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A DUMMY’S GUIDE TO THE MORTGAGE CRISIS

Everything you need to know about the mortgage crisis – but didn’t have a Guardian journalist with a Monopoly board to ask.

Richard ADAMS / Hildegunn SOLDAL

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At first, the American housing market was simple – people put down deposits and bought houses with mortgages they took out of the banks. As house prices rose, people began borrowing more and more – and banks were increasingly willing to lend at low interest rates. In fact, banks were happy to lend to almost everyone who came along, no matter how much they were earning. That pushed the prices of houses even higher and everyone wanted to join in the buying and selling of mortgages and properties. Banks were experimenting with new ways to make money – by slicing up mortgages and selling those on to investors who were very eager to buy. The buying and the lending and building spree continued and got faster and faster. Eventually though, all those contracts and mortgages and loans had to be paid back. And that was when the banks found themselves unable to continue financing or borrowing money themselves. And when the economy turned bad, there was nothing left. Soon borrowers and lenders found themselves locked out of the financial market. And then the credit crunched it. It turned out that after all the buying and selling, all that was left was just worthless pieces of paper.