homeownership rates, but in the UK homeownership rates were stagnant during this period. As such, the UK subprime mortgages sector grew largely on the consolidation of unsecured debt, equity releasing or remortgaging to fund a range of basic household and welfare needs (Smith, Searle and Cook 2007). The above analysis shows that the key constituent explanation of the rise and meaning of subprime (as a market sector for consumer credit and mortgages) is that it paved the way for expansion of choice for the greater inclusion of greater number of borrowers including low-income borrowers or first time buyers into credit and mortgages.

4.2.1 Financial Inclusion and Subprime

The literature on consumer credit identifies that the loan or mortgage from either the prime or the subprime market serves the same purpose or functionality: increasing credit availability and accessibility. Yet, the relevance of subprime as a necessary market segment for greater financial inclusion remains politically contentious. It is common place that most of the anecdotal press, public activism, conservative academic analysis and researches existing on subprime credit and mortgage markets tend to be focused too narrowly on its demerits and adverse practices. For example, the subprime mortgage has been argued to be bogusly designed with options enabling repeated refinancing, loan 'flipping' or 'capital switching' and generally smothering and 'stripping' borrowers of their equity (Aalbers 2008). Also the modalities of marketing of subprime loan products are criticised to be belligerently targeted at vulnerable borrowers with offers of exploitative or balloon priced products (Carr and Kolluri 2001, Aalbers 2008). In the same light, it has also been suggested that subprime employs obfuscate methods of risk assessment procedures that increase the probability that borrowers will incur higher penalty and interest rates. Equally, the complexities of subprime calculative approaches to risk are held to widen the life span of loans and thereby increase the probabilities of increased density of risk, such as default risk, repayment or delinquency risk and foreclosures (Elliehausen and Staten 2004, Heitfield and Sabarwal 2004, Gross and Souleles 2002).

In many ways, most of the critical explanations of the causes of the 2007 global crisis (as analysed in Chapter Five) largely depict the crisis to have been the outcome of subprime lending and borrowing. Although some existing research concedes, on the one hand, that a subprime mortgage may allow borrowers to be part of the

‘ownership society’, on the other hand, they typically stress that subprime lending conditionality tends to limit or make refinancing opportunities static (see for example Courchane et al 2004). In this regard, Aalbers (2008) also argues that subprime credit and mortgages erratically fuelled the housing market and the entire economy but without any objective for sustainable homeownership. From this standpoint, it seems that the legitimacy of subprime as a means of financial inclusion and financial market accessibility, especially by those already excluded from the mainstream market, hangs on an immutable balance wherein the subprime lenders and borrowers occupy opposite ends of the credit and financial market. In other words, the subprime market serves disproportionate purposes between the lender and the borrower, where the lender is at the ‘big-profit end’ while the individual and household borrowers are at the other ‘sharp end’ as mere pawns for exploitation (Seabrooke 2007). However, what this post-crisis view of the subprime market overlooks is that it has the potential as a source of credit that would otherwise not be available to its potential beneficiaries (Elliehausen and Staten 2004:412).

It is important to note that despite the stigmatisation of predatory lending in the subprime sector, it continues to be “a valuable source of credit for those with less than perfect credit histories” (CAB 2007). Conversely, the existence of two market segments for consumer credit and mortgages underlie the bifurcation of lending criteria which brought about 9.1 million people in 2005 who were rejected for credit by the mainstream lenders (Datamonitor Report 2006). Sadly, the increased rejection of credit often forms the focus on the hyper-association of the subprime lenders as key benefactors and the subprime as a form of predatory lending. To this end, subprime mortgage finance has been further negatively portrayed as riddled with higher risk loan-to-value (LTV) ratios, costly down payments, higher interest rates

and fees, high cost adjustable-rate or high-cost refinancing products, prepayment penalties, and higher repayment default and delinquencies (Lax et al 2004:534, Cutts and Van Order 2005.167-8, Staten and Yezer 2004). In short, those included through the subprime sector typically pay more in a variety of ways. In the same light, some other available research and literature on subprime tends to focus on differentiating subprime borrowers according to various characteristics. First, on the borrowers' demographic characteristics, such as the categorisation of borrower as individual or household with impaired credit history, low or poor income, unemployment, divorced, single parenthood, those with County Court Judgements (CCJs) and/or adjudged bankrupt, or with a decree of involuntary insolvency. Second, the characterisation of subprime borrowers as lacking requisite financial capability such as the skill to shop around for good loan deals, and to somewhat possess 'natural' vulnerability to act hastily without full understanding of the future implications of credit terms.

To some other critics, the understanding of subprime lending and borrowing involves the provision of loans to people with no income, no job or asset (Ninja) to sustain the loan. Here, the simple castigation of the accessibility and expansion of credit to people previously excluded as incoherent, reckless and abhorrent type of lending and borrowing simply portrays subprime borrowers as a bunch of 'know-nothing pumpkin-head'[21] market participants who have no discipline and thrive to satisfy themselves without care for loan repayment. Perhaps subprime borrowers are 'worthless' and should not be incorporated into government policy drive for market-led financial inclusion. Given the costs of financial inclusion via subprime and the characteristics of subprime borrowers, it would seem to be the case that a more

[21] Adrian Cole during a telephone interview with the author on July 28 2008.

variegated concept is required for understanding the contribution of this sector of the market to promoting credit for all. To this end, Dymski's (2005, Dymski and Li 2003) concept of financial citizenship provides an interesting and revealing intervention. The theory of financial citizenship portrays three hierarchical layers of identity: the investor citizenship, the medium or 'insider' citizenship and the low or 'outsider' citizenship (French et al 2007). The question as to whether subprime is bridging the gaps between these categories of financial citizenship lies within the complexity and structural continuum of the specialised lending techniques present in this sector of the market. Arguably the subprime disintermediated and securitised lending structure in the developed Anglo-American market is seemingly breeding a kind of 'outsider-insider' financial citizenship, but public policy and academic debates turn on whether the subprime market is lifting households and individuals out of fringe finance and the problems associated with the cash or ghettoised economy[22]. In this light, Chomsisengphet and Pennington-Cross (2006:31) argue that credit impaired lending in the subprime sector provides the financial life line for the budgets of many households as well as a means for homeownership and equity savings.

Likewise, Montegomerie (2006: 301-2) and French et al (2007) in their respective research show that the subprime market completion helped to 'lower costs of borrowing' and increased access to large size, long-term credit for low income households and individuals who were previously excluded. However, it is important to note that the experiences of how subprime generates financial inclusion are

[22] Byrne et al (2007) identified cash or ghettoised economy to be rift with liquidity and or loan from mostly illegal, registered and unregistered money-lenders. They identified that borrowing from money lenders is a major form of financial exclusion as those who use money lenders do so because of "absence of alternative credit options"(p.45). The research also point that access to credit options is "first crucial policy step" (p.51) of solving financial exclusion.

diverse. In other words, a claim could be made about the negative or positive impact of subprime credit and mortgages to deepen financial inclusion or exclusion based on the personal experiences of each household or individual borrower. But as earlier emphasised more broadly, the market-led approach to financial inclusion actually operates through the co-constitutive forces of financialisation, which prior to the crisis brought about deeper financialised inclusion to credit and mortgages

4.2.2 Subprime and Financialised Inclusion

Financialised inclusion is a term employed to capture the increased accessibility of credit and mortgages in both the mainstream and the subprime market which results from competitive and technological approaches to inclusion via the co-constitutive forces of financialised accumulation, risk management and discipline. However, unlike the subprime market and despite some noticeable occurrence of financialised inclusion, in the mainstream there are still high exclusionary tactics typically used by the mainstream lenders to deny access to credit by marginal borrowers (Munro et al 2005, Mellor 2005). In subprime, in contrast, financialised inclusion is the defining feature of its key operations. Put differently, the subprime sector is qualitatively the exemplar of financialised inclusion. This is not simply because it expanded greater opportunities for profit to the lenders and also "opportunities for more households" (Bernanke 2007:5) including low income and minority groups to "participate in all consumer credit markets" (Getter 2006:61). Rather, this was only possible because subprime employed specialised technologies of accumulation via specialised assessments of risk, 'transfers of risk' and/or 'risk layering' that created a far reaching approach to inclusion (Aglietta and Reberioux 2005:143, Krinsmen (2007:1-3).

In this light, subprime lenders, instead of taking flight from risk, took flight into risk as an opportunity. To this end, subprime turned techniques for targeting and assessing "borrowers who exhibit characteristics indicating a significantly higher risk of default than traditional bank lending customers" (Heitfield and Babarwal 2004:460). In that way, unlike the mainstream, inclusion to credit and mortgages in the subprime sector is not limited to characteristics of credit risk but instead on the readiness of marginal borrowers to pay 'non-standard' rates of interest. So, through calculative mechanisms such as the Fair Isaac Company (FICO) credit score, the subprime system of credit and mortgage inclusion emerged to be a financialised continuum, whereby risk realities and uncertainties of marginal borrowers are continuously and profitably assessed (Langley 2008a: 171). In this way subprime is said to be "a well-established part of the financial scene" (Munro et al 2005:1-2)[23], with "a systemised kind of lending that enables loans to be made more available to borrowers with less than 'A' Fico score" (Galster 2008)[24] through improved profiling of risk (Zywicki and Adamson 2008). In this light, the implication of the subprime market on financialised inclusion to credit and residential mortgages can be further understood through a focus on how subprime came to create and expand opportunities for accumulation, and innovations on risk management and risk discipline[25].

[23] Though the subprime market in the US is long established compared to the UK experience, the US subprime mortgage crisis "has shown that the UK government has not provided enough safety nets in place for people who had entered into subprime mortgages of ex-council houses" (Peter Tutton in an interview with the author June 16 2008).
[24] Interview with George Galster on July 10 2008.
[25] In chapter three the implication of the identified three co-constitutive forces of financialisation has been analysed to show how they generally influence greater expansion of credit, especially in the mainstream. The analysis presented in subsequent sections of this chapter will not attempt to recast these implications as already undertaken in chapter three, rather a pin-point notations/analysis of their key understanding and relevance to the boom in greater financial inclusion in the subprime will be focused on.

4.3 Subprime Financialised Accumulation and Inclusion

How are we to understand the distinctive and competitive space for investment and capital accumulation that subprime offered as a market segment focused on specialised lending to marginal and riskier borrowers? The performance of subprime lending is underpinned by its entrepreneurial practices and conjectures as a calculative opportunity, a means for risk (investment) and reward. So, alongside the increased clientele of the subprime and availability of technologies of calculation and networks of amortisation of risks, the rise of the subprime is influenced by it emerging as a hub of opportunities for increased investment and capital accumulation. Put differently, the rise of subprime as a specialised and competitive market development is tied to the investment strategies at work on the capital markets, especially Wall Street and the City. Wall Street and the City provided the fertile ground for real time and online super marketing and trading of subprime opportunities. As part of the 'new economy' architecture (Gross 2000), the capital market pulls together several levels of investor participation on subprime assets that are secured through instruments such as RMBSs, MBSs-ABSs and CDOs. In other words, it paved the way for large scale participation and investments by a large number of real time and online traders, brokers, investors of all kinds (investment banks, commercial banks, mortgage banks and institutions, and other private and institutional investors such as mutual and pension funds) in subprime stocks and securities. As Ashton (2009) puts it, the search and "appetite for yield" or fees to be earned provides the irresistible motivation of the City and Wall Street banks to invest in new issues of subprime instruments.

So, unlike mainstream banks, most of the subprime lenders do not receive deposits but rely on the recycling of new issues or investment papers/portfolios at the security market for capital. In other words, the accumulation of subprime is through lending (credit and mortgage origination) secured on innovative and competitive risk management and discipline. Therefore, it is imperative to note the significance of the capital market, as providing the spaces, technologies and innovation for buying and selling of investment obligations. For example it provided the spaces for off balance sheet accounting/trading, raising assets backed by securities/structured finance, and for swapping repayment or default risks with returns/profits. Arguably, the capital market, serving as the market for 'mass investment' (Harmes 2001) and mass diversification, provided the subprime (lenders and brokers) the financial safety channels to underwrite their loan or mortgage originations (Krippner 2005:181, Aglietta and Breton 2001). More specifically, as Langley (2006) and Lewis (2008, 1990) respectively analysed, the capital market serves the dual responsibility: on the one hand, of mobilising opportunities for diversification and securitisation of the speculative performances of risk/reward; on the other, of expanding opportunities and the transformation of availability and accessibility to credit and homeownership.

4.4 Subprime Financialised Risk Management and Inclusion

Specifically, what can be said about subprime as an emerging hub for financialised accumulation that turned on financialised risk management, which arguably helped increase availability of credit to delimit the dichotomous challenges of inclusion and exclusion? The ability of the subprime market to expand credit to more borrowers of varying degrees of risks was made possible by its innovative applications of different calculative technologies to pool, grade and spread the risks of new loan originations.

For Hillier (2003), processes of risk management involve the reduction of the burden of risks to manageable or investable sizes (by way of disintermediation or distribution through off-balance sheet trading) for investors in national or global securities markets. As noted earlier, unlike deposit taking mainstream commercial banks, subprime lenders typically require the securitisation of their loan books. So, while some mainstream banks can afford to hold on their balance sheet some of their loan originations, subprime lenders cannot and instead fit the 'originate and distribute' model of risk management in terms of both loan originations and balance sheet management (Johnson 2002). The edifice of 'originate and distribute' helped subprime lenders and brokers to contemporaneously, even at the time of origination, integrate identifiable risks into portfolios which through SPVs are sold 'to [the] broadest population of financial investors' (Aglietta and Reberioux 2005:143).

As the financial technology that made it possible for subprime lenders to decompose default and credit risks, securitisation consequently paved the way for low income individuals and high-risk households 'to leverage their credit scores' and experience mortgage and personal credit markets (Frankel 2006:77). Thus, the constitution of subprime through securitisation to hedge the risks of lending helped to increase financialised inclusion and reduce exclusion. Despite this fact, there still remain tensions and contradictions about subprime financialised risk management. For example, in order for subprime lenders to increase the probability to sell-off their loan books, the practice of 'originate and distribute' in subprime was underpinned by specialised pricing of risk. As part of the broader processes of securitisation, then, subprime lenders provide an indemnity to underwriters/investors on loans secured by marginal credit through pricing of apparent and predictable risk. Thus, the question here is how did the subprime sector generally utilise risk-based pricing in its intense

application of ‘originate and distribute’ model of risk management and instilling borrower discipline? Let us briefly explore the distinctive operation of risk-based pricing as both the calculative tool that underpins the management of the risks of subprime lending and borrowing.

4.4.1. Risk-based Pricing: A Tool of Management and Discipline

The distinctiveness of risk-based pricing in subprime is that it is crucial to financialised accumulation, management and discipline. In Chapter Three it was noted that risk-based pricing is typically a calculative tool for disciplining default and a crucial feature of financialised inclusion. But, in subprime, risk-based pricing is essential as a tool of continuous management of the risk behaviour of borrowers throughout the life span of a loan (Burton et al 2004:6-7). In other words, it provides the certification “that [a] loan will remain profitable even if a fairly high default rate is realised”(Dymski 2005:450) by providing opportunities for recalibration and re-pricing risk arising from the number of times a borrower defaulted. As suggested earlier, the increase in capital accumulation and subprime emerging as a hub for capital accumulation through different level participation in investment/securitisation are all part of the entrepreneurial motivation for risk/reward underpinned by the calculative assessment and pricing of risks. So how can risk-based pricing be understood as providing the calculative intelligence for subprime lending?

It would be easy to overlook the relevance of risk-based pricing in fostering the capability of subprime to have emerged (before the 2007 global financial crisis) as ‘the public policy face’ for the reduction of inequalities through increased access to financial products. Perhaps, if for now we overlook the 2007 crisis, risk-based pricing, put simply, is the price tag for the layers of risk of subprime credit which

categorically included credit or default risk, cost of servicing and prepayment risks of foreclosures and litigation risk[26]. These risks and/or costs are then embedded into the subprime loan or mortgages, thereby making the unit fee and rate of borrowing higher than conventional loans or mortgages. Questions raised here include whether the higher rates and fees of subprime loans are fair, equitable or efficient? In subsequent chapters (5 and 6) these questions alongside other narratives on the 'exploitative and predatory' criticisms of the nature of the subprime risk-based pricing are analysed.

However, the point here is that risk-based pricing and financialised risk management more broadly call into question debates amongst policy-makers and social scientists that interpret financial accessibility, availability, and capability merely through the dichotomy of inclusion and exclusion. As earlier argued, subprime risk management via pricing seems to be eroding the apparent financial inclusion and exclusion dichotomy crucial to creating 'outside-insider' citizens. According to White (2004), it was through risk-based pricing or loan-to-value (LTV) techniques that the subprime market emerged to democratise the availability of credit and mortgages.

Following White's views, there are two predominant assumptions on the effects of subprime risk-based pricing: first, that it paved the way for the *efficient-pricing* of risk; or second, that it paved the way for *opportunistic/predatory-pricing* of risk. The *efficient-pricing* hypothesis offers the view that the high interest rate, fees and cost of subprime loans are positive and progressive. In this sense, the fees paid offer management an approach for sustaining, offsetting and hedging the loss or

[26] Other layers of subprime risk ranges from the borrowers' lack or documented source of income, lack of initial deposit, extended repayment duration which lowers monthly payment, repayment holiday, personal loan consolidation or stated income loans –these are loans given to a borrower on the basis of stated income (see Krinsmen, A.N 2007).

repayment probability of lending to riskier borrowers. The contention here is that instead of discouraging certain consumers from applying for credit[27] and further excluding them from the benefits of credit accessibility, credits are being provided for all, or being made to go round. In other words, risk-based pricing provided the means of eschewing inequality and the discriminatory prejudices, such as the race, colour, sex, age, disability, religion, nationality and class of the credit consumer and mortgage borrower (William et al 2005, Wyly and Holloway 2002, Lindsey 1999). Therefore, the pricing mechanism of the subprime market arguably provided the commercial spaces to close gaps of homeownership and financial services segregation. It is important to note that some existing research in this regard shows that the manner and the strict rating policy of major prime lenders are consistent with financial segregation and inequity (Iceland and Wilkes 2006).

So, through the specialised risk-based pricing of subprime, for example the grading of risk A-A1 for higher grade, B-B1 for middle grade, C-C1 for low grade the subprime sector paved the way for greater financialised inclusion. As Sinclair (2005:70) noted, risk-based pricing paved the way for intelligence gathering and analysis of borrower risk which, in turn, helped subprime lenders to strike a balance between their commercial and social responsibilities in keeping within legislative provisions[28]. In summary, risk-based pricing in subprime represented "the technological advancement that increased the availability of credit...and [shifted the]

[27] See Crook, J.N (1999) where he attempts to tackle the public policy question of who will be discouraged from applying for credit. It is important to note that the research did not provide a clear cut answer. However with the increasing globalisation of finance and consumerism, it is impossible to discourage consumers from applying for credit. Public policy focus is seemingly aiming at opening the market for credit however with a rider on the implication, management and pricing of risk.

[28]Legislative provisions that are enacted to ensure open, equal, free-choice and fair accessibility to credit and right to homeownership by individuals and households. They also include those legislations intended to promote depository and credit financial institutions to invest in the credit needs of the communities. In the US they include the Fair Housing Act, Title VI Civil Rights Act 1974, Housing and Community Development Act 1974, Rehabilitation Act 1973, Disability Act 1990, Discrimination Act 1975, Community Reinvestment Act 1977 (as amended July 11 1991).

allocation of financial resources" (Feldman and Schmidt 1999:1-2) since the 2000s to low income borrower by 'lowering down payments' (Chomsisengphet and Pennington-Cross 2006:55). However, it will be scholarly timidity to simply argue that subprime provided greater opportunity for financialised inclusion based on exchange of trust and pricing of risk. Other studies point out that subprime overshoots, and when it does, one of its major implications is that it may lead to systemic risk or liquidity risk. On this basis, the proponents of *opportunity-pricing or predatory* hypothesis argue that subprime lenders abuse and exploit the existence of information asymmetries and discrimination of credit by the mainstream lenders to charge borrowers much higher prices, higher APR rates and other fees. It is also contended that subprime lenders make credit available to borrowers in excess of their need, hence increasing the probability of repayment mass defaults. All that said, a case could be made that subprime intensive utilisation of financialised disciplinary mechanisms mitigates the implications of mass defaults.

4.5 Subprime Financialised Discipline and Inclusion

To recap, financialised discipline is distinct from plain, old forms of financial discipline which primarily involve the use of legally enforceable mechanisms of pre-contract and post-contract discipline. The pre-contract discipline includes the borrower income and commitment disclosure, exchange of collateral and the promise to repay. The post-contract discipline includes the management of default and delinquency through bankruptcy, repossession and foreclosure. For our purpose, financialised discipline involves what Langley (2009:11) called the 'extra-legal apparatus' of the governing power relations at work in subprime lending and borrowing. It greatly involves three sets of disciplinary power relations. First, the lenders' active use of calculative determinations and valuations of risk and

uncertainties through credit scoring and risk-based pricing and second, the borrowers' active participation in the market, both as self-disciplined participants and leveraged investors (Langley2009:14). Third, it also includes the marketisation of delinquency and default through forbearance (executed via re-pricing) and the subcontracting of repossession and foreclosure to specialised legal firms where re-pricing of default fails. As the example of financialised inclusion shows, subprime's fundamental framework of discipline does not rely primarily on legal discipline but more on extra-legal discipline. There is a more acute significance of the extra-legal discipline in subprime than in the mainstream.

The calculative assessment of risk and uncertainties through the means of scoring and pricing risks is, in effect, the collateral that secures the inclusion into subprime credit and mortgages. Having earlier discussed risk-based pricing as a tool of subprime risk management and discipline, the question is what other ways are individual borrowers disciplined in order to guarantee credit performance and greater inclusion? This question is informed by the existence of contrasting debates on the viability of subprime discipline via risk-based pricing. For example, Munro (2005:1) argues that the subprime disciplinary apparatus is weak and paves the way for the origination of "loans for any purpose". She argues that subprime risk-based pricing "create systemic increases in risk [default] for borrowers" (ibid p.16), who are priced more than they can afford to repay. Likewise, others argue that subprime risk-based assessment models (scoring and pricing) are driven by the assembly and reproduction of 'numbers' in order to increase capital returns for the benefit of the lender (Mikes 2008, Marron 2007).

What is also significant about risk-based pricing in subprime is that it marks the rise of calculative innovations where delinquency punishment is subjected to the prism and momentous competence of 'calculative and communicative' technologies. In this way the mathematical usage of information economics help subprime to demarcate the boundary between credit constraints and credit accessibility through the exchange of obligation and promise to repay (Attanasio, Goldberg and Kyriazidon 2006). Arguably, borrowers' past experiences of exclusion thus provide them with the requisite drive to self-govern their liability and borrow responsibly. In other words, unlike the plain, old disciplines which were based on risk avoidance or strict practices of repay or foreclose, subprime financialised discipline is underpinned by the assessment of risk as shared responsibility and shared opportunity. Indeed, as leveraged investors who constantly remortgage, low income borrowers, previously underserved minority groups and first-time buyers are called upon via the price to self-discipline and share the responsibility of their inclusion through commitment to repay. The discipline here is that borrowers, as profit seeking, leveraged investors either discipline themselves in order to enjoy the increased subprime equity line of credit, refinancing and future saving, or face even higher costs of inclusion (Dooms and Motika 2006:12).

Typically, therefore, through the governmental mechanisms of credit scoring and risk-based pricing, borrowers are called upon to imbibe entrepreneurial self-discipline in order to be part of the homeownership society, whereby delinquency and repayment defaults are punished through either the forbearance and re-pricing on the part of the lender, or foreclosure through specialised legal firms if the borrower fails to repay over time. Critically, it will be argued that the brisk and technical thoroughness of subprime foreclosure provides the motivation for borrowers to strive

to repay, at least as leveraged investors in order not to lose their equity on the mortgage. On this backdrop, Adelson and Jacob (2008:2), in their historical analysis of the performance of loans expanded to lower income borrowers, argue that they 'had displayed...low correlation of defaults and downgrades'. So, in Altvatar's term (1997:59), subprime financialised discipline paved the way for the wider extension of 'financial contracts' aimed at the qualitative turnaround of the income and 'social relations' of lower income households. Likewise, according to Jaffee (2008:2), the subprime market improved the inequality gaps in the US homeownership by providing opportunities for 'more than five million' to participate in homeownership. Early in 2006, in research conducted for the Federal Reserve Bank of San Francisco (FRBSF), Dooms and Motika (2006) noted that between 2001 and late 2005 the subprime share of the credit and mortgage market increased from $210 billion to $625 billion. They noted the increased availability of non-traditional mortgage products, for example 2/30 years fixed ARMs, interest-only or 'minimum monthly repayment' mortgages, zero percent interest intervals, and 100 to 125 LTV ratio or five-times long-to-income (LTV) ratios percent loans, enabled borrowers to self-discipline themselves in order to be included. In other words, discounted products created the opportunity for those who had been excluded in the past, to self-govern themselves in order to 'live by finance' and maintain financial positions (Martin 2002). Whether these financial positions of low income borrowers had been made inchoate or barren by the crisis and responses to the crisis remains contentious. But importantly, the financialised discipline of subprime via pricing paved the way for risk to be "embraced in a lateral government of credit as something positive, conducive to market share and profitability" (Marron 2007:120, see also Graney and Wyne 1992). In other words, in Dymski's (2005) concept, financial citizenship is

governed, disciplined and punished by the price mechanism and the entrepreneurial self of borrowers in the first instance, instead of the old legal mechanism of coercion/imprisonment.

4.6 Conclusion

This chapter has investigated the rise of the subprime sector and, specifically, how the sector was constituted through the three identified forces of financialisation to greatly expand spaces for financialised inclusion and credit for all. It has been shown that, unlike mainstream, subprime emerged to be a sector of greater opportunity for fees and capital accumulation. This is argued to have triggered the participation of actors from various levels of broking, lending and investment in search of yield. It has also been shown that through greater financialised innovations of risk management and discipline, especially via specialised risk-based pricing that remains comparatively underdeveloped in the mainstream, opportunities and choice for financialised inclusion were made easily available in subprime. It was argued that through the mechanism of risk-based pricing, subprime established the platform for previously underserved low-income borrowers to exchange trust and the assurance of entrepreneurial self-discipline (Turano 2006). Though delinquencies and repayment default in subprime can be punished through foreclosure and repossession procedures, it was argued that pricing and re-pricing served more as the primary means of disciplining default. The point argued here, drawing from the perspectives of Adelson and Jacob (2008) and Altvatar (1997), is that discipline by price instead of by legal mechanism, encouraged positive credit and mortgage performance. However, the chapter also noted the tensions and contradictions of the extension of loans to those with impaired credit history. Despite the tensions and contradictions (which are discussed in Chapter Five), the chapter contended that the rise of the

subprime sector increased product competition and the availability of discounted credit and mortgages which, through pricing, operated to provide choice and means to outsider-insider financial citizenship. In other words, subprime served different purposes for different individuals and households; it was a means of credit which otherwise they would not have been excluded from; it gained a foothold in the 'ownership society'; and it provided for debt consolidation and credit repair. Overall, the rise of subprime from the mid-1990s thus exemplified the production of financialised inclusion in its various forms, but retained tensions and contradictions that later surfaced with such spectacular effects.

Part 2

Debt for All:
An Exploration of the Subprime Crisis and Responses

5 The Subprime Mortgage Crisis: A Crisis of the Forces of Financialisation

5.1 Introduction

From late 2006, the financial democratic/inclusionary promise of the subprime credit and mortgage market was found to have been infected and cracked. By the middle of 2007, it cascaded into an inferno that triggered a global financial crisis, all to the bewilderment of policy makers, financial practitioners, academics and researchers. There has since been streams of perspectives from the practitioners, policy makers, the media and researchers on how to understand the crisis, some of which are argued to be growing on a 'chain of blame' (Muolo and Padilla 2008). Some of the common recurrent commentaries of the crisis include: the lack of anticipation on the part of lenders of the consequence of increased credit expansion to low income and high-risk borrowers, and the recklessness of subprime lenders who are accused of merely having a banquet for their increasing annual net incomes (Crouhy, Jarrow and Turnbull 2008). It is also commented that during bubble-booms, as experienced during the stock and dot com boom of the 1990s, lenders and policy makers were again smitten with the euphoria of the 2000 to 2006 credit and mortgage boom (Reinhart and Rogoff 2008, Bordo 2008, Krohn and Gruver 2008).

In this chapter, rather than cataloguing the various explanations of the crisis, I strive to make a contribution to the understanding of the crisis by providing an analytical reassessment of the crisis on the backdrop of the implications of the key co-constitutive forces of the financialisation processes as earlier identified. For this reason, the underlying parameter of this chapter is to investigate how the key forces

of financialisation, which had been the throttlehold that accelerated the boom and expansion of credit and mortgages in the subprime market, has become its bane.

Overall, the chapter is divided into four main sections. Section one provides a brief survey of key explanations that have become commonplace in the existing literature on the crisis. This is undertaken with the aim to take cognizance of these perspectives and to highlight how these explanations can be linked as having paid insufficient attention to the structural conditions of the crisis, identified and theorised as the three co-constitutive forces of financialisation. Therefore, drawing out the links between the contradictions and tensions of the forces of financialisation on the one hand, with actual and specific features of the crisis, on the other, section two develops an analysis of the crisis that is supported by interview data to scrutinise the effects of financialised approaches of accumulation on the crisis. Sections three and four also develop analysis from interview data that explores these contradictions and tensions as they were played out in relation to the financialised management of risk and financialised discipline of risk. Section three thus provides an assessment of the consequences of financialised risk management (i.e. risk scoring and risk trading) on the crisis. Section four, developing analysis from interview data, examines the consequences and uncertainties of financialised disciplinary approaches (i.e. risk-based pricing) of mortgage and credit expansion on the crisis.

5.2 Review of Key Explanations of the Subprime Mortgage Crisis

It has become common knowledge that most of the analysis of the causes of the subprime crisis centre on lax regulation, mistakes of over-deregulation on the part of the government, dishonesty and greed on the part of financial key players. However, more subtle explanations of the crisis are growing within conjectural re-dissection of

risk, assessment of risk, the effects of market development and the role of people in their human nature. From Economics to Political Economy, Cultural Economy and Behavioural/Sociological Economics, explanations of the crisis arguably develop from Keynesian 'general theory' and ideas of 'animal spirit' and also Minskian financial instability theory. Researchers such as Shiller (2008:4) have described the subprime crisis as the "crisis of psychology of real estate bubble …and stock market bubble", whereby the market and people become infected with the epidemic of irrational exuberance. This perspective is grounded on the idea that the crisis is another kind of 'bubble burst', showcasing the imperfections and over-reliance on the models and agents of the neoliberal market system (Honohan 2008, Bardhan 2008).

However, the nature of the subprime crisis had informed a growing debate over whether the crisis is of a different kind, and of a magnitude that is to be compared with the 1929 stock market crash. In this respect, Reinhart and Rogoff (2008:1, 2009:1-2) argue that while "qualitatively and quantitatively [the subprime crisis is] parallel to earlier…banking crisis", but "this-time-is-different syndrome" bandied about the crisis shows that lessons had not been learnt from clusters of crises that continued to occur around the world. In any case, one remarkable difference of the subprime crisis in comparison with earlier crises would seem to be that it has generated greater global economic uncertainty (White 2008:308). Though agreeing with Minskian perspectives on the gradual decline of safety margins, White (2008: 309-10) contrasts that the increased reliance on new market elements such as 'originate and distribute', 'off-balance sheet vehicles', 'structured products' and the impersonal valuation of borrowers' risk attributes by rating agencies, produced complexities which spooned and fed procyclical behaviours that cannot be

conditioned within the existing micro-financial stability framework. For White, the subprime crisis is caused by a lack of a developed micro-financial stability framework that is capable of moderating the procyclicality of the new complex financial market.

In a similar manner, Blackburn (2008) described the crisis as the "Minsky Moment," and the "fog of financialisation" and analysed by Nesvetailova (2007) to be the practical experience of 'fragile finance'. By that, it is argued that the robustness of financialisation could be placed within the Minsky idea of 'endogenous instability', whereby financialised stability in the economic system produces behavioural or 'ponzi' complexities that then increase fragility (Nesvetailova 2008). In this light, Blackburn (2008:6-7) further noted that the increased number of financial intermediaries and banks during the period of financialised stability were "lulled by success" to take unbridled advantage of asymmetries of information and power imbalances. As some economists will argue, these imbalances include the fall of investor-rationality during the bubble period and unbridled speculation on yields from risky lending. Kregel (2008:6-9), evaluating on this, argues that it brought about systemic risk. He drew his conjecture of the subprime crisis from Minsky's hypothesis and further argued that the subprime mortgage and credit crisis does not only fall within Minsky's traditional ideas of "Ponzi financing and declining margins of safety" as "these conditions are not the result of endogenous processes" of stability and fragility. Kregal instead notes that the crisis has been as a result of "insufficient margins of safety" and that the margins of safety utilised to assess creditworthiness has been undervalued, while the use of the "originate and distribute" model exacerbated the mispricing of risk (ibid p.6). It is therefore not out

of place that another theory of the crisis is that the ‘originate and distribute’ model provided a tipping point on the prediction and calculation of risk.

This brings into full circle questions about the nature of risk. To reemphasise, as noted earlier, for a long time social scientists have focused on how to assess the micro-foundation of risk such as the outcome of ‘time-rational’ and ‘self-interested risk behaviours’, but its seeming elusiveness further brings into attention the nature of the exchange of ‘trust’ in risky lending and borrowing. Even at that, according to Frydman and Goldberg (2007:1-3), the risk of transactional exchange of trust is in itself difficult to predict. Frydman and Goldberg argue that the unpredictability of exchange of trust has emerged because the consequences of human and individual decisions or ‘rational and self-interested’ behaviour cannot be subject to exact or quantitative predictions (ibid p.3). On this backdrop then, the Keynesian ideas of ‘animal spirit’ bring into close propinquity the understanding of the crisis. According to Akerlof and Shiller (2009:2), following the Keynesian ‘animal spirit’, the subprime crisis like any other economic event is not driven by “inscrutable technical factors or erratic government action” but by the very ‘mental nature’, ‘thinking’ and ‘feelings’ of people. Therefore, what is risk and how risk can be managed or the ability to discipline oneself from taking or engaging in risky behaviour and actions, falls on the one hand, on the existing trend of market mentality, and on the other, on the self or individual mentality about the market.

From this perspective, before the subprime crisis, the mental nature of risk shifted towards development of up-market risk strategies that enabled entrance or inclusion of more people into the credit system. These strategies included the innovative use of securitisation-disintermediation to create a complex system of amortising the barriers

of risks arising from the borrower's history or specialised attributes. However, as the application of securitisation-disintermediation waxed, it arguably plummeted into a victim of human gullibility. Bicksler (2008:295-6), arguing in tandem with Keynesian ideas of 'animal spirit', suggests that the subprime mortgage crisis was as a result of the breakdown of corporate governance in banking organisation, whereby the CEOs' desire for executive compensation overshadowed their fiduciary responsibility on risk for the benefit of shareholders instead of themselves. He argued that the crisis is evidence of the misalignment of incentives with securitisation-disintermediation of increased loan volumes and also evidence of a "large disconnect between actual corporate performance and corporate executive compensation" (p. 298).

Elsewhere, the US Federal Reserve's response to the collapse of the new economy bubble at the onset of the new millennium was to sharply lower interest rates. This produced 'cheap money' which stocked a bubble in mortgage lending and house prices and created a 'search for yield' amongst wholesale investors who borrowed cheap money in short-term markets to finance (leverage) their investments in all manner of financial investments but especially subprime related and derived instruments such as MBSs, CDOs and CDSs. In other words, the low interest rate incentive (for example the Alan Greenspan 1% interest rate) has been argued to be the catalyst of the crisis as it produced animalistic investment behaviours in the search for returns from non-traditional investment avenues. In this regard Boeri and Guiso (2007:2) argues that

'Low returns on traditional investments pushed investors and lenders to take bigger risks to get better returns. Financial intermediaries, in search of profits, extended credit to families and companies with limited financial strength. Investors with varying degrees of expertise duly reallocated their portfolios towards more lucrative but riskier assets in an attempt to increase their wealth and preserve its purchasing

power. The low borrowing rates for both short and long-term maturity attracted throngs of borrowers – families above all who were seduced by the possibility of acquiring assets that for long had always been beyond their means. At the same time, house prices soared, ultimately encouraging the addition'.

Equally, on related geo-economic and global views, Niall Ferguson's idea of 'Chimerica' and 'Paul Krugman's idea of the 'Wall of Money' [29] was used to describe how the long flow of capital from savings from China and oil producing countries such as the United Arab Emirates (UAE) into the US led to increased deficit consumption. To this end, it will be contended that the gradual increase in interest rate impacts on both subprime mortgagors and investors in instruments related to subprime mortgages. According to French, Leyshon and Wainwright (2008:23), the interest rate increase provided a "catalyst for a rash of [repayment]default that called into question the logic of extending financialisation beyond the standard middle class ecology". This conjectural position seems to have been underpinned by the politics that the subprime market caused the crisis, especially for its extension of credit to high-risk borrowers. However, since subprime as a market did not just categorically expand MBSs or ABSs into place, or for people who were previously left out because of their low income and/or characteristics of high-risk, but also to people who by other reasons were unable to access credit from the mainstream banks, it is still not clear whether the hypothesis holds that the success of subprime credit had been dependent solely on the existence of a low interest rate. Put differently, this explanation, which hinges on the conjectural factor of interest rates, misses the importance of longer standing

[29] The word Chemerica first used by Niall Ferguson and the word 'Wall of Money' first used by Paul Krugman were syllogism used by themselves and some other economists to argue that the increased flow of Chinese savings and currency reserve into US helped Fed to artificially keep interest rates low and for longer than necessary. This, it is argued, fuelled profligacy of spending, consumption and reckless speculation on risk and yield – all culminating into the 2006 crisis subprime crisis and 2007/08 global financial crisis.

structural forces of financialisation on both subprime and mainstream markets. Just as the forces of financialisation influenced the boom in both sectors of the market, it has arguably influenced the crisis with the same cascading implications for both the subprime market and the mainstream market.

Overall, the theories that underpin the assessment of the mortgage crisis all seem to be pointing to the inadequacy of the financial system to maintain a period of boom, primarily as a result of fragility of irrational behaviour associated with successes or economic stability. It appears therefore, as White (2008) points out, that the causes of the crisis should not be blamed on the expansion of subprime credit, but rather on the microeconomic structures and systems that supported or underpinned the periods of stability that fed into greater expansion of credit and mortgages. As we noted earlier, the Minsky ideas can be understood within the context of the forces of financialisation, especially within the contradictions and tensions in financialised accumulation. But it is important to note that Minsky's idea does not provide a way of thinking through the contradictions and tensions of financialised risk management and discipline which can be understood to be the distinctive features of the crisis, or what makes this crisis different from previous crises. In the same vein, the problem with the market psychology ('irrational exuberance' and 'animal spirits') approach is that focus is exceptionally paid on interest rates while insufficient attention is paid to the structural conditions that the market had operated. In the subsequent sections it is argued that the actual and specific features of the crisis seem to be linked with the contradictions and tensions within these structural conditions theorised here and before as the co-constitutive financialised forces of financialised accumulation, financialised risk management and financialised discipline. The subsequent sections analyse the crisis in terms of these co-constitutive forces.

5.3 A Crisis of Financialised Accumulation

In simple terms, financialised accumulation involves the making of profits from fees and commissions generated from networks of trading risks and the movement of assets off balance sheet. Put differently, a type of accumulation strategy which broadly developed through the aggressive securitisation and/or on the aggressive origination and distribution, tranching and re-tranching of portfolios of risks into grades as profitable investment and globally tradable (Loutskina et al 2007, Purnanandam 2008). According to Nesvetailova (2008:6), it is the "construction of financial pyramids", such as MBSs, ABSs and CDOs, to enable "the financing of debt with new borrowing". However, the question remains, how did financialised accumulation emerge? As earlier explained in Part One, financialised accumulation rapidly emerged as part of the 1980s and onward steady processes of deregulation. It is the re-organisation of the means of wealth creation in ideal typical terms, whereby streams of incomes flow from interest, profits and dividends arising from financial investments as opposed to productive investment. A correlative but contentious question is how has financialised accumulation affected the crisis? I do not intend here to suggest categorically that the subprime mortgage crisis of 2006 and subsequent global financial crisis of 2007 was caused by the processes of deregulation of the financial market. This is because as has been noted in his research, Eboch (2009) says that there is no concrete evidence to support the hypothesis that the deregulation of the financial market caused the crisis.

However, I sympathise with the hypothesis that the subsequent outcome of deregulation is that it led to speedy withdrawal of the government regulatory

stewardship and the relaxation of the supervisory role of government institutions on the activities of banks and other financial organisations. It also opened the door for 'in-house' approaches to capital accumulation. For example, in the US, the combined effects of the Gramm-Leach-Bliley Act (GLBA) of 1999 and Community Futures Modernisation Act (CFMA) of 2000 and the subsequent repealing of the provisions of the Glass-Steagall Act of 1933, which had "prevented the affiliation between commercial and investment banks" (Eboch 2009:1 Dale 2008:19), fundamentally sprouted a whirlwind of 'new and untested' kinds of financialised methods of accumulation in forms of asset securitisation.[30] Consequently, the rise of networks of innovation for accumulation brought about a crowding of operations of the financial market place. Arguably, the crowding effects of the financial market increased the production of recklessness that eventually became a major part of the new tradition of risk ineptitudes that grossly caused the crisis. Zandi (2009) arguing in this direction, noted that the innovations on securitisation increased the delusional expectation of wealth creation through continuous house price appreciation. It is therefore arguable that one of the unintended implications of deregulation of the financial market is that it let loose 'drunken approaches' to capital accumulation. As a result financial market participants were driven on by the illusion that their temporal successes in short-term amortisation of risk would provide pathways for

[30]Marco Angheben during an interview with author on July 24, 2008, argues that securitisation has not failed but the way which it was widely used by most subprime lenders to generate capital "for their bad loans...especially in the US", was a new and untested "way that securitisation had never been used before...especially in Europe." He further argues that because the new, subprime market style of securitisation had not been tested and "securitisation as a financial tool" having not lasted long, it was over-stretched. Mr Angheben, further emphasised the need for "a new way of capitalising the subprime market" to take into consideration the risk calibre of the people it is meant to service.

taking riskier investment. However, "like drunken men", all crashed as the boom waned[31].

Now drawing from Nesvetailova's (2008:6) idea that the mode of accumulation before the crisis was more of a "construction of financial pyramids," it will be argued that these financial pyramids helped to swing the complexities of subprime securitisation or collateralisation of old loans with reckless new borrowing (Goodman et al 2008:315). According to Holzer and Millo (2004:1) the key consequences of this kind of credit making decision is that it instigates the making of "seemingly irrational decisions" for the sake of accumulation. Arguably, the chipping and overlaying of risks model of accumulation obscured lenders' rationality and definitive appraisal of dramatic market changes. As Foley (1986) noted, the typical paradox of financialised accumulation is that it is by itself a harbinger of correlative implications on the economy in general. Recent findings show that accumulation via the diversification of risks and complex balance sheet management produces a short run capital boom that is entrenched in untraceable lines of fragilities (Parlour and Plantin 2008:1311, Jaffe 2008). These fragilities include changes in the micro dynamics of the economy, such as a fall in prices of rated assets. Typically, these changes trigger default correlation increases that in the long run threaten and/or wrack opportunities for further lines of collateralised accumulation (Allen and Carletti 2008, Cowan and Cowan 2004).

Therefore, the persistency with which different modes of accumulation technologies were spread out reveals a crisis of risk perception. This development that created the wholesome assumption that structured finance and the financial market insulates

[31] Interview with L. Randall Wray on July 24, 2008.

lenders and borrowers from the precarious housing market.[32] Against this backdrop, the model of accumulation in place nurtured the enabling environment, where the sources of profit were concertedly designed to flow from the selling of discipline and rational decisions (Foley 1996, Kotz 2008). But as we earlier noted, people in their human nature are not always as disciplined or rational. Arguably, as will be further analysed in section four, one of the weaknesses of the financialised discipline is that it expanded the margins of information asymmetry and the probability for default. Schwarcz (2008:16-17) noted that financialised accumulation paves the way for insufficient and ineffective disclosure of originators' and investors' motives. He emphasised that as the practices of financialised accumulation expand, it produces a conflict of interest amongst market participants who separately strive "to protect themselves and not the financial system as a whole" from dramatic changes (ibid p.17).

Broadly, the contradiction and tensions of financialised accumulation in a neo-Marxist sense can be traced to problems and limitations of securitisation, the 'originate and distribute' model or the slicing and dicing of risk (Blackburn 2008, Minsky 1982, Harvey 1999). As Ashton (2009) noted, the structure of financialised accumulation is underpinned by an 'appetite for yield', which brings their operation into increased complexities and increased intermediate and speculative participation (Ascraft and Schuermann 2008:3). Even though 'appetite for yield' may be argued to be part of normal market rationality, if examined on the basis of the complex use of instruments of financialised accumulation in a realist sense, it will suffice to argue that the crisis occurred as a consequence of aggressive and/or of the 'animalistic'

[32] Ray Forest in an interview with the author on July 11 2008, described the development as 'blotted perception of reality' which according to him is the lack of foresight of the policy makers to have pursued the policy that targeted the inclusion of homeownership through the financial market.

uses of the technique of the 'originate and distribute' model as a rapid means of 'cheap' money (Langley 2008).

5.3.1 Systemic Tranching, Responsibility and Fragility

Indeed, a notable pattern of financialised capital accumulation involves systematised flexibility aimed at widening spaces to attract investors, and the reproduction of capital through product substitution, or the use of a variety of calculative means to ease immediate risks to increase capital. According to Zywiciki and Adamson (2008:81), this other means "include increased origination or application fees, greater down-payment requirement, stricter foreclosure rules, and prepayment penalties." But in terms of accumulation through securitisation, there is, however, in more specific terms, a mathematical approach that expands the possibilities of 'bad' risks to be quantified as assets. Hence, through a conscious grading and packaging of risk characteristics and the development of marketing strategies, it was possible for lenders to 'turn bad risks into assets'[33]. But how does systemic tranching emerge? Put simply, it involves the increased use of information communication technology (ICT) to create large and complex structured securities or portfolios of MBSs-ABSs. With ICT, different kinds of portfolios are speedily created, pooled, calibrated and sold in special purchase vehicle (SPVs) structures.

The SPVs help in facilitating the creation of tranches of securities, standardised according to the weight of risk it carries. As a result of calibrating risks in tranches of MBS, sponsors and mortgage originators are able to accumulate through the recycling of risk at minimal ease and cost. By way of identification there are three kinds of tranches. First, is the lower risk tranches, otherwise called senior tranches,

[33] George Galster during a telephone interview with the author on10 July 2008.

which attract a high yield rating between ‘AA’ to ‘AAA’. Second, is the middle risk tranches which attract a rating between ‘Alt A’ to ‘BBB’, while the least, poor and higher risk tranches have little or no rating. It is often referred to as the equity class tranches. Though equity class tranches attract lower returns in the security market, they are made up of mostly mortgage loans with greater down-payments and early repayment options. On the other hand, the overriding implication of equity class tranches is that it is an avenue for the originators to generate an immediate flow of cash (Bethel et al 2008:10). It is arguable that most of the subprime mortgage loans fall within the equity class tranches where originators pay less regard to the characteristics of borrowers except the borrower’s capability to provide down payment or accept higher interest rates. This specifically informed some conjectural assessment of the causes of the crisis to be as a result of the correlation effect of the increased repayment failures witnessed in the equity class tranche (Cowan and Cowan 2008).

Overall, according to McCoy and Renuart (2008:30) the manifold tranching of subprime RMBSs makes it difficult for issuers to keep track of the certainty of risks and performance of their loan origination. Presented with this difficulty, loan originators become more of contract servicers that engage merely in the process of Pooling and Serving Agreements (PSAs) or layers of new PSAs for fee and commission. This process led to what economists described as ‘tight coupling’, a situation whereby risks overlap with each other to make “it impossible for both loan originators and investors to measure and weigh the quality of all the MBSs, CDOs ABS-CDOs products” (Schwarcz 2007:19). Hence, in this frictional format, investment and accumulation is argued to be underpinned on the expanded ambience for managers to originate and securitise ‘Lemon Loans’ or riskier and less profitable

loans (Ashcraft and Schuermann 2008). Perhaps the choice of securitising 'Lemon Loans' is ridden with risky variables, especially when the motivation to engage in mass accumulation is based on the optimisms of price stability, liquidity flow, mass lending and consumer spending. One of the key variables as noted by Franke and Krahnen (2005) is that increased use of tranching technologies amplify the complex characterisation of repayment risk, default risks and the rush by originators, investors and other intermediary financial operators to engage in fragile and combustive patterns of accumulation (Nesvetailova 2007).

An increase in tranching has also been noted to affect the volume of liquidity risk. According to ESF Resource Guide (1999:14), liquidity risk occurs as a result of the "relative ease with which a particular ABS can be traded and sold...at a price that is reasonably approximate to its intrinsic value...the greater this risk spread, the greater the liquidity risk". As will be shown in the subsequent sub-section, the concerted effort to increase capital accumulation through balance sheet transactions (by both the mainstream and the subprime issuers) increased the overall loss in value of the asset originally secured. According to ESF Resource Guide (1999:13), one of the consequences of depreciation in the value of MBS-ABS is that they trigger the risk of early amortisation caused by a number of related factors, which include:

'insufficient payments by the underlying borrowers; insufficient excess spread; a rise in the default rate on the underlying loans above a specified level; a drop in available credit; enhancements below a specified level; and bankruptcy on the part of the sponsor or servicer'.

In this regard, Dell'Ariccia et al (2008:9-10) argued that the drive for capital accumulation led lenders to "cut standards" and "trade loan quality for market share." Emphasising further, French and Leyshon (2004:280-4), in their analysis of reintermediation, argue that all modes of reintermediation or tranching aim to expand

the spaces for the dispersal and collapsing of risk but without prudence (see also Wray 2007:22, Kaufman 2007, Kregal 2008, Davidson 2008, Schwarcz 2008, Engle and McCoy 2007). The issue of prudence formed part of the report of George Bush's, President Working Group (PWG) and, according to the PWG report, increased slicing and dicing of risk brought about "erosion of discipline" amongst credit originators who had to make the choice between responsibilities of risk avoidance and to take risk as an opportunity for capital accumulation. Instead, according to Dell'Ariccia, Igan and Laevan (2008:18), the choice of these responsibilities was bestowed on the competence of disintermediation, continued house price appreciation and on the hope that defaulting borrowers will "always liquidate the collateral and repay" their loan. This development is noted to be the frenzied drive that led to the deepening of highly risky loan transactions with people and places "where delinquency and default and pre-foreclosure are already common" (Newman and Wyly 2004:78).

Overall, it will be emphasised that it was the operational complexities and the structure of securitisation which allowed for liquidity creation and management outside non-traditional instruments or outside traditional regulatory supervisions. The development produced a chain of overconfidence and speculation that eventually brought about the multiplication of risks (Greenlaw et al 2008, Honohan 2008:2). Thus it can be summed up that increased tranching or amplification of financialised accumulation on the one hand increased availability of credit for a greater number of people, but on the other hand, it was its structural contradictions and tension that brought about passive responsibilities to risk. This was precisely the situation that prevailed within both subprime and mainstream lending, whereby lenders withdrew from applying entrepreneurial discretion to profile the risks they

were taking as any kind of risk can be off-loaded via SPVs. In this scenario, both the capital or the security market and the economy became overridden with debts without collateral to offset them. The lack of, or insignificant, collateral diminished the incentive of borrowers to keep-up their repayment obligations. This especially happened when lenders' or originators' obligation to monitor loan performance (LP) was diminished or extinguished as their MBSs-ABSs balance sheet cleared in the security market. Hence, as earlier noted, the aggressive approach of accumulation or leveraging by complex network financial instruments, expanded the margins of commitment to the life-time of the credit relationship between the lender and borrower (Rajan and Winton 1995).

5.4 A Crisis of Financialised Risk Management

In simple terms, financialised risk management could be said to be a new approach whereby the burden of default risk is conscientiously commercialised by way of originate and distribute, as opposed to the old approach of originate and retain. In other words, it is the shift from the traditional approach of management of risk by retaining and balancing liabilities and assets in the in-house balance book, to a more aggressive and competitive management of risk whereby risks are scored calculated and traded as grades of assets by means of special purchase vehicles (SPVs). However, as will be analysed in subsequent subsections, it is to be argued that this new approach to management of risk carries with it some contradictions and tensions. This is particularly manifested from the fact that there are always uncertainties that cannot be calculated and, if calculated, there are still margins of unforeseeable events which could not be calculated and/or managed. Therefore, it is arguable that part of the cause of the crisis was the monolithic dependence on the clearing and selling of balance sheet in the security market, as both a tool for risk

management and for recycling capital accumulation (White 2004). When risk selling emerged to serve as the means of issuing credit and recycling capital, the lending and borrowing environment developed an atmosphere of misinformation and laxity (Heuson et al 2001). Put differently, the increased competition for securitisation of complex layers of risks portfolios provided the mortgage originators and brokers "the opportunity to relax or completely avoid the use of any in-house risk checks for their origination".[34]

Arguably, aside that uncertainty cannot be calculated and managed there were the tensions on the part of the lenders that their increased use of the approaches of financialised management of risk leads them to complacency with the thorough assessment of borrowers' risk characteristics. In other words, instead of increasing the risk assessment of individual borrowers, financialised approaches to risk assessment contributed to reducing it by integrating individual risk characteristics of borrowers into complex tradable asset portfolios. This is evident, taking into account, for example, the availability of different mixes of subprime mortgages issued on the basis of borrowers' ability to provide sometimes unverifiable proof of income, such as NINJA or Self-Certified Mortgages (S-CMs). On their website,[35] the SelfCert Mortgage Centre, a subsidiary of The Mortgage Broker Limited, based in Bedford UK, described S-CMs as the type of mortgages where the mortgage is simply originated by the borrower merely agreeing to:

'Sign an honest declaration of [*his or her*] salary, which the mortgage lender accepts on trust. [*The borrower doesn't]* have to produce proof of ... income because mortgage lenders can 'underwrite' self certified mortgages based on the income [*the borrower*] have declared. So, unlike regular mortgages, where borrowers are required to produce payslips, P60s, bank statements or even audited accounts, people taking out self certified mortgages just need to sign a declaration. With self certified

[34] Douglas Duncan during an interview with the author on 4 September 2008.
[35] http://www.self-cert-mortgage-centre.co.uk/self-certified-mortgages.html.

mortgages, no further questions are asked. Depending on [*the borrower's*] specific circumstances, the mortgage lender may carry out electronic ID, residence and credit checks, but it won't demand any proof of income'.[36]

One possible further explanation of financialised risk management, as with the case of NINJA mortgages or S-CMs, is that it increased the volume of laxity in the structure of risk assessment. In this context, it would be argued that loan originators were victims of their assumption that the securities market possesses an inexhaustible mechanism for amortisation of any kind of risk. In other words, financialised risk management and trading of risk paved the way for over-layering of assumptions that the security/capital market provided the ready means to egalitarian access to owner-occupation (Gotham 2006:260). In this light Ray Forest argues that the 2007/08 subprime crisis is the evidence that NINJA mortgages or S-CMs "should not have been originated in the first place...and the risk of such loans should have been kept in the books of those who issued them ...trading the risk into the security market brought about the catastrophic crisis in the entire financial system".[37] Therefore, the management approach of risk amortisation through the "packaging of cash flow and risks splitting into marketable securities" (Gotham 2006:263) arguably extinguished the traditional commercial expectation that access to loans ought to be restricted to borrowers who lacked perceptible security and repayment history.

According to Carr and Kolluri (2001:8), most lenders confuse credit history with creditworthiness and "intentionally structure loans for default". Though Carr and Kolluri's assessment was developed on the literature on predatory lending, it however provided an insight into the risk management structure, whereby loan originators bear none of the cost of the loan because the security market made it

[36] The italics words and or phrases are the authors' additions, merely provided for better understanding and emphasis.
[37] Ray Forest during an interview with the author on the 11th July 2008.

possible that ‘no loan is too bad not to be securitised’ (Loutskina and Philips 2007, Wellons 1997:22). The security market and indeed the process of securitisation/risk trading paved the way for a management model where the borrower merely has to exchange the promise to keep up with repayment. This makes the borrowing transaction far more impersonal and leads to a loss of risk information, a difficulty in accounting for loan risk and, overall, increases in default paralysis (Munro et al 2005, Parlour and Guillaume 2008 Ruckes 2004, Keys et al 2008, Stiglitz 2007).

Therefore, given the above, it will be argued that subprime risk assessment is done in an extreme impersonal relationship that in turn increased the probabilities of incorporation of significant but negative information into the loan contract and credit relationship. Arguably, the technological distilling of risk of credit expansion by securitisation/risk trading and other approaches (such as via risk-based pricing, credit reporting, credit scoring, delinquency modelling) does not after all assuage the tensions of systemic disequilibrium and information asymmetry, so created by the aggressive financialised management of risk. As Nicholas et al (2005:215) noted, the financialised approach to risk assessment produced systematised classification of risk as assets, but at the same time expanded the spaces of the burden of risk when abrupt changes occur in the economy. Put differently, the increased presence of risky transactions exposed both the financial market and the economy into systemic uncertainty (Hansel and Krahnen 2006:21). So, the financialised risk management model focused on increasing cash flow but “ignored the uncertainties inherent in reflexivity” (Soros 2008:145), or the uncertainties and vulnerabilities of risky borrowers ‘who must borrow to meet all’ their personal needs (Morris 2008:135). Hence, the regime of uncertainty is exacerbated and becomes even more precarious

as the impersonal nature of the instruments of financialised management extinguished both the ownership and responsibility of risk (O'Malley 2000, 2004).

Though in general securing large loans like mortgages is risky, it does seem that most of the subprime ABSs and RMBSs had been secured on improper and uncorrelated risks. This means that the weights of the risks calculated and secured are heavier than the weights of the risks dictated and priced through the calculative disciplinary structure. Arguably, the resulting effect is that the 'originate-and distribute' or securitisation models of risk management failed to solve the problem of responsible lending as expected from loan managers. Addressing this conjectural pitfall of securitisation, the Director of the European Securitisation Forum, Mr Angheben, however, remained cautious about the efficacy of securitisation:

'It is a very different thing. The mortgage market and the financial market are separate, though they are related. The whole crisis in the mortgage market relates to the pricing of securities...and accounting. The criteria for some subprime mortgage lending is poor...it is flight of quality. In this way most of the credit scoring does not conform to specific criteria or standards...bringing about a crisis of confidence between the borrowers and the lenders. It should be noted that securitisation has been relatively stable, but it has not been tested and has not undergone many cycles. In all, securitisation has not failed as a good risk management tool'[38].

But then it would be argued on the contrary that securitisation has failed as a tool for securing uncertainties. Overall, financialised risk management failed to assuage the tensions and contradictions inherent first in its complex processes and application for leveraging and second to assuage the uncertainties arising independently or as part of the complex applications that it was used.

5.5 A Crisis of Financialised Discipline

Earlier, in Part One, financialised discipline had been portrayed as the mechanism that opened and sustained financialised accumulation and financialised risk

[38] During an interview with the author in London on June 26 2008.

management. Though it is produced by its interconnection with the innovations in accumulation and risk management, financialised discipline arguably was the key force that sustained the transformations in low-income and high-risk lending and borrowing. Unlike the old, plain financial discipline whereby de facto legal procedures of foreclosure, repossession, bankruptcy or imprisonment were utilised as instruments for reward and punishment (inclusion and exclusion), financialised discipline is underpinned by the use of risk calculative mechanisms (obtained through credit reporting, credit scoring, delinquency modelling and risk-based pricing) for the determination of inclusion and exclusion.

However, like the other co-constitutive forces of financialisation, financialised discipline has some inherent tensions and contradictions. It is therefore not scholarly timidity to argue first hand that the subprime crisis and the follow-on global financial crisis of 2007 are indicative of the eruption of the tensions and contradictions in the structure of disciplining by price. As noted by Mikes (2008) there are competing perspectives on the competence of 'calculative culture' or 'enterprise risk management' (ERM) between 'quantitative enthusiasts or pragmatists' and calculative or 'quantitative sceptics'. The view shared amongst calculative sceptics is that risk assessment should be subject to personal and executive judgment in which there will be less dependency on the competence of numbers (Mike 2008, Porter 1995). On the other hand, the calculative proponents share the view that risk should be completely subjected to numerical apportioning of value and calculated in their probability of yields (Marron 2007). As shown in Chapters Three and Four, the later approach had underpinned the pre-crisis increased credit and mortgage availability.

Under the calculative mechanism, the risk of extension of loans to low income and high-risk borrowers was believed to be better assessed by mathematical impersonal quantification rather than by personal judgement of risk. The fundamental assumption is that impersonal calculative assessment frees up the bias of managers and helps to provide empirical discernment of borrowers' individual risk characteristics and to match the risks with 'relevant' mortgage product and conditions. In the subsequent sections, framed by my earlier explanation that financialised discipline provided the key technological or calculative benchmark for the pre-crisis greater credit and mortgage inclusion in subprime, I focus the analysis of the implications of the tensions and contradictions of financialised discipline on how it played out most particularly in the subprime mortgage market. Overall, it is contended that risk-based pricing as a tool of financialised discipline could not necessarily calculate uncertainties, for example, default correlation etc.

5.5.1 The Implications of financialised discipline in subprime mortgage lending

In order to maintain a clearer line of understanding, it is imperative to recast the distinction between subprime mortgage lending and other types of lending. From early 2000 to late 2006, a frequent theme in subprime credit was the distinction of the subprime mortgage market from other forms of legal and loosely regulated non-prime sources of consumer credit. According to Whyley and Brooker (2004:3) these other forms of subprime lending "provide small, short-term, unsecured cash loans, [which are] fixed *on* weekly repayments...in cash [and] require no security...*or* credit-checked transactions; [most of the transactions] are quick, informal, and conducted face-to-face in the customer's home". In this kind of short term loan, the loan amounts are often in a very low range and the responsibility of credit risk or default risk are held on the balance book of the lender and the collateral is based on

trust developed from a long term informal and intimate relationship between the borrower and the lender. However, in the subprime mortgage the principal loan and interest amount are substantial if compared to the immediate and/or income cycle of the borrower. In this way, the determination of repayment ability is developed from informal assessment of existing credit history, or income documents presented by the borrower and on the calculation and pricing of risks such as default risk. The crisis has provoked a debate on disciplining by price, i.e. risk-based pricing and its implications on the lenders and on different borrowers.

On the lenders' side, discipline by risk-based pricing did not take into account what economists describe as 'default correlation' (Cowan and Cowan 2004). In other words lenders did not consider the aggregate implications on the general economy of changes in certain features of the individual borrower's original risk profile. These vitiating changes include social or economic developments such as loss of job, fluctuation of interest rate and house price, illness, natural disasters, marriage breakdown etc. It is possible that the subprime mortgage lenders and intermediaries in their calculative assessment of the borrowers were distant from the contingent conditions that may affect the borrower's ability to repay. Hence, arguably, mortgages were provided in 'simultaneous seconds' with disproportionate regard to the social and economic nature of the borrower (Langley 2008:241). In this regard, the Senior Policy Research of CAB UK, Mr Tutton, responding in an interview, argued that:

'The risk responsibilities of the transaction are abstracted into the 'freedom' and the competence of computers...but when you look at the sort of evidence of people coming to CAB...those who are facing mortgage and secured loan arrears tend to be disproportionately loans from subprime...and also tend to be loans issued to low income borrowers on conditions disproportionate to their risk'[39].

[39] During an interview with the author on 16, June 2008.

On the borrowers' side, it remains debatable whether the availability of 'special deals' or discounted credit and mortgage products provided enough discipline. To put it simply, the financialised disciplining of borrowers through price was not really in operation, especially in the subprime market because mortgage products were typically heavily discounted. It is however to be noted that the discounting of credit and mortgage products was intended to help lower income borrowers to have 'a footstep into' homeownership. In other words, given the fact that most of the subprime borrowers are made up of first-time buyers, it would appear 'responsible lending' to set the calculative discipline to a minimalistic standard that would allow 'responsible borrowers' access to mortgage credit. However, the inherent tension therein was that it brought about some fragility. For example some borrowers who were on 2/30 adjustable rate mortgages (ARMs), or on interest only mortgage deals, simply were either unable to keep to their repayment when their 2/30 fixed ARMs came to an end, or simply for lack of equity did not want to commit to their loan repayment when interest increased. As George Galster, Urban Studies and Economics Professor further noted:

> 'There are a number of dependable variables in evaluating the nature of subprime mortgage lending. First of all is to understand the meaning of responsible borrowing or lending in the context of the subprime market...To do that, first is to understand what is irresponsible lending and borrowing. Irresponsible lending brings about irresponsible borrowing and the cycle goes on into the entire economy. Irresponsible subprime lenders are those lenders that give out credit just because there are markets where they trade off the risks of their irresponsibility. On the other hand, irresponsible borrowers are those people who are flipping or gaming the market to fraudulently gain access to mortgages, despite knowing they are incapable of affording the responsibilities of owning a home'.[40]

Generally, loan performance (LP) failed grossly during the period of the subprime mortgage boom arguably because the disciplinary measures in place lacked the

[40] Statement made during a telephone interview with the author on 10 July 2008.

expected competence to withstand the sensitivities of the specialised risks of the borrowers. This partly, as above noted, is linked with the increased number of loan-to-value (LTV) or debt-to-income (DTI) mortgage deals originated on the presumption that risk can comprehensively be mitigated by a 'perfect' calculation of risk peculiarities and disciplined through grading and pricing of higher interest rate payment (see Foot el 2008, Green 2008, Coleman 2008, Sanders 2008, Goede 2005b). The outcome of this conjecture is that individual borrowers seeking to make improvements to their credit reference will have to be self disciplined to manage their obligations in order to be included. Put differently, the discipline of access to mortgage and credit was embedded in the optimism that financialised or calculative disciplinary culture will motivate borrowers to strive to reduce their higher risk variables by assiduously keeping up with their repayment obligations. It is believed that borrowers will buy-in the fear that their failure to fulfil the obligation to keep up with repayment would lead to their future credit freedoms and financial franchise being curtailed or extinguished.

Specifically, that was not the case, especially as the increased use of mathematical or calculative tools expanded both the ability of subprime lenders to mis-sell mortgages through subordination and sub-standardisation of risks into complex competing grades, and the ability of the borrowers to misinform lenders about their risks. Thus, the complex structure of mathematical or calculative discipline would be said to have delineated the competence of the 'human touch' or other methods of pin-pointing future adversities. All these have been noted (alongside the profit zest of some subprime lenders) to have brought about tenuous convergence of subprime business traditions. According to Adelson and Jacob (2008:2), subprime lenders originate the same product to the same kind or similar customers and as well use the same

assessment intermediaries or automated evaluation mechanism that tend to provide loan packages, securitised by the same standard. On this basis it would be said that the standard of subprime lending discipline was based on linking risk and embedding profits from the risk. The trajectory of this kind of disciplinary structure resulted in the issuance of commercial papers that were not worth their face value. In this regard, it led to the spread of the risk premium which, according to Soros (2008), was fundamentally caused by the general lack of discipline within the financial system.

It is then plausible to further note that the financialised disciplinary mechanism of subprime mortgage lending categorically aimed to maximise short-term default risk instead of the general implication of credit risk (Bajari, Chu and Park 2008). In so doing, the calculative disciplinary apparatus (of credit scoring, risk pricing and computation and sharing of delinquent and default information) arguably led to the weakening of the heuristic values of responsibility, obligations and privileges entrenched in credit and debt relations (Blackburn 2006). It is on this basis that Folkman et al (2008:161) also criticised that the 'new models and standards' of the subprime discipline effectively operated to be a tool for "another group of agents" working as masters of themselves and not the economy in general.

Overall, it appears that calculative discipline after all is not and should not have been used to evaluate the risk of homeownership for lower income borrowers. Subprime lenders and the policy makers would have foreseen that the dynamics of risk and the volatility of the securities and financial market do not provide a means for sustainable lower income homeownership. Ray Forest, Professor of Urban Studies, responding to this conjecture argues that:

‘It is a policy failure on the part of government to have imagined that the financial market is capable of providing homeownership for people who do not have a clear source of income. The policy that encouraged people living in council houses to buy, paved the way for greedy access to credit and an invitation for some lenders to abuse the system’[41].

The root of the problem should therefore be thought of as a responsibility crisis where some subprime lenders, especially in the US, had been warehousing risk in the securities market and failed to develop any in-house mechanism to absorb any dramatic changes in the market. Accordingly, the design of ARMs instead of traditional 30 year fixed mortgages, were heightened as a way of assuaging the default probability of borrowers with the worst risk characteristics. Some borrowers, having recognised that their repayment risks will be passed on to ‘others’ in the security market, were arguably most motivated to seek for mortgage loan. The securitisation facilities reflected a change in the traditional architecture of borrowing and lending discipline. The change involved a shift from the expectation that borrowers are to save for the product and lenders are expected to originate loans to those who have checkable savings and the means to pay for it, to distribution of loan without collateral. The President of the Levy Economics Institute, Professor of Economics, Dimitri Papadimitriou, commented:

‘In relaxing the proof of income and proof of employment, borrowers who ordinarily should not be extended credit were able to get it. This is not the best way to distribute income...borrowers should not be saturated with home loans beyond their means. For instance the subprime ARMs failed because household budgets became smaller as ARMs adjusted. Though Hyman Minsky said that anything that can be securitised will be securitised, securitisation in the US has been taken to the extreme...Yes it helped to circulate capital but it generated irresponsibility. I blame the securitisation regulatory institutions for lack of supervision. Securitisation has brought about development of all kinds of instruments – ARMs, which are not adequately regulated...and they all expanded uncertainty in the mortgage market’[42].

[41] Response during a telephone interview with the author on 11, July 2008.
[42] Statement made during a telephone interview with the author on 31 July 2008.

Therefore, it will be argued that most of subprime mortgage lending was riddled with an unobservable heterogeneous pattern of risk orders that rendered illusory the expectation of calculative tools of credit scoring and risk pricing, to construct affordable monthly repayment structures (Peterson 2007). This is most so when the 'originate and distribute model' led to the layering of risk. Also with the weak regulation and lack of standardised application of the innovations in financialised discipline, it was possible for lenders to circumvent the traditional mode of commercial responsibility. The new paradigms of lending by numbers, in which lenders hoped to reduce market uncertainty into predictable calculation, rippled into irresponsible and unaccountable borrowing and lending. In effect, the impersonality and abstracted nature of calculative discipline provided a rather negative incentive whereby subprime intermediaries continued to originate loans despite the prevalence of risk (Brescia 2008:297). According to Kiff and Mills (2007:11) and Drucker and Puri (2008), pricing of risk is part of the model of 'calculate-to-sale', whereby risks are priced to attract investors or for speedy securitisation. In other words, it is arguable that discipline by pricing begets an entrepreneurial lending whereby FICO score or commercial credit scores are systemically and conscientiously commercialised. In the process of commercialising risk, calculative discipline helped in creating transactional-based lending (TBL), by which the prospects of credit expansions are incentivised without regard to the informational asymmetry or cost of moral hazard and adverse selection that flow from them (Dell'Aricca and Marquez, 2006). The presence of moral hazards makes it problematic to price the actual or hidden risks of the credit transaction. For example, the motive of a borrower who seeks credit they know they could not afford, or the motive of the originator or agents who persuades the issuance of credit or mortgage to borrowers

who aspire to own "homes they couldn't afford" (Obama 2008:4), was and remained difficult to be calculated.

This brings into focus the proposition that perhaps financialised discipline operates to foster the appreciation of syndicated loans (Amir 2007:630, Gupta, Singh and Zebedee 2008). A recent investigation carried out by the Financial Times seems to support this conjecture. It showed evidence of collusion in the procedures and systems in processing risk for fees between lenders and credit rating agencies (Beattie 2008). The collusion arguably was in the form of a standard agency mechanism, whereby the optimal incentive on 'truth-telling' or the communication of the nature of the loan is underpinned in the restriction of the agent to reveal private information about the loan only within the principal's choice of output (Demski and Sappington 1984: 2, Glover 1994:1-2). In other words, rating agencies were to act in the best interest of those who pay them (i.e. the lenders). It has been noted that there are times, despite the agent obtaining adverse private information about the loan, that they simply ignore them because it is contrary to the disciplinary imperatives of the principal or the lender (Lewis and Sappington 1993:179). In this perspective, according to Ray Boulger,[43] "calculative discipline was designed with the primary motive of reducing the hazard of extending credit to risky borrowers, but it was grossly abused". In all, as earlier noted, the structure and application of financialised or calculative discipline did not extinguish the risks of information asymmetry and moral hazards that exist between the lender and the borrower. That is the borrower's 'private' environment and the lender's competitor mentality that interferes with the accurate measurement or disciplining of risk through price. It also

[43] In a telephone interview with the author on August 1 2008.

does not extinguish the risk of default or the risk of catastrophic economic correlation by increased repayment defaults.

5.6 Conclusion

This chapter has provided a critical explanation of the crisis that started in the US as a mere national subprime mortgage problem in late 2006, but which by 2007 had global implications. It has been argued that the crisis emerged as a consequence of the tensions and contradictions inherent in the operation of the three co-constitutive forces of financialisation (financialised accumulation, financialised risk management and financialised discipline). While the three co-constitutive forces of financialisation, as I have conjectured in this research, were the pedestal that supported increased credit inclusion for a greater number of people, however there was the lack of repair kits to cushion the structural tensions created by their operational complexities. In analysing the consequences of financialised capital accumulation on the crisis, Minsky's ideas of accumulation and financial instability provided a backbone for assessing the effect of financialised accumulation on the crisis. It was argued that the 'originate and distribute' model of capital accumulation inevitably collapsed into a mere mechanical and oscillating device that moved the entrepreneurial subjects out from the spaces of responsibility. Thus, the drive for loan originators to increase their liquidity led to complex tranching which increased the flight to quality in risk assessments (Allen and Carletti 2008).

It was noted that, while Minsky's ideas helped with analysing the contradictions and tensions of financialised accumulation, they are relatively little help with the assessment of the contradictions and tensions of financialised risk management and financialised discipline. In analysing the implication of financialised risk

management, it is argued that it created an entrepreneurial space that shielded loan originators from taking responsibility to monitor the performance of loan expansion (Allen and Carletti 2008b, 2006, 2000). In simple terms, it was shown that one of the pitfalls of financialised risk management was that too many speculators were chasing a few 'good' assets. Hence, even though it was contended that the crisis was not directly as a result of the failure of financialised risk management via securitisation or instruments of the 'originate and distribute' model, it was, however, argued that there were always uncertainties about the applications of securitisation which could not be calculated and managed.

Similarly, in analysing the implications of financialised discipline, in particular in the subprime market, it was shown that the weight of the risks traded or securitised outweighed the weight of risk that could be disciplined by price. Although it was shown in Chapter Four that risk-based pricing paved the way for greater inclusion to credit and homeownership, their complex application was shown to influence the vulnerability for riskier lending and borrowing (Harvard 2006, Udell 2008). This was shown to be because the complex application of risk-based pricing could not necessarily calculate uncertainties such as mass default or default correlation. For this reason, it was argued that the aggressive use of risk-based pricing alienated the actual measurement of loan performance from the repayment capability of the individual marginal borrower (Demyanyk and Hemert 2008). Thus, the entranching of risk-based pricing on the notion of 'self-help and self-governmentality' paved the way, on the one hand, for reckless commercialisation of borrowers' risk characteristics and the mis-selling of mortgage products by the lenders, but on the other hand, led to increases in spaces for asymmetric information and moral hazard, whereby some borrowers simply gamed the system

6 Responses to the Crisis: Resurrecting Financialisation

6.1 Introduction

This chapter seeks to examine government responses and interventions to the crisis. It particularly analyses how government is remaking financialisation through the nurturing, supplying and incentivising of banks and the financial market. In this context, the chapter draws on analysis from interview data, emerging policy and industry documents to investigate how government responses are re-modelling credit and mortgage lending. At the time of writing, government response to the crisis is still unfolding, but there are already networks of emerging policy benchmarks/options - for example bank bailout, mortgage interest cuts, regulation of risk/bankers' pay, and introduction of 'super' taxes.

Therefore, the chapter, divided into four main sections, empirically investigates government responses to the crisis and how governments, while defending the "underlying deregulatory logic of the existing financial regime" (Watson 2009:183), are also remaking established financialised spaces and models of accumulation, risk management and risk discipline. Section one provides an epigrammatic analysis of the competing discussion on the propriety of government intervention and bank bailout. Section two analyses the government drive to prevent the collapse of financialised accumulation through the purchases of 'toxic assets' and re-capitalisation of banks. Drawing from the implications of government re-capitalisation of banks, section three analyses the government focus on the reworking of risk and the risk system of 'originate and distribute', while section four investigates the government focus on the reworking of disciplinary relationship

between borrower and lender. Overall, the chapter's investigation of the empirical characteristics of government responses to capital accumulation, risk management and risk discipline show that at no point has there been a drastic shift from a financialised market system.

6.2 Perspectives on Government Intervention and Bank Bailouts

I begin by noting that, despite the competing debates on the rationality or 'moral hazards' of government intervention, government intervention has been necessary in the crisis and it has taken a form that ensures minimal changes and fundamental continuity of the financialised economy in terms of accumulation, risk management and discipline. Though it is now particularly commonsense that bailout is the biggest policy response towards the re-stabilisation of the financial market, the government responses and actions in this manner have been criticised as failing to make a new financial system which is perhaps a sweeping marriage between government and the financial market. According to Watson (2009:424-435), the 'open-ended government' responses to the subprime crisis consciously exacerbated middle class 'moral panic' on the fear of financial collapse. Drawing reference from Polanyi's instability perceptive, Watson argues that bailout leads to 'asymmetric protective arrangements' (p.435) that feed market and social tensions which exist when 'market self-regulation', or self-adjusting market discipline, operates side-by-side with 'social (government) protection' (p.426). In the same vein, it is noted that the bailout, for example the US TARP $700 billion, will not only affect the corporate governance mechanism of financial institutions, but will jeopardise the traditional market mechanism of bankruptcy (Verret 2009). Also, according to Steelman and Weinberg (2008), the wording and terms accompanying the bailout package operates to limit the capability of financial institutions to innovate on risks.

In this way, it is argued that the market coordination via price is drastically tainted with 'too-big-to-fail' policy where persistent effort is made by government to steer the market discipline of free entry and free exit away from the operation of the price system in smoothing cyclical fluctuation (Hetzel 2009, 1991, Watson 2009, Hendrik and Schnabel 2003). According to Watson (2009:191), the implication is debated on two fronts: one which is based on the 'speed and scale' and another on the 'character and content' of the intervention. On the latter it is noted that some commentators had begun to celebrate the size of government intervention in the financial market as heralding the demise of free-market capitalism and the end of ostentatious risk taking by large banks (Watson, 2009). In this light, for example, Foote et al (2008:303) argue that the growing presence of government as a conduit for accumulation will provide greater economic stability which ultimately helps the value of residential mortgages to prod upwards. On the other hand, as Watson (2009:191) reminds us, the 'character and content' of government intervention was designed to 'breathe new life' into the financial system rather than 'kill' it. But the cost of government rescuing bank mistakes, he emphasised, is passed to the society.

Hence, in the immediate period, the implications of government interventions are attracting a recurrent controversy amongst the civil society. Amongst some conservative financial market practitioners, the common view is that perhaps government might emerge to be too powerful and thus ultimately close down, stall and stifle the societal gains made by the financial market system. For instance, according to Ayotte and Skeel (2009), the terms and conditions of government bailouts will not only encourage moral hazard, but will also lead to a dearth of motivation, competition and innovation. It is on this backdrop that by November

2009 some banks that received bailout packages had already begun to find ways to avoid government influence. At the time of writing, the directors of UK RBS are in a running feud with the UK government over bonus pay to staff. Equally in the US, it has emerged that some of the major banks that received the TARP loan have started to repay the loans earlier than expected in a bid to stave off TARP pay curbs and terms. For example, by December 2009, Bank of America paid off its $45 billion bailout loan, while Wells Fergo paid back its $25 billion loan and Citigroup also paid back its TARP loan of $20 billion to the US Treasury. No wonder Taylor (2009:27) argues that the continuous uncertain procedure of government interventions and actions in fixing financial problems is itself problematic. According to him, governments and central banks lack a clear framework or terms that guide their approach of providing financial assistance to financial institutions. In this way, the crisis intervention by government is criticised as 'patching-up' the cracks and expanding the crisis, perhaps by its inability to impose a new blue print for the financial system in general.

In his book, *The Subprime Solution*, Shiller (2008: 116-7) argued that the underpinning ideology to the solution of the financial crisis must stem from reforms of the institutions of free market capitalism. According to him, the subprime crisis demonstrates that the workings of the financial market have suffered 'a poverty of imagination on the part of the leaders in initiating reforms needed to build the new institutional foundations for a secure economic environment' (ibid). For this reason, the emergence of the unprecedented government's financial leadership and intervention as both lender of last resort (LLR) and facilitator of financial market system, became the reluctant necessaries in order to rebuild the financial institutions and restore the natural equilibrium in the financial and money markets (Niskanen

2009)[44]. Put differently, the crunching effects of the systemic spread of risks of dump debts[45] (Horton 2008, Rees-Mogg 2008, Ratnovski 2008), alongside the 'zero' confidence that remained commonplace in the financial marketplace following the fear of systemic contagion of the collapse of big financial institutions, such as the 2008 Lehman Brothers, and the declaration of historical losses by AIG, Fannie Mae and Freddie Mac, means that the intervention of governments was inevitable. Also, academic and industry research output on the crisis, alongside financial media commentaries, emerged to indicate that market mechanisms are riddled with signs of inadequacy to curb the increasing waves of tensions in the financial and money markets.

So, despite the fact that debates are rife with the implication of government intervention, whether the expectation of government intervention when the crisis escalates will give incentives for financial market participants to take risks which they would have avoided (Steelman and Weinberg 2009), worries escalated on the cascading effects of the crisis. The financial market witnessed speedy losses of bank[46] value, increased MBS foreclosures, bankruptcy filing, and a freeze in the interbank market and commercial paper market, shortages of personal and business loans and historical job losses. In order to prevent total economic and financial chaos, government interventions emerged as both the LLR as well as the means for capital accumulation, risk management and discipline in the financial market and the real economy.

[44] Interview with the author on 12 March 2009.

[45] A dump debt in this context means loans expanded to borrowers who by their contesting characteristics accept the loans without any demonstrative capability to afford to repay.

[46] A survey of the cost of the crisis by Larsen et al (2008) of the Financial Times reveals that the financial market –banks and insurers, had lost $918bn and counting, between the early parts of 2007 to November 2008.

6.3 Response on Capital Accumulation

Prior to the crisis, the major mechanism for capital accumulation was broadly through the "commoditisation and securitisation of financial products [as valued collaterals], including through virtually unregulated, no-reserve-requirement offshore banking facilities" (Allen and Snyder 2009:40). But the securitisation market was dramatically frozen as the crisis brought in shocks that drastically lowered the value of collaterals and effectively led to a disruption in liquidity provisions in the security market (Allen and Carletti 2008). It consequently brought about the chain collapse of financial institutions like Lehman Brothers in September 2008 and an increase in the volume of acutely toxic assets of big conglomerate banks and medium-sized financial institutions. Banks, leading politicians, some financial media and financial practitioners engaged in reverberating public demands for government to intervene (see Reeder 2008).

This, then, does, as I briefly analysed above, open up the space for questions on the parameter of the role of government in asset-backed securities created in a viable market through securitisation structures. The concern includes how government interventions are to be utilised in order not to stall the future consumption of personal finance and credit products created by structured securities, for example MBSs and ABSs. But as more banks and other financial institutions' balance sheets were increasingly ridden with illiquid assets[47], the central banks and government of the UK and the US and governments of other developed economies (for example, France, Germany and Japan) engaged in exceptional levels of 'official sector' intervention to support both the financial institutions and other sectors of the

[47] This brought about unprecedented shortage in credit cycle, inter-bank, commercial and personal lending, spiral record losses by banks and financial institutions, automobile companies, small and middle size production companies, etc.

economy (Bank of England 2008). Indeed, it is argued here that the government emerged as the nexus for liquidity and capital accumulation in two notable broad ways: first through the policy of buying troubled assets and second through the policy of recapitalisation. Both policies enabled government to take action and buyback from banks their bad or toxic assets and also provide direct cash injections and debt guarantees for banking industries and other sectors of the economy.

6.3.1 Bad/Toxic Asset Buy-Back Policy

As the global financial market crisis unfolded from early 2007 and drastically following the demise of Lehman Brothers, it was evident that most banks and financial institutions (prime and subprime) were riddled and clogged with a backlog of illiquid balance sheets of loans secured mostly in residential mortgages. The implication was that most banks took drastic measures to make liquid their 'troubled assets', by selling them at discounted prices, much lower than their face value or normal market value. For example, Merrill Lynch between June and July 2008 sold its troubled portfolio CDOs worth $31 billion to private equity firm Lone Star at a drastic discount price of 22 cents on the dollar (The Economist 2008). At the time of writing, it was noted that the "banks have largely avoided selling assets at such low prices, and the market for troubled assets has seized up, making it difficult to attach a "market value" to many of these assets" (Bebchuk 2009:6). One notable factor about troubled assets or toxic assets is that the debates on best policy action to completely resolve it still reverberates amongst politicians, academic economists and market economists.

For instance, there are those advocating for auctioning of 'troubled assets' to bidders from private and public (see Klemperer 2009), while some are for or against the

establishment of 'bad banks.' In the UK and US, there are policy plans for the establishment of state-owned 'bad banks'.[48] It is aimed to be the bank that will break the back of the crisis and its continued 'tremors' as government will be able to sever 'bad' assets from 'good' assets and then set up terms to attract investors to invest on either of the severed assets. However, at the time of writing, debates on the policy option of 'bad bank' and its efficacy are still heated between politicians and some market participants.

Nonetheless, governments have not relented in pursuing the policy response of creating 'bad banks' for 'troubled assets'. The government, especially the UK and US government, argues that in order to preserve the value of illiquid 'troubled assets', and to stop the consequence of the sale of 'troubled assets' at discounted face-value on the economy, the creation of 'bad bank will provide' opportunities for banks to 'deposit' or 'dump' and hold troubled assets until their 'maturity payoffs'. Equally, according to recent debates in support of government policy on 'troubled assets', it is argued that government intervention helps to balance the uncertainty of the market, especially the valuation and pricing of 'troubled assets' (see Bebchuk 2009). In other words, government intervention helps to turn illiquid 'troubled assets' to liquid by shoring up the confidence of investors (through its pragmatic purchases and guarantees for toxic credits) to invest in them. For example in the UK, through the introduction of the Banking (Special Provisions) Act of 2008, Northern Rock was nationalised. In order to underwrite the assets of Northern Rock, the UK Treasury spent about £28 billion, £10 billion of which was on purchases of Northern Rock's toxic assets. It is equally reported that by November 2009 the UK

[48] For example, in the 2010 budget, UK government split Northern Rock into two –good and bad banks. The good bank is made up of good assets and forms The Northern Rock Plc, while Northern Rock Asset Management (NRAM) was merged with the Bradford and Bingley to form the Bad Bank .

government had formally provided guarantees on £282 billion insurance for RBS's toxic assets (NAO 2009). Though the policy option of restructuring banks into 'bad banks' and 'good banks', as indicated earlier, had received criticisms and its efficacy is still an object of heated debates between politicians and market participants, the UK government, by early winter 2008, had made an application to the EU for permission to restructure Northern Rock. By early January 2010, the UK government received full approval from the EU Commission to split Northern Rock into two - 'good bank' and 'bad bank'. With this approval, by March 2010's budget two types of bank were announced - Northern Rock Plc ('Good Bank') with its stock of good assets of up to £18 billion and a plan for privatisation - and the bad bank - Northern Rock Asset Management (NRAM) with its stock of 'toxic' or 'bad' assets of up to £28 billion. Overall, at the time of writing, there is an emerging global strategy to create 'bad banks' to absorb the toxic assets. For example, the German government received the backing of European regulators in December 2009 for the creation of a 'bad bank' for paper assets worth about $121 billion (EUbusiness 2009).

In the US, the Obama administration, in its policy paper options of August 2009, considered the creation of a 'bad bank' through FDIC to purge the toxic assets of GSEs (Fannie Mae and Freddie Mac) and the toxic assets of major financial institutions (Washington Post 2009). By the second quarter of 2009, the FDIC, Fed, and Treasury launched the Public-Private Investment Programme (P-PIP) with $100 billion from the TARP fund. The aim was for the P-PIP to work in partnership with private investors in order to generate up to $500 billion to restart the legacy loan and legacy securities market. On the legacy loan, it is aimed that the P-PIP will help banks and other financial institutions to clear up piles of troubled legacy loans (toxic loans) which had prevented them from raising credit from private or capital markets.

Equally, the P-PIP is aimed at freeing up and reducing the prevalent uncertainties surrounding the volume of illiquid legacy securities in the security market. In so doing, banks will be able to accumulate capital and extend new loans to borrowers.

However, it is important to note that aside from government effort to buy up toxic assets there was also a shift to a focus on capital adequacy. This was as a result of the dramatic collapse of Lehman Brothers in 2008, and the consequent falls in share prices and asset value of banks and other financial institutions. Increasingly, most banks witnessed an inability to balance their liabilities as the assets side of balance sheets were riddled with bad debts. The TARP was originally intended as a 'bad bank', but two weeks after it came into being on 3rd October 2008 as the Emergency Economic Stabilisation Act, TARP monies were used to buy preference shares in US banks (not their troubled assets). From that point on, then, the 'bad bank' solution that would get financialised accumulation going again, has been on the back foot as solutions framed on recapitalisation have gained ground. The P-PIP is an attempt to revive the 'bad bank' idea, but on a much smaller scale than the TARP and in partnership with the private sector.

6.3.2 Recapitalisation Policy

At a Group of Twenty (G20) Head of Government Level meeting, held in Washington on the 15 November 2008, member heads of states agreed on and emphatically emphasised the need for governments to take significant actions. As a key part of the 47 point action plan reached by the G20, governments mandated themselves to effortlessly take actions geared towards mitigating future dire consequences of the crisis, and depending on national preference, deal with the everyday symptoms of the crisis. Therefore, rather than relying on the financial

market to heal itself, all the G20 members, especially the UK and US governments, engaged in a hard-line but vigorous recapitalisation of major and medium financial institutions. On the baseline, especially after the G20 meeting on April 2nd 2009, there was a 'detailed commitment' by global governments to 'strengthen financial systems' with 'additional resources' for upwards of 1.1 trillion dollars[49]. With this agreement each government announced and implemented stimulus packages aimed to bolster the economy and rekindle confidence in the financial market as well as backstop the lingering risks of the crisis. But at the time of writing, there is no common global public policy procedure for tackling the financial crisis; however public policy actions towards financial stability and crisis recovery measures in the UK and US have continued to be perennial and aggressive in various ways. In effect, the governments of the UK and US engaged in solving the default and liquidity problems of banks and other financial institutions through the combination of massive re-capitalisation processes of troubled banks, by way of central and federal government bailout and enhanced government guarantees. Suffice then to provide analysis of the dramatic steps and actions taken by the UK and US government to provide multi-pronged recapitalisation of both the financial institutions and the economy in general.

In the UK, by February 2008, the Gordon Brown Labour Government injected £55bn into Northern Rock, as well as a full guarantee of its deposits. Also, between September and October 2008 the UK government approved a £500bn emergency financial rescue package, from which £250bn was earmarked for capitalisation of short and medium term debt obligations. It was this policy in the UK that in large

[49]Available at the official website of London G20 summit http://www.londonsummit.gov.uk/en/summit-aims/ accessed 12 May 2009.

part encouraged the re-think of the spending of the TARP monies in the US. In the same space of time, the government also bought discounted preference shares of major banks to the worth of £37bn. In particular, it is arguable that the government purchases of shares mark the emergence of government's substantive control of the key UK mortgage lenders. At present the UK government owns 60 percent stake of RBS with the purchase of £20bn in shares and also 43.5 percent of Lloyds TSB by buying £17bn of its shares. Overall, reports of the NAO of November 2009 show that government had spent a total of £120bn as bail out and loan to Lloyds TSB and RBS.

In the same vein, in the bid to facilitate lending and to "cushion the blow of an increasingly severe domestic recession" (Dougherty 2008:3) on households, the Bank of England engaged in drastic interest rate cuts to upwards of six times. Beginning from October 2008 to December 2009 the Bank of England reduced the official interest base rate from 5% to 0.5%, a historic low. Though commentaries from financial media are ripe with the expectation that by the third quarter of 2010 the base rate will be 1.2 %[50], it has been noted that the current base rate of 0.5% represents the "lowest rate since the Bank was founded in 1694" (Giles and Atkins 2008:2). Arguably, this was a remarkable indication of the severity of the financial and credit crisis both for households and businesses. Typically, the Bank of England and the UK Treasury, by March 2009, for the first time in its existence, engaged in a £200bn programme of quantitative easing (QE). Simply described, QE is the process whereby in order to increase the supply of money, the Central Bank prints and increases the volume of money in circulation directly or by buying government

[50] It is important to note that as at May 2010 the commercial bank reserve (base rate) remains at 0.5% following the Monetary Policy Committee vote on 17 March 2010 in support of it and support for the QE programme/stock of asset purchased through issuance of central bank reserves to remain at £200 billion.

bonds or commercial papers. In this way, in order to assure fiscal stability and to boost bank lending, the Bank of England between April and May 2009 engaged in its first QE or asset purchase project by buying £75bn of government securities or gilts and corporate bonds (Barber 2009).

It is important to note that aside from bailing out banks and monetary policy measures, the UK government like other major developed countries, also from May 2009 capitalised/bailed out the consumer-automobile trade through the introduction of the Car Scrappage Scheme. The government as at the end of 2009 had incentivised the sale of approximately two hundred thousand new cars with the total provision of £400 million into the Scrappage Scheme. On the whole the unprecedented measures made by the UK government have been argued to be justified to 'protect the wider financial system' by the National Audit Office (NAO: 2009). The NAO report of December 4 2009 shows that "the purchases of shares by the public sector together with offers of guarantees, insurance and loans made to banks reached £850 billion..." but notwithstanding that the total cost of the crisis is far from predictable, "the banking sector as a whole had benefited from improved confidence" because of the government interventions (NAO 2009 1-2).

These interventions also include the recent government schemes aimed at improving stability, commercial and consumer lending. The UK government in January 2009 announced the Asset-Backed Securities Guarantee Scheme (known as 'the 2009 Scheme'), which provided both liquidity guarantees and credit guarantees for RMBS issued by banks and building societies in the UK. The 2009 Scheme was "an extension of the 2008 Credit Guarantee Scheme (known as 'the 2008 Scheme') for unsecured debt issuance by UK incorporated banks and building society" (Debt

Management Office 2009:1). Overall both the 2009 and the 2008 Guarantee Schemes were intended to "improve banks' and building societies' access to wholesale funding markets; help support banks' and building societies' lending in the economy; promote robust and sustainable markets over the long term and protect the taxpayer" (Debt Management Office 2009:1).

In the US, the Federal government, by way of a cash injection into the financial market, mortgage market, automobile market and construction industries, continues to take open-ended, unprecedented measures to revive the crippling economic effects of the 2007 global financial crisis. On the policy front, beginning from 2008 during President George Bush's administration to President Barack Obama's administration, there had been concerted policy actions aimed at stabilising the economy through recapitalisation of the banking sector.

From July 2008 until the time of writing, various policy actions have continued to be created, signed into law and implemented with the aim of facilitating lending. Notable amongst these policy actions include: first, the Housing and Economic Recovery Act of July 2008, which provided $300 billion available to FHA for the guarantee of new loans for 30-year fixed mortgages. Second are the Emergency Economic Stabilisation Act of 2008 and Housing Economic Recovery Act of October 2008, which provided the earmarking of $700 billion for the Troubled Asset Relief Programme (TARP). The Act afforded an encompassing authority and a wide ambit of power to the Treasury Department and the Treasury Secretary, and the Office of Financial Stability to act 'quickly', 'effectively' and in an 'efficient way' to wade into and apply the TARP fund to rescue troubled parts of the US financial and real economy. In this remit, the Bush government in the bid to cushion the dire loss

of mortgage value, by November 2008 released $350bn from the $700bn TARP fund. $250bn of the released fund was injected into nine US major banks through the government purchases of preferred bank stocks. Also, from the released TARP fund, the Bush administration provided a $17.4bn bailout for Chrysler LLC and General Motors (GM). Though the US Treasury earlier rejected plans to buy off toxic mortgage backed securities loans held by banks (these are loans which were mostly extended to borrowers who had defaulted on their hybrid adjusted-rate mortgages such as 2:28 ARMs), between September and October 2008 the Fed and the Treasury boosted the liquidity availability for toxic loans with $115 billion.

The severity of the effects of toxic loans made the Treasury take steps that ensured that most major banks accepted government tax injections. Solomon and Enrich (2008:2) of the Wall Street Journal write that despite the fact that the Treasury liquidity injection programme was voluntary, the 'Treasury essentially forced nine major US banks to agree to take $125 billion from the federal government' in forms of preference stock buyback. A breakdown of the nine banks that accepted the US federal government preferred shares purchase include: Bank of America, Merrill Lynch, J.P Morgan, Citigroup, Wells Fargo & Co, Goldman Sachs Group Inc., Morgan Stanley, Bank of New York Mellon, and the State Street. In the same token, by early November 2008 the remit of the bailout package was further widened by the approval of President Bush to include $100 billion to buy troubled assets of small and medium financial institutions.

Also, as the scope of the financial crisis continues to widen and the gross losses of key financial institutions increases, the Federal government and policy makers continue to apply 'unconventional methods to thaw lending activity' (Chung 2008).

According to the Financial Times, the Citigroup aggregate losses from its loans and securities backed by residential and commercial mortgages, amounted to about $29 billion by the third week of November 2008 and the bank was on the verge of collapse; the US Treasury was forced to particularly rescue Citigroup. Jointly, the US Treasury and the Federal Deposit Insurance Corporation (FDIC) on 23 November 2008 provided $306 billion protection and guarantee of losses on the asset pool of Citigroup and also a further $20 billion liquidity by way of investing in Citigroup preferential stock in return for an 8% dividend (Treasury Press Room, 2008, Farrell and Sender 2008). In the same gesture the US government on 25 November 2008 made a sweeping provision of $100 billion to Fannie Mae, Freddie Mac and the Federal Home Loan Bank (FHLB). The US government went further to pledge $500 billion back-up on mortgage backed securities guaranteed by Fannie Mae, Freddie Mac and FHLB.

Third, it is important to note that before the creation of the TARP fund, in the bid to defrost the frozen money market and to make credit facilities available, various state Feds and Federal Reserve Boards announced the creation of short term finance facilities. For example, the Term Auction Facility (TAF) of 2007 created by the Federal Reserve Board provided fixed amounts of funds to boost discount window lending. Likewise, the New York Fed provided a short term finance which helped JP Morgan Chase to buy out Bear Stearns. Fourth, the Federal Reserve Board, through the creation of Term Securities Lending Facility (TSLF) and Primary Dealer Credit Facility (PDCF) also provided short discount credits directly to US indigenous market dealers. Fifth, by September 2008 the Federal Reserve created a one year (expiring October 30 2009) Asset-Backed Commercial Paper (ABCP), Money Market Mutual Fund (MMMF), Liquidity Facility (AMF) which provided funding

for US depository institutions, US bank holding companies, their broker dealers, US institutions overseas and foreign banks and institutions. This facility was aimed at making the money market liquid and providing funding to prevent default from investors' redemption.

Sixth, in order to prop up the credit fund, the Commercial Paper Money Market (CPMM) was created in October 2008 to complete the Federal Reserve's credit facility to finance special purpose vehicles of issuers in the US. Seventh, on the investor industry front, the Money Market Investor Funding Facility (MMIFF) was also created to provide "senior secured funding to a series of special purpose vehicles to facilitate an industry-supported, private-sector initiative to finance the purchase of eligible assets from eligible investors" (Fed 2008). Eighth, in order to help market participants to meet credit needs of households, such as student loans, auto loans, credit cards, loan guarantees for small business administration, the Federal Reserve created the Term Asset-Backed Securities Loan Facility (TALF). Though the TALF was created in November 2008 it became operational in 2009 as part of Obama's consumer lending programme, known as 'Cash for Crankers'. The intention of the 'Cash for Crankers' scheme was to act as a catalyst to kick start the production and job creation. In all, $3 billion was spent on the scheme to support purchases of 690,000 new vehicles. It is important to note that under President Bush, in line with the creation of TALF, $20 billion was also provided for consumer asset backed securities. And finally, the creation of the American Recovery and Reinvestment Act, which was signed into law in February 2009 by President Barack Obama provided a fiscal stimulus programme of about $789 billion. The fiscal stimulus of this Act inter-alia arguably was "a comprehensive indication that both

the banks and the entire economy are dependent on the re-capitalisation by the Federal government" (Danny Davis 2009)[51].

Thus, "the new 'big-brother' role of government, its direct interventions in the everyday system of the financial market is evidence that the pre-crisis model of accumulation is collapsed", the Vice President and Chief Economist of Fannie Mae, Douglas Duncan sternly noted. However, as pointed out earlier, Watson (2009) warned that the 'speed and scale' of intervention should not be confused with its 'character and content'. So, viewed in these terms, the speed and scale of intervention has been monumental and unprecedented, but the content has done little but prop up and try to get financialised accumulation going again[52]. Therefore, as Duncan puts it, "the argument about whether government should intervene is 'mere' academic; there is no other way out of the crisis without government intervention."[53] Likewise in his research, Sanders (2008:261) noted that the financial market alone is incapable of withstanding the severe changes and severe shortages of capital it witnessed at the height of the financial market meltdown from the middle of 2007 to the fall of 2008, without the intervention of government. But that said, the question that remains is what and how long will government endure in the re-capitalisation of banks? As we earlier indicated, the answer to this question remains an area of consternation amongst researchers and commentators on the future implications of bailouts or publicly-funded capital accumulation.

In his written testimony to the House Financial Services Committee on 'financial reform', the Treasury Secretary, Timothy Geithner provided an answer. According to

[51] Discussion with the author during his participation in the NCRC lobby of United State Congressmen on 11-12th March 2009.
[52] It is analysed and argued in chapter seven that response seem to be reorganising financialised accumulation and raise doubt how it works for mainstream and subprime sectors of the market.
[53] Interview with the author, September 10, 2008.

Geithner, the overall intention of government interventions is "not to create a permanent TARP-like authority...that the government will be there to absorb losses from risky strategies [but it is about the government working] to repair the damages caused by the crisis" (US Treasury 2009:4). Indicative of the drive to repair the damages of the crisis, governments placed side-by-side the capitalisation of banks with the scrutiny of banks' risk management models and their causation of systemic risk.

6.4 Response on Risk Management

Prior to the crisis, banks and financial institutions' risk management models had categorically been in accordance with Basel II standards of practice. Until 1997, Basel I Accord of 1988 strongly provided the mandatory standard of banks to set aside 'adequate capital' or guarantees against risk of their transactions. With the introduction of Basel II in 1997, the standard of risk management became intrinsically rooted in 'private-sector practice' (Porter 2005:62). This practice, according to Porter, placed mere formal rules on capital adequacy while greater reliance was placed "on the internal risk models of banks and the assessment of private-sector rating agencies"(ibid p.63). It is also noted that the supervision of banks was reduced to mere assessment of the reliability of their internal risk management models, while risk prudence or imprudence was left to the influence of the market. Since the 2007 global financial crisis, debates have arisen over the implication of Basel II on the crisis.

Questions had arisen whether the Basel II standard for risk management paved the way for arbitrary reliance of large banks and their holding companies on their internal risk models. While some emerging research suggests that there is not yet

clear evidence that the Basel II standard contributed to the crisis (Cannata and Quagliariello 2009), it has been noted that the model of risk management prior to the crisis encouraged systemic risk. The complexities of lending practices "weaken the incentives for collection of information [especially when for example] an RMBS backed by US subprime was sold by a French hedge fund to SIV owned by ... German industrial" (Buiter 2009:6). This leads to misplacement or obscurity of the quality of the asset being transacted or the nature of the internal risk models that had been employed to assess the risk vicissitude of the asset (Schwarcz 2008).

So how did the government respond to the issue of systemic risk or the risk management of banks and other financial institutions? It is important to note first hand that the open-ended policy taken by government to recapitalise the banks did not tighten per se the loops already existing in the financial market. At the time of writing, December 2009, some banks, if not all, were already standing on their feet, with some even declaring profits and bonus packages. However, the financial market - investors, business and consumer credit and mortgage lending - are still lacking in confidence and are depleted, while an emerging perception is that banks are 'getting back' to their old bonus-induced risk management models. These developments have paved the inevitability of government interventions towards fashioning out 'sweeping' measures to remodel the risk management operation of the financial market.

Commentators and analysts noted that government intervention in risk management will primarily expunge the "vulnerabilities that helped to propagate the crisis in segments [of the financial market] that were previously thought to be safe" (Nguyen 2008:369). An essential part of this new tradition is that, at the time of writing,

government continues to provide robust terms and conditions aimed at curtailing banks' aggressive approach of risk-to-accumulate. According to Leibowitz (2008), the influences of government have motivated the reorganisation of the operation of key financial centres. Liebowitz argues that the need for financial managers to fashion out a new approach to minimise risk and increase risk assessment, has brought about more human-touch to risk in Wall Street. By that, risk assessments are no longer solely done by computer calculations but also through 'common sense' but a meticulous human touch. The new trend in risk management is parochially described by Wall Street practitioners as 'the fusion of hi-tech and hi-touch.'[54] It is important to note that some commentators have criticised the development, arguing that the government pressure on financial practitioners will lead to the withdrawal of the fundamental impartiality advantages of computer competency and ultimately will widen the scope of moral hazard amongst financial practitioners.

The criticism, however, does not challenge the public, academic and legislative zest and aspiration on how to formulate better approaches to monitor the operations of banks and non-banks and how to police the nature of financial products sold to individual and business consumers. In this respect there have been a number of proposals by politicians, leading academic and industry economists, investors and market practitioners on how to end and ensure against the reoccurrence of the global 'great recession' of 2007-08. All in all, it is arguable that the responses of the UK and US government and other developed countries on the way forward for financial risk management have certainly not been as decisive as the bailing out or recapitalising of major banks and financial institutions. Nonetheless, the policy responses on risk management have arguably been growing on three broad fronts.

[54] The comment of a Wall Street trader with the author on 9th March 2009.

These are bank internal stress testing, taxing bonus pay and regulatory actions and reforms.

6.4.1 Stress Testing Bank Risk

Following the seemingly obvious shortfalls in the way banks used the Basel II standard of risk management, at the inception of the Obama administration a committee was set up comprising of Banks Regulators, Federal Reserve Bank, Federal Deposit Insurance Corp (FDIC), and the Office of the Comptroller of the Currency. The sole objective of the committee was on two fronts: first, to examine and test banks' assets value, how much each bank's value could appreciate or depreciate as the crisis waxes or wanes; and second, to assess each bank's asset losses or depreciation with the bank's available capital cushions or money reserves. This so-called 'stress testing' was then the attempt to ensure that banks have as much capital reserve as necessary for the risk that may arise from their transactions. 19 banks and financial institutions participated in the stress testing exercise. They included JPMorgan Chase & Co., Citigroup Inc., Bank of America Corp., Wells Fargo & Co., Goldman Sachs Group Inc., Morgan Stanley, MetLife Inc., PNC Financial Services Group Inc., U.S. Bancorp, Bank of New York Mellon Corp., GMAC LLC, SunTrust Banks Inc., State Street Corp., Capital One Financial Corp., BB&T Corp., Regions Financial Corp., American Express Co., Fifth Third Bancorp and KeyCorp.

The empirical observation to be taken from the publicly 'stress testing' of banks by the US government is that it has seemingly served as a 'Basel III' model for risk assessment and management. Although 'stress test' had always been an 'internal' tool used by banks to weigh-up the effect of crisis on their asset portfolios, the

catastrophic crash of banks following the subprime crisis necessitated 'external' stress testing. Almost contemporaneously, most developed economies including the UK, France, Germany and Japan followed the 'stress testing' principle with the aim to pierce the veil of internal risk models of both large and middle size conglomerate banks. It is noted by observers that, had extensive stress testing methodologies been applied by banks and their conglomerates, 'it would have alleviated' the consequence of the crisis or prevented the crisis (see Quagliariello 2009). As a matter of necessity, the UK government, through the FSA, conducted extensive stress testing of big banks, building societies, CRD investment firms (example insurance companies) and also continued to monitor the internal 'stress testing capability' and 'capital stress testing' methodologies of banks (FSA 2009). In summary, it is arguable to state that the 'stress test' mechanism is the government's 'checks and balances' on bankers to ensure that they do not act 'quick' with the crisis recovery and slump back to old ways of doing business or speculative risk taking. But this is all very well; however, does 'external' stress testing really constitute a challenge to financialised risk management? Surely it is an attempt to 'correct' and reinvigorate what was already in place as the crisis broke out.

6.4.2 Taxing and Curbing Risk Taking

Most recently, as banks began to emerge from the crunching financial quagmire of 2007-8, it was feared that bankers were beginning to be lured back to the old style of practices: rewarding staff with bumper cash bonuses. The debates on the efficacy of cash bonuses continue to be an issue linked to the subprime financial crisis. It is argued that bankers, in the bid to receive bumper annual cash bonuses, indulged in creating products that are in the long run risk ridden, but which may in the short run provide means for large returns. In other words bonus-driven practices create moral

hazard whereby bankers think of the immediate profit to banks and to themselves and not the implication of the risks to the economy as a whole. In their recent research Bebchuk and Spamann (2009) inter-alia explained that the 'bonus culture' led to excessive risk taking by bankers. On the contrary are the arguments in support of bankers' pay incentives. This view is pushed by the bankers themselves, for example RBS directors in their feud with the UK government over £1.5 billion bonus packages in December 2009, threatened to resign arguing that paying bonuses increases productivity by making staff competitive (BBC 2009). In the same light, some research also buttresses that there is no evidence that bankers' incentives played any role in the crisis (Fahlenbrach and Stulz 2009). But the general consensus pushed by government is that in order to limit excessive risk taking and its concomitant implications on increasing systemic risk, banks' and financial institutions' approach to incentivising risk taking through bonus pay should be curtailed.

In the UK, for example, the Walker Report in July 2009 recommended greater pay disclosure of bankers' earnings of the "high end" band - between £1 million to £5 million (HM Treasury 2009). Although the final recommendation published in November 2009 seemed to have expunged these elements of the Walker Report, it emphasised that banks must adhere strictly to the remuneration "promulgation of the FSB standard and the G20 agreement" (HM Treasury 2009:107-8). Also in response to the Walker Report, Chancellor Alistair Darling in his 2010 pre-budget report, delivered December 2009 to the House of Commons, announced a one-off "bank payroll tax" of a 50% tax rate payable by banks whose bonuses are above £25,000 (HM Treasury 2009).

Likewise in the US, President Obama, the Fed, Treasury and legislators reined in on Wall Street bonuses and urged bankers to pay bonuses in stock rather than in cash. In this regard most of the big US banks and financial institutions, such as JP Morgan Chase, Goldman Sachs, Wells Fargo, Bank of America, Citigroup, and Capital One all awarded executive stocks as their stock price dropped drastically in early-to-middle 2009. However, there has been growing critical comments about paying bonus in stock. It has been noted that the price-value of some of the executive stocks awarded by the big US banks has appreciated in value, and gearing up to be another one of the greatest bonus pay outs in US history (NYT 2009). Therefore, the continued appreciation of stock, it is noted, has "raised questions about the wisdom of pushing [bonus] pay too far in either direction, favouring either cash or stock" (NYT 2009). In response, President Barack Obama in meeting with CEOs of the eight biggest US banks, December 2009, inter-alia emphasised the need for banks to help towards complete recovery by disciplining their bonuses via the award of 'long-term stock' instead of cash bonus or short term stock bonus. Arguably, President Obama's call for the granting of long-term stock and Chancellor Alistair Darling's 50% super tax on bonuses are part of the proposed reform of corporate governance. It is believed that it will help to check the moral hazards of some bankers who intend to cash in on the financial crisis recovery. Also, arguably, is that the overall empirical implication of controlling risk management through the bankers' pay, as earlier noted, will help steer complete stability in the financial market and the economy.

Most recently the International Monetary Fund (IMF) in April 2010 launched an attack on excessive risk and profitability and proposed a three-pronged tax aimed at controlling risk. They include a flat rate tax for all banks for payment of future bank

bailouts, tax on bank profit and tax on pay.[55] While at the time of writing, the IMF proposal is yet to receive approval by G20 heads of government and finance ministers, the proposal has received criticisms across the financial industry. However, commentators argue that the proposal will retard economic growth and would not have any impact on reducing risk. Therefore, the major empirical criticism is that there is not yet a commonly acceptable formula for controlling risk, nor any hard-cut long term solution on how to discipline bankers' bonus-induced risk taking. It will be said that all steps and proposals, at the time of writing, appear to be temporary or a quick measure to cut corners on risk management. The question, then, is does the piecemeal/temporary/limited attacks on bonuses or taxing risk transform financialised risk management? Arguably, it might do so; however, as pointed out in Chapters Three and Four, the techniques of financialised risk management are not driven by bonus incentives. They are rather driven by the logic of seeking to calculate uncertainties as risk that provides opportunities for growth.

6.4.3 Regulatory Actions/Reform

It is now commonplace to argue that in order to permanently avoid the complexities of financial practices that in the first place brought about systemic crisis, certain areas of the financial market must be reformed or re-regulated. Though some bankers have been noted to be vigorously engaged in huge government lobbying and massive PR to stop regulation (Buiter 2009), policy makers, some commentators and some financial media are pushing for stricter regulation and reform of the financial system as part of the greater measures to control excessive risk-taking. For example, during the push by the UK/US government for global action on recapitalisation, the French President Nicholas Sarkozy and the German Chancellor Angela Merkel, on

[55] Available at http://news.bbc.co.uk/1/hi/8633455.stm accessed 23/4/2010.

Monday 16 March 2009, presented a joint letter to European leaders in Brussels urging for strict regulation over more stimulus. Equally, in his inaugural speech, President Barack Obama (2009) laid emphasis on what he called 'common sense' regulation to curb 'recklessness' and improve responsibility in lending and borrowing. Inferences for stricter regulation were readily drawn from regulatory changes and policy actions taken during the 1929 Great Depression and also from various research which has shown that the 2007 financial crisis permeated all areas of the economy as the everyday life of households are strongly interwoven into the mechanisms of finance and the financial market (see Aalbers 2008, Langley 2006, and Martin 2002).

However, there are specific and general problems in attempting to reform, re-regulate or over-regulate the financial market. Specifically, the question is: is 'excessive risk-taking' the same as financialised risk management? Arguably, the two are not, though it has become commonplace that government responses to the crisis have technically linked excessive risk-taking with financialised risk management. This has arguably made problematic how to characterise the need for reform and regulation. There seems to be a growing policy response/notion that the cause of the crisis was excessive risk-taking (especially in subprime transactions) brought by lack of or inadequacy of regulation or supervisory structure. In other words, the problem lies in the distinction between the lack of regulation, the execution of already existing complex regulations, and the making of further regulation that may suppress innovation. On this basis, there seem in contrast to be general contesting perspectives on the need for new banking, mortgage lending and financial regulation growing amongst the academe, the politicians themselves, financial media and activists. This in effect is leading to unending competitive

suggestions or recommendations for areas of reform, re-regulation or over-regulation. It is therefore important to note that each regulatory perspective is underpinned by the different ideological orientations or blame paradigm[56] on the causes of the financial crisis.

Overall, at the time of writing, it has not been empirically clear what and how the financialisation process can be regulated or how the process of financialisation could be isolated and delineated from the making of household credits. The current Volcker rule[57], supported by the Obama administration and echoing the Glass-Steagall Act of 1930s' financial regulatory reform, seeks to prevent banks and other major financial institutions that take deposit from engaging in risky or speculative proprietary trading, or own hedge fund or private equity funds. Equally, it is aimed to generally increase transparency in the derivative market. However, as commentators pointed out, the implication of separating commercial (deposit) banking from investment banking is that it may scuttle the ability of banks to balance volatilities that may occur in either sector of banking. In other words, it has remained contestable whether strict legislation and regulation may reduce innovation (especially on financial inclusion) and economic growth. Though it might be argued to the contrary that the government reform and reregulation policies are aims to

[56] For example, in the Economist of April 8 2008 it was shown that right wing conservatives such as Thomas DiLorenzo argued in his publication that the subprime mortgage crisis is "the direct result of the thirty years of government policy that forced banks to make bad loans to un-creditworthy borrowers" as part of the fulfilment of CRA 1977. http://economistsview.typepad.com/economistsview/2008/04/did-liberals-ca.html. Also, there are calls for regulation and reform on the basis that the subprime practices caused the crisis because it expanded credit and exploited the vulnerability of lower income borrowers. However, it has been argued in recent research that it is not the subprime market that specifically caused the mortgage crisis, but the culture of manipulating ARMs perpetrated by both the prime and the subprime market(Liebowitz 2009). Yet it remains problematic and a growing lack of common suggestions or agreement on how to reform the existing modalities of ARM arrangements.

[57] The Volcker Rule or the Obama administration's new proposal of regulating risk, at the time of writing, is being subjected to intense legislative scrutiny. It has been reported that Christopher j Dodd, Chairman Senate Banking Committee warned that Obama administration's legislative proposal "was getting precariously" to excessive ambition to legislation (NYT 2010).

clamp down excesses of financialised accumulation, tame reckless innovations on risk management and disciplinary mechanisms, it has its drastic implications. As Adrian Cole points out (further analysed in Chapter Seven) excessive financial reform will affect the availability and accessibility to credit for "low income borrowers...who should not be further punished by the size of the crisis"[58].

However, in his October 2009 address to the House Financial Services Committee (FSC), the US Treasury Secretary, Timothy Geithner, buttressed that reform and re-regulation still forms part of the policy responses to check against the future reoccurrence of the type of 2007 financial crisis. According to Geithner, the reform and re-regulation policy are in key five areas. First, is to bring an 'orderly resolution of failing financial institutions'. Second, is to end the 'open assistance to failing financial institutions'. Third, is to protect taxpayers' money which has been used to bail banks from 'losses'. Fourth, delimit the emergency power of government agencies (example FDIC and Federal Reserve) from extending credits to failing banks but only act to "protect the financial system as a whole". Finally, is to increase the supervisory power of government on the 'size and leverage' infrastructures of 'major financial firms'. Reiterating this position, President Obama in his speech to an audience of bankers and financial practitioners in New York, challenged the financial industry to join regulatory reform.[59] He argued that the aim of the reform is to avoid the kind of procyclicality of risk (financialised risk management) witnessed in the financial market prior to the crisis.

[58] During an interview with the author on 28 July 2008.
[59] Bloomberg Business week http://www.businessweek.com/news/2010-04-23/obama-challenges-financial-industry-to-join-regulatory-overhaul.html accessed 26/4/10.

But as earlier noted, it does seem that the proposed reform provided has not taken consideration of lasting options for future credit availability and credit security for low income borrowers,[60] though it is noted that some commentators argue that the catastrophic effects of the subprime mortgage crisis necessitated the reform. In other words, the regulatory reform is aimed at entrenching responsible consumer homeownership, equity borrowing/lending, investment and responsible supervision by tightening regulatory loopholes that paved the way for discretional risk assessment. Drawing from Udell's (2008) research, regulatory reform will make market participants 'responsible for their action' and reduce the difficulty of monitoring financial activities.

However, the government responses to regulate risk and reform the financial market by far continued to receive both academic and practical support. It has been noted to be the 'measured' way out of the banking/financial crisis and also a means to ensure that it does not reoccur in the future (McIlroy 2008). Effort to check against future reoccurrence of the crisis has generated interest on the warnings, prior to the crisis, on the systemic implications of 'liquidity risk' (Nesvetailova 2007, Kiff and Mills 2007, Kregel 2008). In this light, the question then is whether the 2007 global crisis has induced any formal regulatory response from BIS to amend or reform of Basel II international banking accord. After the G20 Leaders Summit of April 2009 in London, the BIS established FSB with the sole mandate to "address vulnerabilities and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability" (FSB 2009)[61]. The FSB, in a draft regulatory reform known as Basel III, has introduced mandatory protocols that required banks

[60] This shortfall is further analysed in chapter 7.
[61] See the newly launched website of FSB at http://www.financialstabilityboard.org

to “cover liquidity as well as capital risks [that will cover] 100 percent of [their] off-balance-sheets transactions” (Lynn 2010:3-4). In other words, banks and financial institutions have been “issued and being implemented strong new risk management standards...covering bank governance, the management of liquidity risk, underwriting and concentration risks, stress testing, valuation practices and exposures to off-balance sheet activities (Basel III: 2009). In general it is aimed that the new regulatory reform (Basel III) will make it difficult for banks and financial institutions to hide their liquidity risk and also make it expensive to engage in off-balance sheet trading (Lynn 2010). But the question, then, is does the introduction of ‘liquidity risk’ transform/replace financialised risk management? Arguably, it does not; instead the introduction of liquidity risk standards just seek to perfect defects in the models of financialised risk management.

6.5 Response on Risk Discipline

Understanding the government response with regard to risk discipline is far from clear, especially as ideas on the reform of the disciplinary structure are still unfolding or politically being exchanged between policy makers. There is a somewhat resistance by government to engage in a radical diverse reform of the existing model of discipline. However, the government, aided by the financial media, has through critical and political sound bites and provisional policy actions, progressively aimed to infuse a new market psychology for discipline in the retail and wholesale financial market. In as plain a form as possible, it is arguable that the governments of the UK and the US have managed to influence some apparent changes in the psychology of the credit relationship between borrower and lender in two broad perspectives: the policy of forbearance for the short-term, and for the longer-term, the encouragement of the reworking of risk-based pricing to affordability pricing.

6.5.1 Forbearance Policy

Debates continued about the appropriateness of government encouragement for the suspension of the normal operation of the disciplinary relationship between lender and borrower, whereby banks/lenders are 'mandated' to suspend their legal options to foreclose or repossess mortgage property from borrowers who are in arrears. In his paper, *'When Credit Becomes Debt',* Langley (2008:17) raises both scholarly and practical concern about the role of government in 'the politics of mass market credit/debt.' Langley (2008:7) argues that the rise in state intervention and support for forbearance "seem to cast doubt upon the norm of responsibility...co-responsibility for outstanding obligations between lenders and borrowers". In other words, the urgency by government to tackle the malignant housing crisis of more homeowners in arrears triggered the submergence of the mass market traditional distinctions between moral responsibility and legal obligation in debt relations. Instead there are seemingly reverberating public demands for lenders' restraint, despite opposing contention that during a systemic crisis, forbearance creates collective moral hazard as unscrupulous borrowers have the incentive to be let off their obligations. But according to Peter Tutton of CAB, as "affordability issues became a dire problem when fixed-rate mortgages reset"[62], it effectively, according to House Financial Services Committee Chairman Barney Frank, implicates the increase in the number of "abandoned and damaged residential properties"[63]. The UK central government and the US federal and state governments had to consciously pursue the policy of forbearance in "order to protect people's homes and livelihood" (Frank 2009). However, as we analyse the general action taken by government to

[62] During an interview with the author on 16 June 2008.
[63] In a speech delivered in NCRC national conference attended by the author on March 16 2009.

support for forbearance, the question is does forbearance reinforce or transform financialised discipline?

In the UK for example the overall picture is one which the harsh implications of the financial crisis demanded more government incentives. According to the Council of Mortgage Lenders' research of November 2008, the UK mortgage market by September 2008 recorded a unique 10 percent increase in mortgage arrears and an estimated 45,000 expected home repossessions in 2008 (O'Connor, 2008). The gloomy report also coincided with a 17-year high rise in unemployment witnessed all round the UK and the rising level of redundancy reports in all facets of the productive economy, especially in the construction and building industry where it is argued that 'one in five workers face redundancy before 2011' (Richardson and Boyd 2008). In response, the Gordon Brown government orchestrated anti-poverty strategies/policies at both national and local council levels. Policy measures aimed at eradicating the pains of the subprime crisis suffered by mostly poor and low-paid workers. Alongside the May 2008 £120 tax breaks for twenty two million households and increase in the basic rate allowance to £6,035, the UK government announced a 13 month cut in value added tax (VAT) from 17.5 per cent to 15 per cent with effect from 1 December 2008, through 2009 to early 2010. Commentators on the VAT cut praised it as the boldest measure aimed at stimulating household spending and re-jolting the economy during the recession. Yet, contrasting explanations suffice that despite all these monetary policy actions, the majority of low-income households have little or no savings to spend on VAT products. The level of household insolvency was greatly endemic; most low-income households, except for basic food items which do not have VAT, excluded most VAT products from their shopping lists.

On the other hand, indebted subprime mortgage households and small and medium size businesses were counting on every little help from government bailouts as the contraction of credit continued to quadruple. This was the moment that challenged the government as the last resort for revitalisation of lending and availability of credit. In order not to halt the processes of democratisation of finance, the government continued to demonstrate its readiness to apply any orthodox and unorthodox method to remedy the impact of financial crisis. Though it is pointed out that global effort is needed to completely address the effect of the crisis, it is noted however that it was necessary for national government to take actions peculiar to 'its jurisdiction to address some pressing concerns of households' (Shiller, 2007:1).

In this respect, in the bid to prevent a complete halt in the residential mortgage market in the UK, the Brown government also formulated bold initiatives and announced a £1 billion housing package. This included raising the threshold of stamp duty tax from £125,000 to £175,000 in September 2008 and to £250,000 for first time buyers in the 2010 budget, shortening the waiting period for Income Support for Mortgage Interest from 39 weeks to 13 weeks for 'purchases of residential property worth £175,000 or less'.[64]

In this way the Brown government had planned four point key-ways to 'ensuring housing for all'. These include: first, the mortgage rescue plans amounting to £200 million which were particularly aimed at alleviating the hardships of identified an 6000 households who were on the verge of losing their homes. On the whole, the

[64] Announcement made by the Communities Secretary, Hazel Blears, published in 2nd September 2008 on http://www.communities.gov.uk/news/corporate/950558 accessed 1/12/2008. See also Weaver, M (2008) reports on http://www.guardian.co.uk of September 2, 2008.

mortgage rescue plan provided tripartite but alternative relief line from which troubled mortgagors can make a choice. The first plan, known as the 'sale and rent back' deal, provided the choice for a troubled mortgagor's entire mortgage to be paid off by a registered social landlord (in this instance a housing association) while he or she continue to remain in residency of the property and pay rent calculated at a price affordable to him or her. The second plan is the 'shared ownership' deal. In this option, the troubled mortgagor and housing association enter into an agreement for the mortgagor's home to be part-bought and part-rented. The third plan is the 'shared equity' deal. This deal provided the opportunity for liquidity rescue to facilitate the reduction of mortgage repayment.

Second, the provision of £300 million HomeBuy Direct aimed at 'providing the chance' for first-time buyers whose annual incomes are less than £60,000 to 'buy newly built properties'. The design of the scheme is to provide seeming joint arrangement that enable the government and the property developer to provide a five year interest free equity loan of up to thirty percent of the purchase value of the property to the first-time buyer. It is hoped that in so doing, a stream of home-buyers and home-developers will be maintained in the long run.

Third is hastening the availability of £400 million for social housing from the existing budget to help facilitate construction of a 5,500 stock of social housing within 18 months. The scheme encouraged local government authorities and housing associations to tender applications for grants to develop social housing within communities that are in desperate need of them.

Fourth is the boosting of commitment on Community Regeneration by intervening to complete projects that were stalled or slowed down by the financial market crisis.

Equally, as part of the mortgage rescue plans, the government reached agreement with major UK mortgage lenders and banks to provide a three month 'moratorium' to borrowers who at 'first go into arrears' but to negotiate and accept minimum mortgage payment (O'Connor, 2008). In the same token, in March 2008 the government invested £12 million in a training package to provide across-the-board free debt advice with the intention of making households more financially savvy (Osborn, 2008).

As part of the above actions, it will be argued that the combination of slumps in the housing market, credit crunch and the resetting of fixed-interest rate of most subprime mortgages, (such as those from GE Money, GMac-RFC, Southern Pacific Mortgage Limited (SPML), Preferred Mortgages and even the mainstream mortgage lenders such as Northern Rock) which brought about a large rise in repossession filing, increased the need for forbearance policy in UK. The UK government, with the cooperation of FSA and CML, as a collaborative response to financialised discipline rolled out its forbearance policy through a 'pre-action protocol' which requires lenders to take 'court action as the last resort'. In a nutshell the key aims of the UK's 'pre-action protocol' for possession claims on residential mortgages are inter-alia to

> 'ensure that a lender or home purchase plan provider (...'the lender') and a borrower or home purchase plan customer (...'the borrower') act fairly and reasonably with each other in resolving any matter concerning mortgage or home purchase plan arrears; and encourage more pre-action contact between the lender and the borrower in an effort to seek agreement between the parties, and where this cannot be reached, to enable efficient use of the court's time and resources...'(Civil Justice Council 2009).

Likewise, in the US during the President Bush administration and President Obama administration, lenders are encouraged to come into repayment agreement with

mortgagors as a measure of reducing the loss of value of mortgaged properties. According to the Vice President of NCRC, David Berenbaum, community activist groups are vigorously engaged in lobbying the US government to "amend the existing Bankruptcy Act and to encourage forbearance negotiation between lender and borrower....as this will discourage the current experience whereby there are increasing 'ghost towns' ....as most borrowers are simply abandoning their homes for inability to keep up with repayment"[65]. Though at the time of writing, there has not been a drastic amendment of the bankruptcy law, there are growing practices, according to US senior House Legislative Director Corey Tellez "by lenders to adhere to President Obama's call for shared forbearance on the part of lenders and borrowers in order to reduce the volume of foreclosure cases in the country".[66] From September 22 2009, the FDIC announced a 'foreclosure prevention tool kit'[67] aimed at encouraging lenders/borrowers to engage in mortgage modification that will pave the way for repayment respite for borrowers facing the risk of foreclosure. Equally, as part of measures to protect borrowers, the Obama administration had presented to the House a proposal for the establishment of Consumer Protection Financial Agency which will "have power over banks, credit unions and mortgage brokers, and oversee products including mortgages, credit cards, loan servicing, consumer-reporting data, debt collection an real estate settlement" (Calmes and Chan 2010:3). But as noted earlier, the question then is, does the forbearance measures taken by UK/US government and other global governments really challenge and/or transform financialised discipline (legal or extra-legal)? Arguably, it does not. As pointed out by CML (2009), lenders and banks make or concede to forbearance arrangement for

[65] Interview with the Author on 15 March 2009 during the NCRC national conference in Washington DC.
[66] Statement made during the Authors Participation of the NCRC lobbying of House Members for legislative intervention to the subprime crisis, 15 March 2009.
[67] Available at http://www.fdic.gov/consumers/loans/prevention/toolkit.html accessed 12/1/2010.

borrowers facing repayment difficulties, if repayment difficulties are 'temporary and resolvable'.

6.5.2 Affordability Pricing

Perhaps the most remarkable empirical observation about the increased presence of the state in the financial market or response to financialised discipline seems to be the spirited and strategic policy drive for the eradication of the discipline of borrowing through calculative risk pricing for low income loans. Risk pricing as had earlier been analysed in chapter five, paved the way for what commentators described as the 'opportunistic pricing' of the risks on credits extended to low income and vulnerable borrowers. In a nutshell, some of the competing criticisms against risk pricing are as follows: first is that structured securities, especially as they relate to subprime collateral, are pointedly complex and consequently lulls both investors and borrowers into a 'false sense of security' (Green 2008:269). Second, the lack of documentation in Alt –A mortgage loans in itself is a risk as it widens the space for an unstandardised approach to risk discipline. It is so because the discounting of prices/products (for example Interest Only Mortgages or 2/28 Fixed ARMs) in the bid to accommodate the immediate or presumed short-run risks of low income borrowers, has been criticised to have been executed on faulty but systemic prediction that the borrowers' risk will revise in the long run.[68]

Following the crisis, it has been evident that when the discounted ARMs reset, a greater number of borrowers were unable to keep up with their mortgage repayments. As has been noted, the discounting or manipulation of ARMs as a

[68] Professor George Galster in an interview with the author 10 July 2008; the discounting of mortgages for example Interest-Only, 2/30 fixed ARM mortgages paved way for lenders to sell risk into the financial market. He pointed out that risk pricing paved way for practices where lenders 'paid heed' only on the average revenue/profit returns to be made from the loan, not on the 'life span of the loan or the sustainability of the loan in general'.

disciplinary tool obscured the judgement of lenders to take into account the correlative implication of large numbers, for example fixed ARMs, resetting at the same time (Liebowitz 2009). Though as also noted earlier there has not been a drastic change in financialised disciplinary approaches, what is gradually emerging and replacing risk pricing is affordability pricing: a process brought about by conscious policymakers and the financial media soundings about undaunted abuse and 'recklessness' of risk pricing by lenders and borrowers. Speaking with some staff of Barclays Capital and HSBC Investment,[69] it is noted that affordability pricing emerged as part of the new responsible lending agenda of the Barack Obama administration.

Affordability pricing as a disciplinary tool is designed to ensure that lenders lend to those who can afford it and that the borrowers' affordability are thoroughly assessed. But as will be further analysed in Chapter Seven, it is arguable that the government focus on affordability pricing as a tool of disciplining credit inclusion is seemingly halting the market-led approach to 'ownership society' (which commenced in the US during the President Bush administration) and/or the 'financial inclusive' society (which has formed the key agenda of the New Labour government). As noted by an anonymous interviewee of a defunct subprime lender, the "practice whereby risk-based pricing aided accessibility...through the readiness of a borrower to pay higher for his/her risks"[70] is extinct with the crisis.

In other words, affordability pricing now places discipline on the old legal maxim of 'caveat-emptor'- where the lender is to be aware of the risk and avoid them. Put differently, the comprehensive procedure of affordability pricing arguably helps for

[69] Anonymous interviews conducted by the author in Wall Street, 10 March 2009.
[70] Anonymous interviews conducted by the author in the London financial district, 24 March 2009.

what practitioners described as the combination of 'high-touch and high-tech' of disciplining risk. In this way a lender, for example, combines his or her personal judgement with the credit report (computerised report from credit rating agencies) and other financial information held of the borrower to assess the borrower's income and commitment status. By that lenders reserve the judgement to price or refuse to price the potential risk of the borrower. In other words the inclusion of the borrower does not, unlike prior to the crisis, depend on his/her readiness to accept higher repayment but on the affordability judgement of the lender or its agent. So, unlike risk-based pricing where other variables such as the potential of a borrower in the future to increase or expand his/her sources of income, the affordability pricing focus on the assessment of immediate affordability and future income stream of the borrower. Yet again the question is does affordability pricing reforms or replaces the financialised discipline? As further analysed in Chapter Seven, there seem to be two key outcomes of affordability pricing. First, is that while affordability pricing is not a fundamental reworking of financialised discipline (via risk-based pricing) of credit relations between lender and borrower, it expanded the lender's judgement on how to price risk (in terms of interest). In other words lenders now combine risk calculation with the more personal and 'face-to-face' and circumstantial assessments of the ability of the borrower to repay. Second, it is limiting the reliance on technological calculation of affordability and the reliance on the price mechanism or market approaches to financialised inclusion.

6.6 Conclusion

Overall, this chapter has examined the responses made by government and the financial market in the bid to reduce the adverse implications of the crisis that started in 2006 as a mere subprime mortgage problem in US, but by 2007-8 emerged to be a

global financial quagmire. It has shown how the government responses to the crisis took the turn of resurrecting and/or reworking the forces of financialisation. This occurred notwithstanding the contentions held by some commentators and, as shown in Chapter Five that the crisis has arisen as part of the complexities created by the forces of financialisation. In analysing the 'speed and scale' of the actions taken by government to revitalise financialised accumulation, financialised risk management and financialised discipline, the chapter also assessed implications of those actions on the processes of the forces of financialisation. It was noted that the intervention of government has been monumental; however, it has not necessarily changed the 'character and content' of forces of financialisation. Overall, it has shown there is the current wave of government presence in the architecture of capital accumulation, risk management and discipline of risk. This new wave was argued to provide yet another means of speeding up the recovery from the crisis, but when all falls in place, the financial market will take its normal course (Pettifor 2006). This was noted to be because the recovery from the crisis does not rely solely on government intervention but also on how the financial market reacts after the several government interventions have been put in place or elapsed.

However, three key sets of facts have emerged from government interventions to resurrect the forces of financialisation. First is that the sources of accumulation have temporarily grown from government recapitalisation schemes. However, government responses have not typically replaced financialised approaches of accumulation via securitisation and the 'originate and distribute' model. Second, the measures and proposals that have emerged on risk management seem not to have replaced financialised risk management, but have placed it side-by-side with speedy supervisory/regulatory intervention in the event of any problem in the system. Third,

though government interventions seem not to have replaced approaches of financialised discipline, it has, however, typically raised some questions about the market-led approach to financial inclusion. Overall, the general implications of government responses to and interventions in the crisis have been that it opened questions about the post-crisis financialised inclusion.

Part 3
Implications for Policy and Practice

7

After the Subprime Crisis: Financial Inclusion and Exclusion Revisited

7.1 Introduction

The subprime mortgage crisis of late 2006 and subsequent global financial crisis of 2007/2008, followed by the plethora of open-ended responses to the crisis by UK/US and other global governments, arguably provokes a re-assessment of the neoliberal market-led approach to financial inclusion. The general implications of the crisis and the particular implications of government and financial industries' responses to the crisis on financial inclusion/exclusion have rarely been considered. This brings into focus some unanswered questions about the prospect of financial inclusion and exclusion after the subprime crisis. These questions include, but are not limited to, first, how the emerging reworking of banks and the financial market by public policy makers will impact on credit accessibility, cost and consequences? Second, if the neoliberal market-led approach to financial democratisation and the so-called 'ownership society' has indeed been found wanting in the wake of the crisis, what options are now available through which financial exclusion might be addressed or tackled?

This chapter comprises of four main sections and aims to address the above questions by way of a re-assessment of the pre-crisis and post-crisis market approaches to tackling financial exclusion. Section one, in brief, re-visits the pre-crisis public policy push for the market-led approach to tackling financial exclusion. It traces and reassesses the principle of self-governmentality and self-responsibility that underpinned the neoliberal market policy benchmark for mortgage and credit

inclusion of people and places previously excluded on a range of grounds. Sections two, three and four, respectively, aim to address the issue of 'what options or approaches now present themselves to tackle financial inclusion/exclusion?' This is done by way of post-crisis re-assessment of the co-constitutive forces of financialisation (financialised accumulation, financialised risk management and financialised discipline) that, as has been previously argued, were key in carrying forward market approaches to financial inclusion to credit and homeownership or the 'ownership society'. For each of the forces of financialisation, it will be argued that the responses to the crisis and the post-crisis policy response and/or push for a restarted and partially re-regulated process of financialisation detailed in the previous chapter may well serve to get credit flowing again to mainstream credit and mortgage markets, but that at present it has exclusionary consequences for those at the margins of the market.

7.2 Pre-Crisis Approaches to Tackling Financial Exclusion Revisited

Before the unravelling of the subprime mortgage market from late 2006, the US and UK public policy strategies on financial inclusion and the 'ownership society' were underpinned by the expansion of 'choice' and provisions of frameworks that enhanced a cornucopia of credit and financial product opportunities. In the US, during George W. Bush's administration, and backed by the Community Reinvestment Act (CRA) and Tax Reform Act (TRA) and various community group actions, there was the economic policy push for credit expansion to bring an end to the exclusion from home loans of low-income and high risk African-Americans, Hispanics, migrants and other minority groups. In the UK, the New Labour government introduced innovative financial inclusion strategies. These included the enacting of new legislation, the Government Housing Act 2004, which further

expanded the scope of the 1980 Conservative government's radical policy on the 'Right to Buy' for council housing, and the introduction of the low cost homeownership programme (LCHO). The LCHO was delivered by the Homes and Communities Agency (HCA) under a brand name of 'HomeBuy'. The notable feature of this programme is that it served as the key means through which UK government policy supported 'affordable' mortgage lending to low income borrowers or borrowers that earn below £60,000 per annum. Banks and mortgage lenders were invited by government (operating through local councils and housing associations) to support different homeownership lending designs. These included for example: 'New Build HomeBuy', which allowed between 25 % to 75% of the mortgage price or 'share' of a new home to be bought by an applicant with the opportunity for 100 % shares in the future; 'HomeBuy Direct', which enables the provision of 70% mortgage loan and 30 % equity loan for the purchase of a new home; and the 'Rent to HomeBuy', which was designed to encourage low income earners to rent new homes with the arrangement that they will in the near future buy shares in the property. Just like in the US, the combined implication of the Government Housing Act 2004 and LCHO programme is that they encouraged the opportunity of homeownership through expanded access to mortgage finance.

In all, both in the UK and US, government took bold policies that were underpinned by neoliberal free market principles to encourage low-income families to access mortgage finance and exercise a 'right to buy' or make good the promise of an 'ownership society'. For example, on its website, the UK Communities and Local Government argued that the new agenda in housing was aimed at providing decent

homes for the 'most vulnerable in society by 2010'[71]. This arguably rested on the strategies and technologies of the financial market. It is thus not surprising that the liberalised mortgage market that enabled lower-income and high-risk homebuyers was heralded to be a 'democratisation of finance' - a new culture of mass accessibility to credit and homeownership whereby an all inclusive financial market had emerged. According to Shlay (2006:511,526), public policy promoted an ownership culture akin to financial citizenship. In principle, the financial citizen garners laudable privileges and rights akin to that of political subjects, whereby as part of the constituents of financial citizenship, there are unqualified rights to credit accessibility and the privileges of not being excluded from credit by 'price', or by 'special risk' characteristics.

It has therefore been emphasised in previous chapters that the government consistently promoted economic and financial measures aimed at the continued expansion of credit accessibility. This was based on the policy conjecture that the market is most suited to 'engender significant changes for families [and] neighbourhoods' and inner-city social stability and growth (Shlay 2006:526). Hence, financial deregulation and the universal financialisation processes accelerated the abilities of banks and financial institutions to accumulate disposable and distributive financial capital to meet up with the policy conjecture. In a nutshell, therefore, it will be argued that the government homeownership policies were laid down on the economic principles of commodification, where everything is for sale and anybody with the 'right dream' can make his or her dreams come true.[72] In this instance, some

[71] Available at http://www.communities.gov.uk/housing/decenthomes/ accessed 15/2/10.

[72] In contrast L. Randall Wray, in an interview with the author on July 24, 2008, argues that most Americans had dreams of homeownership "but not everybody has the capability to be a homeowner" and the vulnerability of those with limited capability were "turned into casino accumulation" and just like in every casino gamble "there are risks of gaining it all or losing them all".

commentators argue that government expectations were precariously based on the utopian economic assumption that the market is efficient and that increased homeownership will provide 'a path of social development' for building up both individual asset-based welfare and community reinvestment (Ronald 2008:252, Emmons 2008). On the other hand, however, commentators argue that government policy in the UK, for example, helps to engender the "fulfilment of homeownership aspirations for [low income tenants] who had occupied for a long time rented council houses"[73]. Peter Williams further emphasised that as a result of enabling government policies, the UK intermediary lenders were able to match the "aspiration of most council house tenants and other low-income earners to own their own homes which they can improve and invest in" with the provision of mortgage credits which at the time of origination "were satisfactory...based on the nature of risk and income profile of the person".[74]

As subprime lending boomed from the mid-1990s through to 2006, then, activists and commentators noted that the key merits of the subprime market were its ability to help circumvent the contours of inequality that previously marked access to housing finance. According to Squires (2003:3), subprime lending propelled the "turning [of the] financial services industry from an engine of redlining into an agent of reinvestment". It is important to note here that Squires is writing on behalf of those activists who had long campaigned for 'credit for all.' This shows once again that the 'democratisation of finance' is not just an agenda driven by the state and the interest of financiers, but also by the civil society groups campaigning on behalf of the excluded. To this end, the new mortgage products of subprime enabled lenders to

[73] Peter Williams, the Executive Director of Intermediary Mortgage Lenders Association, explained in an interview with the author, June 25 2008.
[74] In an interview with the author on June 25 2008.

purge themselves of some of the prejudices and racial bias that had been contributory factors in the extreme financial and housing exclusion witnessed more by non-white minority groups in the UK and US in particular (Callahan 2003:73). Therefore, with the government relaxation of legal and regulatory paraphernalia, the subprime market emerged with innovations on the underwriting, intermediation and hedging of the 'special risk' of those borrowers who the prime market 'would have frowned on' (Foote et al 2008:303, Cunningham 2005). According to Burton (2008:93), it is the simple and basic person-tailored credit innovation of subprime that provided the welcomed milestone for the financial enablement of those who have witnessed continued financial disenfranchisement in the past. Undoubtedly, before the subprime and global financial crisis, credit was almost always available, and the opportunity for credit accessibility for all was made possible through the processes of financialisation that helped the diminution of some of the patent conservative and 'exclusionary prejudices and practices' (Squires 2003).

However, the subprime mortgage crisis showcased the moratoria of adequate market and public policy options to respond to the initial crisis in 'the market option of financial inclusion' or 'ownership society'. Instead, the crisis revealed tensions and contradictions that produced strains in the mortgage and housing markets: *First*, it brought about repayment delinquencies and increased foreclosure filing in the US, and increased repossession orders in the UK. According to RealityTrac Foreclosure Market Report (2010):

'a total of 3,957,643 foreclosure filings — default notices, scheduled foreclosure auctions and bank repossessions — were reported on 2,824,674 U.S properties in 2009 [showing a] 21 percent increase in total properties from 2008 and a 120 percent increase in total properties from 2007 [and] 2.21 percent of all U.S. housing units (one in 45) received at least one foreclosure filing [in 2009], up from 1.84 percent in 2008, 1.03 percent in 2007 and 0.58 percent in 2006'.

Also in the UK, according to CML research statistics, there has been a steady but relatively slower increase in the number of home repossessions from 25,900 in 2007, to 40,000 in 2008 and 65,000 in 2009 (CML 2009). It is important to note that this increase in repossessions and foreclosure affected mostly ARMs and not FRMs, both in the subprime and mainstream markets (Liebowitz 2009).

Second, and following from the first, the crisis increased the volume of unoccupied property in the inner-city and thereby caused neighbourhood abandonment and decay. For example, in his research Mark Smith (2009) noted that the city of Kansas in December 2009 had 4,000 unoccupied and decaying homes. All these challenges paved the way for government and financial market responses which are pointedly making tenuous the market processes of financial and homeownership inclusion for low-income people and places. A great number of commentaries suggested that the crisis was as a result of expansion of credit to people whose risk vicissitudes cannot be mitigated in general through risk-based pricing and securitisation.

What is especially striking is that criticisms about the expansion of credit are not balanced, however, with an alternative option on how to solve post-crisis financial exclusion. The US, UK and global government responses to the crisis (as discussed in Chapter Seven) are geared towards getting credit flowing again but apparently not the making of loans to subprime people and places. As such, the future of financial inclusion and the ownership society has not been made part of the solution to the financial crisis. Arguably, it has become easy for policy makers, financial practitioners and business elites in their bids to reform the financial market, to overlook the hardship that those at the fringe of finance will suffer. As we have seen in the previous chapter, responses to the crisis by public authorities have been largely

geared to restarting financialised accumulation, financialised risk management and financialised discipline, but it is notable that this has gone hand in hand with warnings about the 'excessive risk taking' with which subprime came to be associated. The suggestion would seem to be that those at the margins of credit and mortgage markets will once again be excluded, but if that is the case, then, the question to be answered is how do these dynamics operate for each of the forces of financialisation?

7.3 Post-Crisis Financialised Accumulation and Inclusion

The pre-crisis processes of financialised accumulation involved the increased participation of investors on the opportunities of yield from securities based on or derived from loans expanded to subprime borrowers who were previously excluded or underserved by the mainstream. In that way, the usual expectation of yield is underpinned by the higher pricing of subprime default risk, which is then built into the overall repayment of the loan - principal and interest (Dymski 2008:63). So the increased availability of credit to subprime borrowers is not powered forward by the subprime institutions as such, but by financialised accumulation and networks of investors. These financialised processes of accumulation (involving the specialised usage of the mechanism of securitisation) as discussed in Chapter Four paved ways for the recycling of subprime illiquid loan origination (asset) into liquid assets and, in turn, created opportunities for greater availability of inclusive credit and mortgages. In all it is important to emphasise two common and especially notable features of the subprime financialised accumulation methods: *First*, it accelerated the specialised use of securitisation to increase liquidity in the subprime market; *second*, it marks the pinnacle for the availability of large-size, inclusive credit in forms of automobile loans, mortgages, and homeownership loans.

However, as noted earlier in Chapters Five and Six, subprime financialised accumulation was met with critical commentaries and responses as the crisis unfolded. For example, some commentaries argue that financialised accumulation "eroded financial prudence" (McAteer 2008). Subprime lenders thus became fixated on opportunities for returns/profit rather than on "sustainability of financial inclusion".[75] Likewise, Nicola O'Reilly of the National Consumer Council argues that the increased processes of financialised accumulation or "culture of profit making" obscured "warnings about the cyclicality of the risks"[76]. In this way, some writers argue that the crisis was as a result of the cyclicality brought through increased securitisation in the subprime market (Elena 2005, Matsuyama 2007). According to Elena (2005:25-6), subprime securitisation was used as a vehicle for by-passing and expanding risk sensitivities. That said, the semantics about whether subprime securitisation is to be blamed for the crisis are now crucial to the political debates on the suitability of subprime ABSs and MBSs. It has been broadly contested that securitisation provided an ad-hoc/cut-off means through which subprime investors and loan originators were able to spread risk (Keys et al 2008:2). In his paper, Davidson (2008:53-4) argues, therefore, that subprime backed securities are illusory because they were issued via diminished responsibility or under the risk maxim of caveat emptor - the buyer or dealers should be aware of the risks (Ibid, p:54).

On the same stratum, some of the key government responses on the crisis are directed mainly on clamping down on securitisation as the means of 'risky accumulation' (as it came to be associated with subprime). For example, through the

[75] Telephone interview with Mick McAteer on October 6 2008.
[76] In a telephone interview with the author on the 22 September 2008.

government buy-back of bad/toxic assets, attempts are being made at compressing the securitisation/off-shore trading of subprime securities. There are, then, strong indications that the nature of government responses to financialised accumulation are all geared against 'speculative investment'/'search for yield' (which has been strongly associated with subprime accumulation). In other words, the increased market/entrepreneurial approaches to risk as opportunity which indeed powered forward the market-led policy approach to financial inclusion are now apparently being questioned as unsafe and unsustainable.

As a result of the above, the post-crisis securitisation market is witnessing a speedy extinction of investors or underwriters for securities backed by subprime loans. Outlets for subprime loans have thus collapsed or closed their doors for new lending. This is happening despite the fact that, in both the UK and US, responses to the crisis feature initiatives to recapitalise banks and resuscitate securitisation as a sound tool for the mortgage market (Watson 2009). The argument to be posited here, therefore, is that notwithstanding some of the critical commentaries and responses highlighted above that can also be associated with the pre-crisis mainstream approach to accumulation, the government and financial market practitioners' responses to resuscitate securitisation seems to be designed for the mainstream market.

So, while some financial market practitioners maintain that securitisation remains the appropriate financial tool for accumulation in order to alleviate financial exclusion,[77] serious doubts now exist which are manifest in the crisis management initiatives on securitised assets (for example the Special Liquidity Scheme in the UK, TARP, P-PIP and TALF in the US). Though there is no clear evidence that

[77] Marco Angheben in an interview with the author on 26 June 2008.

these crisis management initiatives distinguished between subprime mortgage assets and prime assets, our contention is that their design apparently does not seem to recognise the particular importance of resuscitating all or any of the elements of securitisation in the subprime sector of the market. The political question that remains to be addressed relates to the future of low-income and high-risk borrowers, especially as it is apparent that the post-crisis securitisation can only re-start in service for mainstream borrowers. The implications of this development as noted by Langley (2009:291) are that the experiences of financial inclusion for low income and high-risk borrowers have been cut short by the subprime crisis. Arguably, therefore, this is an indication that the market-led approach to financial inclusion treats marginal people and places as mere 'figures' who are part of the liberal government of mass markets only when they are profitable. Therefore, those borrowers who had once disciplined themselves and "successfully met and manipulated their outstanding obligations, are now helpless in the face of risk aversion of lenders" (ibid).

In summary, the processes of financialised accumulation through securitisation which had been key to the market-led approaches to the inclusion of people and places at the fringes of finance are now in their somewhat revised and re-regulated form. In this form, instead of government responses, as some economists argued, aimed at developing micro-financial frameworks capable of moderating the procyclicality of the complex means of accumulation and credit expansion (White 2008), it is unclear what the future of subprime financialised accumulation holds. This development is further heightened by government drives to control the profitability of risk and/or 'risky' speculation (a term which has become synonymous with subprime accumulation). Though it may be said that the existing

policy responses generally aim to kick-start the securitisation market, and they may in the long run resuscitate subprime securitisation, it remains a subject of politics and controversy how financialised accumulation in the future will be designed to work and/or sustain subprime large-size long term lending and borrowing.

7.4 Post-Crisis Financialised Risk Management and Inclusion

Prior to the crisis, the ability of the financial market to self-regulate risk helped to provoke competition and technological innovations on risk management. Likewise, the Basel II international standard on risk management allowed for off-balance sheet risk management and the redistribution of default risks to investors who were willing to hold them. This brought about the use of the 'originate and distribute' model of trading-off the burden of credit risk (repayment and/or default risk). In subprime, the credence of the 'originate and distribute' model helped in attracting global investors to secure its various innovative credit and mortgage product designs. Intrinsically, therefore, subprime lenders' specialised use of the 'originate and distribute' model (combined with risk-based pricing) transformed the approach to managing the risks of marginal borrowers. Through subprime's advanced risk assessment/calculation, risk pricing and redistribution of cost via securitisation, opportunities for inclusion of marginal borrowers into credit and mortgages were greatly improved.

However, post-crisis commentaries have come to criticise the application of the 'originate and distribute' model, especially in subprime. In a recent BBC documentary, it was argued that the 'originate-to-distribute' risk management model helped in creating CDOs, which has brought about 'global proliferation of risk' and a casino-type of risk betting, whereby risks are recklessly and complexly bundled

and sold globally for profit (Purnannandam 2008).[78] In short, the model has been implicated in the excessive risk taking of financialised accumulation. Government responses have also been geared towards clamping down on the in-house risk management models that underpin the 'originate and distribute' model. In order to reduce 'excessive risk' which subprime has been associated with, opportunities for banks to engage in both investment and commercial banking are equally being clamped down on. In this regard President Obama announced a plan to 'reinstate the firewall' between investment banking on the one hand, and deposit taking commercial banking on the other, through the revival of the repealed Glass-Steagall Act of 1933.[79] In the same vein, global governments led by the US and the UK are mounting joint pressure for the reform of the international banking standard. It appears that a new 'Basel III' is emerging, whereby banks will move away from the internal rating based (IRB) Basel II option to a more external rating based option (Blundell-Wignall etal 2008). In other words, banks and financial institutions will not be able to simply 'self-regulate', and 'self-manage' their default risk but instead will be supervised under the extended power of the regulators.[80]

However, the question remains as to what the implications of the clampdown on the excesses of the 'originate and distribute' model: whether the separation of

[78] See Alex Jennings documentary 'The Age of Risk' www.bbc.co.uk/loveofmoney .

[79] The Glass-Steagall Act of 1933 was repealed by the Gramm-Leach-Billey Act (known as Financial Services Modernisation Act) of 1999. This Act enabled unification of commercial banking with investment banking. It is important to note that Obama's plan has received stiff opposition from bankers especially during the 2010 World Economic Forum in Davos. Equally, the recent Barclays' Bank February 2010 announcement of 11 billion pounds profit, which was mostly made from investment banking had been used to illustrate the benefit of banks' involvement in both commercial and investment banking. It is argued that it helps banks to cushion the cost of any mishap that may from time to time happen in either commercial or investment banking.

[80] While there has not been a formal Basel III document, there is growing call by BIS to 'straighten the underpinnings' of 'originate and distribute' model and the internal risk assessment option in order to 'mitigate avoidable uncertainty' (Knight 2008). Equally the growing policy actions of national government, for example, on 'stress testing' major banks and financial institution's ability to withstand uncertainties seem to indicate 'quiet overhaul' of the IRB.

commercial and investment banking or the reform of risk management models will slow down the achievement already made in financial inclusion. In other words, whether it will ultimately stifle the capacity of banks to establish subprime subsidiaries or underwrite subprime credit and mortgage expansion? As pointed out in the previous chapter, the government response to 'stress test' banks and financial institutions required them to have enough capital to back up liabilities. Arguably, the post-crisis implication of this risk management response is that it increases the aversion to subprime business by big banks and investors, and also increases the application of conservative lending standards. So, even though there are yet no legal or statutory inhibitions preventing banks from commercial assessment lending to higher risk borrowers, i.e. treating risks as profitable opportunities[81], government influence on risk management may well have drastically reduced the potency of risk management techniques/innovations which helped the greater availability and accessibility of credit and mortgages (Stephens and Quilgars 2008). It has also led to major banks and investors that had engaged in the subprime 'opportunity for yield' to manage risks differently. This brings to bear the appropriateness of the government push for risk management reform vis-à-vis the market-led approach to financial inclusion.

It is commonsense that there is a growing debate about the appropriateness of the policy makers' drive for the reform of the financial market and lending techniques, yet what is not clear is how the proposed reform of financialised risk management models and/or innovations will affect those on lower income or subprime borrowers.

[81] Note that profitable lending opportunities are not the same thing as predatory lending. Predatory lending includes short term loans such as 'door step loans' or 'payday loans' while profitable lending, for example subprime mortgages involves higher risk where by the lender/investor expend large-long term loans to low-income and high risk borrower on such term that will be possible to accommodate the default/repayment risk of the borrower in the short-run on the projection that in the long run both the borrower, the lender/investor will profit.

What seems to be dominant, therefore, is the growth of analysis that innovation of 'originate and distribute', which had helped to expand credit to lower income borrowers caused the crisis (Mian and Sufi 2008, Burton 2008:112). However, one striking observation is that it is yet unclear whether innovation can be regulated and, if regulated, whether it will deflate consumption and then trigger a new form of economic crisis. After all, there are lacks of proposals on how to reform default correlation. It is contended, therefore, that if they are to be considered as part of the market-led approach to financial inclusion, government responses have failed to address the tensions inherent in managing risks of marginal borrowers.

A recent survey shows that the financial crisis was not simply caused by the extension of credit to subprime borrowers, but by ARMs which reset themselves as interest rates rose and house prices fell (Liebowitz 2009). As Stan Liebowitz noted, it is the way ARMs are used as a management tool that needs to be fixed, not only the deficiencies in risk management techniques. The future of inclusion is at stake. The implication from a historical experience is that current responses to the crisis will sweep out the innovations and with them opportunities for low-income and high-risk consumers to borrow from the 'open market', thereby forcing exploitative lending and borrowing to grow 'underground.' Likewise, if risks are to be managed in a way which discourages subprime discounted financial products and securitisation, then it will not only lead to an increase in the cost of obtaining credit for low-income and high-risk borrowers, but may be leading to the extinction of the subprime sector. As has already been pointed out, the present post-crisis risk management option of aversion to risk lending (especially large-size long-term loans) is bringing about the rampant closure of subprime outlets including subsidiaries of major banks and severe contraction of lending (Crosby 2008).

The concern here, as earlier discussed, is whether the closure of the subprime outlets or bank subsidiaries marks the re-emergence of the dire financial exclusion of the late 1980s and early 1990s, or the death of the financialised approach to managing risky inclusion. This is difficult to know definitively, but there can be no doubt that, from the perspective of the financially excluded, government and market practitioners' responses to the crisis have installed and legitimised risk aversion as the new option for financialised management of risk. The post-crisis worries about this development are that it may lead to complex mass exclusion from credit and mortgages.

7.5 Post-Crisis Financialised Discipline and Inclusion

The crisis has further widened the scope for debates on financialised discipline. It remains an issue that continues to generate divergent economic and policy opinions. The fundamental divergence of views held amongst policymakers, financial practitioners and economists hinges on a tripartite of disagreements: what is rational lending? How should subprime borrowers be disciplined? What is opportunistic lending and borrowing? In order to ascertain answers to these questions, it is useful to tie the questions into one: what is the future of risk-based pricing as a tool of financialised discipline? As noted earlier in Chapters Five and Six, some of the principal government disciplinary responses to the subprime mortgage and global financial crisis was the introduction of an 'extra-legal' process of forbearance and growing expropriation of risk-based pricing to 'affordability pricing'. As such, it is important to re-appraise this development in turn. On the issue of forbearance, as the crisis waxed on, both Bush and Obama administrations in the US and the Brown government in the UK argued that the speedy depreciation of value and increased

abandonment of mortgaged property should be met with forbearance to suspend or mend the contractual legal relationship between borrower and lender. Nevertheless, the question that remains is how does forbearance (Mortgage Pre-Action Protocol - MPAP) affect the future of loans or mortgage expansion to subprime borrowers? Hence, the turn away from normal market and legal disciplinary relationships to more 'managed forbearance', especially for subprime mortgage borrowers as an emergency measure, 'will reverse as market conditions again change and emergency measures run out' (Wallace and Ford 2009:12-13).

Arguably, the use of forbearance as a disciplinary cushion is fractious and portends to render co-responsibility between borrower and lender into a temporary and exceptional relationship. Though it is not clear at this point, however, whether the new forbearance mechanism is a permanent swap for co-responsibility, or a short run by-pass aimed at a return to the status quo of legal discipline, it puts subprime borrowers into the simplification as 'subjects of failed financial experiments.' In this way, the inclusion into the 'ownership society' of those at the margins of finance and housing market becomes 'a mistaken policy experiment', where if the natural turbulence of the market system occurs, their debt/credit relationships are made socially pointless and exonerated by the 'presumed' informed fiduciary duty of the lenders (see Morgan and Sturdy 2000). Subprime borrowers are thus re-ethically characterised as risky financial subjects whose co-responsibilities are diminished by their susceptibility to or fragility for default risk (see recommendation in Chapter Eight). Two points would seem especially important here in terms of the argument I had put forward that 'financialised discipline' (as distinct from financial discipline) is characterised by the innovation of inclusive valuation and the pricing of risks. First, is it the case that financialised discipline is now dead, that certain borrowers

can no longer access credit because they are deemed too uncertain and cannot be calculated and priced as profitable risks? If so, this punctures the market-led approach to financial inclusion in important ways. Second, are there alternative non-market sources of credit for those who cannot or will not be priced by the market?

Therefore, the issue of forbearance draws attention to the sustainability of mortgages and which may pave the way for the resonation of the conservative exclusion of subprime borrowers once the mortgage market settles. Activists had campaigned against the divisive notion that low income earners or high-risk borrowers, mostly made up of minority groups (example African-Americans, Hispanics and migrants), do not possess the credit history, character, financial wits and strengths to be marketed into the ownership society. It does seem that the current 'managed forbearance' is supporting such divisive views.

Nevertheless, it is important to note that the logic of the policy of financial inclusion via the market discipline of risk and price was the direct response to equal opportunity legislation, especially for a substantial minority of people who were excluded from the mainstream mortgage products. In the UK, CML (2010) noted that subprime or 'adverse credit mortgage lending' prior to the crisis represented "the largest specialist sector after buy-to-let, accounting for perhaps 5-6% of total industry gross advances in 2007." This is a reflection of the CML research on the positives of adverse lending in the UK (see Pannell 2006). However, this is no more the case. At the time of writing, the CML (2010) also noted that "there are very few [subprime] products available on the market." Why? The answer readily pointed to is the global financial crisis of 2007. Conversely, arguably, this is simplistic as it ignores the fact that the post-crisis policy conjectures seem to be influencing risk

disciplinary practices supporting the contraction of the mass market for credit. In a recent report on the effectiveness of subprime mortgages by the FSA (2008a, 2008b), for example, there tends to be a strong suggestion that the financial crisis was inevitable because of the involvement of subprime borrowers. The report reflecting on the link between 'high risk' and 'high default' portrays subprime borrowers as people that pay more attention to their immediate monthly affordability and not on the longevity of homeownership.

Undoubtedly, as noted in Chapter Six, it is economically important to ensure that borrowers are provided with credit which they are able to afford in order to sustain the lifetime of mortgages. However, taking the so-called 'affordability pricing' as a replacement for risk-based pricing raises some questions as to its implications. It may be that the emphasis on affordability is indicative that the policy drive for an 'ownership society' or financial inclusion is actually hollow. In many respect, there is now a growing temptation to blur the distinctions between affordability and accessibility. When affordability becomes a major yardstick for determining accessibility to credit (short-term or long-term large-size credit) it will lead to a dearth of innovation on risk. It will also lead to subjective assessment of risk and/or the exclusion of people of low income and those ready to pay the price of the risk of their financial and credit inclusion. It will also close the market for 'credit-repair products' for some borrowers who may have been adversely affected by the crisis. It is to be noted that both in the UK and US a substantial amount of people were unable to keep up with their repayment during the crisis through having lost their jobs or businesses. Therefore, the growing extinction of flexible subprime repair products (for example remortgages), which could allow some borrowers both the challenges and opportunities to keep in or step back into homeownership, provokes concerns in

important ways. It remains the case that subprime in the US helped in the growth of African-Americans' homeownership (Williams et al 2005), while in the UK subprime 'served a diversity of need...credit repair and high proportion of re-mortgage' (Stephens and Quilgars 2008:197-8). According to Gramlich (2007:259), subprime mortgage lending in the US 'was a valid innovation, and it did enable twelve million households to become homeowners, a large majority of these would have been denied mortgage credit in the early nineties'

Overall, it appears that not all the subprime mortgage participants failed; after all, some of the high street mortgage lenders and building societies that participated in subprime lending are still taking repayment services from borrowers. While the risks of lending to non-prime borrowers are higher than prime borrowers, it may be argued that in general not all subprime mortgages (borrowing and lending) are inherently risky. The Vice President and Chief Economist of Fannie Mae (at the time of the study), Mr Duncan, agrees:

'The crisis in the financial market does not mean the end of subprime mortgages. The mortgage market witnessed a bubble and, as with most bubbles, it burst. Lessons have been learnt....but the subprime mortgage market provided access to homeownership to lot of people who hadn't access before'[82].

By including or providing opportunity for borrowers who had difficulty in the past to obtain credit it will be argued that perhaps there is an existing regulatory guideline that will help to provide discipline. The Director General of the Building Societies Association, Mr Coles, explained that:

'Some Building Societies in the UK did participate in subprime mortgage lending...depending on how you define subprime lending. Yes, there is motivation for engaging in subprime lending...it helps for financial inclusion. If people have had difficulties in the past it is not good to completely exclude them. The notion that subprime borrowers are people who are most likely to default is not true. In fact the

[82] During an interview with the author 4 September 2008.

majority of the subprime borrowers are not in default. However, there is no legislative guideline in subprime lending, but of course lenders will have to conform to the FSA guideline on mortgage conduct of business - treating customers fairly, making sure customers are informed of the nature of the product they have been provided. However, the nature of subprime lending in the UK is different from that of the US. In the US there is a practice of layering or piling of risk, over-inflating of house prices and lenders were less responsible on how borrowers are screened'[83].

Perhaps more significantly, the crisis, as some commentators noted, indicates the difficulties witnessed by lenders in their attempt to use automated processes to calculate, price and manage default risks of marginal borrowers with higher LTV ratios. To this end, as discussed earlier and in Chapter Six, the processes of 'affordability pricing' (which involves the combined use of automated assessment, sharing of credit data information, and subjective personal assessment of intending borrowers) increases the unit price of adverse borrowing. Certainly, most subprime borrowers will be faced with the problem described by Watson (2009:3) as a "contraction in available mortgage credit [as the result of] systemic over-correction of the asset price bubble". Low income and high-risk borrowers are therefore especially likely to be in danger of complete exclusion from credit availability, accessibility and affordability, as lenders now apply stricter risk measures that limit the opportunities and qualification for inclusion of higher LTV adverse borrowers.

7.6 Conclusion

Access to credit and large sized loans, for example homeownership or remortgage loans, have become substantially part of the everyday life in developed economies like the UK and US since the 1980s' deregulation of the financial market, and especially since the government's onward policy drive for greater democratisation of finance. The increased availability and greater accessibility of credit for those who

[83] During a telephone interview with the author on 28 July 2008.

were previously excluded hinged on wider processes of financialisation, and the assembly of borrowers as entrepreneurial and disciplined participants who can bear the responsibility for repayment but who are also subject to risk-based pricing. So, even though marginal borrowers emerged to pay higher prices and interest rates, inclusion into mortgage borrowing and 'keeping up repayments' emerged and became embedded as part of daily social relations and identified with hard work and achievement. As such, the fact that more people and places were submitting themselves to the processes of financialised accumulation, financialised risk management and financialised discipline emerged as the so-called democratisation of finance took hold. However, our analysis in Chapter Six has then shown that the responses to the subprime mortgage crisis of 2006 and its consequent global financial crisis of 2007/8 has been problematic and increased tensions on the practicalities of the market approaches to solving the problems of financial exclusion.

In this chapter, I have addressed these problems by way of analysing the implications of the emerging reforms and re-regulation of finance for the future of financial inclusion. It has been shown that the post-crisis operations of the co-constitutive forces of financialised accumulation, financialised risk management and financialised discipline are increasing risk aversion. The chapter has also explored, therefore, the implications of the current risk aversion on the future of financial inclusion of low-income people. This includes an increase in credit contraction which in turn induces the tendencies of low-income people paying higher costs, or higher interest to the borrower. Drawing inference from Chapter Six, the chapter has noted that there is a growing dearth of responses and programmes on how to reshape the financial market after the crisis in that it might work for low income people.

Instead, the responses on the crisis by both government and industry seem to be focused on getting banks and the financial market re-started. For example, both the bank bailout programmes such as the TARP, TALF or the FDIC Legacy Loan Programme to purchase toxic assets from depository institutions, were all aimed at rejuvenating the co-constitutive forces of financialised accumulation, financialised risk management and financialised discipline within the banking and financial market but its technologies for future expansion of credit are limited by politics of fear and convenience. In this regard I have argued that the replacement of risk pricing with the practices of 'affordability pricing' marks the re-emergence of the conservative and exclusionary approaches of banks towards low-income inclusion to credit. In Chapter Eight, I proffer some recommendations.

8 Conclusion

The objectives of this research have been primarily three fold. First, was to provide a critical assessment of policy on financial inclusion. I argued in Chapter One that in the UK and US, financial policies supported the opening of the financial market, the regulation of 'exclusion from the financial' market (Bond and Krishnamurthy 2004:1) and the employment of various neoliberal or market-led approaches to solve the problem of exclusion to credit and/or homeownership.

The second objective was to develop a theoretical framework drawn from and underpinned in the processes of financialisation. Drawing from political economy and cultural economy perspectives on financialisation, I argued in chapter 2 that financialisation does not only represent mass investment (Harmes 2001) but also constituted forces that paved the opportunities for mass consumption of credit. Theoretically, therefore, I argue that the processes of financialisation have been driven by three main co-constitutive forces: financialised accumulation, financialised risk management, and financialised discipline. These co-constitutive forces are argued to provide the operational mechanism that enabled the vigorous participation of lenders and investors in both segments of the mortgage/credit markets. Finally, the third objective was to utilise the theoretical framework of the forces of financialisation to critically analyse the pre-crisis and post-crisis market-led approach on financial inclusion.

In pursuing these various objectives, this research has provided a critical examination of the process of financialisation in the constitution of the boom in

consumer borrowing and the extension of mortgages and credit to people and places that were previously excluded. Connections between the process of financialisation and policies that promote market-led financial inclusion and the democratisation of finance have been elucidated. Thus, unleashed by policies that relaxed the regulation of retail and wholesale markets, the forces of financialisation (accumulation, risk management and discipline) have been shown to have been co-constitutive in carrying forward what I have called 'financialised inclusion'. Crucial in this respect have been the ways in which, prior to the crisis that began in 2006, the rise of the subprime sector came to serve those who continued to be excluded by the mainstream market. In so doing, the subprime market paved the way for progressive extension of 'credit for all' people and places. This development prior to the crisis attracted a common trajectory of practical and theoretical applause for inclusion through financial market competition amongst the financial media and activists. In a simplistic characterisation, the prime market, though not exclusively, is argued to provide loans to borrowers with untainted credit history, high credit score and lesser risk probabilities, while the opposite is largely true of subprime. So, while the tendencies to financialised inclusion were present in both the prime and subprime markets, these tendencies were exemplified through developments in subprime. This development has been argued to be as a result of the entrepreneurial transformations in the innovations of accumulation, risk management and discipline of risk which have taken hold in both sectors of the market.

In Chapter Three, I analysed the experiences of the expansion of credit in the mainstream market, and argued that it has arisen as part of the wider forces of financialised processes that brought together innovations on risk. Risk emerged to be opportunities for profit and capital accumulation which brought about competitive

reappraisal of risk management. So instead of the old model of ‘flight from risk’ the mainstream market/lenders imbibed the various forms of financialised discipline of risk via calculative technologies such as risk/credit scoring and risk pricing. However, while there was some evidence of financialised inclusion in the mainstream, there were still practices of exclusion. Chapter Four provided examination of the rise of subprime and the effect of subprime lending executing the market-led policy on financial inclusion and the ‘ownership society’. It is argued that unlike the mainstream, subprime provided greater opportunity for financialised inclusion and/or ownership opportunity. Alongside greater financialised capital accumulation brought about by increased participation of financial actors, for example, investors, underwriters and brokers in the ‘search for yield’, the subprime via specialised approaches to risk management and discipline created product designs that enhanced competition, credit availability and credit accessibility. Overall, it was argued that through extra-legal disciplinary mechanisms, such as risk-based pricing, default re-pricing, exchange of trust and the assurance of entrepreneurial self-discipline, the subprime market exemplified the market-led policy on inclusion.

However, there was no suggestion in Chapters Three and Four that the increased financialised inclusion brought about by the co-constitutive forces was incontrovertible; as noted in Chapter Three there were always tensions and contradictions. Perhaps these tensions and contradictions were contributory to the cracks in the subprime mortgage market of late 2006 and the subsequent 2007/08 global financial crisis. The turmoil in the subprime mortgage market and global financial market has swung debates back to a less sanguine view of ‘credit for all’ through the unfettered innovation of the financial market. It opened another epoch

for ideological challenges between traditionalists and progressives on the relevance of the market-led approach to inclusion to credit and homeownership. I conjectured that the crisis was the emergence of 'debt for all' and recapitulated the way in which the crisis could be understood as the crisis of the forces of financialisation. So, notwithstanding the large amount of scholarly and media scramble to analyse the crisis and the catastrophic collapses and capital losses of big financial firms,[84] I have eschewed the 'finger-pointing' analysis that the subprime market was the sole cause of the financial imbroglios.

In Chapter Five, the understanding of the causes of the crisis was carried forward through a critical re-assessment of the co-constitutive forces of the financialisation process (financialised accumulation, financialised risk management and financialised discipline), upon which both the prime banks and subprime had thrived. Drawing from Minsky's idea of accumulation and financial instability it was argued that financialised capital accumulation via securitisation and/or the 'originate and distribute' model, produced a complex mechanism that increased 'recklessness' (Allen and Carletti 2008). It was therefore argued that the lack of 'repair kits' to cushion the structural tensions created by operational complexities of financialised accumulation expanded the room for uncertainties. So while Minsky's ideas provided help with assessment of the fragilities of financialised accumulation (Nesvetailova 2007), it shed little light on the implications of financialised risk management and financialised discipline on the crisis. In all, it was argued that the increased financialised risk management diminished co-responsibility especially as

[84] For example, in UK the collapse of Northern Rock in September 2007, HBOs in March 2008, Bradford and Bingley in July 2008 and in the US the collapse of Lehman Brothers in September 2008, the Bear Stearns collapse and eventual take over by JP Morgan Chase in autumn of 2007, despite the US Federal Reserve haven bought its toxic asset to the tune $30 billion. Also the March 2008 Goldman Sachs and Merrill Lynch record stock-price fall of 40 percent and historic $230 billion mortgage loans and assets write down by U.S financial institutions in April 2008 etc.

the disciplinary mechanism of risk-based pricing could not necessarily calculate uncertainties, for example asymmetric information and moral hazard between the lender and borrower, mass default or default correlation.

Following the size and consequences of the financial crisis, there emerged a vigorous government intervention. Chapter Six provided an examination of these interventions and responses. It was argued that the 'character and content' of the interventions have not drastically replaced the forces of financialisation; instead the 'speed and scale' of government interventions took the course of resurrecting and revitalising financialisation processes. However, some sets of facts were identified to have emerged from government interventions. First, is that the actors on financialised accumulation have reduced while the crisis increased; capital accumulation temporarily has grown from government recapitalisation schemes. Second, there still remain concerted policy pushes by both UK/US and IMF/BIS for risk management to be placed on-check with speedy supervisory, regulatory intervention and 'super' taxation. Finally, the forbearance and practices of 'affordability pricing' have typically raised questions about the market-led approach to financial inclusion.

In general the enormity of the crisis has provoked some documented criticisms of the financialised processes of inclusion to credit and homeownership. In Chapter Five, I provided an empirical examination of these criticisms. It was identified that financialised inclusion paved the way for homogeneous calculative prescription for the heterogeneous risk make-up of low income borrowers. This, it was argued, further paved the way for mis-selling of financial products to the wrong borrowers. Equally, it was noted that the complex or alternative setting, pooling and tranching and trading of low-income MBSs provided only for a complex sedation of risk. In

this regard, according to some commentators, the complex nature of subprime structured contracts tends to obscure the traceability of the actual lenders, risks and their volatility. This thereby made more loans to fail as borrowers were unable to renegotiate loans when they were faced with repayment difficulties. Aside of the limitations of traceability of originators/actual lenders, the heterogeneity of subprime risk assessments are criticised to have further paved the way for the creation, at the point of loan origination, of pyramids of complex and ambiguous securities (Cohan 2009). As a result this made some loans unsustainable, as within time their complexities produced unpredictable reactions in the housing market and around the financial market. Further critical commentaries also point out that the boom in the availability of credit and mortgages in the subprime market was underpinned in fraud and greed and was only geared towards profiting from the ignorance of low-income people whose appetite for borrowing and debt were deliberately accelerated (Bitner 2008).

In the same light, it has also been noted that financialised or market-led approaches to financial inclusion do not provide cushions for the resetting of discounted deals and/or house price fluctuations. According to Doms (et al 2007), the lack of cushions when discounted credit deals adjust increased the amount of repayment delinquencies. Pointedly, the increase in repayment delinquencies produced default correlative implications that perhaps contributed in the collapse of the real and financial economies (Cowan and Cowan 2004).

This means that there are two contrasting scenarios about the market approach to problems of financial inclusion and exclusion. The *first* is the entry (inclusion) scenario, which concerns the very link with house value appreciation and expanded

opportunity for low income earners to make the choice to buy into the ownership ladder, save or convert their housing wealth into a 'better standard of living' by way of equity borrowing. This shows that inclusion to credit or homeownership is necessitated only when house prices are stable or rise, or when the economy is overall stable and booming. The *second* scenario is historical. It arises when house prices depreciate and also when the costs to obtain securities deepen and lenders, investors and intermediaries start to make losses (Doherty 1997, Belsky and Essene 2008). In other words, when the market became turbulent the inclusion of especially the low-income and high-risk borrowers to credit and homeownership, their obligations and reward of quiet enjoyment of their home becomes perilous and/or unsustainable. So, the afore-held self-disciplinary enterprise of low-income borrowers to govern the volatilities of inclusion to credit and homeownership in order to save and create future wealth became even more contentious. As a result, the crisis has provoked some borrowers' disenchantment as they fell into negative equity or were engulfed in a debt albatross, while the lenders, the broker or intermediaries' balance book became heavily infested with bad loans. It is noted that the crisis brought about the shaking-off of responsibility by participants. For example, some of the borrowers in attempts to escape repayment obligations campaigned that their repayment obligations or terms of obligation should be mitigated. The negative social labels, such repayment delinquency and home repossession or foreclosure which had shored-up the drive for borrowers to 'work hard' and remain in homeownership, emerged as evidence of vulnerability that the lenders had taken advantage of (Golding et al 2008).

There was then a vacuum of responsibility: borrowers were not keeping up with repayment and the lenders, because of the speedy depreciation of value and

government forbearance interventions (as set out in Chapter Six), were unable to foreclose or repossess. As I noted before, this increased the presence of toxic assets and the government response with different kinds of bailout packages. One which emerged and a common denominator of the development as discussed in Chapter Five is the contention about the volatility of risk and the uncertainty of managing the risks of adverse credit lending. The introduction of new regimes of forbearance, or cautionary repossession[85] does bring in the debate that the risk of adverse lending is an 'avoidable uncertainty'. There are then competing debates on the propriety of forbearance as one of the remedies for repayment delinquencies was witnessed more in low-income, subprime MBSs than in prime mortgages. It has been pointed out that the contrasting side of the forbearance debates lie in its indication, as it has been encouraged by government, of the failure of the market-led policy approach on financial inclusion. The market approach as I had earlier pointed out was designed to instigate market competition that would increase product availability: to ensure accessibility through innovation, value and choice. Therefore, the provision for lender forbearance or suspension of normal/legal disciplinary relations between lender and borrower pointedly debilitated the tenets of free-market competition and discipline. On the other hand, the argument is that in order to obviate 'ghost communities', loss of borrower indemnity and the complete loss of investment and the value of the property, forbearance was an unavoidable remedy.

For this reason, as I earlier noted, the government forbearance responses (under the edges of 'fair market' to the crisis, in particular to mortgages held by low income earners, has not assuaged the fervent criticisms even by some community activists.

[85]For example the FSA (2008) letter to all chief executives of mortgage lenders and mortgage administrators instructing them to treat borrowers who are in arrears 'fairly'.

It has been argued ardently by some community activists[86] who oppose the existing mechanism of financialised inclusion that the aggregate performance of many of the subprime loans and mortgages were as 'spiky to sustain as toxic assets are to banks.' To them, the many new low-income people who were included in homeownership during the boom in the subprime market became excluded from savings and wealth creation as a result of unregulated or an adverse mortgage market. To them forbearance, as I have shown in Chapter Seven, does not provide a permanent solution to homeownership for large amounts of low-income homeowners.

Notwithstanding the criticisms of the market approaches or the instrumental influences of the co-constitutive forces of financialisation on tackling financial exclusion, the question yet unanswered is whether the specialised or secondary market is now an aberration for solving the problems of exclusion to credit and homeownership. I have argued that the open-ended collective measures in response to the crisis by the UK and the US and by other global governments have not diminished the relevance of solving financial exclusion through the financial market as there was not yet any alternative policy on how to solve the problems of financial exclusion. However, it is argued in Chapter Seven that government responses to the subprime and global financial crisis have not considered implications to issues of financial inclusion/exclusion of low income people.

It was noted that the UK and US responses to the crisis have not suspended financialised approaches but seem to have slowed the forces of financialisation especially in the subprime market and thereby increased the banks' and financial institutions' aversion to risk. It is argued that the response targeted banks' and

[86] Papers and speeches by activists during the author's observatory participation at the March 2009 annual national conference of National Community Reinvestment Coalition (NCRC) in Washington DC.

investors' ability to engage in risky investment and thereby slowed down the ability of banks and other non-banks to engage in financialised accumulation. Also, it is argued that the government responses to the crisis have been used to target the Basel II risk assessment models, which had enabled financial institutions to apply in-house risk management and financialised risk management models of 'originate and distribute', in order to mitigate the burden of credit and mortgage expansion. Likewise, it is argued that the government response to the crisis has slowed down or almost completely closed the financialised discipline for risk-based pricing. It brought about the replacement of risk-based pricing with affordability pricing. As earlier noted in Chapter Four, the subprime innovative use of risk-based pricing helped to encourage the entrepreneurial self-discipline that encouraged low-income and high-risk borrowers to work hard and be included. It is argued that the emergence of affordability pricing will pave the way for helping only borrowers who are well off. This is argued to be speedily closing the opportunities of the inclusion of low income borrowers and to increase their cost of access to credit.

On the flip side, it is shown that government responses to the crisis continued to take monetary policies aimed at 'getting credit flowing' again. On financialised accumulation, governments have continued to capitalise banks. On financialised risk management, governments have continued to rework the 'originate and distribute' model through legislation and reform proposals (for example remuneration practices and push for reformed Basel III)[87]. On financialised discipline, governments have continued to engage in the exercise of re-making 'risk relationships' between banks,

[87] For example, in the UK, the Banking Act 2009 provided statutory backing for the FSA and Bank of England to intervene when banks or other depository institution business models or risks undertaking threaten financial stability. Also the FSA introduced 'Code of Practice' Handbook for banks, building societies and brokers in 2009. Inter-alia the Handbook requires financial institutions must "establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote effective risk management" (FSA 2009).

financial institutions, broker dealers and borrowers aimed at addressing the 'potential build up of systemic' tendencies of risk-based pricing (HM 2009:10).

Although the risk relationship between banks and low-income borrowers continued to be the subject for political categorisation and debate, overall government actions indicate that the crisis is not the end of the processes of financialisation. But what has remained inchoate is whether financialised approaches remain the 'linchpin' in the assessment, capacity and inclusion of those at the margins of finance into the credit market. Given the absence of an alternative option to the market approach (on the problems of financial exclusion), the operations of the financialised accumulation, management and disciplinary forces of the financial market will continue to underpin the performance of credit expansion and inclusion. The principal argument put forward in Chapter Seven was that the responses to the crisis (as analysed in Chapter Six) make uncertain the future of the extension of discounted credit and mortgage products - for example, ARMs - to a greater number borrowers, especially low-income borrowers. The speedy demise of subprime credit products and services when combined with increased aversion of risk by prime market and non-banks is argued to be increasing the cost of borrowing. It is therefore noted that the mismatch in the post-crisis politics of credit availability, accessibility and affordability may re-accelerate the dichotomy of inclusion/exclusion and ultimately lead to greater inequalities. At the same time it begs the question as to whether the lack of a specific regulatory regime for the subprime or specialised lending had paved the way for some lenders and brokers to misuse products and services, is beyond legislative redress.

Unfortunately, this has not been the case. The recent politics of 'finger pointing' at the subprime market as the cause of the crisis could lead to avoidance of the questions of 'democratisation of finance for whom?' and 'financial inclusion and exclusion at what cost?' Apparently sensible answers can be drawn from a reflection on how the lending techniques and tools (for example, of risk 'securitisation', off-balance sheet 'originate and distribute' model, and the discipline of risk-based pricing) used in subprime lending were the same as the tools for the mainstream. In Chapters Three and Four it was shown that these techniques helped to increase the availability and accessibility of credit in both segments of the market, except that the subprime market credits included more people who were previously excluded. So, the question, then, is why the current government framework of reforms and re-regulations of the financial market is seemingly devoted to strengthen only the mainstream market?

8.2 Some Policy Recommendations

Drawing from the analysis provided by this thesis, I wish to close with some policy recommendations. In doing this, I argue strongly against the emerging position – almost commonplace at the present time following the 2006 subprime mortgage crisis and consequent global financial crisis of 2007/8 - that financial inclusion through the financial market, especially through the remit of the subprime market, is impracticable. I appreciate the competing commentaries on the risks of inclusion and on expansion of credit and homeownership to those who lie beyond the boundaries of the mainstream. But, financial exclusion based on the 'fear of risk' will only limit innovation and promote generational social issues and inequalities. The mainstream market has always attempted to evade expanding any form (long term/short term) of credit to low income and high-risk borrowers; and the fringe market has almost

always provided financial products to individuals and households at a high cost in forms of cheque cashing, pay day loan, pawn broking and so on. Given that low-income and high-risk individuals and households tend to reside in rented or social accommodation, the fringe market limits opportunities for savings and ownership and arguably actually expands realities of social exclusion and inequality. The emergence of the subprime market, most especially the subprime mortgage market, closed the gap of exclusion from the open and competitive market. It gave room for inclusion into large-size, long-term credit for people and places previously classified as too risky by the mainstream market. Hence, the subprime market, which more or less was consciously produced through the co-constitutive forces of financialisation, emerged as a means to the actualisation of the UK/US market-led policy option for financial inclusion and/or 'ownership society'. Also, to primarily minimise the exclusionary incidences of neighbourhood decay and neglect of social housing, and generally exclusionary incidences of lack of access to bank products and services such as personal loan, homeownership or homeownership credits. Yet the financial crisis that started as a US subprime mortgage hiccup in late 2006, brought emerging policy alterations away from the 'ownership society' through inclusion in the financial market.

At the time of writing, work on the effects of the subprime mortgage crisis and global financial crisis of 2007/8, and its impacts on the market approach to financial inclusion/exclusion remains limited, if any. Yet the area of this research continues to possess both theoretical and empirical relevance, especially as it continues to draw multi-disciplinary debates about the micro-dynamic framework of finance and credit. In this respect, I draw from the research underpinning conjecture on the influence of the three co-constitutive forces of financialisation on the market approach to

inclusion, and to provide a list, by no means exhaustive, of some findings and recommendations.

First, it is strongly maintained that the financial crisis should not be allowed to obliterate the future of the inclusion of low-income and high-risk people and places into the financial market. I posit that the crisis has provided a new challenge for policy makers and financial practitioners. These challenges are part of the general components towards greater financial stability and towards equitable and fair reform of the financial system. Second, despite the undeniable evidence of the abuses of subprime, the subprime sector still constitutes part of the alternative means of inclusion to credit and homeownership (other alternative means include social home buy). It is therefore on this backdrop that the following recommendations suffice:

8.2.1 Recommendations on Financialised Accumulation

A) As discussed above, there is currently a growing withdrawal of securities for subprime origination which has brought about closure of a large amount of subprime outlets and products. This development has emerged as a result of a 'new' public and industry notion that subprime originations are more a 'risky danger' than 'risky opportunity', which must be avoided. The implication has led to a drastic shrinking of the subprime market and increased the cost of securitising subprime origination, if any subprime loans are still originated at all. Overall, those who would have qualified for subprime borrowing now suffer. It is therefore imperative that as part of the policy drive for financial inclusion, the government should intervene to fashion out how to help the 'open market' or the competitive origination and underwriting of low-income high-risk loans or mortgages credits.

B) In this regard, drastic measures could be taken whereby the government establish special institutions whose role would be to redesign subprime approaches to financialised accumulation by way of standardisation and monitoring of their modalities.

C) It will also be necessary that as part of the ongoing redesign and reform of the financial market, a political solution should be provided to guarantee greater democracy of finance, ownership or inclusive society. Government should provide its goodwill by way of special guarantees to investors or underwriters of assets backed by non-conforming origination. Though the global nature of securitisation may provide some challenges, it can however be counteracted through collaborative global or international action.

In summary, while I am broadly in support of the current global government (led by the UK and US) initiatives to try to re-start and underpin the MBS and ABS market, at the same time I take a different position about its current modalities. So, rather than the temporary guarantee of 'prime loans', which is at the heart of the current policy on restarting the MBS and ABS market, I recommend that permanent (or long term) guarantee on subprime MBS also be made part of the solution. Equally, in order to prevent future abuse of subprime products and services, a more regulated subprime lending, subprime broker dealership, broking and subprime borrowing should be put in place. The subprime market is a necessity which cannot be ignored – it is a part of the life line for a greater number of people and the economy. It should not be allowed to go into extinction, as doing so will bring full-circle the dire

discriminatory lending[88] practices which had, in the first place, informed the rise of the subprime market. After all, the dynamics of homeownership, made possible by mortgage finance have, as Watson (2009:15) notes, become "no longer just a social space in which family life is conducted [but has become an essential part of] the model welfare citizen, an important means of routing credit flow which sustain economic growth...the health of the banking sector [and] economic stability in the interest of national accumulation".

8.2.2 Recommendations on Financialised Risk Management

A) To date the US and UK governments have sought to rebuild securitisation and associated technologies of risk management. However, this has progressed alongside a drive to clamp down on the perceived dangers of 'risky' lending. As such, securitisation and risk management more broadly does not now serve those at the margins of the market. At the time of writing there are both national and international proposals for risk management. For example, the Obama administration is pushing for a sweeping legislative reform of the financial market aimed at separating investment banking and commercial banking and the IMF is also pushing for the implementation of its proposal on tackling 'risky' lending via taxes 'on profit and pay' and a special bank tax for bailouts. While these efforts were focused on fashioning out reforms and drastic measures in order to reduce the future capability of banks and financial institutions to engage in 'risky' lending, it does seem that the key aim is to stifle subprime securitisation by preventing the growth of innovation in this direction. Against this backdrop, it is imperative that the subprime sector should be recognised as

[88] It should be noted that discriminatory lending cannot effectively be legislated without the market. In the US, for example, despite the existence of anti-discriminatory legislation such as (see HMDA 1975, TILA 1968) it was not until the financial market was made competitive (through continuous deregulation which increased financialisation processes and the rise of the subprime market) that those who were previously excluded or discriminated from credit accessibility were able to be included in the secondary market. See SMMEA 1984.

an important part of the market. This is because subprime has emerged as a special segment of the credit market that broadly and specifically serves the large population of low-income and high-risk borrowers which cannot just be disregarded in the proposed reforms.

B) Therefore risk management models of subprime credit and mortgage origination should be specially regulated and standardised. That will help to eschew risk management differences across the subprime sector, including with respect to its credit products (see Havard 2006:275).

C) So, as government strives to separate commercial banking from investment banking, it is proper that the subprime sector should be established as a full and independent banking sector with specialised procedures backed with established legislations and supervisory guidelines. In so doing, transparency of practice will be instilled in subprime lending through the expunging of the loopholes that paved the way for the complex tainting of subprime securities with other securities.

8.2.3 Recommendations on Financialised Discipline

A) While it has remained a silent but specific lending practice, 'affordability pricing' is seemingly emerging to replace risk-based pricing as a tool of financialised discipline and inclusion. As discussed in Chapters Six and Seven, affordability pricing paves the way for lenders' subjective assessment of borrowers' capability to cope with the uncertainty of the financial market. It is therefore imperative that risk pricing and affordability assessment should be complementary tools of financialised discipline. Government should help to set the standard for affordability assessment and risk pricing in order to remove the tendencies of collaboration of liar lenders and liar borrowers. By government providing standards for affordability assessment, it will

help to remove some products, such as NINJA loans, adjustable rate and interest-only mortgages which do not provide borrowers with requisite benefits to motivate their repayment commitment. As noted elsewhere, subprime lenders tend to place the justification of charging higher interest rates on the high risk of subprime borrowers. However, the lack of standardised approaches of measuring or grading the riskiness of subprime borrowers paves the way for non-determination of the longevity or affordability of the loan. As the evidence of the 2007/8 crisis indicates, most subprime borrowers were unable to cope with repayment prices soon after discounted rates reset. Therefore, standardising risk-based pricing will help to ensure that borrowers are priced in the manner which will help them to adjust and continue to cope with the uncertainties of the market. There is no doubt that it will also help to expunge rogue lenders and borrowers who, prior to the crisis, engaged themselves in bogus lending and borrowing. In the same token, in order to help establish a level ground for risk-based pricing, government should also provide and guarantee affordable long term, fixed interest rate for low-income earners' mortgages.

B) The risk of inclusion of especially marginal borrowers into the financial market cannot be managed by practices that negate innovation. Hence, instead of the current responses that are seemingly geared towards halt on innovations on credit expansion, the government should as part of its financial education include 'education on specialised borrowing and lending'. By so doing, a greater number of low income and high-risk borrowers would be savvier about the subprime market. Knowledge about risk will help to persuade low income and high-risk borrowers to take responsibilities and actions that will overall help their transition.

C) The current use of lender forbearance as a disciplinary response to the crisis is suggestive of reluctance on the part of the government to fully support the integration of low-income and high-risk borrowers as a responsible category in the structure of the mass market for lending and borrowing. This must change. The conventional moral principles of borrower responsibility to repayment must be juxtaposed with the competence of calculative paraphernalia of the market. This will help to illuminate the 'dark-spots' that had encouraged opportunistic borrowing and lending. It will also help to provide low-income and high-risk borrowers with the requisite encouragement and discipline required for participation in the continued aim of the democracy of finance and/or the 'ownership society'.

Appendix 1

Interview List

The following is a list of individuals interviewed for the research presented through parts one to three. The list is arranged in a descending order of the dates the interview was conducted

1) **Gary A. Dymski** currently Director University of California Centre Sacramento, and on leave as a Professor of Economics at the University of California, Riverside. Discussion in London on 30 May 2008. Telephone interviewed on 9 June 2008

2) **Peter Tutton,** currently Senior Policy Researcher Citizens Advice Bureau, London, UK. Telephone Interviewed on 16, June 2008

3) **Peter Williams,** currently the Executive Director of The Intermediary Mortgage Lenders Association (IMLA) UK. Interviewed in London, on 25, June 2008

4) **Marco Angheben,** currently the Director European Securitisation Forum. Interviewed in London UK, on 26 June 2008

5) **George Galster,** currently Distinguished Professor, Clarence B. Hilberry Professor of Urban Affairs USA, Visiting Distinguished Professor Glasgow University, Department of Urban Studies, UK, Telephone Interviewed on 10 July 2008

6) **Ray Forrest,** currently Professor of Urban Studies in the School for Policy Studies, University of Bristol; Co-director of the ESRC Centre for Neighbourhood Research and Visiting Professor in the Department of Urban Studies, University of Glasgow. Telephone interviewed on 11, July 2008

7) **David Miles,** currently Managing Director, Morgan Stanley Economic Research, London, Visiting Professor of Finance, Imperial College, University of London. Telephone Interviewed on 15 July 2008

8) **Adrian Coles**, Economist, currently Director General the Building Societies Association, UK, former Director General Council of Mortgage Lenders UK between 1993 and 1996, Member Executive Committee of the European Mortgages Federation. Telephone interviewed on 28 July 2008

9) **L. Randall Wray**, Professor of Economics at University of Missouri-Kansas City, Senior Research Associate at the Centre for Full Employment, Senior Scholar at Jerome Levy Economics Institute of Bard College. Telephone interviewed on 24 July 2008

10) **Dimitri B. Papadimitriou,** currently President Jerome Levy Economics Institute of Bard College, and Executive Vice President and Professor of Economics at Bard College, Vice Chairman of US Trade Deficit Review Commission of the U.S. Congress. Telephone interviewed on 31 July 2008

11) **Ray Boulger**, Mortgage Expert, Currently Senior Technical Manager John Charcol Independent Mortgage Experts UK. Telephone interviewed on 1st August 2008

12) **Stephen Knight**, Mortgage Expert, Currently Chairman and Chief Executive Checkmate Mortgages Limited, former Executive Chairman GMac-RFC UK. Telephone interviewed on 2 September 2008

13) **Douglas Duncan**, Vice President and Chief Economist Fannie Mae, former chief economist and Senior Vice President at the Mortgage Banker Association (MBA).Telephone Interview on 4 September 2008

14) **Nicola O'Reilly,** Senior Policy Advocate, National Consumer Council UK, now Consumer Focus, Telephone interviewed on 22 September 2008

15) **Mick McAteer**, Independent Consumer Advocate, CEO Financial Inclusion Centre (Not-for Profit Think Thank) former Principal Policy Adviser for Which? Telephone interviewed on 6 October 2008

16) **William .A. Niskanen** Professor of Economics, Libertarian Policy Analyst, Senior Economist and former chairman Cato Institute, former chairman President Regan's Council of Economic Advisers, former Senior Economist Ford Motor Company. Interviewed in Washington DC on 12 March 2009

17) **Jay Brinkmann,** Chief Economist and Senior Vice President Research and Economics, Mortgage Bankers Association (MBA), former Economist at Fannie Mae. Telephone interviewed on

18) **David Berenbaum**, Executive Vice President, National Community Reinvestment Coalition, (NCRC). Interviewed in Washington DC on 13 March 2009

19) **Paula Sherman**, Lending Protection Coordinator, Housing Opportunities Made Equal (HOME). Interviewed in Washington 12 March 2009

20) **Michael Tran**, Programme Director, National Neighbours for Neighbours Alliance Coalition (NNNAC). Interviewed in Washington 13 March 2009

21) **Jonas Milton**, Chief Executive Officer, Jacksonville Chapter Association of Housing Counsellors & Agencies (JCAHCA). Interviewed in Washington 12/13 March 2009

22) Anonymous Interviews in Wall Street, New York and Washington DC between on 10-14th March 2009

23) Anonymous Interviews in the City of London Financial District between 15-18th March 2009

Appendix 2

Interview Questions

Underneath are sample questions asked during the semi-structured interview (face-to-face and telephone) data collection. It is noted that the questions were asked randomly. And while further or follow-up questions were continually asked or utilised to clarify or elaborate important issues, they have not been made part of the sample questions below. Therefore it is to be emphasised that follow-up questions were unstructured and used to maintain a conversational and relaxed atmosphere during the interview.

1) How do you think the consumer credits and mortgages from sources other than the main street banks (the subprime) have helped those who previously had no access to consumer credits and mortgages?

2) How do you think the non-main bank lenders (subprime) have succeeded in providing consumer credit and mortgage to borrowers?

3) In what ways will you describe credit and mortgage from non-main bank lenders (subprime) as a means of achieving public policy on financial exclusion?

4) How would you assess the public policy of solving financial exclusion (to credit and homeownership) through the financial system rather than through the social/welfare system?

5) Do you think the crisis in the non-main bank (subprime) credit and mortgage marks the 'end of the road' for solving financial exclusion and or democratising greater access to consumer credit and mortgages?

6) How would you assess the statement that 'affordability is sacrificed for irresponsibility' in the wake of the boom in consumer credit and mortgage availability and accessibility from the subprime, especially for those people and places that previously had been excluded by the main banks?

7) What do you think about the implications of the mortgage crisis on the poor, especially with respect to wealth creation, savings and generation leap from poverty/exclusion?

8) What do you think should influence the policy on financial exclusion?

9) How would you assess the innovative ways of non-main bank lenders (subprime) in originating, valuing, managing and trading credit risk?

10) How would you describe the business model on consumer credits and mortgage within your organisation for the last 5-10 years?

11) In what ways did the innovation in risk calculation and management technology influenced the consumer credit and mortgage business of your organisation for the last 5-10years?

12) How would you evaluate the impact of the credit crunch (US/UK) on the overall business model of your organisation, especially with regards to consumer credit and mortgages?

13) What would be your overall assessment of the present innovations of risk management (for example, credit scoring, risk pricing, securitisation, CDOs) and are their foreseeable new innovations in the prospect?

14) How would you assess the responsibility of the non-main bank lenders (subprime) in the current financial crisis (consumer credit and mortgages)?

15) Would you, by hindsight consider the credit crunch as the conspiracy or the negligence of the financial practitioners, rating agencies, regulators and policy makers?

16) What would you consider the responsibility of the non-main bank (subprime) borrowers in the current financial crisis?

17) How would you assess the network of the rating agencies, regulators, borrowers and lenders co-responsibilities in the construction and maintenance of discipline across the financial market (consumer credit and residential mortgages)?

18) Are there any other issue(s) you consider to be problem(s) or solution(s) to financial exclusion and or the credit crunch?

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