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# 2008 Financial Crisis: Key Events and Concepts

## Lehman Brothers and House Loans

- **Lehman Brothers** was a major investment bank that collapsed in September 2008, holding about **$639 billion in assets** at the time of bankruptcy—the largest in U.S. history [1] [2].
- The collapse was triggered by the bursting of the U.S. **housing bubble**. Banks, including Lehman, had issued large numbers of **subprime house loans** (loans to borrowers with poor credit).
- Many borrowers **could not pay their EMIs (Equated Monthly Installments)**, leading to widespread defaults [3] [4].
- As defaults increased, the value of **mortgage-backed securities** (financial products based on these loans) plummeted, causing massive losses for banks like Lehman [1] [5] [6].

## Asset Value and Impact

- Lehman's reported assets were around **$639 billion** at the time of its collapse [1] [2].
- The inability of homeowners to repay loans meant banks were left with devalued houses and toxic assets on their books.

## Stock Market and Bernie Madoff

- The financial crisis also exposed other major frauds, most notably **Bernie Madoff's Ponzi scheme**, which was valued at about **$65 billion** in reported client assets. Madoff's scam unraveled in December 2008, further shaking investor confidence [7].
- The stock market saw historic declines, with the Dow Jones Industrial Average dropping sharply after Lehman's bankruptcy [2].

## 2008 Crisis and U.S. Government Response

- The crisis led to a near-collapse of the global financial system, with banks unwilling to lend and panic spreading in markets.
- The **U.S. government responded by injecting liquidity into the system** through several emergency measures:
  - The **Emergency Economic Stabilization Act** created the **Troubled Asset Relief Program (TARP)**, authorizing up to $700 billion to purchase toxic assets and support banks [8] [9] [10].
  - The Federal Reserve engaged in **quantitative easing**—effectively "printing money" by buying government bonds and mortgage-backed securities, adding trillions to the financial system to stabilize markets and encourage lending [9] [11] [12].

- These actions aimed to restore confidence, prevent further bank failures, and support the broader economy.

## Summary Table

| Event/Concept | Key Details |
|---|---|
| Lehman Brothers Collapse | $639B assets; subprime losses; bankruptcy [1] [2] |
| House Loan Defaults | Borrowers failed to pay EMIs; asset values fell [3] [4] |
| Bernie Madoff Scam | $65B Ponzi scheme exposed in 2008 [7] |
| U.S. Government Response | TARP, quantitative easing, liquidity support [8] [9] [11] |

**In essence:**
The 2008 crisis was driven by risky housing loans, mass defaults, and financial mismanagement, culminating in historic bankruptcies and frauds. The U.S. government intervened with massive financial support and monetary expansion to prevent a total economic collapse.

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