advertisement
ditech
Ditech Mortgage Center
- Compare Mortgage Rates and Loan Options
- Mortgage Calculators
- Call & Find Out in Minutes if You Qualify
Today's Best Rates: RATE 4.625% APR 4.925%
GET STARTED
1-877-574-4933

Bankrate.com
Comprehensive. Objective. Free.

SMART SPENDING

10 years that shook America's finances

By Bankrate.com • Bankrate.com

Year 2001: Economy endures 9/11 attacks

A mild, eight-month recession begins. In March, a recession emerges that the National Bureau of Economic Research later declares lasted eight months. The start of the recession follows a decade of expansion.

The unemployment rate, considered a lagging indicator of the overall economy, reaches a four-year high of 4.9 percent in August.

A major tax reform law passes. On June 7, President George W. Bush signs a $1.35 trillion tax package into law. Among the changes, the law will cut the top tax rate from 39.6 percent to 35 percent and create a new bottom tax rate of 10 percent. The law will eventually double the child tax credit from $500 to $1,000. In addition, the new rules will gradually reduce the estate tax and eliminate it in 2010.

Terrorists attack the U.S. on Sept. 11. They hijack four commercial airliners, crashing two of them into the World Trade Center and another into the Pentagon. The fourth crashes in a field in Pennsylvania. Almost 3,000 die.

The tragic event does not cripple the U.S. economy, although the airline and the insurance industries struggle in the wake of 9/11. A year later, a report by the Congressional Research Service says, "The direct effects of the attacks were too small and too geographically concentrated to make a significant dent in the nation's economic output."

In October, the Federal Reserve reduces its benchmark federal funds rate to 2.5 percent, bringing the overnight bank lending rate to the lowest level in 39 years. It's the ninth consecutive cut to the federal funds rate in the Fed's attempt to pump up the economy.

-- Leslie McFadden

Year 2002: Corporate scandals spur reforms

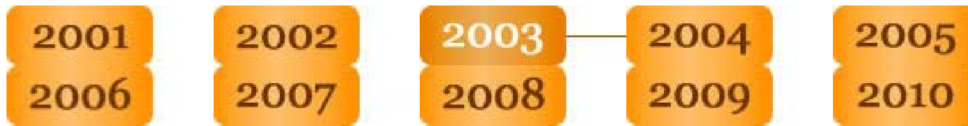
In January, the Federal Reserve ends its streak of cuts to the target federal funds rate, after 11 consecutive reductions in 2001. The Fed leaves the federal funds rate at 1.75 percent and the discount rate at 1.25 percent, the lowest level for the latter since 1948. The economy begins to show signs of improvement.

In June, the U.S. Senate votes down a bill that would have made the repeal of the estate tax permanent. A massive tax cut bill passed in 2001 under President George W. Bush would gradually reduce estate taxes and repeal them in 2010. Without passage of additional legislation, a "sunset provision" would cause the estate tax and other tax cuts to expire on Dec. 31, 2010. However, an extension of the Bush-era tax cuts was approved before the deadline.

Reacting to several corporate scandals involving Enron Corp., WorldCom Inc. and others, Congress passes into law the Sarbanes-Oxley Act in July. The law requires immediate disclosure of stock sales by company officials and sets stiff penalties for executives who commit corporate fraud. It also creates an oversight board to monitor the accounting industry.

In October, President George W. Bush announces a federal budget deficit of $159 billion for the fiscal year 2002, the first deficit since 1997.

-- Leslie McFadden



Year 2003: Mortgage rates fall, housing prices climb

At the beginning of the year, the 30-year, fixed-rate mortgage falls below 6 percent for the first time in 37 years. It remains at 6 percent or below until the end of July. And in mid-June, the average rate on a 30-year, fixed-rate mortgage falls to a record low of 5.28 percent.

Low rates provoke the biggest mortgage refinancing boom in history. Homeowners take out $2.5 trillion in refis in 2003 compared to $1.7 trillion the year before (and $234 billion in 2000). Toward the end of the year, house price appreciation accelerates.

The Federal Reserve moves short-term interest rates just once in 2003, but it's significant. The central bank cuts the federal funds rate to 1 percent from 1.25 percent. It's the lowest federal funds rate in 45 years.

With inflationary expectations low, the Fed judged that "a slightly more expansive monetary policy would add further support for an economy, which it expects to improve over time." What follows is a housing boom, then a bust. Later, some observers partly blame the Fed for keeping the federal funds rate at 1 percent for a year.

In October, the $20 bill gets a facelift. Andrew Jackson's portrait is enlarged and removed from an oval frame, a background image of an eagle is added to the front and the bill is given an overall cleaner look. Most noticeably, the redesigned bill is colorful, with pastel hues of peach, green and blue.

-- Holden Lewis

Year 2004: Facebook and Google: Recognize them?

Seeking to reduce the chance of inflation, the Fed chooses to hike the federal funds rate in June for the first time in four years from 1 percent to 1.25 percent. The move marks the beginning of a rate-hiking spree by the Fed that would last until Aug. 17, 2007.

Facebook and Google begin to define the contemporary Internet landscape.

On Feb. 4, Mark Zuckerberg and three friends launch Facebook in a Harvard dorm room. By the end of the year, the site would have more than 1 million users, and by 2010, it will balloon to more than 400 million.

On Aug. 18, Google launches an initial public stock offering at $85 per share. The stock will eventually reach $747 in November 2007.

Costs associated with military action in Afghanistan and Iraq and newly enacted tax cuts drive the U.S. deficit to 3.48 percent of the U.S. gross national product, the highest percentage since 1994.

Due in part to rising demand from China and India and political instability in the Middle East, crude oil prices begin a sustained climb, breaking $40 per barrel for the first time in history during the week ending Oct. 1.

In December, the euro reaches a high against the U.S. dollar, rising to $1.36, and provoking fears the dollar would be supplanted as the world's reserve currency.

-- Claes Bell

Year 2005: Subprime mortgages peak

The subprime mortgage boom peaks. Lenders hand out $625 billion in subprime loans, compared to $540 billion the year before. On top of that, lenders give $380 billion in Alt-A mortgages. Most of the Alt-A loans are low-documentation mortgages, otherwise know as "liar loans" because borrowers exaggerate their incomes with a wink and nod from their lenders.

An adage gains currency: Mortgage lenders are willing to give a loan to anyone who can fog a mirror. Urban legends tell of gardeners buying $500,000 McMansions. More than three-quarters of the 2005 subprime and Alt-A loans are sold on the secondary market. The market would explode in 2007 and 2008, igniting the worst recession since the Great Depression.

Congress reforms bankruptcy law to make it more difficult for consumers to file bankruptcy. The law prioritizes credit card debt higher than unpaid child support.

The Federal Reserve raises short-term interest rates eight times. The federal funds rate begins the year at 2.25 percent and ends it at 4.25 percent.

Nationally, home values rise more than 11 percent, according to the federal government's House Price Index. The National Association of Realtors distributes a "Housing Bubble Prospects Q&A" that assures consumers, "There is virtually no risk of a national housing price bubble based on the fundamental demand for housing and predictable economic factors."

-- Holden Lewis

Year 2006: Growing home prices create "bubble"

The year 2006 sees the peak of the housing bubble, with the median existing home price climbing to $221,900, more than four times the U.S. median household income at the time, according to the National Association of Realtors. The value of a typical American home climbs 50.4 percent since the beginning of the decade, with some markets such as Miami-Fort Lauderdale, Fla., Las Vegas-Paradise, Nev., and Riverside-San Bernadino, Calif., more than doubling.

Homeowners respond to the run-up in housing prices by drawing record amounts of equity out of their homes through cash-out refinancing, home equity loans and home equity lines of credit. All in all, Americans liquidate $318.3 billion in equity through cash-out refinances in 2006, according to Freddie Mac.

The rising federal funds rate contributes to rising yields on certificates of deposit, benefiting savers. In September, the average yield for a one-year CD hits 3.89 percent, a multiyear high that's a far cry from today's paltry average yield for one-year CDs of below 1 percent.

Alan Greenspan, the man largely credited with engineering the housing boom, retires on Jan. 31, ending a reign of more than 18 years as chairman of the Federal Reserve. He is replaced by Ben Bernanke.

-- Claes Bell

Year 2007: Foreclosure tsunami begins

The stock market hits an all-time high. Usually a leading indicator of the economy's health, it proves to be anything but as the stock market peaks on Oct. 9. The Standard & Poor's 500 reaches 1,565 and the Dow Jones Industrial Average hits 14,164 just months before the start of one the worst recessions in American history.

After years of sustained growth, the real estate bubble begins to deflate. Real estate values begin a plunge in the fourth quarter of 2007 that will last into 2010 and cost U.S. mortgage holders trillions in home equity. Baby boomers would be hit particularly hard between 2007 and 2009. Even when you factor in future Social Security earnings, households headed by individuals aged 50 or older would see their real wealth decline by 18 percent, due in part to the loss of home equity.

The credit crunch begins in August 2007 as lenders deal with a trifecta of bad news -- declining real estate values, the spread of toxic subprime mortgages and the slowing economy. The so-called TED spread, or the spread between the three-month Treasury yield and the three-month Libor, rises from 0.39 percent to 1.81 percent between July and August 2007. When the spread increases, it's a sign that lenders believe the risk of default on interbank loans is increasing.

The foreclosure tsunami begins. Homeowners looking for refuge from resetting variable-rate mortgages are unable to refinance because falling real estate values put them "underwater." Mortgage delinquency rates for residential real estate tracked by the Mortgage Bankers Association begin a sustained rise, starting in September 2007.

-- Claes Bell

Year 2008: The Great Recession cripples the nation

The greatest financial crisis since the Great Depression hits full force in 2008, spurred by the failure or emergency sale of some of the nation's biggest financial firms, starting with Bear Sterns on March 16, 2008. Wachovia, Lehman Brothers, Washington Mutual and Merrill Lynch later toppled or came to the brink of bankruptcy. The main culprit was toxic subprime mortgages.

The Fed and Treasury take unprecedented action to prevent the wholesale collapse of the financial system. When dropping the federal funds rate from 5.25 percent to 1 percent fails to stem the crisis, Fed Chairman Bernanke and Treasury Secretary Henry Paulson turn to more radical methods.

They encourage healthier institutions to buy failing banks, making massive amounts of liquidity available through hastily created government lending programs and arranging takeovers of founding firms. For example, global insurance firm AIG is bailed out with $182 billion.

A global panic set off by the failure of Lehman Brothers on Sept. 15 pushes an already slowing economy into the Great Recession. By the fourth quarter 2008, the U.S. economy is shrinking at an annual rate of 6.8 percent. Global gross domestic product growth falls from 3.9 percent a year in 2007 to 1.7 percent a year in 2008.

On Dec. 11, former Nasdaq Chairman Bernard Madoff is indicted on charges his multibillion-dollar investment firm is nothing more than a giant Ponzi scheme. In the weeks following, high-profile investors and charities admit to being bilked of billions by Madoff. He is eventually sentenced to 150 years in federal prison.

Revolving consumer credit, which includes credit cards and other forms of flexible debt, peaks at nearly $974 billion in August.

-- Claes Bell

Year 2009: Unemployment spikes, stimulus approved

Newly elected President Barack Obama signs the massive American Recovery and Reinvestment Act on Feb. 13. It commits $787 billion to tax cuts, infrastructure projects, job training programs and aid to families.

On March 9, the Dow Jones Industrial Average sinks to 6,547, less than half the all-time high set in October 2007 and the lowest close since April 15, 1997. On this day, many former blue chip stocks, especially in the embattled financial sector, are trading at or near multiyear lows. Giant Citigroup hits an intraday low of 99 cents.

In February, the Treasury Department begins a series of "stress tests" to determine which banks are healthy enough to survive further deterioration of the global economy. It finds big banks must raise an additional $74.6 billion to remain solvent should the economy slide further.

After four straight quarters of declining GDP, the U.S. economy begins to grow again in the third quarter 2009 at an annualized rate of 1.6 percent. Later, the National Bureau of Economic Research's Business Cycle Dating Committee, the group of economists tasked with following recessions, pegs June as the official end of the recession.

Unemployment peaks at 10.1 percent in October, the highest level since June 1983.

In May, the Credit Credit CARD Act passes. The measure contains consumer protections, including restrictions on interest rate hikes and double-cycle billing of credit cards. Many credit card providers respond by raising rates and fees dramatically before the law takes effect.

-- Claes Bell

Year 2010: Reforms to financial industry approved

Amid fierce lobbying from the financial industry and consumer advocates, the Dodd-Frank Wall Street Reform and Consumer Protection Act is signed into law by Obama on July 21. The new law creates a new Consumer Financial Protection Bureau to police mortgages and other financial products. It also forms a new office to monitor risks to the financial system and streamlines oversight of the financial industry.

Thanks to rising corporate profits, the stock market continues a rapid recovery throughout 2010, with the Dow Jones Industrial Average hitting a 52-week high of 11,519 on Dec. 15. In just over 22 months, the Dow rises 175 percent.

Despite government stimulus and steady if unspectacular GDP growth, high unemployment persists, hovering between 9.5 percent and 9.9 percent throughout the year. More troubling still is the length of unemployment for many Americans. As of November 2010, more than 6.3 million are out of a job for 27 weeks or more, and the average length of unemployment is 33.8 weeks.

Three years into the housing crisis, the flood of residential foreclosures shows little sign of abating. At the end of the third quarter 2010, a survey by the Mortgage Bankers Association finds 4.39 percent of residential mortgages are in foreclosure and 9.13 percent of all home loans are in some form of delinquency.

On Aug. 15, a new Federal Reserve rule goes into effect requiring banks to get consumers' permission before enrolling them in overdraft protection. In response, many banks begin imposing maintenance fees and balance requirements to recover lost revenue, reducing free checking options for consumers.

-- Claes Bell

Posted: Dec. 29, 2010

Location of article:
http://www.bankrate.com/finance/personal-finance/10-years-that-shook-america-s-finances-1.aspx