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.

High Unemployment Reduces Income
As business slows, companies are forced to lay off employees to survive. This feeds back into the cycle by reducing income levels causing more foreclosures and less disposable income, both of which feed the downward spiral.