Chronology

28 December 2006
Ownit Mortgage Solutions files for bankruptcy.

7 February 2007
US Senate Banking Committee holds hearing on predatory lending in subprime sector.

22 February 2007
HSBC losses top $10.5 billion. Head of HSBC US mortgage-lending business is fired.

7 March 2007
The Federal Deposit Insurance Corporation issues a cease-and-desist order against subprime lender Fremont Investment & Loan, which had been 'operating without adequate subprime mortgage loan underwriting criteria'.

8 March 2007
Donald Tomnitz, the CEO of D. R. Horton, the largest US homebuilder, tells investors, 'I don't want to be too sophisticated here, but '07 is going to suck, all 12 months of the calendar year.'

12 March 2007
Lenders to New Century Financial, a large subprime lender, cut off its credit lines. Trading in its shares is suspended by the New York Stock Exchange.

16 March 2007
Subprime lender Accredited Home Lenders to sell, at a heavy discount, $2.7 billion of loans. The New York Attorney General announces an investigation of subprime lending.

2 April 2007
New Century Financial files for bankruptcy.

24 April 2007
The National Association of Realtors announces that existing home sales fall 8.4% during March, the greatest drop in 18 years.

3 May 2007
GMAC, the finance arm of General Motors, reports losses of $1 billion. UBS closes its US subprime business. First comprehensive plan to help homeowners avoid foreclosures presented in US Senate.

6 June 2007
The Bank of England reduces the overnight bank rate by 25 basis points to 5.5%.

22 June 2007
Bear Stearns injects $3.2 billion into two of its hedge funds hurt by falling CDO prices.

4 July 2007
UK authorities take action against five brokers selling subprime mortgages.

10 July 2007
All three major credit-ratings agencies announce review of subprime bonds.

13 July 2007
General Electric to sell WMC Mortgage, its subprime lending business.

18 July 2007
US housing starts down 20% from the previous year.

31 July 2007
The two Bear Stearns hedge funds that were under stress file for bankruptcy protection.

6 August 2007
American Home Mortgage, one of the largest US home-loan providers, files for bankruptcy.

9 August 2007
BNP Paribas suspends three investment funds hit by subprime crisis. An insurance company, AIG, warns that mortgage defaults are spreading beyond subprime sector.

10 August 2007
The ECB provides €61 billion of funds for banks. The Fed said it would provide as much overnight money. The interest rate on 15-day AAA asset-backed commercial paper hits 6.14% for a historic high.

13 August 2007
Goldman Sachs to pump $3 billion to rescue a hedge fund. The ECB and central banks in the United States and Japan continue supplying liquidity to markets.

16 August 2007
Countrywide draws down its $11.5 billion credit line.

17 August 2007
The Federal Reserve cuts the discount rate to 5.75%.

23 August 2007
Bank of America purchases 16% of Countrywide Financial for $2 billion. Four large US banks announce coordinated borrowing of $2 billion from the Federal Reserve's discount window.

28 August 2007
German bank Sachsen Landesbank is sold to Landesbank Baden-Wuerttemberg. The S&P/Case-Shiller Home Price Index for second quarter 2007 is down 3.2% from a year earlier, the greatest drop in the 17-year history of the index.

31 August 2007
Subprime lender Ameriquest files for bankruptcy.

1–3 September 2007
The Federal Reserve's annual Jackson Hole conference focuses on the link between housing and monetary policy.

3 September 2007
IKB, a German regional lender, records $1 billion loss due to US subprime market exposure.

4 September 2007
Bank of China reveals $9 billion in subprime losses.

6 September 2007
The delinquency rate on 1–4 family mortgages reaches 5.1% in the US, according to the Mortgage Bankers Association.

13 September 2007
Global Alpha, a hedge fund managed by Goldman Sachs, reveals that it lost 22% during August.

14 September 2007
A run on the deposits of British mortgage lender Northern Rock begins.

18 September 2007
The Federal Reserve cuts the discount rate by 50 basis points to 4.75%. This is the first cut since 2003.

1 October 2007
UBS and Citigroup announce losses of $3.4 billion and $3.1 billion respectively.

9 October 2007
The Dow Jones Industrial Average closes at 14,164, its all-time high.

10 October 2007
The US government teams up with mortgage servicers and investors to launch the HOPE NOW alliance, to encourage the voluntary modification of adjustable-rate mortgages to fixed-rate.

14 October 2007
Citigroup, JPMorgan Chase and Bank of America, with the support of the Treasury Department, announce a plan to form a Master-Liquidity Enhancement Conduit (M-LEC) that would purchase asset-backed commercial paper from liquidation SIVs.

15 October 2007
Citigroup and the Japanese bank Nomura announce subprime losses of $5.9 billion and $621 million, respectively.

16 October 2007
The National Association of Home Builders confidence index hits 19, the lowest since the series began in 1985.

26 October 2007
Countrywide Financial reports a loss of $1.2 billion for third-quarter 2007. This is its first loss in 25 years.

30 October 2007
Merrill Lynch announces losses of $7.9 billion and the resignation of the CEO, Stan O'Neal.

31 October 2007
The Federal Reserve cuts the federal funds rate by 25 basis points to 4.5%. Deutsche Bank reveals a $2.2 billion loss.

1 November 2007
Credit Suisse discloses a $1 billion loss. Fed injects $41 billion.

5 November 2007
Citigroup announces that its $55 billion portfolio of subprime-related investments has declined in value between $8 billion and $11 billion. The CEO, Charles Prince, resigns.

8 November 2007
Morgan Stanley and BNP Paribas disclose mortgage losses of $3.7 billion and €197 million, respectively. AIG writes down $2 billion of mortgage investments.

9 November 2007
Wachovia announces $1.7 billion loss.

13 November 2007
Bank of America announces $3 billion subprime loss.

14 November 2007
Japan's second largest banking group, Mizuho, reports full-year operating profit fell 13%. HSBC reports losses of $3.4 billion.

15 November 2007
Barclays reveals $2.7 billion loss. The US House of Representatives passes the Predatory Lending and Mortgage Protection Act.

16 November 2007
Goldman Sachs forecasts financial losses due to subprime crises at $400 billion.

19 November 2007
The reinsurance company, Swiss Re, to lose $1 billion on insurance of clients hit by subprime crises.

20 November 2007
Freddie Mac reports a $2 billion loss.

27 November 2007
Freddie Mac and Citigroup raise $6 billion and $7.5 billion of capital respectively. US house prices record biggest quarterly drop in 21 years.

5 December 2007
The New York Attorney General sends subpoenas to major investment banks to investigate subprime mortgage securitization.

6 December 2007
Royal Bank of Scotland to write off £1.25 billion due to subprime crisis. The Bank of England cuts UK interest rates.

10 December 2007
UBS and Lloyds TSB report $10 billion and £200m losses due to bad debts in the US housing market.

11 December 2007
The Federal Reserve lowers the federal funds rate by 25 basis points to 4.25%. Washington Mutual subprime losses to reach $1.6 billion.

12 December 2007
The Federal Reserve announces the creation of the term auction facility (TAF), which will auction a fixed amount of funds to the banking system, initially set at $20 billion. The Federal Reserve, the ECB and the Swiss National Bank (SNB) also announce that they will engage in currency swaps of up to $20 billion to the ECB and $4 billion to the SNB. The Bank of England and Bank of Canada also announce that they will increase their liquidity facilities.

14 December 2007
Citigroup takes $49 billion worth of SIV assets back on its balance sheet.

17 December 2007
Federal Reserve makes $20 billion available to commercial banks.

18 December 2007
The Federal Reserve Bank tightens rules on subprime lending. The ECB lends European commercial banks $500 billion. The Bank of England makes £10 billion available to UK banks.

19 December 2007
As subprime losses reach $9.4 billion, Morgan Stanley sells 9.9% stake in the company.

21 December 2007
The spread of 15-day AAA asset-backed commercial paper over equivalent duration AAA non-financial commercial paper hits 173 basis points as banks scramble for funding through the end of the year. The spread is usually less than 10 basis points.

22 December 2007
The M-LEC plan to rescue struggling SIVs is abandoned by the sponsoring banks.

4 January 2008
US job losses in residential construction and mortgage lending for the year 2007 estimated at 35,000.

9 January 2008
Bear Stearns reveals subprime losses of $1.9 billion. The CEO, James Cayne, steps down. The World Bank says that world economic growth will slow in 2008 due to subprime crisis credit crunch.

11 January 2008
Bank of America buys Countrywide for $4 billion after its shares plunge 48%. Merrill Lynch doubles projection of subprime losses to $15 billion.

15 January 2008
Citigroup reports a $9.8 billion loss for the fourth quarter, including $18 billion loss in mortgage portfolio.

17 January 2008
Lehman Brothers retires from wholesale mortgage lending and will cut 1,300 jobs.

19 January 2008
Fitch Ratings lowers the rating of Ambac, the second-largest monoline insurer after MBIA, from AAA to AA. This is the first downgrade of a large monoline.

22 January 2008
In a surprise move between regularly scheduled meetings, the Federal Reserve cuts the federal funds rate by 75 basis points to 3.50%.

24 January 2008
The French bank Société Générale announces that it lost €4.9 billion due to the unauthorized activity of one of its traders. While the bank closed out the trades during a holiday weekend in the United States, stockmarkets plunged round the world.

30 January 2008
The Federal Reserve cuts the federal funds rate by 50 basis points to 3.00%. Regularly scheduled auctions for municipal debt of the state of Nevada and Georgetown University fail due to lack of bidders and uncertainty about monoline insurers. The debt issuers are forced to pay a penalty rate.

13 February 2008
President Bush signs the Economic Stimulus Act of 2008. The Act provides approximately \$100 billion of tax rebates to be distributed during summer 2008 and \$50 billion of investment incentives.

14 February 2008
UBS announces fourth-quarter 2007 loss of CHF12.4 billion (\$12 billion).

15 February 2008
Problems in the auction-rate securities market continue to spread; over 1,000 auctions fail this week. Investment banks do not allow investors to withdraw funds invested in those securities.

28 February 2008
AIG announces fourth-quarter 2007 losses of \$5.3 billion due to more than \$11 billion of losses on its credit-default swap portfolio.

6 March 2008
The delinquency rate on family mortgages was 5.82% during the fourth quarter of 2007, up 87 basis points from a year earlier, according to MBA's National Delinquency Survey.

11 March 2008
The Federal Reserve Bank of New York announces the creation of the term securities lending facility (TSLF), which lets primary dealers swap AAA-rated securities for Treasury securities. The Federal Reserve, the ECB and SNB increase the size of their dollar swap lines to \$30 billion and \$6 billion respectively.

14 March 2008
The investment firm, Carlyle Capital, defaults on \$17 billion of debt. The fund is leveraged more than 30:1 and invests mostly in agency-backed residential mortgage-backed securities (RMBS).

16 March 2008
The Federal Reserve Bank of New York announces the creation of the primary dealer credit facility (PDCF), which essentially opens the discount window to primary dealers, including non-depository institutions.

17 March 2008
The investment bank Bear Stearns is acquired by JPMorgan Chase for $2 per share. Bear Stearns stock had been trading at $60 the previous week before a run pushed it to near insolvency. The Federal Reserve Bank of New York agrees to guarantee $30 billion of Bear Stearns assets, mostly mortgage-related.

18 March 2008
The Federal Reserve cuts the federal funds rate by 75 basis points to 2.25%.

24 March 2008
JPMorgan Chase raises its bid for Bear Stearns to $10 per share and agrees to indemnify the Federal Reserve Bank of New York against the first $1 billion of losses on the $30 billion that it guaranteed.

8 April 2008
Washington Mutual, one of the largest US mortgage originators, raises $7 billion from TPG, a private equity firm. The IMF's Global Financial Stability estimates that the total credit losses will be $1 trillion.

15 April 2008
Alpha magazine reports that hedge-fund owner John Paulson was the highest-paid trader in 2007. His fund, Paulson & Co., rose more than $20 billion in value during the year by shorting the mortgage market.

18 April 2008
Citigroup announces another $12 billion of losses related to subprime mortgages, leveraged loans, exposure to monoline insurers, auction-rate securities and consumer credit.

21 April 2008
National City Corporation, a large regional US bank, announces a $7 billion capital infusion from Corsair Capital, a private-equity firm.

22 April 2008
Royal Bank of Scotland announces that it will raise about £16 billion from investors by selling assets.

30 April 2008
The Federal Reserve lowers the federal funds rate by 25 basis points to 2.0%.

6 May 2008
UBS AG announces CHF11.5 billion ($11.1 billion) loss during first-quarter 2008.

12 May 2008
Monoline insurer MBIA announces a $2.4 billion loss during first-quarter 2008.

Glossary

ABX.HE Index: an index produced by Markit that tracks prices on credit-default swaps on tranches of selected asset-backed securities composed of residential mortgages.

Alternative-A (or Alt-A): a category of mortgage borrower, generally with FICO (see below) scores that qualify them for prime rates but that are not eligible for prime for other reasons, such as lack of income documentation.

Asset-backed security (ABS): a security collateralized by financial assets, such as mortgages.

Asset-backed commercial paper (ABCP): see Commercial paper.
Auction-rate security: a municipal bond whose interest rate is set at specified intervals, often two weeks, at auction. In early 2008 a large number of auctions failed due to lack of bidders, causing the municipalities to pay high penalty rates.

Basel II: a revision to the international rules governing bank capital allocation. Coordinated by the Bank for International Settlements. It was designed to lessen the amount of regulatory arbitrage that occurred under its predecessor, Basel I. European banks were supposed to implement Basel II rules by 2008, while US banks implementation may occur in 2009.

Commercial paper (CP): bonds with maturity of less than 270 days. CP can be issued by corporations, banks or trusts holding securities. The last is usually referred to as asset-backed commercial paper (ABCP). ABCP was one of the first casualties of the crisis, starting to decline rapidly in August 2007 as the SIVs unwound.

Collateralized debt obligation (CDO): a structured finance product composed of debt instruments such as corporate and consumer loans, mortgages and bonds. The cash flows from the underlying debt are paid out to the tranches of the CDO according to their seniority. CDO issuance averaged $500 billion in 2006 and 2007.

Conduit: a financial entity whose purpose is to buy financial assets from correspondents, repackage them and sell interests in the new securities to other entities.

Credit-default swap (CDS): a type of insurance against a firm defaulting on its debt. According to the Bank for International Settlements, the notional amount of CDS outstanding was $43 trillion as of June 2007.

Discount window: the mechanism through which the Federal Reserve lends directly to banks, thrifts and other chartered depository institutions. The PDCF essentially extended the discount window to primary dealers.

Fannie Mae/Freddie Mac: US government-sponsored enterprises (GSEs) that enhance the flow of credit to the mortgage market. The GSEs purchase mortgages from banks and thrifts and either keep the mortgages or package them into RMBS (see below) and sell them to the secondary market.

FICO score: a numerical rating of the credit history of individuals, developed by the Fair Isaac Corporation.

LIBOR: London interbank offered rate, the interest rate that banks charge each other to borrow money. Denominated in various currencies. US dollar LIBOR is usually tied closely to the federal funds rate but diverged beginning in August 2007 due to a combination of credit and liquidity risk.

Monoline insurer: An insurance company that specializes in insuring the performance of financial instruments, usually mortgage-related. Most offer private mortgage insurance, which is used to insure payments on mortgages with high loan-to-value ratios. Many also insure AAA-rated portions of CDOs.

Mortgage-backed security (MBS): a security that is composed of mortgages. Often separated into MBS backed by residential mortgages (RMBS) and commercial mortgages (CMBS). Fannie Mae and Freddie Mac dominated MBS issuance in the United States until 2004 when private-label MBS, often of subprime mortgages, became more prevalent. Payments of interest and principal on the underlying mortgages can be paid pro-rata (pass-through MBS) or in a 'waterfall' fashion, with 'tranches' getting paid in order of seniority.

Primary dealer credit facility (PDCF): A new policy introduced by the Federal Reserve that essentially opens the discount window to primary dealers. Normally only banks and other depository institutions have access to the discount window. The PDCF was introduced by the Federal Reserve the same weekend that Bear Stearns was acquired by JPMorgan Chase.

Residential mortgage-backed security (RMBS): see Mortgage-backed security.

Securitization: the practice of bundling securities into new securities. Used by financial institutions as a way of moving assets off their balance sheets in order to lend more. Mortgages are most commonly securitized but other debt instruments can also be included. In the United States, Fannie Mae and Freddie Mac actively promote mortgage securitization.

Structured investment vehicle (SIV): a fund that holds long-term securities (such as mortgages) and funds its investments with commercial paper.

Subprime: borrowers whose poor credit history does not qualify them for prime interest rates. In the United States, about 20% of mortgage originations totalling over $1 trillion in 2005 and 2006 were subprime, far above historical levels.

Term auction facility (TAF): an auction held by the Federal Reserve for a set quantity of money. The TAF was introduced in December 2007 in response to pressures for short-term lending in the money markets.

Term securities lending facility (TSLF): The TSLF is an arrangement by the Federal Reserve to lend to Treasuries and accept other AAA-rated financial instruments as collateral.

Tranche: a method of apportioning cashflows in a structured finance product, such as an asset-backed security. Senior tranches are paid principal and interest first, and junior tranches are paid with whatever cash is left. Senior tranches have more security and consequently earn lower interest rates than junior tranches. Several tranches may be rated AAA. The most senior of the AAA tranches is often called ‘super-senior’.