

GLOBAL FINANCIAL CRISIS



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THE FINANCIAL CRISIS OF **2007–08**, ALSO KNOWN AS THE **GLOBAL FINANCIAL CRISIS** AND **2008 FINANCIAL CRISIS**, IS CONSIDERED BY MANY ECONOMISTS TO HAVE BEEN THE WORST FINANCIAL CRISIS SINCE THE **GREAT DEPRESSION** OF THE **1930s**



WHY THE FINANCIAL CRISIS OF 2008 HAPPENED ?

The answer is simple : The housing bubble burst (U.S. subprime mortgage crisis)

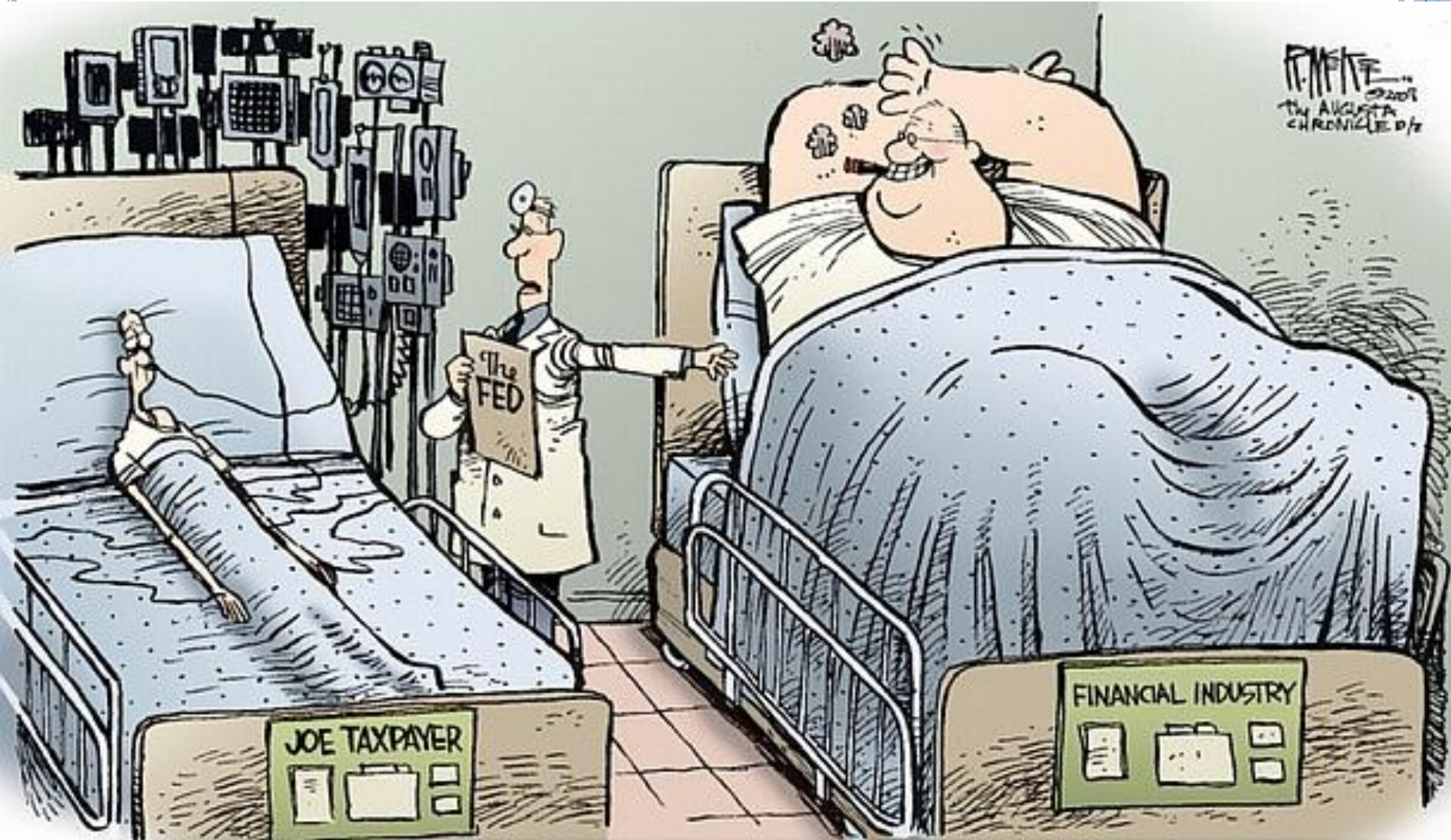
What is subprime lending ?

Subprime lending means giving loans to people who may have difficulty in maintaining the repayment schedule. These loans are characterized by higher interest rates, poor quality collateral, and less favorable terms in order to compensate for higher credit risk.

Example: student loans in India are considered to be subprime.

To explained what happened , First we have to do a quick explained about mortgages. Basically someone that want to buy a house will often borrow hundreds of thousand of dollars from a bank. In return, the bank gets a piece of paper, called a ***mortgage***.





"I DON'T WANT TO ALARM YOU, BUT IF YOU DON'T GIVE THIS MAN
A TRANSFUSION RIGHT NOW, YOU COULD DIE."

***EVERY MONTH, THE HOMEOWNER HAS TO PAY BACK A PORTION OF THE PRINCIPLE,
PLUS INTEREST TO WHOEVER HOLDS THE PIECE OF PAPER.
IF YOU STOP PAYING, THAT'S CALLED A DEFAULT***

Traditionally, it was pretty hard to get a mortgage if you had bad credit or didn't have a steady job. Lenders just didn't want to take the risk that you might “default” on your loan but all that started to change in the 2000s.



IN THE 2000s, INVESTORS IN THE U.S. AND ABROAD LOOKING FOR A LOW RISK, HIGH RETURN INVESTMENT STARTED THROWING THEIR MONEY AT THE U.S. HOUSING MARKET.



Global investors didn't want to just buy up some individuals mortgage. Instead, they bought investments called mortgage backed-securities.

At the same time, credit ratings agencies were telling investors these mortgage backed-securities were safe investments. Anyway, investors were desperate to buy more of these securities. So, lenders did their best to help create more of them. But to create more of them, they needed more mortgages. So lenders loosen their standards and made loans to people with low income and poor credit.





“I THOUGHT WE WERE JUST BUYING A HOUSE”



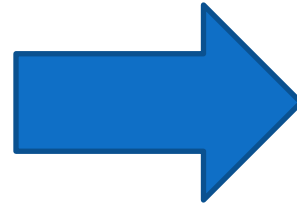
But these new sub-prime lending practices were brand new. These investment were becoming less and less safe all the time. But investors trusted the ratings, and kept pouring in their money.

While, the investors and traders and bankers were throwing money into the U.S. housing market, the U.S. price of homes was going up and up and up.

People just couldn't pay for their incredibly expensive houses, or keep up with their ballooning mortgage payments.



**Lending decision
by Financial
Institutions**



**Housing
Bubble
Formation**

**Borrowing
decisions by
individuals**



As this was happening the big financial institutions stopped buying sub-prime mortgages and sub-prime lenders were getting stuck with bad loans. By 2007, some really big lenders had declared bankruptcy. The problem spread to the big investors, they started losing money on their investments.



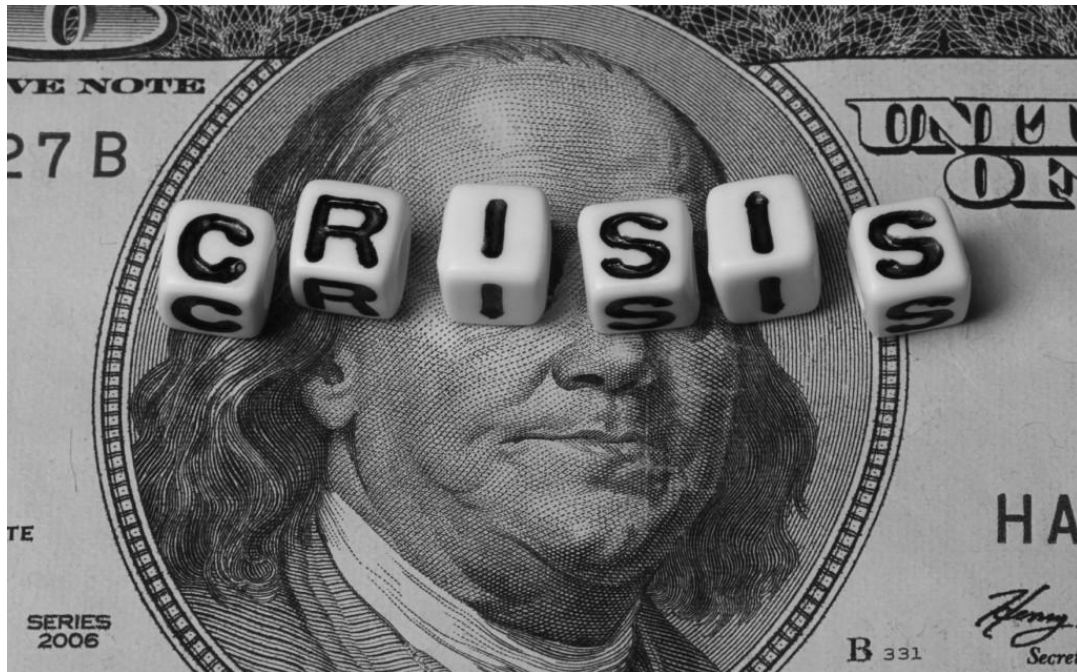
When something terrible happens, people naturally look for someone to blame. In the case of the 2008 financial crisis no one had to look very far because the blame and the pain was spread throughout the U.S. economy.

The government failed to regulate and supervise the financial system

The financial industry failed. Everyone in the system was borrowing too much money and taking too much risk, from the big financial institutions to individual borrowers. The institutions were taking on huge debt loads to invest in risky assets. And huge numbers of home owners were taking on mortgages they couldn't afford.



But the thing to remember about this massive systemic failure, is that it happened in a system made up of humans, with human failing. Some didn't understand what was happening. Some willfully ignored the problems. And some were simply unethical, motivated by the massive amounts of money involved.



RESULTS

- 1
 - Sub prime Mortgage Crisis
- 2
 - Collapse of Financial System
- 3
 - Economic Crisis
- 4
 - Job Loss
- 5
 - Low consumer spending
- 6
 - Recession - Low Economic activities
- 7
 - Very low GDP growth
- 8
 - Poor Prosperity of the countries



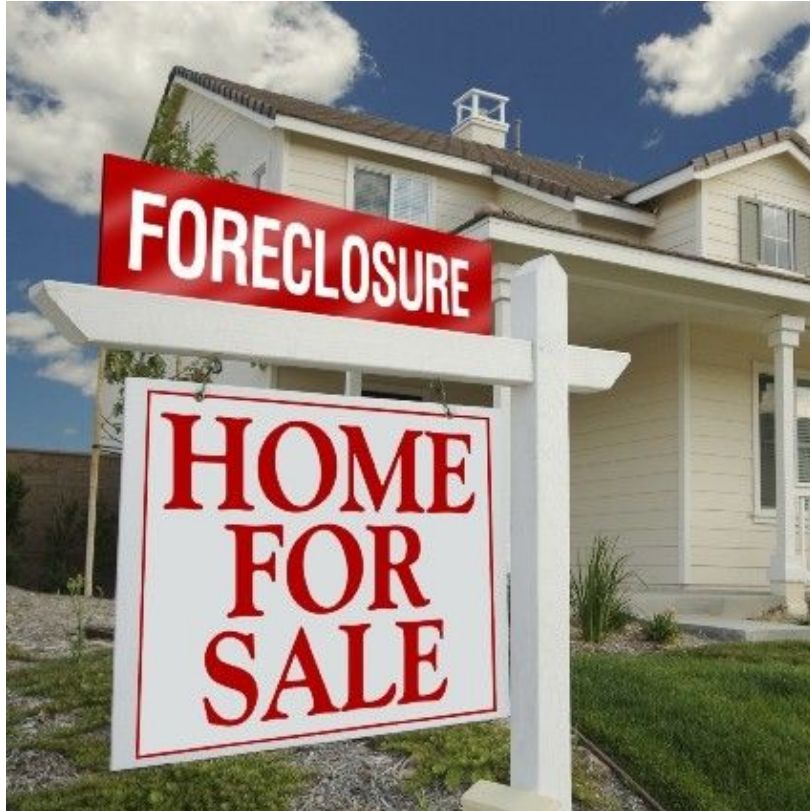
HOW TO STAY UPDATED

- Read financial Newspapers
- Read magazines like The Economist, BusinessWeek, Business Today
- read relevant websites
- INVEST YOUR TIME before YOUR MONEY



RESULT – MORTGAGE MARKET

THE HOUSING BUBBLE BURST



INVESTORS



Sub prime borrower

Leaving home



SUB PRIME CRISIS...

... and its rippling effects on the global economy



INVESTMENT BANK



Nationalized



Bankrupt





LEARNING



THINK BEFORE YOU ACT

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