FEDERAL RESERVE

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Financial crisis timeline: Collapse and bailout

By Polyana da Costa • Bankrate.com

The Fed's actions influence rates more than you realize. Here's why they're at record lows today.

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2008 financial crisis

(Collapse/bailout phase): September/October 2008

What the Fed did

- On Sept. 8, 2008, the U.S. Treasury seized control of mortgage giants Fannie Mae and Freddie Mac and pledged a $200 billion cash injection to help the companies cope with mortgage default losses.
- About a week later the government bailed out American International Group Inc., or AIG, with $85 billion.
- The Fed refused to save Lehman Brothers and the company was forced to file for bankruptcy. Some of the largest financial institutions were on the verge of collapse as the mortgage market melted down. As the crisis hit the global market, the credit freeze spread.
- The Treasury and the Federal Reserve began working on a $700 billion bailout plan.
- President George W. Bush signed the bailout plan into law Oct. 3.
- Weeks later, on Oct. 29, the Fed cut the key interest rate to 1 percent.

What was expected

The government claimed the bailout was necessary to provide stability in the economy and prevent disruption in the financial system. The interest rate cut aimed to revive the economy, help free up credit and make loans cheaper to consumers and businesses.

What happened

The financial markets remained in turmoil for several months. Credit remains tight to this day, although it loosened significantly compared to when lending nearly came to a halt during the collapse period. Mortgage rates fell significantly after the interest rate cut and amid expectations that the Fed would start buying mortgage-backed securities.

How mortgage rates reacted during the collapse and subsequent bailout

Note: Mortgage figures are from Bankrate's weekly national survey of large lenders.

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Product	Rate	Change	Last week
30 year fixed refi	3.93%	0.03	3.90%
15 year fixed refi	3.14%	0.07	3.07%
10 year fixed refi	3.21%	0.04	3.17%

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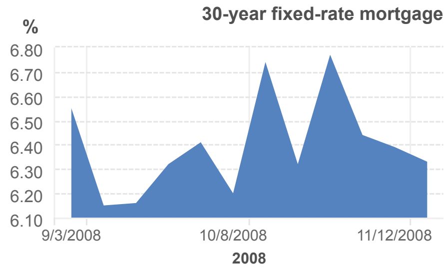


QE1

QE1 begins

Nov. 25, 2008 - March 31, 2010

What the Fed did

- The Fed initiated purchases of $500 billion in mortgage-backed securities.
- It announced purchases of up to $100 billion in debt obligations of mortgage giants Fannie Mae, Freddie Mac, Ginnie Mae and Federal Home Loan Banks.
- The Fed cut the key interest rate to near zero, Dec. 16, 2008.
- In March 2009, the Fed expanded the mortgage buying program and said it would purchase $750 billion more in mortgage-backed securities.
- The Fed also announced it would invest another $100 billion in Fannie and Freddie debt and purchase up to $300 billion of longer-term Treasury securities over a period of six months.
- The quantitative easing program, or QE1, concluded in the first quarter of 2010, with a total of $1.25 trillion in purchases of mortgage-backed securities and $175 billion of agency debt purchases.

What was expected

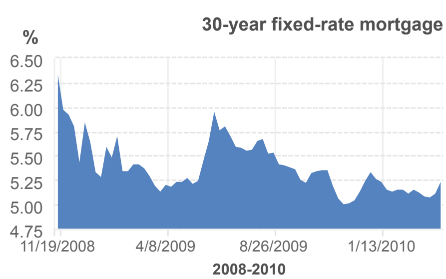
The Fed wanted to lower mortgage interest rates and increase the availability of credit for homebuyers to help support the housing market and improve financial market conditions.

What happened

Mortgage rates dropped significantly, to as low as 5 percent, about a year after QE1 started.

How mortgage rates reacted during QE1

Note: Mortgage figures are from Bankrate's weekly national survey of large lenders.



End of QE1

March 31, 2010

What the Fed did

- After completing the purchase of $1.25 trillion in mortgage-backed securities, $300 billion in Treasury bonds and $175 billion in federal agency debt, the Fed ended QE1.
- QE1 was initially open-ended. The Fed did not set an end date for the program until about six months out, as it slowed the buying pace.

What was expected

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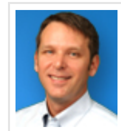

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Contrary to analysts' expectations, mortgage rates tumbled after the program ended.

What happened

Mortgage rates dropped significantly, to as low as 5 percent, about a year after QE1 started.

How mortgage rates reacted after QE1 ended

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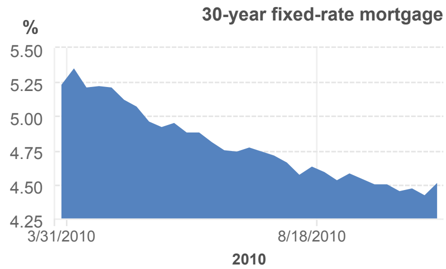

QE2

QE2 begins

Nov. 3, 2010 - June 30, 2011

What the Fed did

- The Fed continued to reinvest payments on securities purchased during the QE1 program.
- In addition, it began the purchase of $600 billion of longer-term Treasury securities.

What was expected

The Fed said QE2 would help promote a stronger pace of economic recovery. Industry observers expected QE2 to keep mortgage rates low or push the rates lower.

What happened

Contrary to what was expected, mortgage rates spiked more than half a percentage point in a little more than a month after QE2 started. When the program ended, the 30-year fixed-rate mortgage was about 30 basis points higher than it was when QE2 started.

How mortgage rates reacted during QE2

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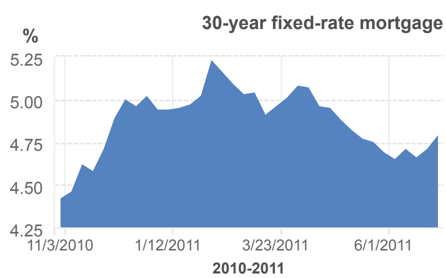


End of QE2

June 30, 2011

What the Fed did

- As previously announced, the Fed concluded its $600 billion bond purchasing program.
- QE2 was conducted at an even pace, and the end date was telegraphed from the start of the program.

What was expected

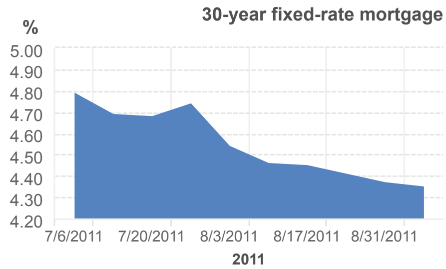
When the program was about to end, some mortgage experts feared rates would rise.

What happened

Mortgage rates have tumbled since QE2 ended and have recently reached record lows.

How mortgage rates reacted to the end of the QE2

Note: Mortgage figures are from Bankrate's weekly national survey of large lenders.



QE3

QE3 begins

Sept. 13, 2012 to Dec. 18, 2013

What the Fed did

- The Fed is planning to buy another $40 billion in mortgage-backed investments each month until the economy improves. That's on top of the tens of billions of dollars in mortgages it already had been buying each month, making U.S. banks flush with cash.
- The central bank continues to sell short-term bonds and use the money to buy long-term bonds.
- The time period during which the Fed will keep interest rates near zero was extended from the end of 2014 to mid-2015.

What was expected

QE3 was expected to hold rates down or reduce them on mortgages and other financial instruments. It was hoped that with a new cash injections, banks would lend out the money and give the economy a boost.

What happened

The 30-year and 15-year fixed-rate mortgages initially fell but have since bounced up and down.

How mortgage rates have reacted since the launch of QE3

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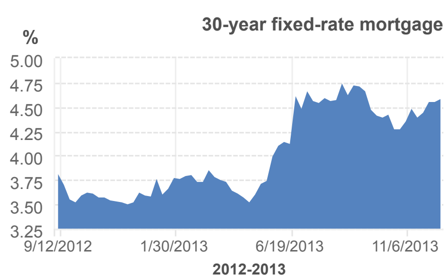

QE tapered

Dec. 18, 2013 to now

What the Fed did

The Fed begins to reduce its $85 billion-per-month asset purchases by $10 billion per month at each Fed meeting, cutting them to $35 billion in June.

The central bank continues to keep the federal funds rate at zero to 0.25 percent, and expects to keep it there at least as long as:

- The Fed reaches its goal of maximum employment, and
- The inflation rate hovers around the committee's 2 percent goal.

What was expected

The Fed intended for mortgage rates to remain low. The central bank pointed out that it was still spending tens of billions of dollars a month to "maintain downward pressure on longer-term interest rates, support mortgage markets" and promote economic recovery.

What happened

Months before tapering began, mortgage rates rose in anticipation. When the announcement finally was made in December 2013, mortgage rates rose for a couple of weeks. They have declined since then. In the brief time since tapering began, the effect on home prices can't be separated from housing supply and demand.

How mortgage rates have reacted since tapering began

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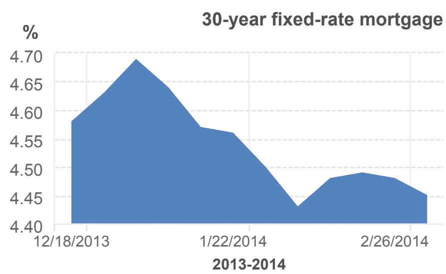

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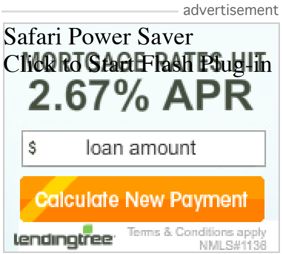

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Polyana da Costa covers mortgages and housing topics for Bankrate.com. She has been interviewed as a real estate expert by various news outlets, including ABC News Radio, CBS Radio and local NBC affiliates. She also has been cited by Forbes.com and quoted by U.S. News & World Report, the Fiscal Times and TheStreet.com among others. Connect with Polyana da Costa on Google+.

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Juan Reynoso · 2 months ago

The financial health of the United States continue to be our biggest challenge, the economic damage done by the 2008 crisis it is not totally in control, the strategy of the Federal Reserve Bank it is not working; jobs and increasing productivity is the solution not the injection of trillions of Dollars of easy and cheap money that resulted in this huge private debt that will create the next economic crisis.

Washington needs to work on a sound economic policy, a gradual tightening of fiscal policy and structural reform is in need to restore fiscal stability on our country. Our next economic crisis is coming is a matter of time, we are in a one way path our private debt is huge and it was created by cheap money that was invested in the production of oil by franking. The lower price of oil helps the average consumer and retail sales but will demise the franking oil industry and will create the next economic crisis. Now is the time to prepare for the next crisis.

The news media will never tell you the truth about the low oil prices. Reality is pure basic economic. The weak demand for oil in the USA

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David L → Guest · 5 months ago

You need to put down the crackpipe.

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ThreeCheeseFondue · 8 months ago

Hmm, "QE3 begins" section says Sept. 13, 2012 to Dec. 18, 2013 but really it's Sept. 13, 2012 to the present time, because it hasn't finished.

"QE3 tapered" should be renamed "QE3 tapering begins".

In other words, it should be made clear that QE3 has not been stopped, is not being stopped, is not being exited. It's merely a reference to a reduction in the rate of increase of the asset buying.

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jefferysikes · a year ago

What the author missed was the relationship of the QE and interest rate derivatives, especially interest rate swaps which are making the financial institutions very wealthy (about 5-7 trillion/yr). The total of interest rate swaps is about 200 trillion dollars. The purpose of QE was bank liquidity not home interest rates.

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Grip2013 → jefferysikes · a year ago

That's probably because the author, like the lay person, does not understand the derivative, credit swap business that underpins the global banking systems.

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