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From boom to bust a guide to the credit crisis

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Objectives

- To de-mystify the credit crunch
- To give you the confidence to talk about the crisis at job interviews
- To help you understand the impact of the recession on the legal market

What is the credit crunch?

- Also known as a “credit squeeze” or “credit crisis”
- Means a reduction in the general availability of loans or a sudden tightening of the conditions required to obtain a loan
- Biggest problem is banks are not lending to each other
- Lack of confidence

Why did the bubble burst?

- The US sub-prime mortgage crisis
- Sub-prime mortgages are those sold to customers with patchy credit histories
- Just like equity, debt can be bought and sold so sub-prime mortgages sold on by lenders
- US housing market crashed
- Banks stopped lending to each other and to us

The Casualties

- Northern Rock - nationalised
- Lehman Brothers - in administration
- Bradford & Bingley - nationalised
- HBOS - merged with Lloyds TSB
- Merrill Lynch - taken over by Bank of America
- Iceland - proving countries aren't immune

The bank bailouts

- The US bailout
- First bailout worth £37bn announced in October 2008 resulting in part-nationalisation of RBS, Lloyds TSB and HBOS
- Second bailout announced last week will create a “bad bank” which will buy toxic assets

Questions to consider

- **Group 1:** If the US had its time again do you think it should have allowed Lehman to collapse?
- **Group 2:** What measures can the UK Government take to revive the economy?
- **Group 3:** Do you think law firms are recession proof?
- **Group 4:** What are the root causes of the credit crisis?

Credit crunch to recession

- Credit crunch continues to infect the wider economy
- Slump in the housing market
- High street woes - collapse of Woolworths
- Car industry demanding Government help
- Will ultimately lead to higher unemployment

Impact on the legal market

- Not all bad news - increase in insolvency and restructuring work for law firms
- Worst hit practice areas are banking, corporate, real estate
- Over 2,000 redundancies in top 200 law firms
- Trainee retention rates and vacancies holding steady

Useful reading

- BBC news website including Robert Peston's blog
- Legal press - The Lawyer and Lawyer 2B
- Business section of a quality broadsheet
- Economist

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Thank you!

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