What ignited the financial crisis?

- **Housing boom**
  During the early 2000s, low mortgage rates and easy access to credit made homeownership possible for more people, increasing the demand for housing and driving up house prices. Low mortgage rates reflected the low level of interest rates around the world, as well as Federal Reserve policy aimed at stimulating the economy following the 2001 recession. Home prices soared and construction of new houses reached all-time highs. According to one measure, U.S. house prices rose about 10% per year on average from 2000 to 2006, well outpacing gains in income. In some areas, including Las Vegas, Phoenix, and many parts of California, the housing boom was even more dramatic, with prices rising by more than 15% per year.

  References:

- **Easy credit**
  The housing boom got a boost from rapid growth in what is known as securitization of mortgages. That's the process in which mortgages are bundled together into securities that are sold to investors and traded in financial markets. Securitization of low-risk mortgages has been around for decades and has helped lower home loan rates by expanding the market of investors that hold mortgages. But, early in the 2000s, riskier mortgages were securitized on a massive scale. These included subprime mortgages made to borrowers with poor credit records. During the boom years, defaults on these mortgages were rare because homeowners could easily refinance or sell their houses. High profits and low defaults made lenders and investors in mortgage-backed securities complacent. Underwriting standards became increasingly lax. Lenders demanded little or no down payment or documentation, such as proof of income. Investors were reassured because rating agencies gave even subprime mortgage-backed securities high ratings.

  References:

- **Housing bust and mortgage meltdown**
  Large numbers of new homes came onto the market and buyers began to realize that home prices could not rise indefinitely. House prices faltered in early 2006 and then started a steep slide. Home sales and construction fell sharply. For many people who had recently bought their homes or had taken equity out when refinancing, falling house prices meant that they owed more on their mortgages than their homes were worth. Starting with subprime mortgages, more and more homeowners fell behind on their payments. Eventually, this spread even to prime mortgages made to the most creditworthy borrowers.

  References: