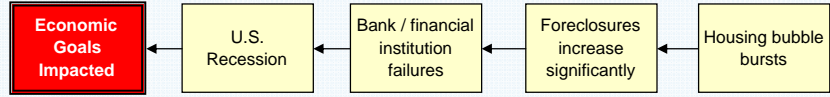


# 2008-2009 Financial Mess - Cause Map™

## Using Root Cause Analysis to Explain a Complex Economic Issue

### Basic Cause Map

Read the cause-and-effect relationships from left to right by saying "because" in place of each arrow.

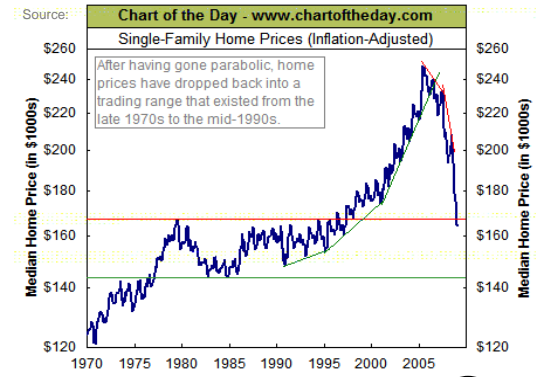


This simple analysis shows that the Economic Goals of the U.S. (its financial security) are affected because the recession. The recession is because of the bank and financial institution failures, which were because of the significant increase in foreclosures when the "Housing bubble" burst.

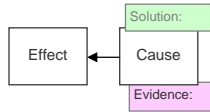
**Overview:** One house in foreclosure doesn't cripple the U.S. financial system, but thousands of houses in foreclosure is one of the causes in a "chain of events" that negatively compounds throughout the economy.

Preliminary reports from the National Bureau of Economic Research indicates that in 4Q 2008 the United States GDP declined at an annual rate of 6.3%, the worst decline since 1982. In 2008, foreclosure rates increased 81% from the previous year, 25 banks failed, and the national unemployment rate reached 7.2% and continues to rise. The root cause analysis below shows some of the causes of the current financial predicament and focuses specifically on a few of the vicious cycles that continue to fuel the problem.

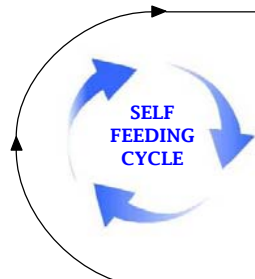
Any feedback to improve the accuracy of this page is appreciated.



The Cause Mapping method of root cause analysis shows how individual cause-and-effect relationships connect to create a bigger issue.



For a free copy of our root cause analysis template in Microsoft Excel, used to create this page or to learn more about our method, visit our web site at [www.ThinkReliability.com](http://www.ThinkReliability.com)



### Downward Spiral of Housing Prices

Once the "Housing bubble" burst in 2005-2006, housing prices began to decline. The initial decline, along with other components listed, caused homeowner equity to decline. Once equity in a house is negative, a homeowner is generally unable to sell or refinance. If a homeowner is also unable to make their mortgage payments, foreclosure is inevitable. Rising foreclosures increases the supply of houses available which causes further downward pressure on housing prices. This cycle continues to repeat, feeding itself, producing a downward spiral with significant consequences.

**Detailed Cause Map** - Starting with the Basic Cause Map above, more detail can be added in between each of the cause-and-effect relationships to reveal a more thorough analysis.

