

The Subprime Crisis

SUBMITTED BY: WGYP Summer 2011 Instructor

SUBJECT(S): Personal Finance

GRADE LEVEL(S): 9, 10, 11, 12

≡ OVERVIEW:

In this lesson, the students are introduced to the subprime crisis and asked to understand how the poor credit health of average Americans and the high risk financial decisions taken by investment banks led to a major collapse of the U.S. economy. They should be able to link some of the issues back to the many consumers who are dependent on credit for their daily purchases.

≡ NBEA STANDARD(S):

- Personal Finance, VII. Using Credit
- Personal Finance, VIII. Protecting Against Risk

≡ RELATED ARTICLES:

- [“Payday Loans and the Perils of Borrowing Fast Cash”](#)
- [“Educator Toolkit: Wall Street”](#)
- [“Deconstructing the Investment Bank”](#)

Common Core Standard(s):

- Reading Informational Text — RI.9 -10.1.; RI.9 -10.2.
- Speaking and Listening — SL.9 -10.1.

Purpose:

- The students should be able to define subprime crisis, lender, borrower.
- They should be able to link debt and credit misuse to the crisis.
- They should also be able to critically engage with the Knowledge@Wharton article and connect this disaster to their own neighborhoods and communities, emphasizing the importance of understanding financial systems.

Knowledge@Wharton Video: [“Special Report: Inside the Subprime Crisis”](#)**Other Resources/Materials:**

Internet capability; Video

Activity:*Introduction (5 mins)*

What is the subprime mortgage crisis? What happened in 2008 that led to the current recession? Essentially gauge what the students understand about the crisis. What questions do they have? Record these questions to return to later.

Video of the Wharton Special Report (8 mins)

Watch the [video](#) on YouTube.

Group Discussion (15 mins)

Split students into groups and ask them to go through the following questions:

1. What are subprime mortgage loans?
2. How did the banks repackage the subprime loans into securities? Why did they do this?
3. How did banks lose money? How did consumers lose money?
4. How did this loss of money affect the economy and unemployment rates?
5. Why did the government have to bail out the banks?

Silent Reading (10 mins)

Have students read the Knowledge@Wharton article on: “[Victimizing the Borrowers: Predatory Lending’s Role in the Subprime Mortgage Crisis](#)” until the section on “Extracting More Cash.” You can also project the article on the overhead screen and let the students read it together.

(If the unit is being taught together, in a previous lesson they would have read a section of this article. However it is a complicated article and re-reading it may help some students understand the material better.)

During this time, the teacher can return to some of the questions that had come up earlier.

Closing Class Discussion (10 mins)

Ask the students to think about predatory lending and whether there was anything unfair about this kind of lending.

- How may this help us to understand the situation that led to the subprime crisis?
- What could the consumers have done differently?
- What could the banks have done differently?
- What should/could the government do to avoid such situations in the future?

Tying It All Together:

In this lesson, students will be challenged to think about the housing crisis and understand the mechanisms that led to the market crash of 2008. They will also link this crisis to the current recession and think about why some people say that it will take several years to resolve the situation. They should also be able to tie the crisis to their own lives and future careers.

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