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BIS says loss indexes not reliable predictors

The Bank for International Settlements has come out and said that indexes used to gauge credit-default activity and determine write-downs from the subprime mortgage market are more likely to be a poor predictor of future prices due to the fact they fail to capture all debt instruments.

BIS researchers Ingo Fender and Peter Hordahl released a quarterly report today which stated that "the Markit ABX.HE indexes 'seem to have been widely used' by banks to hedge and trade as well as value subprime mortgage-backed securities," Bloomberg.com reported.

Fender and Hordahl went on to say "observed ABX prices are unlikely to be good predictors of future default-related cash flow shortfalls on outstanding subprime MBS, especially for tranches at the higher end of the capital structure."

Worldwide some of the largest banks and securities firms have reported losses of more than \$513 billion of asset write downs and credit losses since the start of 2007. A contributing factor to such losses is the fact that securities backed by home loans given to borrowers with sub par credit have plummeted, leaving financial firms and their capital washed-out.