



# The Causes of the 2008 Financial Crisis

## Summary Writing

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# Student

## Two types of lesson

### **Lesson#1:** [Easy] \*\*\*\*\* [B2/C1]

1. Try to predict the content of text / write down key terms / ideas
2. Read text – check words and meanings with a dictionary
3. Fill in the outline to identify key points and support
4. Write the summary – only one paragraph (200-250 words)
5. Check key points & model answer (try to achieve 4 key points and 4 support points)
6. Answer critical thinking questions & check answers

### **Lesson #2:** [Hard] \*\*\*\*\* [C1]

1. Read text – no dictionary
2. Fill in outline to identify key points and support / or take notes from text
4. Write the summary – only one paragraph (200-250 words)
5. Check key points & model answer (try to achieve 4 key points and 4 support points)
6. Answer critical thinking questions & check answers

# Teacher

## Two types of lesson

### **Lesson#1:** [easy] \*\*\*\*\* [B2/C1]

1. Give out text a week /day before the test – students read, check vocabulary and meaning.
2. Test day – give out a new copy of text and summary question
3. Set 1 hour to read text, take notes and write the summary
4. The summary – only one paragraph (200-250 words)
5. Feedback<sup>1</sup>: take in and mark [use correction code\*]
6. Feedback<sup>2</sup>: give out key points & model answer
7. SUMMARY: Should contain at least 4 main ideas with support – see Summary Key Points
8. Extra: Answer critical thinking questions / group discussion (30 minutes)

Correction code\*: [www.academic-englishuk/error-correction](http://www.academic-englishuk/error-correction)

### **Lesson #2:** [hard] \*\*\*\*\* [C1]

1. Set 1 hour to read text and write the summary
2. The summary – only one paragraph (200-250 words)
3. Feedback<sup>1</sup>: take in and mark [use correction code\*]
4. Feedback<sup>2</sup>: give out key points & model answer
5. SUMMARY: Should contain at least 4 main ideas with support – see Summary Key Points
6. Extra: Answer critical thinking questions / group discussion (30 minutes)

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## The Causes of the 2008 Financial Crisis

C. Wilson [2017]

1) In 2008 the world experienced the worst financial crisis since the Great Depression (1930s). The severe magnitude of the financial disaster became [REDACTED] the end of 2007. It had, however, begun years earlier through what many claimed to be the main factor in the crash; [REDACTED]. The financial crisis of 2007-08 and the aftershocks of the US subprime mortgage crisis of 2007-09 is now considered to be 'The Great Recession'. The US [REDACTED] Commission [FCIC] (2011) reported [REDACTED] was caused from widespread failures in regulation of financial institutions and the reckless actions in risk and borrowing. It concluded that key [REDACTED] were ill-prepared and lacked understanding and accountability in the financial systems they oversaw. This article will examine how [REDACTED] to the Great Recession.

2) Towards the end of the 1990s property purchases began to rise. With such growth, lending money for house buying became a profitable business in [REDACTED]. Traditionally, the house buyer saves up a deposit (down payment – usually between 10% of the house cost) and [REDACTED], who connects them to a lender, who in turn provides a mortgage based on the grounds of specific criteria (permanent employment, [REDACTED] defaults (a positive credit-score), and the [REDACTED] being achievable).

3) Throughout 2000 as home ownership became more popular and house prices rose significantly (1997 – 2006 house prices rose by [REDACTED] in the UK (US Spindices, 2016)), lenders began to securitise these mortgages into mortgage-backed securities (MBS) and Collateralized Debt Obligations (CDOs) and then sold [REDACTED] banking sector. These [REDACTED] credit agencies into three areas, 'safe', 'ok' and 'risky', and then sold on to the Shadow Banking Sector or investors, [REDACTED], and hedge funds respectively. However, the prime mortgage market began to become saturated due to those who [REDACTED].

4) Therefore, sub-prime mortgage lending was introduced in 2002/3 based on the presumption that as house prices continued to rise, if a [REDACTED] the lender would reprocess the house as equity. Lenders began to add risk to these new mortgages in that no deposit, no proof of income, or no documents were required to obtain a mortgage. An estimated \$3.2 trillion loans were [REDACTED] with bad credit and undocumented incomes between 2002-2007 (FCIC, 2011), and with such a rise deregulation of [REDACTED] to include fraudulent automated underwriting processes and credit agencies' standards falling. At the same time 'predatory [REDACTED] at low interest rates or Adjustable Rate Mortgage (ARM) rates, where the consumer was unaware of the contract [REDACTED], 2009). The sub-prime mortgage process actively encouraged a rise in house prices and a phenomenon known as the 'housing bubble', where [REDACTED] than wages making housing unaffordable or people borrowing more than they can repay.

5) The shadow banking sector of Investment bankers, hedge funds and insurance firms all bought into the highly profitable world of [REDACTED]. These highly profitable credit instruments (CDOs), were traded internationally through derivatives and foreign exchange trading [REDACTED] financial community. By 2006, 80% of U.S mortgages were subprime loans with an [REDACTED] (FCIC, 2011) Shadow banking often referred

to as parallel banking, were not subjected to the same banking regulatory controls. These institutions [redacted] short-term in liquid markets to purchase long term, illiquid and risky assets. This meant disruptions in [redacted] deleveraging, selling long term assets at depressed prices.

6) Interest rates began to rise in 2007, and this was the beginning of the end. The default rates began to increase with many borrowers unable to meet the [redacted] in turn meant that MBS and CDOs began to lose value with higher default rates. Concurrently, the housing bubble [redacted] 40% (FCIC, 2011), leaving many people in negative equity. However, the most serious effect was a crisis [redacted] across banks. Lehman Brothers went bankrupt and many more (Merrill Lynch, AIG, Freddie Mac, Fannie Mae, HBOS, Royal Bank of Scotland, Bradford & Bingley, Fortis, Hypo and Alliance & Leicester) were on the verge of [redacted] bailed out by Governments. In fact, 21 Banks and 61 hedge funds had been forced to declare bankruptcy in the US alone (Morris & [redacted] banks rose interest rates [redacted] which became known as the 'Credit Crunch' and the led the world into 'The Great Recession'.

7) Since 2008, a number of measures have been created in response to rectify the problems. These include [redacted] bank's monetary policies of lowering interest rates, and Governmental public stimulus packages. There are [redacted] and supervision, which have been met through the Dodd Frank Act (Krugman, 2009). This was the largest reform of the U [redacted]. In addition, a new global financial system regulated by the IMF, who should have a broader role in the regulatory [redacted].

8) Overall, the financial crisis of 2008 was not just the [redacted]. There are a number of other contributing factors that this article has not discussed, but primarily fraudulent greedy [redacted] seems to lie at the heart of it. To identify who is exactly to blame is incredibly difficult because the results of toxic assets from fraudulent underwriting processes, easy credit conditions, predatory lending, [redacted]. It seems that everyone was responsible, from government's inability to regulate innovative banking practice, Economists unable to [redacted], financial institutions exploiting the complexity of MBS and CDOs and even homeowners taking on loans they were unable to pay back. The questions that exist, however, are whether it will happen [redacted].

[1003 words]

### **Reference List**

Krugman, P. (2009). *The Return of Depression Economics and the Crisis of 2008*. W.W. Norton Company Limited.

[redacted] (2009). Financial Regulation in a System Context. *Brookings Papers on Economic Activity*, 2008(2), pp.229-274. Available at [redacted] [Accessed 24 Dec. 2016].

The financial crisis inquiry report [FCIR]: [redacted]. (2011). *Choice Reviews Online*, [online] 48(12), pp.48-7034. Available at: .....

[redacted] (2016). *S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index - S&P Dow Jones Indices*. [online] Available at: <https://us.spindices.com/indices/real-estate/sp-corelogic-case-shiller-us-national-home-price-nsa-index> [Accessed 24 Dec. 2016].

**Outline: Summary note-taking** – take notes on the key points of the article

1) main idea:
Support:
2) main idea:
Support:
3) main idea:
Support:
4) main idea:
Support:
5) main idea:
Support:

6) main idea:

Support:

7) main idea:

Support:

8) main idea:

Support:

## **Summary Key Points ANSWERS**

A good summary should have 4 main ideas and 2 points of support for each main idea

### 1) main idea: **Financial Crisis Background**

Support:

- 2008 = Great Depression (1930s). 'The Great Recession'.
- [REDACTED],.
- [FCIC] (2011) avoidable / failures in regulation of fin. institutions / risk borrowing.
- Gov. policy no understanding [REDACTED], systems.

### 2) main idea: **The Prime mortgage**

Support:

- Lending money = profitable business 2000.
- Process deposit & specific criteria ([REDACTED], credit-score, achievable repayment).
- Risk in lending [REDACTED].

### 3) main idea: **Mortgage securitization**

Support:

- 1997 – 2006 [REDACTED], (US Spindices, 2016).
- Mortgage-backed securities (MBS) & Collateralized Debt Obligations (CDOs).
- Sold to investment banking / [REDACTED], depository bankers, and hedge funds.
- Prime [REDACTED], market

### 4) main idea: **Sub-prime mortgage**

Support:

- Introduced in 2002/3 = house prices rise.
- Fraudulent [REDACTED], no proof [REDACTED], no documents.
- Automated credit agency underwriting / predatory lending.
- SPM lending = [REDACTED].

### 5) main idea: **Profitable trading**

Support:

- Shadow banking sector of Investment bankers, hedge funds, insurance firms
- Traded internationally - [REDACTED], trading
- Shadow banking (**parallel** banking), dif. banking regulatory controls,
- Vulnerable [REDACTED], markets
- Rapid deleveraging, selling long term assets at [REDACTED] prices.

6) main idea: **The Collapse**

Support:

- Interest rates >2007, = >default rates.
- MBS and [REDACTED],
- Housing bubble burst =house prices fell <40% (FCIC, 2011).
- A crisis of [REDACTED], [REDACTED], banks.
- Bank bankruptcy / Government bail outs / credit crunch.

7) main idea: **New regulatory system**

Support:

- Financial rescue plans, / <interest [REDACTED], stimulus packages.
- [REDACTED], Act (Krugman, 2009).
- A new global financial system regulated by the IMF is being implemented.

8) main idea: **the future**

Support:

- Other contributing factors
- Fraudulent underwriting [REDACTED], predatory lending, deregulation and over-leveraging.
- Government's [REDACTED], banking practice,
- Economists unable to forecast economic collapse,
- Financial [REDACTED], the complexity of MBS and CDOs
- Homeowners taking on loans they were unable to pay back.
- Will it happen again?



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## **Summary Model**

**Task:** Write a 200-250 word summary on the key elements of the 2008 Financial Crisis

Word count: \_\_\_\_\_

## **Financial Crisis: Model Summary**

**Task:** Write a 250-word summary on the key elements of the 2008 Financial Crisis

According to FCIC (as cited in Wilson, 2017), the financial crisis was primarily caused from fraudulent bank practice, economists being [REDACTED], and Governmental policy lacking innovation in the regulation of financial systems. The crash and its [REDACTED], as 'the Great Recession', with many claiming that it was the high-risk sub-prime mortgage lending [REDACTED]. Wilson (2017) highlights that in the beginning of the 2000, mortgage lending had become profitable business with [REDACTED], loans into Mortgage Backed Securities (MBS) and Collateralized Debt Obligations (CDOs) and [REDACTED]. As the trade grew and with little regulation, the system began to be exploited with scrupulous lenders providing [REDACTED]. Fraudulent banking practice included creating mortgages without deposits, proof of [REDACTED], with credit agency underwriting services failing to meet global standard procedures. In addition, the rise of parallel banking, a [REDACTED], that included [REDACTED] and hedge funds taking risky securities and trading them on the world markets, meant tracking and regulating [REDACTED] was impossible. The [REDACTED] 2007, created significant default rates, which in turn led to a banking crisis of liquidity. Many top banks were on the [REDACTED], Government intervention and financial assistance. Governments have since implemented a [REDACTED], that include lowering [REDACTED], banking practice through [REDACTED] Act and IMF Global Financial system.

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### **Critical thinking Questions**

i) What's the stance of the author? Does he think that the banking industry was responsible? Highlight where?

[2 points]

ii) Is this a credible article? Yes /no – why?

[2 points]

iii) Highlight four key parts of information in the text you would use for an essay on 'Sub-prime mortgage trading was the main cause of the financial crash'.

[4 points]

iv) Highlight two areas in the text that you question, disagree with or lack evidence

[2 points]

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### **Critical thinking Questions**

i) What's the stance of the author? Does he think that the banking industry was responsible? Highlight where?

**YES**, but primarily fraudulent greedy banking practice seems to lie at the heart of it (P8)

(This is a direct opinionated statement made by the author)

**YES**, fraudulent underwriting processes, easy credit conditions, predatory lending, deregulation and over-leveraging all had a significant effect on creating one of the biggest crashes of all time (P8) (all of these point towards banking) [2 points]

ii) Is this a credible article? Yes /no – why?

**Yes**, sources are generally academic / includes in-text sources to key data.

BUT who is the author?.....

[2 points – yes 1 point BUT 1 point]

**ALL ANSWERS INCLUDED IN PAID VERSION...**