Extra credit

The circumstances that led to the housing crisis are complex, multi-layered, and often difficult to understand. It seems that this topic is constantly in the news, and has gained the attention of correspondents and analysts alike. There are many sources of information and many ways of approaching this topic, but by looking at the most pivotal events and breaking them down into the simplest of terms, anyone can gain a basic comprehension of this issue. The best place to start is with a description of what things were like in the years prior to the financial downturn.

At the beginning of the 21st century, the amount of money in the entire world's savings—including retirement funds, insurance funds, central bank savings, and other funds—went from $36 trillion to $70 trillion. That $36 trillion was the result of hundreds of years of growth, and then suddenly there was this unheard of expansion of funds, because countries like India and Saudi Arabia were making a lot more money and adding to that pool of savings. Before 2000, investors would do everything they could to protect their investments, and would put their money into safe investments such as municipal bonds. Then, when the funds nearly doubled, the investors ran out of places to invest their money, because although the money looking for investment opportunity doubled, the available good investments did not double. So when the demand for investments couldn't be met, someone had to create a product that would provide more investment opportunities and meet that demand. What happened next was what Malcolm Gladwell calls a " tipping point," or a sudden rise of an idea or behavior that spreads epidemically, because " ideas and products and messages and behaviors spread just like viruses do" (Gladwell 7).

The solution that the financial industry came up with was to identify a new

source of consumer by making mortgage loans available to people with bad credit and low income. That way, investments could be made based on the interest that would be earned on these mortgages: roughly 5-9%, instead of the meager 1% available elsewhere. With such a huge demand, mortgage agents had to go find new people to mortgages, until finally in 2003, basically everyone who was qualified to get a mortgage already had one. Then another level of standards had to be introduced, and this involved NINA (no income no assets), stated income verified asset loans, and stated income, stated assets loans. People no longer even had to prove their income, they could simply say that they worked and had income and had money in the bank. The verifiers would make sure people worked where they said, but they wouldn't check on their income. Eventually, loans were available to people without any income or asset proof at all.

The people selling these mortgages were making as much as $75, 0000 per month. The new spate of mortgages meant housing prices were raising, and this actually served to mask the problematic nature of the new practices from analysts for some time (Demyanyk). Other people got in on the housing bubble action by purchasing properties, improving or " flipping" them, and selling them for twice as much (" Giant Pool of Money"). However, with the loosening of guidelines that previously brought protection, even dead people were getting approved for mortgages (" Giant Pool of Money"). These practices caught up with the financial industry, and eventually the housing bubble burst and turned into a housing crisis. As people who couldn't afford the mortgages they were given started to fail in making payments, loans and mortgages were defaulted on, and there was no longer a viable product for investors to put their money into. Although the industry found a way to force

growth, it was unsustainable growth, and that is what caused the ensuing collapse (Demyanyk). By offering loans that lacked the traditional credit risk protections, the risks outweighed the payoffs in such a proportion that the effect was life altering and society changing.

Works Cited

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