When Housing Fell

Trace how a housing downturn became a national recession.

9-12.US2.47 "Evaluate the causes and consequences of the 2008 financial crisis and Great Recession."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two causes of the crisis, circle two consequences, and number the steps that show how trouble in the housing market spread to the wider economy. Use your marks to judge which links made the crisis more severe.

From Mortgages to Recession

1. In the early 2000s, home prices rose rapidly in many U.S. communities. Lenders offered some borrowers mortgages with low introductory payments that could later jump, even when those borrowers might struggle to repay. Investors around the world bought securities made from bundles of mortgages. Credit rating agencies often gave risky bundles high ratings, making them look safer than they were. Banks and other firms borrowed heavily to buy such assets, hoping rising home prices would protect them. These choices fed one another: easy credit raised demand for homes, and rising prices made further lending seem safe.

2. When home prices began to fall in 2006, some owners could not refinance or sell for enough to pay their loans. Missed payments and foreclosures rose, cutting the value of mortgage securities. Losses reached firms far from the original borrowers, while heavy borrowing magnified the damage. In September 2008, the failure of Lehman Brothers deepened fears about which financial firms could survive. Banks grew reluctant to lend to one another, to businesses, and to households. The credit squeeze did not cause every job loss by itself, but it made a housing downturn into a broader economic crisis.

3. During the Great Recession, employers cut jobs and households reduced spending; lower spending then hurt more businesses. Unemployment reached 10 percent in October 2009, and millions of families lost homes to foreclosure. Congress approved a financial rescue program in 2008 to stabilize banks, and the Federal Reserve used emergency lending and cut interest rates. A 2009 federal stimulus funded public spending and tax relief to support demand and jobs. These actions helped limit further collapse, but they could not quickly replace lost homes or restore every job. Critics also questioned using public money to aid firms whose risks helped create the crisis.

2 ANSWER WITH EVIDENCE

Use the passage

1. Why did mortgage securities make risky home loans a danger to firms far from the borrowers? Explain why heavy borrowing made that danger worse.

2. How did falling home prices set off a chain that made credit harder to get? Trace at least three links.

3. Why could job cuts deepen the recession after the first round of layoffs? Use the passage to explain the cycle.

4. Which problem did the 2008 financial rescue address most directly, and which problem did the 2009 stimulus address most directly? Explain one limit of these responses.

3 YOUR TURN

Your own words

Imagine you advise a town council in early 2009 with limited funds. In 80 to 105 words, recommend either temporary mortgage aid for struggling homeowners or loans to local businesses. Trace two links in the crisis, weigh one benefit of each option, and explain why your choice would better limit harm.

ANSWER KEY

When Housing Fell

HIGH SCHOOL · 9-12.US2.47

PART 1 · READ AND MARK

Underline two causes of the crisis, circle two consequences, and number the steps that show how trouble in the housing market spread to the wider economy. Use your marks to judge which links made the crisis more severe. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Why did mortgage securities make risky home loans a danger to firms far from the borrowers? Explain why heavy borrowing made that danger worse.	**Investors far from the borrowers owned securities made from mortgage bundles, so missed payments reduced the value of their assets. Firms that had borrowed heavily to buy those assets faced magnified losses.**
2	How did falling home prices set off a chain that made credit harder to get? Trace at least three links.	**Falling prices made it harder for some owners to refinance or sell for enough to repay their loans. Missed payments lowered mortgage securities' value, losses and fear spread among financial firms, and banks became reluctant to lend.**
3	Why could job cuts deepen the recession after the first round of layoffs? Use the passage to explain the cycle.	**Job cuts reduced household spending. Lower spending hurt businesses, which could lead to further job cuts.**
4	Which problem did the 2008 financial rescue address most directly, and which problem did the 2009 stimulus address most directly? Explain one limit of these responses.	**The rescue aimed to stabilize banks, while the stimulus supported spending and jobs. Neither could quickly replace lost homes or restore every job.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

I would use the town's limited funds for temporary mortgage aid to households facing foreclosure. Falling home prices made refinancing difficult, and missed payments damaged mortgage securities held far beyond the town. Keeping some families in their homes could slow that chain and preserve local spending. Loans to businesses could also help because scarce credit and weak sales threaten jobs. Still, a business might fail even with a new loan if customers stop spending. Mortgage aid would not repair bank losses or save every job, but it would target a direct source of harm while helping households.

Accept either recommendation in Part 3 if the response traces two accurate causal links, weighs a plausible benefit of both options, and explains its choice. Responses should distinguish causes of the crisis from its consequences.