

## Abstract

This paper is a final thesis in a Bachelor science studies at the University at Akureyri.

The research question stated is:

**What is a subprime loan and how did their existence affect the economy of the world?**

In order to provide an answer to the question I look at what has been happening in the years leading up to and the start of the crisis, mainly the years from just before the millenium and through 2008.

Numbers and other information is hard to find in books or printed media, since the events discussed are so close to us in time. Therefore I used the search engines and the online databases available through the University of Akureyri website and its library.

It is interesting to compare the events leading up to the depression of 1929 to current events and the theories claiming that depressions can be predicted, and therefor there is some information relating to that.

The conclusions are that sub prime loans are loans given to clients that possibly will not be able to pay back and do not have assets to post as colleteral. Therefor the financial institutions could claim higher intrests from these clients. The risk was transferred away from the originators by selling the loans to financial banks that rolled them into securities that were insured against default and sold to investors.

Regarding the latter part of the question, my conclusion is that blaming the global recession on sub prime loans is a simplification. Surely the subprime loans were one of the mistakes and had its part in the housing bubble burst. But they were just one of the puzzle that not to long ago

were looked upon as one of the exciting new products on the financial market. Products that got out of control and have now caused a lot of harm to the global financial markets.

Keywords: Sub prime loans, *Undirmáslán*, *liquidity crisis*, *financial crisis*, *securities*, *U.S. mortgage market*.