This thesis focuses on the role of credit default swaps during the subprime mortgage crisis 2007-2009 with special focus on mortgage-backed securities. In the empirical part of the thesis, three models are constructed. All of them have the same dependent variable, a mortgage delinquency rate in the 2005-2010 period, and independent variables representing various types of credit default swaps issued.

Streamlined in each model, credit default swaps (CDS) were divided based on certain criteria (underlying sectors, maturity and ranking) and subsequently compared and analysed. By using the probit model, the main research question “How the probability of mortgage delinquency depends on the volume of credit default swaps issued?” was inspected.

The contribution of this thesis is three-fold. First, we show that a delinquency rate of mortgages was correlated with the maturity of CDS issued (the delinquency rate was higher for short-term loans). Second, we state that the volume of subprime loans increased along with the volume of issued CDS, what contradicts to the insurance nature of a CDS. Finally, a mortgage delinquency rate was lower in the 2006-2008 period than in 2009-2011, what implies the domino effect of failing mortgages had an immense impact even after the global crisis.