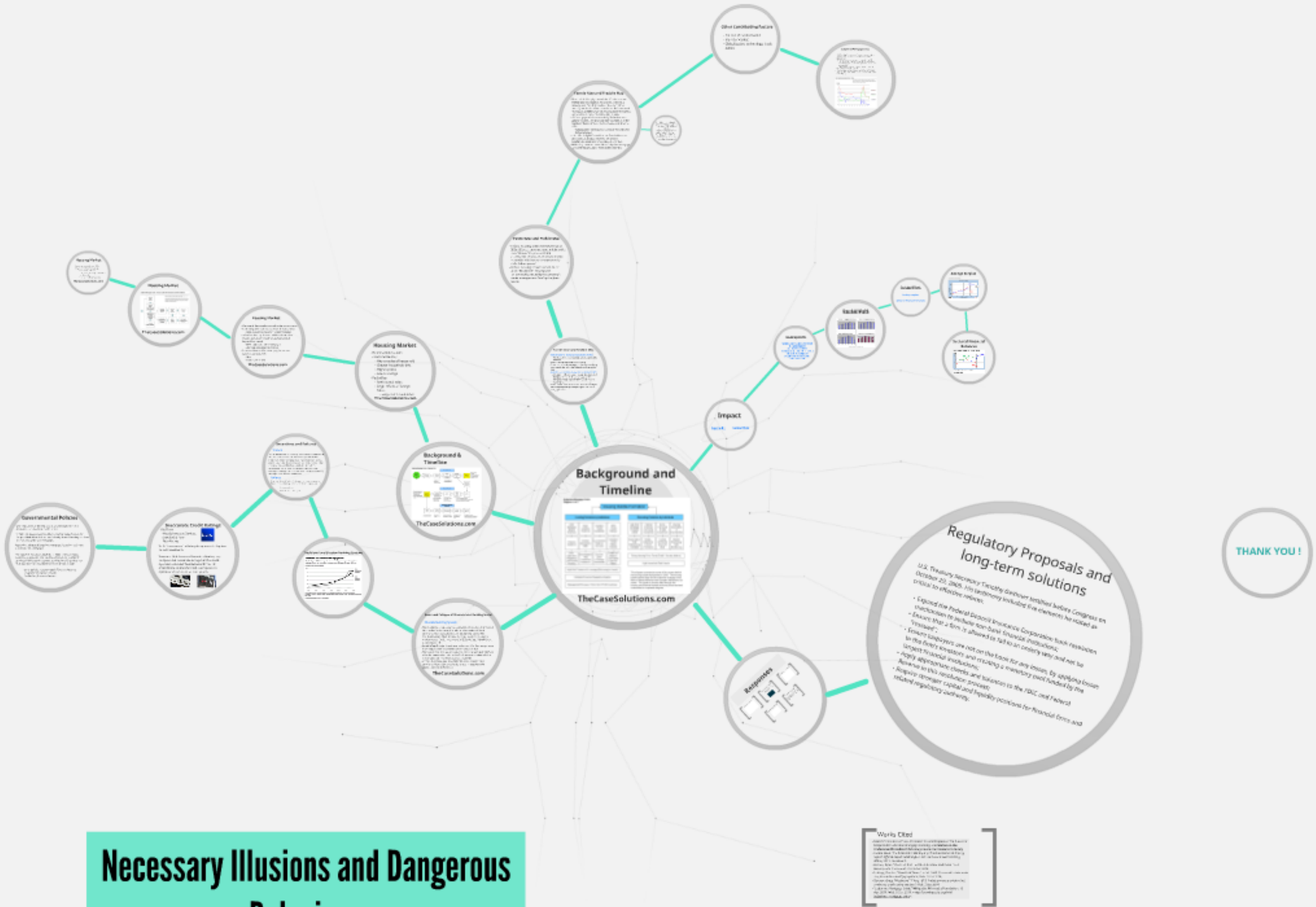

Necessary Illusions and Dangerous Delusions

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Team #3

- Talia Kaye
- Jonas Moncada
- Sua M. Estrada
- Loana Camarena
- Juan Astorga Villegas

Necessary Illusions and Dangerous Delusions

Team #3

- Talia Raya
- Jesus Moncada
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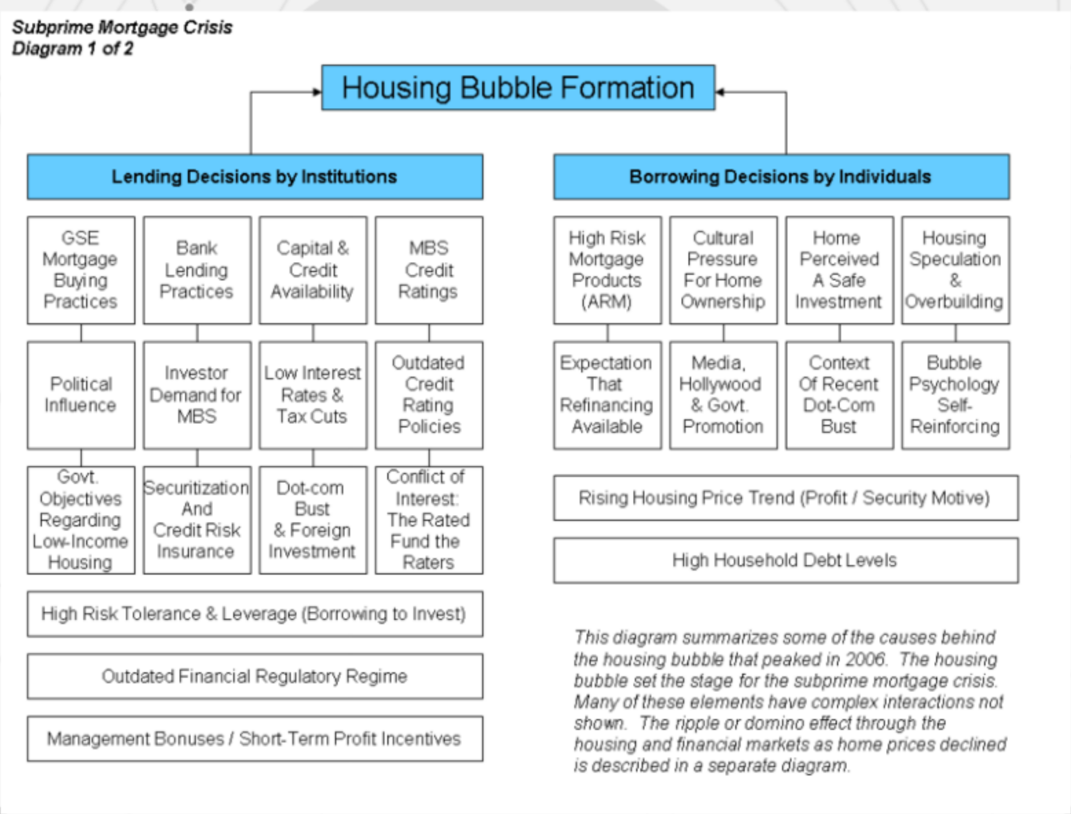
Background and Timeline



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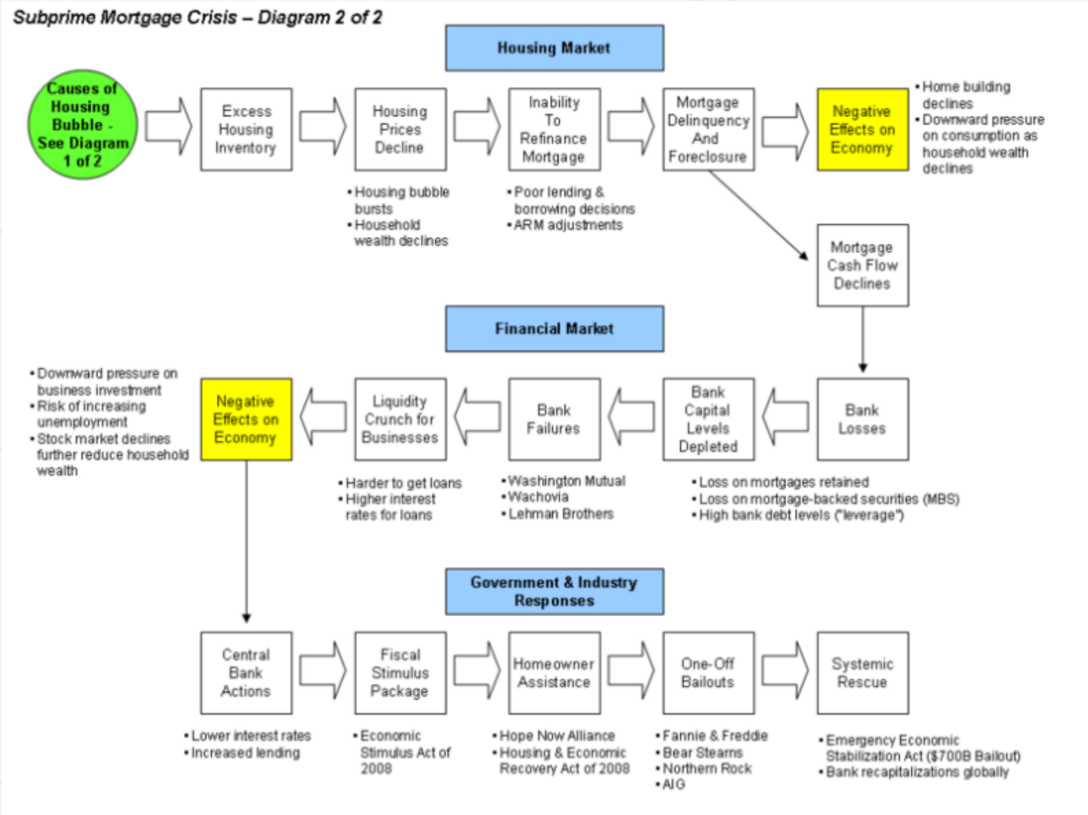
Background & Timeline



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Housing Market

- Housing Bubble was characterized by:
    - Higher sales of household
    - Greater household debt
    - Higher prices
    - Lower savings
- Fueled by:
    - low interest rates
    - large inflows of foreign funds
        - easy credit candidates

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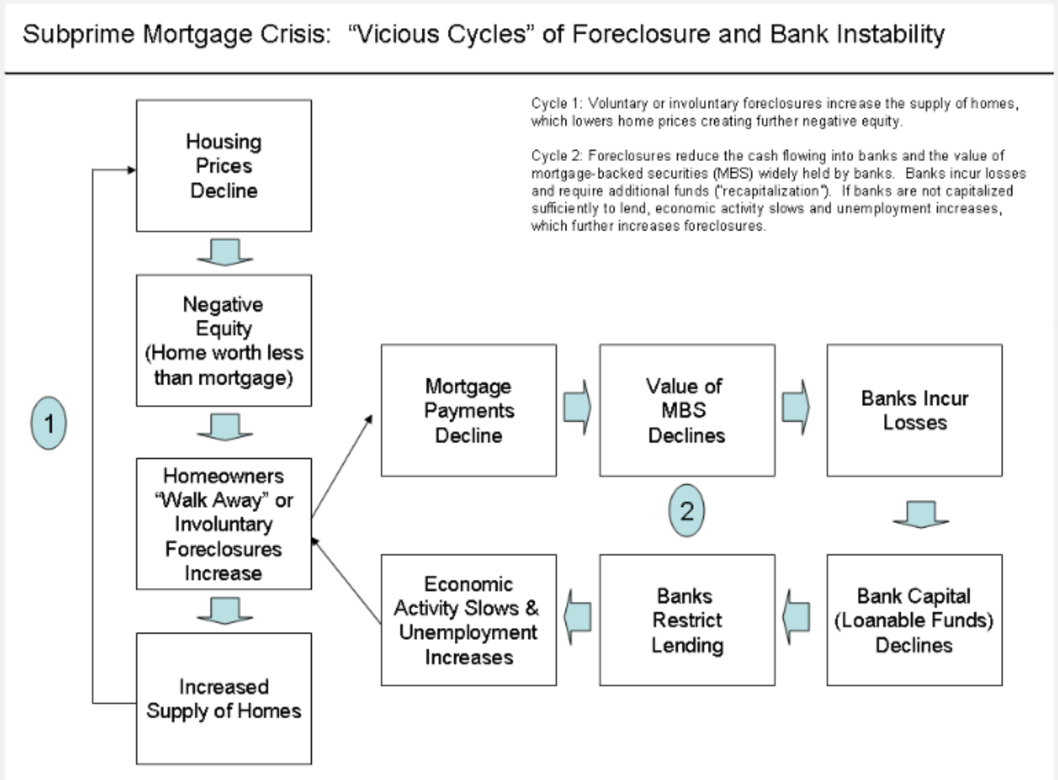
Housing Market

- Demand in households caused an increase in price
- Increasing price caused a demand in households
  - People were buying and "flipping" houses
- Subprime lending allowed individuals with low income but decent credit to buy houses well beyond their reach
  - ARM (adjustable rate mortgage)
  - SIVA replaces proof of income
- Increased demand for mortgage, investment banks reponded with:
  - MBS
  - Colateralized debt

Housing Market



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Housing Market

- Housing Price decline in 2006
- Negative homeowners equity
  - Increased foreclosure
    - Increased the surplus of houses in the market
    - Devaluated house pricing

Boom and Collapse of Financial and Banking Sector

Shadow Banking System

- The shadow banking system is a collection of non-banking financial intermediaries that provide similar services that traditional commercial banks provide but are loosely regulated unlike traditional banks. These include mortgage companies, money market mutual funds, investment funds banks, etc. (Meryll Lynch, Lemon Bros)
- Assets of top 5 major investment banks was $4 trillion compared to top 5 major commercial banks was around $6 trillion
- The Shadow Banking system began to fall in the spring of 2007 and fell to its lowest point in the fall of 2008 when more than a 3rd of the private credit markets became unavailable.
- At its peak in 2006 gave about $2 trillion in residential and commercial loans compared to its lowest in 2009 they only awarded around $150 billion