Financial intermediation and the post-crisis financial system[1]

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Abstract

Securitization was meant to disperse credit risk to those who were better able to bear it. In practice, securitization appears to have concentrated the risks in the financial intermediary sector itself. This paper outlines an accounting framework for the financial system for assessing the impact of securitization on financial stability. If securitization leads to the lengthening of intermediation chains, then risks becomes concentrated in the intermediary sector with damaging consequences for financial stability. Covered bonds are one form of securitization that do not fall foul of this principle. I discuss the role of countercyclial capital requirements and the Spanish-style statistical provisioning in mitigating the harmful effects of lengthening intermediation chains.

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Keywords: leverage; financial intermediation chains, financial stability

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