Jared Cernansky

Professor Haq

Senior Seminar

2008 Financial Crisis: Why it happened, Recovery, and New Regulations and Goals

The financial crisis that occurred in 2008 is the most devastating crisis to occur since the Great Depression in the 1930’s. Since the events that occurred in September 2008, we can see the lasting impact of the crisis to the present day and perhaps well into the future. The economy has yet to fully recover, unemployment continues to stay at a high around 9% and the United States is facing a huge public debt when we had a surplus just a little over a decade ago. This crisis has also raised many questions that should have been asked before the crisis took place. Could these events have been avoided? Did the government see the crisis coming? Should the government implement more oversight and regulations in the financial market? What lesson could we have learned from the Great Depression? What companies should the government bailout and which ones should be allowed to fail? How are we going to pay for the bailout? Should we have bailed out the banks that contributed to the financial crisis? Was the 700 billion dollar bail out to much or too little to help the economy recover? What must be done in order to avoid such a crisis in the future?

It became clear that the financial crisis would not only have an impact on the banking system, but its effects would trickle all the way down to the average middle income citizen. As the banks entered a financial crisis, major companies in the United States also felt the lasting effects. The auto industry is a perfect example, but not limited to just that industry. Many other companies also suffered and they were forced to lay off workers. These workers, many who had money in the stock market, also lost investments. In return, many Americans became jobless and were forced to file for unemployment and leave their homes. In return, the housing market would also suffer devastating effects and housing prices would also reach a new low. Even today, unemployment is still high and unemployment has run out for many workers or is about to run out for many of those who are still laid off. Although the economy has recovered some, many people are still out of the job. This raises two main questions. Could this crisis been avoided and will the United State’s economy fully recover?

The financial crisis can be traced back to the major banks in the United States. These banks have various markets that deal with the way money is handled and how transactions take place. Credit default swaps are one such transaction that played a major role in the collapse of the financial system. Credit default swaps is a relatively new phenomenon. A credit default swap is a kind of an insurance policy on a stock or bond. An investor can buy these insurance policies on stocks and bonds that he/she owns. However, since this market was unregulated, investors were purchasing these policies on stocks and bonds they didn’t own.

It was so unregulated it was quite easy for them to be purchased, even by just making a phone call. For example, an investor could or could not own a stock or bond to a particular company. Let’s say 1 billion dollars in a stock or bond. The investor would call the bank and ask to purchase an insurance policy on the stock or bond. In return, the bank would grant the insurance policy as long as the owner would agree to pay a premium. In this example, a premium of 20 million a year would be paid to the bank. The owner of the stock or bond though is hoping that the company will take a bit of a down turn. The investor would then seek out someone else who owns stocks or bonds in the same company. He/she would then offer to sell an insurance policy to that person for a higher premium, 30 million. So, the investor would collect the 30 million and give 20 million of it to the bank he/she bought the credit default swap thus netting the investor 10 million dollars in profit. This scenario could continue on down the line and could continue to work successfully. However, it only takes one break in the line for the whole credit default swap market to collapse. If one person in the chain is not able to pay the other, then the person who sold the insurance on the stock or bond will not be able to pay the company or person who he/she bought the insurance from thus, a contributing factor to the financial crisis.

Credit default swaps however were not the only contributing factor to the financial crisis that occurred in 2008. From the years 2000 to 2008, a major bubble was growing in the United States, the housing market bubble. In the year 2000, the total world savings at the time was around 36 trillion dollars. In 2006, this world savings account had reached 70 trillion dollars nearly double in six short years. The housing market played a major role in helping to almost double the world savings account. A number of poor countries around the world had began to save money and make investments as well. In return, a fewer and fewer number of good and safe investments were made available. Investors wanted to continue to make good and safe investments in order to keep the pool of money growing. The United States Government is one of the best ways to investment money and ensures that an investor will get a return at a low risk. So, often times, investors will take their money an investment their money into U.S. Treasury bills. The problem although was that although these investments were safe, the return was very little, 1 to 2 percent return. Investors began to seek alternatives to investment their money to make a good return at a low risk. They wanted to make the most profit possible with as little risk as possible. The housing market seemed liked the perfect alternative for their investments. An investor could expect to make a return anywhere from the 5 to 8 percent range. It also seemed to have low risk as well. Data from the last 30 years showed that people paid their mortgages and the price of houses would only continue to rise. So, how exactly were major investors able to make money off of someone’s home? It all begins with the person buying the house. A majority of people don’t have the money required to buy a house; they must go see a mortgage broker or a bank. The person takes a loan from the bank in order to buy the house. In return, the bank holds the house as collateral until the buyer of the home pays back the bank completely. The bank makes money off of the buyer by charging interest. The person is then stuck paying much more back to the bank then what the house is worth. However, up until 2000, banks would often be strict about who they would loan money to for a home. Banks would make sure that the person would have a good credit score, a good source of income, and at least some savings in the bank as well. If all this checked out, the person would get the loan. However, from 2000 up until the bubble burst of the housing market, banks began to relax these requirements. Banks began to give out loans to people that didn’t even have a job to pay for the loan. This would lead to thousands of people defaulting on their loans. Why exactly did banks give out loans to people who were such high risk?

Since the U.S. Treasury was paying back very little in interest, investors turned to the housing market. When a person would take out a loan at a bank for a home, the bank would then take this mortgage and sell it to an investment firm such as Morgan Stanly. Investment firms would buy thousands of these mortgages and sell them to investors as mortgage backed securities. When then began to happen investors were getting great returns as high as 8%. However, a problem began to arise, since investors were making such a great return off of these investments, they wanted mortgage brokers to continue to give out more and more loans for homes. However, the number of safe mortgage loans began to dwindle. The lenders were continually pressured to give out loans for houses though and began to give out loans to high risk people, lots of high risk people. This became known as the sub-prime mortgage rate. Pressure from investors shouldn’t take the full blame though. The government also pressured banks to give out more loans for homes as well. This would create a housing market boom. The prices of houses would begin to rise since more people wanted to buy houses then could be built. Banks would give out loans and charge a higher interest rate above the prime rate since these people were higher risk. Banks would give loans to people who wanted to buy a home that was much more expensive then they could afford as well as people who shouldn’t be buy a home in the first place. These high risk people though eventually were unable to pay back the loan they had own their homes and would jump ship from the loan. Since the banks became liable for paying back the investors, bank funds would dry up and some banks even had to close their doors when the money ran out. Investors instead of making money were left with a piece of paper that was totally worthless. When this happened, investors immediately kept the rest of the money they had and stopped investing.

In all, many people would be evicted from their homes. This also created a ripple effect in the housing market as well. The price of homes all around the United States would drop greatly in their value. This now left the people who were still paying back their mortgage with a much less valuable home, and had to continue to pay the same mortgage value to the bank. To simplify, the people who continued to pay the loan back on their home was paying much more then the house was really worth now.

Another major contributing factor to the financial crisis was the freezing of the commercial paper market. The commercial paper market can be seen as an IOU expect in the millions of dollars. It is similar when an average person makes a purchase with a credit card and pays back the money later to the credit card company. Like a credit card, the commercial paper market is a short term loan. Each day a company checks to see if they have enough money, if they don’t, they take a loan from the commercial paper market. If the company were to borrow $999,000 for the day, the company in return would pay back one million dollars the next day and pay the thousand dollars in interest. This takes place everyday within many companies and each day companies borrow hundreds of millions of dollars every day. This kind of borrowing was just as easy as selling a credit default swap all it took was a phone call.

So why did the commercial paper market freeze? This is connected to the Money Market Mutual Fund. The Money Market Mutual Fund is a safe place to invest your money into however the returns are very little. However, the money is safe because it is loaned out to major trusted companies. When someone invests money into this fund it can become loaned out to the commercial paper market. However, within the Money Market Mutual Fund there is a fund called the Reserve Fund. This fund for the first time ever broke the buck. For every dollar that was put into it only 97 cents was made on the return. Since those who put their money into the Money Market Mutual Fund mostly just wanted to ensure that their money was safe and they would get back what they put in, they made a run on the bank. This means that lots of people began to take their money out of the Money Market Mutual Fund since it no longer looked like a safe place to invest their money. The government had to ensure people that their money was safe. However, this leaves the question of why the reserve fund broke the buck. Since Money Market Fund managers were buying safe commercial paper, it turned out to be from Lehman Brothers.

Lehman Brothers had to file bankruptcy because of the subprime mortgage rates and the bursting of the housing market bubble. So all the money that the Reserve Fund had gave Lehman Brothers was now gone. This in return caused the run on the banks and more people were less likely to lend money. This caused the commercial paper market to freeze up and companies could no longer borrow money. This became one of the final straws before the government had to step in.

The deregulation of credit default swaps was only one factor that played into the fall of the financial system. Also mentioned in numerous other articles and radio broadcasts were the run on the money market mutual funds, freezing of the commercial paper market, the collapse of the housing market, and hedging. When all of these are combined it would lead to one of the United States biggest financial meltdowns. So, why would one of the most advanced nations in the world not be able to detect a housing bubble growing or a financial catastrophe in its future? In part this would have to do with deregulation and the repeal of the Glass-Steagall Act.

Following the stock market crash in 1929, two members of Congress at the time Henry Steagall and Carter Glass would sponsor the bill called the Banking Act of 1933. It would later become known as the Glass-Steagall Act of 1933. This act would separate investment and commercial banking. The reason for the passing of the Banking Act was because the failure of the commercial banks that caused the Great Depression. During the 1920’s banks particularly commercial banks were taking on too much high risk ventures. These ventures would often include loaning money to companies that were very high risk. The act also established the Federal Deposit Insurance Corporation (F.D.I.C). The FDIC insures a quarter of million dollars to the depositor in the event that the bank was to fail. Basically, this act gave the government oversight of the banks and regulated the securities that these commercial banks could issue. It kept risky banks separate from banks that did basic lending. It also places restrictions on banks from getting involved with insurance companies.

In 1999, the Glass-Steagall Act would be repealed. It would easily pass through the Senate with a vote of 90-8 and President Clinton would sign it into law. The new law that was passed was the Gramm-leach-Bliley Act or the Financial Services Modernization Act. This act would allow for banks to be less regulated and could invest in much more high risk adventures i.e. the housing market and subprime mortgage rates. It also allowed for banks and insurance companies to merge together, for example, the merger of Citigroup bank and the investment firm Travelers. This act in 1999 comes down to one key point. This allowed for investment banks to begin to investment in mortgage backed securities. These banks could now buy thousands of mortgages from a basic lending bank and buddle them all together. They then would sell them to investors which would make a good return, but this as mentioned earlier would lead to the housing market bubble bursting and subprime mortgage rates to allow more people to buy homes.

However, in an optimistic point of view, perhaps things could have been much worse. Although, there are those who say that we should have done this or should have regulated that. The only thing we can take from that is the lessons learned from it and not to make the same mistakes in the present or future. Although this current financial crisis is not as bad as the Great Depression, there was a good chance that it could have been according to Henry Paulson and as well as other.

Henry Paulson was one of the key people who helped keep the financial crisis from becoming the greatest financial crisis in American history. During the crisis, Mr. Paulson served as the United States Treasury Secretary. Mr. Paulson knew that if the financial market were to collapse completely, the affects from the collapse could be a disaster for countries all around the world. Mr. Paulson would be faced with various challenges while he was in government. Mainly, he had to ensure that America would not surpass a line of total melt down. He like many Americans faced sleepless nights and anxiety. It was as if the entire problem of the financial crisis had fallen on his shoulders. Mr. Paulson would have to force bank executives into taken the bailout money in order to keep them from falling deeper into debt. It became Mr. Paulson’s job to buy up the bad loans that the banks had made. He also helped to set up the Troubled Assets Relief Program (T.A.R.P.). Paulson had become so popular in the press that his ideas and actions were even given a name, “The Paulson Plan.”

In the first week of September 2008, Paulson would begin the biggest government take over and rescue of America’s biggest financial firms. Financial service firms like Fannie Mae and Freddie Mac would survive the crisis thanks to Paulson. However, Paulson would not be able to save all of the financial firms, someone had to go. In the end, Lehman Brothers would file for the largest bankruptcy in U.S. history. In his book, Paulson discusses how he would save financial firms like Freddie Mac, but let Lehman Brothers collapse. At the time of the crisis, Lehman Brothers was one of the world’s largest financial firms. Before the idea of letting Lehman Brothers collapse, Paulson and Lehman Brothers were both trying to seek a way out in order to rescue the firm. In early September, Lehman was in talks with a Korean bank in hopes that it would buy 25% of the bank, however, these talks would fall through quickly. Following the talks with the Korean bank, Lehman’s stocks dropped a significant amount. Paulson knew that if Lehman did not find a buyer soon that the company would collapse. This became a major problem for Paulson and he needed to think of a solution for Lehman to even make it through the next couple of days. Paulson quickly scrambled in hopes of finding a buyer once again. He turned to Bank of America believing they would be the ideal buyer. Paulson went on to tell the CEO of Bank of America that it would be a cheap buy. However, Bank of America would eventually decline the offer since they were struggling as well. Also, Bank of America was just too worried about the number of bad assets that Lehman held. The calls then began to poor into Paulson about the state that Lehman Brothers was in. There stocks began to drop even more reaching a low of just more that 7 dollars a share a 45% drop. Paulson would once again turn to contacts he had known throughout his life. The next day, Paulson placed a call to the CEO of Wachovia Bank where he was informed that Barclays might be interested in buying Lehman Brothers. Paulson was unsure though if Barclay would have the financial strength to make such a deal. Barclay would eventually put a call into Paulson though. For once, Paulson received good news that Barclay was interested in purchasing Lehman, but the good news would not last long. After Barclay had looked deeply into purchasing Lehman, it would ultimately be the Financial Services Authority that would not allow the deal to go through. He would also learn that from a phone call from a chancellor from the UK that the UK government would never allow such a deal to go through. The chancellor made it clear that Lehman was too big of a risk and didn’t want the Lehman problem to fall on British citizens. After hanging up the phone, Paulson realized for any chance for Lehman to survive had just gone out the door and any hope of saving the company was not gone. That same afternoon, Paulson met with a number of Treasury staffers. It was here that he decided that Lehman should not receive any money from the government in hopes that a potential buyer would arise and rescue the company. Paulson began to throw the idea around of the consequences that could arise if Lehman collapsed. His main concern was the fact that Lehman held $600 billion dollars in assets and their collapse would have a global impact.

Paulson began to quickly face the facts that Lehman was going down and would eventually file for bankruptcy. He would soon begin to tell his close colleagues that Lehman would be filing for bankruptcy so the market would have time to prepare and the following morning at 1:45 A.M. Lehman finally fell and filed for bankruptcy. Paulson would go on to say that he just didn’t have the authority to inject the capital necessary into Lehman to save them. Although he felt a very unsecure restlessness from the fall of Lehman, he was confident that the market could survive the collapse. On the opposite hand though, he knew that the market could not take such another hit or else the whole U.S. financial system would coming crumbling down.

One main way that Mr. Paulson helped to save the financial firms from total destruction was the creation of the TARP program following the financial meltdown. When the financial system of the United States came to a standstill in September 2008, the government created the T.A.R.P. program to protect major banks from going under. In this program, the U.S. Treasury took 700 billion dollars to help buy up bad securities that banks and companies owned. Initially, the treasury was given $250 billion and each additional $100 billion had to be approved by Congress. Most of these bad securities were in the form of Mortgage Backed Securities. The government would buy up these bad securities however the banks that issued all these bad securities weren’t just left off the hook. The United States government would now become owners within these banks until the banks were able to pay off their debts. Also, these bank firms would lose some of its tax benefits as well as placing limits on compensations. Banks were not also the only affected by the financial crisis. Major car companies within the United States also sought some of the relief funds to prevent from filing bankruptcy. GM and Chrysler were the two prime examples. The government would be an owner in the company until these two companies could pay back the relief funds that they received.

In just a little of 10 days after Lehman had filed for bankruptcy, news around the world had spread that the U.S. government was in the works of developing a $700 billion dollar bail out for the biggest banks in America as well as the U.S.’s biggest insurance company and two car companies. This $700 billion dollar bail out would become known as the Troubled Asset Relief Program (TARP). Immediately, Paulson began to worry about whether legislation like this would pass or not. TARP received harsh criticism from both sides of the aisle. He began to worry about the Republican vote. Some would vote it down since they saw many flaws in the bill and others would vote down just because of moral reasons. As Paulson once said, “We’d devised TARP to the financial system. Now it had become all about politics-presidential politics.” During this time, the house had a majority of democrats however, Paulson was sure they would not get 100 percent of the vote. He needed to persuade republicans to join in support of TARP as well. Current Speaker of the House Boehner and Paulson would meet a number of times in hopes to get some republican support. Boehner would go on to tell Paulson that he couldn’t deliver the votes need to pass TARP. On October 3, Congress would vote on TARP once again and it would finally pass.

The passage of TARP now gave the U.S. government a number of new powers in order to protect the economy from failing. After TARP was passed, the Congressional Oversight Panel set guidelines and goals of TARP. Protect home values, college funds, retirement accounts and life savings; preserve homeownership and promotes jobs and economic growth; promotes overall returns to the taxpayers of the United States; and provides public accountability. It also gave authority to the Treasury department as well. Stabilize financial markets; reduce systemic markets; support the housing market by avoiding preventable foreclosures; supporting mortgage finance; and protect taxpayers. For one, the government was now authorized to purchase mortgage related assets from banks. They could purchase these assets when they felt it was necessary to use their authority and could be done so without limitation. The government would also now point a number of officials to oversee the financial bank firms that would receive the bailout money. The government would also become an owner of these bank firms. Since the banks were now an agent of the government, those who worked for the bank would now fall under government authority and would be required to follow any regulations set forth. It also required that those who oversee the use of the bailout money to report to Congress.

In all, hundreds of companies would receive funding from the TARP program. Some of these companies have begun to pay back their loans that they received from the government while others have paid them back. Overall, I see the TARP program has a success in saving the economy. It protected some of our biggest banking firms in America and in the world from going under. If it wasn’t for this funding, who knows where the United States would be today. Chances are we would have had a depression that could have been worse than the one that occurred during the 1930’s. It also played a major world in protecting U.S. automakers those employees thousands of U.S. citizens. Today, the automakers are reporting better sales and are making a profit once again. The stock market which dipped below 10,000 during the beginning of the crisis in 2008 has already risen over 2000 points since then. However, Tarp seems to be just the beginning for America to recovery from the events that occurred in 2008. Lessons have been learned. One problem that still existed was the housing bubble and the rise of unemployment. The government has begun to implement new regulations as well as new programs to help people return to their homes and jobs.

Following the passing of TARP in October of 2008, Paulson’s plan was able to save a number of companies from going out of business however, his plan didn’t necessarily help those Americans who were out of the job or who had lost their home. So, on February 13, 2009, Congress passed the American Recovery and Reinvestment Act of 2009. The act was also a response to the financial meltdown that occurred and was highly supported by President Obama. The act had three main goals in order to help with the economy crisis as well-create new jobs and save existing ones; spur economic activity and investment in long-term growth; and foster unprecedented levels of accountability and transparency in government spending. The Recovery Act, much like the TARP program has had a set way on how these goals would be achieved-Provide tax cuts worth $288 billion dollars for millions of families and businesses; increase federal funds for education and health care as well as entitlement programs such as extending unemployment programs by $244 billion dollars; make $275 billion available for federal contracts, grants and loans; and finally for those who did receive funds to have them report quarterly on how they are using the money.

The bill didn’t stop there however, it also provided funding directly to local schools districts, expanded the Child Tax Credit, and to computerize health records in hopes of saving on healthcare costs as well as preventing medical errors. One particular way I see the funding being used every day is on the roads and highways. I have passed numerous signs over the past year that stated the road being repaired was funded by this recovery act.

Since the passing of this act, the U.S. government has released data on the impact the American Recovery has had. In all, the passing of this bill had a $787 billion dollar impact it total. This impact was divided into 6 sections-individual income tax cuts; a two year patch to the alternative minimum tax; investment incentives; aid to people hurt by the recession; fiscal state relief, and direct government spending. Essentially, this shows that the Recovery Act has a much more far spreading impact and effected a lot more people beneficially overall compared to the TARP program that focused on saving banks and other failing companies.

Since the passing of the act, the government has estimated that on average by the first year it was passed; almost 1 million jobs were saved. In the next three years, following 2009, the government has estimated that over 6 million jobs will be saved or created thanks to this act.

One particular way that the government planned on creating new jobs with this act since unemployment had reached such high levels was a big push for clean energy. The Recovery Act included a number of different perks for taking the side of clean energy technology. One, it would allow Americans to go back to work or school to receive the training necessary to work in this particular field. The government estimated that $63,200 jobs would be supported by clean energy programs and another 51,700 would be directly related to clean energy jobs. In all, the government has predicted that almost 1 million new jobs will be supported or directly related to clean energy by the year 2012. However, the government does point out that these estimates could have a high number for a margin of error both ways, but it is clear that jobs will be created and saved. Overall, this program has help to jump start the economy like the TARP program. Americans are beginning to return to their old jobs or new ones. Although many Americans were still out of work with the passing of this act, it was a start of a new beginning for America. One problem was still facing many Americans that were either working or not working-the housing bubble that occurred when the economy took a turn for the worst. However, something needed to be done in order to ensure that the same mistakes were not made twice. Following the American Recovery Act, the government began to set new regulations in order to protect American citizens from being lured into a house that in the end they would not be able to afford.

In the summer of 2009, the Federal Reserve Board made a series of new regulations that required mortgage lenders to disclose new information to a potential home buyer. One new regulation that the board required was that after your application was received for a loan on a home, the lender was now required to disclose the estimated mortgage costs for a home within three business days. If the lender was not able to provide this information within the allotted time, then the person applying for the loan could back out if he/she wished to do so.

Another lending regulation that was put into place was that lenders could not charge any kind of collection fee unless it was for a credit check. However, this fee could only be collected once the person had received their estimated costs for the mortgage payment in the allotted three day grace period. The person applying for the loan had to receive an honest disclosure as well as the annual percentage rate for the loan on the home. Before this regulation was passed, mortgage lenders would collect a number of fees just for applying for a home loan and sometimes these fees would number in the hundreds of dollars.

Finally, once the mortgage details on the loan have been disclosed to the potential buyer and a new seven day waiting period has passed to prevent a mortgage lender from quickly processing the loan, the person wanting the loan is now allotted seven days to think if this loan is the right one. If during this time period, the disclosure you received from the lender has the APR change by more the eighth of a percent, then the seven days will be reset and the person is granted more time to think about the loan before deciding if he/she wants to settle on the loan.

As I said earlier, one of the main reasons for the collapse of the economy was the problem of mortgage backed securities. Mortgage brokers were being encouraged to give out loans to people for no money down but with a high interest level. They were also loaning too much money to people for houses they would ultimately be unable to afford. One effect that took place a year after the TARP program was created was the Federal Reserve Board created lending prohibitions. The government set up three specific rules that lenders now had to follow.

1. Mortgage lenders and brokers are prohibited from coercing or encouraging real estate appraisers to misrepresent the value of a home. Per Glenn Gimble, FDIC Senior Policy Analyst, “That’s intended to ensure the integrity and accuracy of an appraisal, so that a consumer is not overpaying for a home or borrowing more money than the home is worth.
2. Mortgage loan servicers must credit payments on the date received and must inform the borrower of any late-payment fees.
3. For those applicants considered a subprime credit risk, a lender is prohibited from making a higher priced loan without regard to the borrower’s ability to repay the loan from income or assets (other than the home’s value). All income and assets used to qualify for loan approval must be verified.

These three new regulations directly address the problem that occurred with mortgage back securities. The first rule would help protect the inflating the price of home. It would protect someone from paying a much higher mortgage payment on a home they believe is higher in value when the value of the home could be quite possibly considerably lower. It would also protect a home buyer from having to pay outrage late fees that he/she may not have known about before the passing of these regulations. Finally, perhaps the most important regulation to protect from another housing bubble was that lenders could no longer give sub-prime mortgages to those who clearly would not have the money or assets to pay off the loan. Before, lenders were being encouraged by investors who buy mortgage backed securities to give out more sub-prime loans since they were making a big return on their investment. This would protect those mortgage backed securities from becoming a toxic asset.

It has been almost three years since the U.S. Economy took a major dive. However, the government is still very much involved with a number of companies that took relief from the treasury in order to stay afloat. As some companies have paid back the TARP money, others still have the government crawling all over them. However, it seems that the government is beginning to withdraw from being a major part of the finance market and is looking to return to their normal position.

Recently in the news, just over a month ago, the Obama Administration has also set out a plan. For one, the Obama administration wants to bring private capital back into the market. Over the last two years, the government had to guarantee nine out of every 10 mortgages. However, the Obama administration believes that it is time to slowly step away from planning this role and let the private sector take back over in good, normal market conditions. The private sector should take responsibility for the loans they give out. However, the private sector would be under strong supervision from the government. One particular reform rules government wants to set in place is requiring a ten percent down payment on borrowers. The administration stressed that this must be done at a slow pace since the economy is still considered to be fragile. At the same time, the government wants to start to give some responsibility back to the private sector as well.

The Obama Administration is also focusing particular on any gaps that could still be open in the housing market. They want to pass reform on anti-predatory lending, improve underwriting standards and to verify that lenders are able to verify that a borrower will be able to pay back the mortgage loan. The Obama Administration wants to ensure that all available information about the loan is made available to the borrower in order to protect both the leaser and borrower. The Administration also wants to reform the foreclosure process as well. He wants to make sure that the lenders dedicate time and service to the borrowers in hopes to avoid having their house foreclosed on.

They also want to continue to ensure that people are able to have access to a quality home that the person can afford. He makes it clear though that he doesn’t want all citizens to become home owners, but to ensure that all Americans that would qualify for a loan are able to find a home that fits their desire. He has also pledged that with the necessary mean incomes would be to have access to loans that person can afford in order to ensure that they can become a homeowner. If the person doesn’t want to become a home owner, the Obama Administration wants to make sure that rental homes are available to those who qualify as well.

Finally, the Administration wants to protect the investors that buy the mortgage backed securities. After the economy went into recession and many of the mortgage backed securities became toxic assets, it was hard to determine what kinds of mortgages were bundled up in the securities. Often times, the securities would not say the location of the property. Obama wants to make sure this information would be made available to the investors. The ultimate goal is to let the private market take back over and these are the baby steps necessary if we eventually want to have our economy fully recover.

In conclusion, I believe that the economy is on its way of making a full recovery. The actions leading up to the crisis in September and the bailout program could possibly have been avoided however; it is truly hard to say if the right people saw these events coming. As the economy began to sink lower and lower, our government was at least able to step in and prevent another Great Depression. I believe if it weren’t for the TARP program and American Recovery Act the United States would have been much worse off. It seems clear to me that regulations need put into place in order to prevent another housing bubble and some of the largest banks in the world coming close to filing bankruptcy. It’s fair that mortgage companies should provide clear details of a loan. They should not be able to hide things in fine print and ensure that the person that is receiving the loan has the funds necessary in order to make the mortgage payments. I have confidence that the Obama Administration will continue to keep a close on the banks and housing market. As of right now, the economy seems to be recovering. People are returning to their jobs and companies are beginning to hire again. It is also important as the world becomes to rely on more capital in factories rather than labor, it is necessary that new jobs are created in order to keep people at work.