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Subprime Meltdown: American Housing and Global Financial Turmoil, Chinese Version

Banks go Bankrupt

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What caused the bank crash and bankruptcy in 2008?

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The Federal National Mortgage Association began increasing the amount of loans made accessible to those with subprime ratings. The reason behind this being for everyone to be a homeowner and achieve the "American Dream." The subprime borrowers were high risk and their mortgages showed it with higher interest rates and more. Adjustable-rate mortgages became popular with subprime borrowers, both being two of the most dangerous mortgages. Both mortgages would offer low initial payment rates that would become way larger than the initial rates after a period of time.

Intro

One of the notable events in American History was the Financial Crisis of 2008. This event is significant for Americans, and the world because instead of a recession that took place only in one country, it caused an international economic downturn. What made this recession so ironic was that it was caused by greedy bankers and the citizens of the United States who wanted nothing more than to have a home. While this event culminated in the latter end of 2008, it began in the nineties, building the economy to a peak in 2006 and then crash in '08.

Within this presentation, we will discuss and analyze four main topics. First we will analyze sub-prime mortgages and how they were a seemingly safe investment. Next, work to understanding how the banks failed to recognize the dangers of investments such as CDOs. Third, we will display the actual events in order from the beginning of September to the end of 2008 to better understand the actual events that lead to economic downturn. Finally, we shall study the aftermath, and how the economy has recovered.

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Economic Recovery and Long-term Effects

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With the end of the Recession most people expected an economic upward trend that the U.S. has displayed in the aftermath of past recessions. However this particular rebuild has been very slow, and some question whether the economy will get back to its former strength. Robert Lucas was the Nobel prize Laureate in 1995, and after intensive study he explained the slow growth was the result of America joining the European trend. As European countries became welfare states in the 1970s their economic growth slowed to a halt, and with the new policies that were put in place America could also finish its growth at a lower GDP per person (Henniger, Daniel. WSJ).

GDP growth after U.S. Recessions

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Market Crash Timeline

The market crash of 2008 was an event that took a while to build up to. In 2006, the market reached a peak and things began to look up. All until a couple of subprime loans began to default and foreshadow the upcoming troubles in the market. In February of 2007, The Federal Home Loan Mortgage Corporation (Freddie Mac) announced they would no longer be purchasing the risky subprime loans. By August of 2007, two major subprime lenders, New Century Financial Corporation and American Home Mortgage, both filed for bankruptcy marking the start of the housing market crash.

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EXTRA CREDIT

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Timeline Continued

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Conclusion

Many countries have experienced recessions over the years but the Great Recession of 2008 was particular in that it hit all countries. Beginning with sub-prime mortgages and other "easy" credit for citizens, the country was allowed to dig itself into a pit of debt. As these debts were bundled and diversified, banks and other financial institutions saw them as a high return investment. When the Federal Reserve raised the interest rate many of the sub-prime mortgage receivers had to default on their loans leaving the banks and financial institutions with mountains of unpaid debt. Using a special program the government was able to purchase the bad debts and help stimulate the banks to advance the economy and prevent further recession. This is a crucial part of American history as it is a lesson in how we as citizens of America need to be cautious with our economy to prevent collapse and degradation for future generations.

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Timeline Continued

On March of 2008, the Dow dropped to 11,893.69 in one day, slowly making a recovery after. In May the Dow rose above 13,000 again and the market started to slip away. In September of 2008, news that the financial firm Lehman Brothers declared bankruptcy and panic was in order. Over the next couple of days, the Dow bounced up and down around 11,000 until September 29, 2008. On that day, the US Senate voted against the bailout bill, and the Dow plunged down 777.68 points leaving its mark as the greatest amount to fall in one day. The panic ensued until March of 2009 when Obama's economic stimulus plan began to ease the panic and show evidence that the market crash of 2008 was almost over.

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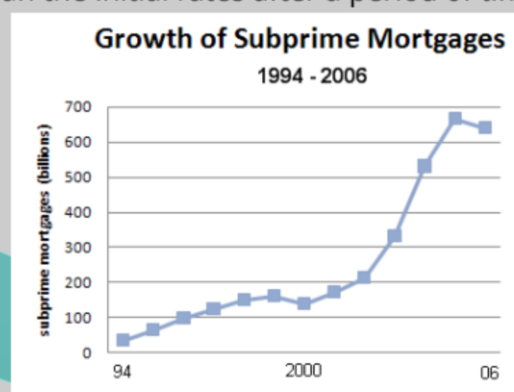

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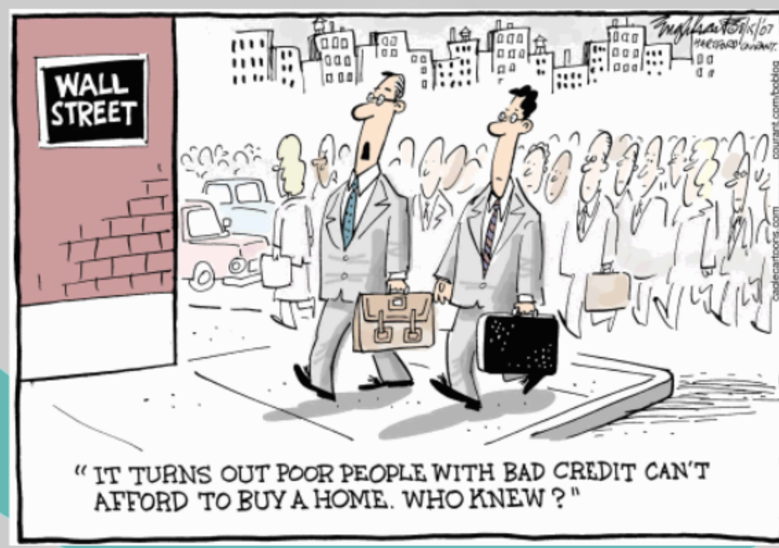

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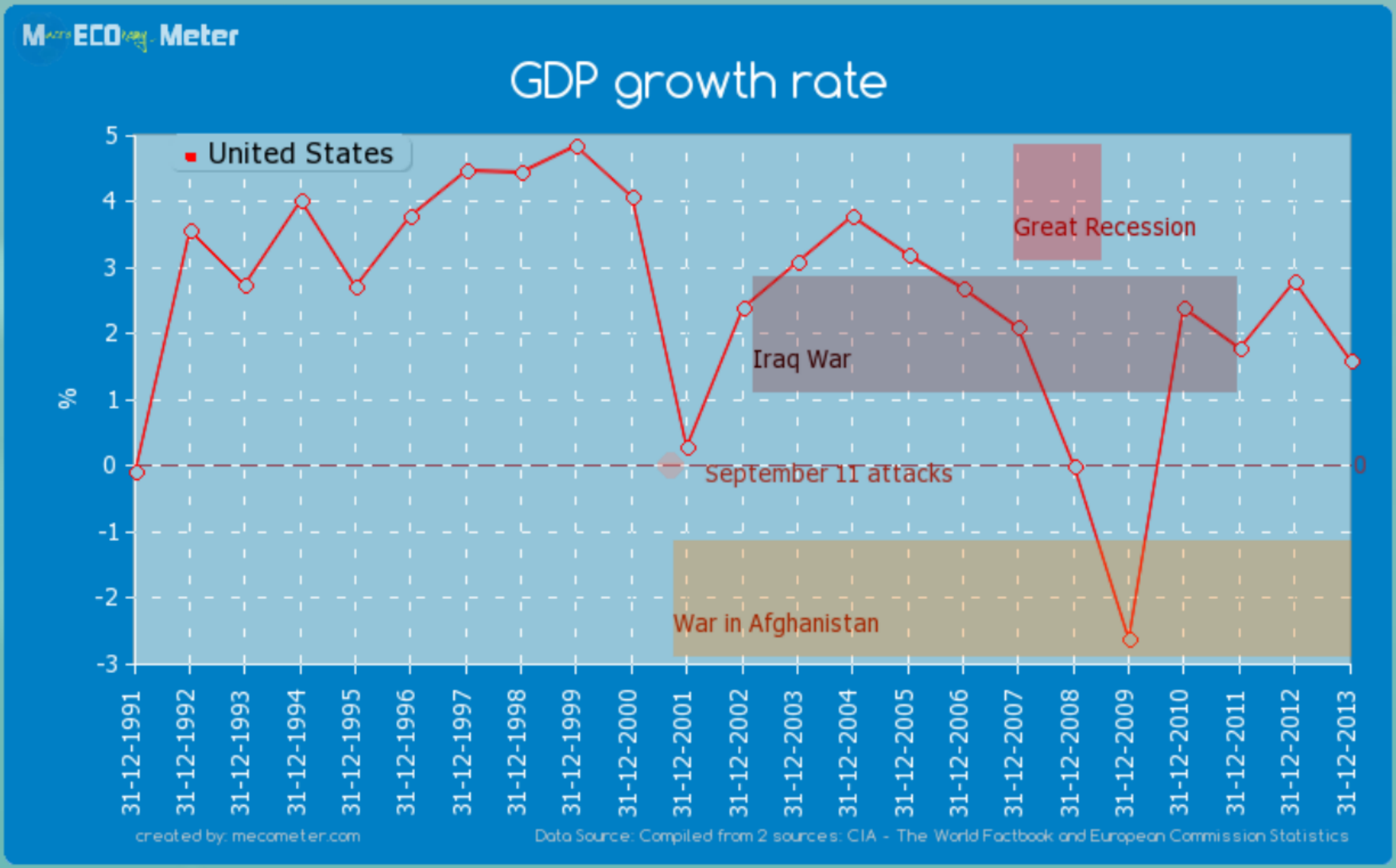

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