

Teacher Version

Bubble-Credit Connection Exercise

Directions: The sentences below describe the effects of the housing bubble on the credit market. Put the following sentences in the correct order by placing a number between 1-5 in front of each statement.

- 4 The housing bubble bursts.
- 3 Homeowners use their houses as collateral to buy big-ticket items.
- 1 The housing bubble begins.
- 5 Housing prices drop, and many homeowners are unable to repay their debts
- 2 People purchase overvalued homes.

Directions: Choose the correct word from the word bank to complete the following sentences.

Word Bank: credit expansion, mortgage payments, more, collateral, loans

1. People take out **loans** to pay for big-ticket items, like houses, cars, and college tuitions.
2. When people take out home loans, they repay them by making **mortgage payments**.
3. Suppose Ben is unable to repay his car loan. As a result, the lender takes back the car. In this case, the car was **collateral** for the loan.
4. Ayala owns a house worth \$200,000. Her friend owns a \$150,000 home. Based on the values of their homes, Ayala can most likely borrow **more** money than her friend.
5. During the housing bubble, rising home prices contributed to people borrowing more money. This helped fuel the **credit expansion**.