

Greenspan defends subprime loans

By JANE WARDELL, Associated Press
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LONDON -- Former Federal Reserve Chairman Alan Greenspan defended the U.S. subprime mortgage market, arguing that the securitization of home loans for people with poor credit -- not the loans themselves -- is to blame for the global credit crisis.

Greenspan warned that the longer-term effects on the economy were still being determined, but said there were early signs of an easing in the crisis.

"For example, the yields on what has been the poster child of this crisis, asset-backed commercial paper, have jumped up sharply," he said. "It has since come down, but not all the way."

Similarly, the interbank lending rate, which jumped in recent weeks amid fears of insolvencies, has started to come down, but "not all the way," Greenspan said Monday during a talk in London to promote his new book.

"We are not through with this yet," he added, suggesting there could still be what he termed an "Act II," in which falling house prices feed into slower consumer spending.

However, he reiterated earlier comments that he believed the probability of a recession in the United States was "less than 50/50."


Greenspan also implicitly criticized the role of ratings agencies.

"The problem was that people took that as a triple-A because ratings agencies said so," he said. Yet when they tried to sell the products they ran into difficulties, which shook confidence.

"What we saw was a 180 degree swing from euphoria to fear and what we've learned over the generations is that fear is a very formidable challenge," Greenspan said.

Ratings agencies such as Standard & Poor's Corp., Moody's Investors Service Inc. and Fitch Ratings have come under fire for being slow to lower their ratings on securities based on mortgage loans to U.S. borrowers with poor credit records.

He said there remains a place in the market for borrowers without stellar credit. "Subprime mortgages were and are risky, but they are worth it," Greenspan said, adding that is better to have a larger property-owning class with a vested interest in the system.

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