

## The Housing, Financial System, and Economic Crisis

9/26/08

What happened?

All about the housing debacle

OR

The American Dream meets Murder on the Orient Express

Which caused

Systemic financial system collapse

Started in July 2007

Now a downward spiral of frozen credit

Hits hard at the financial system

Interbank Lending

Mortgage companies

Brokers

Banks

Bond Investors

Stock investors

Money market Funds

Which hits the real economy

Home owners

Business

Creates a recessionary environment

US and Europe

Who's to blame?

Laissez-faire policy and lax/no regulation

Congress/Washington

Mortgage brokers

Marginal home buyers...sub-prime borrowers

Lenders

Credit rating agencies...Moody's, S&P

Wall Street

Real Estate speculators...flippers

Alan Greenspan's 1% money

## Housing

The real price of homes flat for 50 years until 2000

From a long-term average of \$125,000 (in 2007 prices)

To \$225,000 mid-decade

To \$190,000 now

To ???

## The Solution

Washington Bailout

Necessary but not sufficient

Will probably rescue the financial system

Still need to fix the housing market

Stay tuned