

Sample essay on subprime mortgage crisis

[Finance](#), [Investment](#)



Subprime mortgage is type of mortgages usually issued to borrowers with low credit rating. As a result the borrower isn't offered with standard mortgage terms because the lender assesses the risk of default on such borrower much more above the average. Lending institutions often charge interest on subprime mortgages at a higher rate, compared to the standard mortgage to compensate for a greater level of risk.

In 2004 the interest rate was 1%. Money was almost free of charge, which led to a fundamental change in the behavior of banks. Customers had no longer to convince banks to give them money. Banks themselves, on the contrary, had to chase people, literally, forcing them to borrow money. However, money was, in fact, borrowed to those who would never pay them back.

The subprime mortgage crisis began in the US in 2007 as a result of increase in the number of defaults on mortgage loans and alienations of mortgaged real property by banks, as well as due to the falling prices for securities backed by subprime mortgages.

Unfortunately, people should claim themselves only for such a crisis. "Looking back, we are almost as mad at ourselves for not seeing it coming as we were at those who created the crisis" (Marchese).

Very likely difficulties with payments on these loans cared neither bankers nor borrowers. The latter ones took a loan for the purpose of home resale to another buyer, often the same mortgage holders. All this gave the malignant features of the pyramid system, designed exclusively for the "perpetual growth." As a result, it collapsed with the consequences being far more destructive than it might have been expected.

United States of America, the largest economy in the world, entered the year 2008 with a loan, especially mortgage crisis. In September 2008 it provoked liquidity crisis of global banks. As a result, the banks stopped lending. In September 2008, the situation has been exacerbated by the collapse of a number of financial institutions related to the mortgage market, such as an investment bank Lehman Brothers, mortgage companies Fannie Mae, Freddie Mac and AIG. Lehman Brothers bankruptcy was the largest in the US history. The collapse of the fourth largest US investment bank had a negative impact on the main stock exchange quotations in many countries and had a negative impact on energy costs. In fact, the crisis spilled over into production and, thus, this period is considered to be the beginning of the Great Recession.

So, the subprime mortgage crisis was one of the main causes of the Great Recession. It lead to the asset prices decrease together with great liability increase. The issue of solvency arose. In fact, many banks and other financial institutions went bankrupt. This crisis was also complemented by other factors such as general cyclical economic development imbalances in international trade and capital flows, as well as overheating of the credit market that eventually cause the Great Recession.

Work cited

Marchese, Joe. " The Coming Subprime Advertising Crisis." Mediapost. 17 Apr. 2014. Web. 18 Apr. 2015. .