

# Causes for the 2007 Recession

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The United States faced one of its worst recessions in history during the latter half of the first decade of the twenty first century. Termed as the Great Recession, this period rivaled the Great Depression of the 1930s and had such an impact on the entire world that international economies were severely affected, and several national governments had to work together to get their countries out of the crisis. The crisis initially began as a decline in the financial sector, but quickly spread over to other sectors as well, thereby impacting the entire economy of the United States. In this case study, I shall attempt to explain some of the factors that played a role in this crisis.

The Great Recession has widely been attributed to the burst of the U.S. housing bubble and the [subprime mortgage crisis](#). It started with the gradual increase in the housing market around the year 2000. House prices started to rise rapidly, and lenders started offering low interest rates. With a competitive environment, [mortgage](#) lenders started relaxing their standards on lending mortgages. This meant that, families that were earlier considered not worthy of a [mortgage loan](#), were now able to get a loan, and purchase a house. As this trend continued, the demand for housing increased, and as a result, house prices went up.

With the rapidly growing prices in the housing market, lenders were forced to come up with incentives to enable buyers to take loans. The concept of Adjustable Rate Mortgages was

introduced where the lender would offer a minimal interest rate (called a teaser rate) for a couple of years, which would rise significantly after the teaser period. As mentioned earlier, mortgage lenders relaxed their standards for a loan greatly, which led to “li...

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...nce a higher valued house resulted in a low loan-to-value ratio which was lucrative to the lender. Having a good standing with the lender meant more business in a booming housing market for the valuing agency, so this incentivized them to provide such misinformation that eventually led to the burst of the bubble.

Based on this case study, it is clear that a plethora of reasons surrounding the U.S housing market led to the financial crisis, and consequently, the Great Recession of 2007. Most notable among the factors were subprime mortgage lending by mortgage lenders, poor risk management and investment choices by financial institutions and banks, and the ancillary agencies that were ready to transfer credit risk to other parties in order to make the most profit for themselves.

#### References

<http://www.stat.unc.edu/faculty/cji/fys/2012/Subprime%20mortgage%20crisis.pdf>

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