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Financial Crisis in U. S.

## **Summary of the Financial Crisis in U. S**

The financial crisis in the United States was one of the historical financial meltdown in the world's history. We all know how the ups and down frequently occur in this area, but a downfall like this affected the whole country. It all started in 2007, August. A few events in the past were a trigger to such an event. A noticeable event in 2001 occurred when the U. S faced a brief period of recession in the country, although the effects of it were covered up without much deep loss but a fear of such an uncertainty gained a place in everybody's thoughts. In order to limit the recession the federal funds rate was lowered from 6.5% to a percent of 1.75 by the Federal Reserve. This resulted in the availability of cheap money and the economy was present then in a liquidated state. Now when the economy takes a sudden turn like this the bankers and the borrowers consider this as an opportunity especially if they don't have jobs or any assets. Gaining a home is the primary goal of such borrowers and they consider bankers as their helping guides, now with the availability of this cheap money their main targets could be accomplished. A new mortgage rage started rushing throughout the country. The rate of interest was being reduced by the Federal Reserve in 2003 it was reduced to 1% it was considered to be the lowest rate in a period of 45 years. Now mortgages were being done at quite a high rate and with discounts excluding the down payment, little did they knew that a much larger problem was on its way. In 2004 the rates started increasing and around 2006 they were at 5.25%, this started the decline no more buying offers were being placed. By 2005 prices of homes started

decreasing this affected the homes also the borrowers failed to pay their loans due to high interest rate. Bankruptcy complaints started filing every month in 2007. This sudden panic resulted in more awareness in the country. This was the prime time of the crisis and such a tsunami was getting out of hands so this news spread outside the borders. Interbank market froze, a British bank named Northern Rock due to liquidity issues advanced towards the bank of England for help. During this time period banks and different governments started meeting to resolve this growing financial issue. Different governments coordinated together and provided help to financial companies, main goal was to rebuild the interbank market. From the Federal Reserve the interest, discount and defunded rates were being decreased but another bad effect lowered the value of this action. Lehman Brothers reported for bankruptcy, IndyMac bank distorted, Bear Stearns was gained by JP M, Merrill Lynch was sold to Bank of America, and Fannie Mae plus Freddie Mac were handed over to the U. S. federal government. In 2008 the rates were slashed to 1 and 1.75%. Different central banks also decreased their rates to help balance the world economy; this was also not enough to decrease the sudden meltdown. Then legislation was passed by the U. S government NES act of 2008, resulted in a mass of 700 billion dollars used to buy those assets, focusing more on the mortgage securities. This whole meltdown tells us the uncertainty of the financial market and that wise decisions should be taken in such an uncertain and sensitive area, such events teaches the upcoming states of the market that what should be done and what actions causes what kind of consequences.

The two movies “ Too big to fail” and “ Inside job” both depict the situations and events occurred in the U. S financial crisis. Too big to fail focuses more on the inside events, starting from noticing the dealings of Henry Paulson the U. S treasury Secretary trying to deal with the problems. Then the CEO of Lehman Brothers trying to seek investments from other banks and refusing to selling and lowering shares of his own company. More additional events that depicts out of hand situations. Then the passing of the legislation and then the turnout of events is shown. Now the documentary Inside job is divided into five parts depicting all the situations one by one so the accuracy of the real events of financial crisis can be more clearly seen in this documentary, these five parts start from: 1. how we got here 2. The Bubble 3. The crisis 4. Accountability 5. Where are we now? These parts thoroughly show the events in the order of their occurrence. At the same time in too big to fail the defining point of the crisis comes at the end of the movie where Federal Reserve explains sternly that the disruption of credit is the main reason of the disturbed economy. So basically both the movies depict important phases of the financial crisis in their own way. Inside job explains it in a hardcore way, and too big to fail explains it in a pure political way.

### **Legislation Overview:**

#### **DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT**

After this financial crisis legislation was passed in order to control this situation also it was designed for future reference too. An overview of this legislation is explained below:

- A new “ watchdog” was created for the sole purpose of customers rights protection, its main purpose was to give the customers genuine information

about their rights, the consequences of their acts, and a clear picture of their financial decisions was depicted. Through this they could understand the guide they need for mortgages, financial decisions, credit cards. No deceptive terms could be used now.

- Any possible way of liquidation of failed financial firms, commanding heavy capital, and various other acts was blocked which included the opportunity for taxpayers to sign a check that can easily bail them out from firms resulting in economical downfall.

- A warning system which included a council, that discusses risks of big companies introducing products or activities that may be a threatening warning signal for the economies stability.

- Activities like hedge funds, payday lenders, mortgage brokers and other such derivatives had loopholes that made them unnoticed, so this legislation focused upon eliminating these loopholes.

- In order to protect the businesses and investors new hard rules were introduced to gain accountability and transparency.

- Supervision is strengthened and regulators are given enough authority to track the frauds, manipulations that are being carried out in the name of American families.

### **Effects legislation in Industrial engineering:**

- The advance warning system in the legislation can be a drawback for the industrial engineers because as we all know that industrial engineers deal basically with complex systems, so obviously its field of research is complex and involve various disciplines too, if some complex system has to be introduced by a company's industrial engineers, it is quite beneficial overall

but it also tends to disturb the economy, then according to the legislation it might be difficult to introduce that system.

- At the same time the legislation says that it will protect the investors so that is a good point in the field of industrial engineering. Because investors play a big part in every field so this point in the legislation will provide a guarantee for investors to invest in this complex area.

- With the customers independence and authenticity act in the legislation, if applied in the field of industrial engineering then it will be clear to the customers that a clear picture of their rights is being shown to them, they will have confidence and the fear of manipulation will be a lot less if everything is showed in a clear and honest way.

### **Ethical Implications in financial crisis in industrial engineers code of ethics:**

The industrial engineering code of ethics has some points which will be stated below and the action of industrial engineers according to that is described:

- They enhance the human welfare by using their knowledge, but in the case of financial crisis, using their knowledge loop holes were created in order to protect themselves and to avoid getting caught at manipulations.

- Being honest and avoiding biasness is their duty but in this case the customers were manipulated to a lower rate of interest and in mortgage loan thus when the rate increased they lost their money.

- Keeping the prestige of engineering profession. But in the scenario of financial crisis this profession was used for personal means and personal profit.

- Societies of other professions including both professional and technical have to be supported. In financial crisis when one society started doing ethically wrong the other societies followed.

This all is against the code of ethics and these acts during financial crisis are considered ethically wrong.

## References

BRIEF SUMMARY OF THE DODD-FRANK WALL STREET REFORM AND CONSUMER

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