

**U.S. Sub-prime Mortgage Crisis:  
Central Banks Responded Well to  
a Potentially Serious Ongoing Situation**

**BDO Dunwoody CEO/Business Leader Poll  
by COMPAS in the Financial Post  
for Publication August 27, 2007**



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## **1.0 Overview**

The CEOs and business leaders on the COMPAS panel view the sub-prime economic crisis as at most moderately serious for the present but quite possibly worsening somewhat in the months ahead, as shown in table 1.

The central banks in both Canada and the United States get plaudits for their handling of the situation but panelists are worried and not entirely sanguine about the future (see tables 3 and 4).

The following verbatims provide some nuances in the perspectives of respondents:

I'm concerned that the financial problems with credit in the US will lead to a down turn in the manufacturing sector, starting with consumer goods.

I think a far bigger problem for Canada right now is ABCP. The Banks, the central bank and DBRS are complicit in this crisis.

It was a courageous move from U.S. Fed's governor to reduce interest rate and bring some calmness to financial market.

This is a good lesson for the Bank of Canada that besides setting an inflation target in the long run, sometimes the market needs short-term sacrifice in exchange of long-term stability.

Regarding subprime mortgage - The US Government should have learned from the Savings and Loans fiasco. Their lending institutions need to be regulated. The notion that "the market will correct" the problem in a capitalist system may be directionally correct - but at what cost?

The best solution would have been for the Fed to regulate the maximum amount that can be insured on those



mortgages. [They could've] kept the bubble from rising so high before it popped.

There are still many sub prime mortgages that will face refinancing with lower equity values. This will add to the glut of real estate on sale and subtract from disposable income.

The US feds should reduce the prime so that some, at least, can keep their homes.

These shocks to the financial system will keep getting worse and worse over time - perhaps not in the next six months.

The underlying USA fundamentals are of course based on cheap energy like all of our fundamentals are. Given the size of the US debt, the coming energy crisis and the effects of global warming we will keep seeing these types of crises more and more.

These are the key findings from the current web-survey of the panel of CEOs and business leaders undertaken for the *Financial Post* under sponsorship of BDO Dunwoody LLP.

*Table 1: (Q1) As you know, the U.S. economy has been experiencing a threatened economic crisis as a result of weakness in the subprime mortgage market. Too many people took out home mortgages that they had difficulty carrying. The ultimate effect was weakness among a number of financial firms. On a 7 point scale where 7 means very serious, and 1, the opposite...*

How serious was this economic situation?								
Mean	7	6	5	4	3	2	1	DNK
2.9	0	6	4	10	40	31	8	1
How serious is that same situation today?								
Mean	7	6	5	4	3	2	1	DNK
3.1	1	8	6	12	36	27	8	3



Table 2: (Q2) Do you see the situation becoming

	%
A lot worse in six months	9
Somewhat worse	37
Remaining about the same	26
Somewhat better	18
A lot better	10
Don't know or no opinion	1

Table 3: (Q3) As you know the central banks intervened to prevent the crisis from widening by increasing liquidity. Using a 100 point school report card type scale, what score would you give the

	Mean
U.S. Federal Reserve for its immediate response to the crisis	72
Bank of Canada for its immediate response to the crisis insofar as it might affect Canada	71

## 2.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted August 22 – 24, 2007. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 116 are deemed accurate to within approximate 9.1 percentage



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points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D. and Tamara Gottlieb.

