The Subprime Primer
As the 21st Century began, the Dot-Com Boom had Busted. The Dot-Com Ponzi Pyramid had made Big Money for the Really Smart Guy (RSG) Investment Bankers,

but ... What to do Next?

By using their Big Money to control Campaign Financing, the RSG Bankers owned the USA President and the USA Congress, and Pulled the Strings of the Puppets at the Federal Reserve, Treasury, and the rest of the US Government.
So, the RSG Bankers had a Free Hand to set up the Next Big Boom, but ... What kind of Boom?

The Boom could not be in the USA Manufacturing Sector, because all the USA Manufacturing Jobs had been moved to China where Zero-Wage Slave Labor made Manufacturing more Profitable.

The USA had Service Jobs (Government Bureaucrats, Educators, Health Care Providers, etc) but their Financing Systems were too Bogged Down in Bureacracy to be Manipulated Quickly and Efficiently, and the RSG Bankers needed Quick Efficient Manipulation to Build the Next Big Boom.

However, Many People owned (or wanted to own) Houses and had Credit Card Debt, and Banks controlled Mortgages and Credit Cards, and so could Quickly and Efficiently Manipulate the Housing Market, so the Housing Market would be the Next Big Boom.

The Next Big Boom Game would be based on Selling Mortgages not only as a way of Buying Housing, but also a way of Financing Credit Card Debt to enable High-Flying-Live-Beyond-Your-Means Life Styles.

All that the RSG Bankers needed to do to make it work was to tell the Federal Reserve / Treasury to set Low Interest Rates, which was just a matter of pulling their Puppet Strings.

With the Low Interest Rates in place, the 21st Century SubPrime Stupidity began ...
At the Mortgage Broker's ....
Gee, I'd like to buy a house but I haven't saved any money for a downpayment and I don't think I can afford the monthly payments. Can you help me?

Sure! Since the value of your house will always go up, we don't need downpayments anymore!
Ace Mortgage Brokers

“We Make Your Dreams Come True”

And we can give you a really really low interest rate for a few years. We’ll raise it later, okay?

Sure, no problem. Umm, there’s one other thing.... my employer is a real prick and might not verify my employment. Would that be a problem?

Nope. We can get you a special "Liar's Loan" and you can verify your own employment and income!
Ace Mortgage Brokers
"We Make Your Dreams Come True"

You guys are awsome! You are really willing to work with guys like me.

Well, we don't actually lend you the money -- a bank will do that -- so we don't really care if you repay the loan. We still get our commission.

Wow! Let's get started!
A Few Weeks Later, at the Bank .......
First Bank of Bankland, Inc
"Open Your Christmas Club Account Today"

I'd better get rid of these crappy mortgage loans. They are starting to stink up my office. Thankfully the really smart guys in New York will buy them and perform their financial magic! I'll call them right away!
Let's See What the Smart Guys Are Doing...
RSG Investment Bank of Wall Street

"Trust the 'Really Smart Guys' for All Your Investment Needs"

Phew!!! We’d better get rid of these shitty mortgages before they start attracting flies.
RSG Investment Bank of Wall Street

"Trust the 'Really Smart Guys' for All Your Investment Needs"

But who would buy this crap, Boss?
RSG Investment Bank of Wall Street

"Trust the 'Really Smart Guys' for All Your Investment Needs"

I've got it! First we'll create a new security and use these crappy mortgages as collateral. We'll call it a CDO (or maybe CMO). We can sell that CDO to investors and promise to pay them back as the mortgages are paid off.
RSG Investment Bank of Wall Street

"Trust the 'Really Smart Guys' for All Your Investment Needs"

But crap is crap, isn't it? I don't get it.
Sure, individually these are pretty crappy loans, but if we pool them together only some of them will go bad -- certainly not all of them. And since housing prices always go up, we really have very little to worry about.
RSG Investment Bank of Wall Street

"Trust the 'Really Smart Guys' for All Your Investment Needs"

I still don't get it
RSG Investment Bank of Wall Street

"Trust the 'Really Smart Guys' for All Your Investment Needs"

The new CDO will work like this: It will be made up of three pieces (or "traunches") and we'll call them "The Good", "The Not-So-Good" and "The Ugly".
If some of the mortgages fail, as surely some might, we will promise to pay investors holding the "Good" traunch first. We'll pay the "Not-So-Good investors second, and the "Ugly" investors last.
RSG Investment Bank of Wall Street

"Trust the 'Really Smart Guys' for All Your Investment Needs"

I'm starting to get it. And because the "Good" investors have the least risk, we'll pay them a lower interest rate than the other guys, right? The "Not-So-Goods" will get a better interest rate and the "Ugly" guys will get a nice fat interest rate.
RSG Investment Bank of Wall Street

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Exactly. But wait, it gets better. We will buy bond insurance for the "Good" piece. If we do that, the Rating agencies will give it a really great rating, in the AAA to A range. They will likely give the "Not-So-Good" piece a BBB to B rating, still pretty good. We won't even bother asking them to rate the "Ugly" piece.
So you have managed to create AAA and BBB securities out of a pile of stinky, risky mortgage loans. Boss, you are a genius.

Yes, I know.
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Okay, now who are we going to sell the three pieces to?
RSG Investment Bank of Wall Street

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The assholes at the SEC won't let us sell this stuff to widows and orphans, so we'll sell it to our sophisticated institutional clients.

Like who?
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Like insurance companies, banks, small towns in Norway, school boards in Kansas -- to anyone who is looking for a high-quality safe investment.
RSG Investment Bank of Wall Street

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But surely nobody would buy the "Ugly" piece, would they?

Of course not -- nobody is that stupid. We will keep that piece and pay ourselves a handsome interest rate.
RSG Investment Bank of Wall Street

"Trust the 'Really Smart Guys' for All Your Investment Needs"

This is all great, but since we are only using the smelly mortgages as collateral on an entirely new security, we haven't really gotten rid of them. Don't we have to show them on our balance sheet?
RSG Investment Bank of Wall Street
"Trust the 'Really Smart Guys' for All Your Investment Needs"

No, of course not. The guys who write the accounting rules allow us to set up a shell company in the Caymen Islands to take ownership of the mortgages. The crap goes on their balance sheet, not ours. The fancy name for it is "Special Purpose Vehicle" or SPV.
RSG Investment Bank of Wall Street

"Trust the 'Really Smart Guys' for All Your Investment Needs"

That's great, but why would they let us do that, aren't we just moving our own crap around?

Sure, but we have convinced them that it is vitally important to the health of the U.S. financial system that investors not know about these complex transactions and what is behind them.
Let's drop in to see the Accountants.....
Sir, as an investor and a concerned citizen, I demand that you force our financial institutions to show greater transparency and openness in their financial reporting!
Office of the Czar of Accounting

“No Nit Too Small to Pick”
Gee, We Never Saw it Coming......
Norwegian Village Pension Fund

Hey man, what the hell is up?
We're not receiving our monthly payments!

RSG Investment Bank
Norwegian Village Pension Fund

RSG Investment Bank

Yeah, I meant to call you but it's been really crazy around here. It seems that the assholes who took out the mortgages backing your CDO aren't able to pay them off.
Norwegian Village Pension Fund

Wait a minute! We bought the AAA "Good" piece of the CDO. You know? The safe one. We're supposed to be getting paid first.

RSG Investment Bank
Norwegian Village Pension Fund

RSG Investment Bank

Well unfortunately the loans were quite a bit crappier than we originally thought and there is very little cash coming in. Frankly, I assure you that we are as disappointed as you are.
Norwegian Village Pension Fund

But you told me that housing prices always go up and that your borrowers could always refinance their mortgages!

RSG Investment Bank
Yeah, that was a bad assumption.
We fucked up. Sorry.
Norwegian Village Pension Fund

Bad assumption my frigid Norwegian ass! What about the AAA rating from the agencies?

RSG Investment Bank
Norwegian Village Pension Fund

RSG Investment Bank

They fucked up too.
Norwegian Village Pension Fund

But this security was insured! What about the insurers?

RSG Investment Bank
Norwegian Village Pension Fund

RSG Investment Bank

Are you kidding? There's no way they have enough money set aside to cover this mess. They fucked up.
Norwegian Village Pension Fund

Well that's just great, asshole. What am I supposed to tell my villagers?

RSG Investment Bank

We Bankers Own the US Government - we fund both Presidential Campaigns - so we tell the US to Buy ALL the Crap. So, you and I get RICH, and the US Taxpayers Eat the Shit.
OK, but what about Exotic Mortgage-Based Derivatives
There are $45\ \text{Trillion}\ of\ them,
6 times the value of the entire Mortgage Market.
Pension Funds hold them, too.

The US Taxpayers will Eat Them, too.
It's all Part of Our Plan.
Norwegian Village Pension Fund

Damn, you ARE a Really Smart Guy!

What are you going to do Next?

RSG Investment Bank

Since the Purchase will Create so many Dollars that the Dollar will Go to Hell, a New Global Financial System will Emerge. I will use the Taxpayer Money I get to buy myself a Seat at the Table. It’s Shanghai or Goodbye!
Norwegian Village Pension Fund

Whoa!
You are willing to Sell Out your Country?

RSG Investment Bank

"?? MY Country ??" - Hell With It.
I AM A CITIZEN OF THE WORLD!
Rich in Shanghai is Good.
Poor Slobs, in the USA or wherever,
are Dumb-Asses who Deserve Their Fate.
HOWEVER: What if the USA had a SMART STRONG President?

The USA has Better Things to do with $45 Trillion than to Eat your Toxic Loans and Exotic Derivatives. Some of your Loans are Bad - YOU Eat Them. ALL of your Derivatives are Worthless - YOU Eat Them.

My Loyalty to You is only Secondary. My Primary Loyalty is to the Voters Who Elected Me.

SMART STRONG President

If They are Corrupt Enough to try it, I will declare a National Emergency. They will be Charged with Treason.

But... I OWN you. I Paid for Your Campaign, and I am Calling on You to Pay Me.

I'll get My Congressmen to Impeach You.

The USA will Create and Spend $45 Trillion to build 1,400 nuclear power plants that the International Energy Agency says are needed for Clean Energy Independence. We will not only get Fuel and Energy, but also Good Jobs and lots of Fresh Water.

But... What about the $45 Trillion of Exotic Derivatives? If they are Recognized as Worthless, the Contraction in the Money Supply will Cause a Depression.

Based on appointments of USA/UK Hedge-Fundie Lackeys to posts such as Treasury Secretary and continuing Huge Bailouts to Zombie Banks etc Obama seems NOT to be a SMART STRONG President needed by the USA/UK to regain any Mandate of Heaven - as of April 2009.
Analects of Confucius:

The Master said, "The gentleman (chün tzu, 君子) understands yi. The small/mean man (hsiao-jen, 小人) understands lì." [Analects IV:16]

Justness, righteousness, principles

Lì, "profit, gain, advantage": NOT a proper motive for actions affecting others. The idea that profit is the source of temptation to do wrong

The USA/UK Hedge-Fundies succumbed to Temptation of Profit and used Statistics-Math Obfuscation and Secrecy at the beginning of the Millenium to build a $500 Trillion Derivative Pyramid by which they Corrupted the USA/UK Political System and Wrecked the USA/UK - based Gobal Financial System,

Thus the USA/UK Political Leadership violated the Confucian Principle of

benevolent rule

so the USA/UK Political Leadership and Global Financial System lost its Confucian

Mandate of Heaven
As the chart above (from The New York Times in October 2008) shows, although the Credit Default Swap problem had grown from $45 trillion in March 2008 to $55 trillion in October 2008 (an uncertain figure - Paul Solman says $62 trillion), the total value of Derivatives based on Interest Rate Swaps and Options and Currency Swaps had grown to $465 trillion, and the total growth in the 6 years from 2002 to 2008 of effective asset-money supply created by Derivatives of the Shadow-Banking-System increased by $531 - $106 = $425 trillion.

Just as overvalued mortgages triggered a collapse of the excess $55 - $2 = $53 trillion in the Credit Default Swap asset-money Bubble, inaccurately valued Interest Rate and Currency Situations can (and probably will, when a Black Swan Event hits) trigger a collapse of the excess $465 - $101 = $364 trillion in the Interest Rate-Currency Swap asset-money Bubble.

When that happens, the **$45 to $53 trillion construction program** of nuclear reactors, rapid rail transit, etc., needed to rescue the USA from the Credit Default Swap debacle **will be insufficient and a $400 trillion program will be needed**. If the USA cannot handle that, then the New York/London Financial System may collapse like a Ponzi Scheme, the Global Financial System will probably change to a Shanghai System based in China, and the USA may become a backwater nation, with Havana as the Western Hemisphere capital of the Global China Hegemon.
Cory Doctorow said, on BoingBoing on February 26, 2008:
"... The Subprime Primer is a 45-slide presentation that uses stick figures to explain the present economic meltdown ... ".
The next day on BoingBoing Chief Jimbo said:
"... I have it on good sources that this was actually made at Countrywide Financial ... ".

In light of some things that happened since February 2008, when The Subprime Primer appeared on google, I added an alternate ending and put it on the web at tony5m17h.net/SubprimeShanghai.pdf and tony5m17h.net/SubprimeShanghai.mov
The first is a 3.4 MB pdf file and the second is a 1.9 MB mov file.

The post-February 2008 events were:

1 - A 23 March 2008 New York Time web article by Nelson D. Schwartz and Julie Creswell said, about Credit Default Swap Derivatives:
"... Today, the outstanding value of the swaps stands at more than $45.5 trillion, up from $900 billion in 2001 ... ".

2 - Joseph Coleman, in a 6 June 2008 AP news article about an International Energy Agency (IEA) report, said:
"... The world needs to invest $45 trillion in energy in coming decades, build some 1,400 nuclear power plants ... ".

3 - A Reuters web article on 17 Sep 2008 said:
"... a leading Chinese state newspaper said ... the world must consider building a financial order no longer dependent on the United States ... ".

4 - I saw "Gabriel Over the White House" on Turner Classic Movies.
In a 17 September 2008 National Review Online article, Jonah Goldberg said [some of the bracketed material is from a Synopsis at TCM web page]:
"... William Randolph Hearst believed America needed ... FDR (and claimed that he put Roosevelt over the top at the Democratic convention). Deciding that the best way to influence FDR - and the American people - was via Hollywood, he personally reworked a script based on the book Gabriel Over the White House, which became a movie of the same name starring Walter Huston as President Judd Hammond ...
One of the project’s uncredited script doctors was the Democratic presidential nominee, Franklin D. Roosevelt. He took time off from the campaign to read the script and suggested several important changes that Hearst incorporated into the film. “I want to send you this line to tell you how pleased I am with the changes you made in ‘Gabriel Over the White House,’” Roosevelt wrote a month into office. ...
[In the movie] ... Hammond, a Hoover-like partisan hack of a president, has a car accident and is visited by the archangel Gabriel. When he recovers, he is reborn with a religious fervor to do good for America.
He fires his entire cabinet - big-business lackeys ...
He orders the formation of a new “Army of Construction” [to employ the unemployed in useful construction projects]...
Congress impeaches Hammond, and in response he appears before a joint session [He declares martial law and]... suspends Congress ...
[With martial law powers, he repeals Prohibition and]... nationalizes the sale and manufacture of alcohol.
When he meets with resistance from gangsters ... he orders a military trial ... Immediately after the trial, the gangsters are lined up against a wall behind the courthouse and executed. ...
Hammond [calls a conference of world leaders, threatening an American military build-up if they do not stop their own excessive military spending and use those resources for peaceful production, thus forcing all of the world leaders to sign a peace covenant. After all of the world leaders sign the historic covenant]... He dies of a heart attack ... and is eulogized as “one of the greatest presidents who ever lived”.