The banks crashed the California economy. Now they need to fix it.

In the past year, Wall Street and the big banks have taken $4.7 trillion[1] from U.S. taxpayers but have failed to pass the benefits on to our communities. The consequences have been devastating: 6 million lost jobs, $6 trillion in lost homeowner wealth,[2] and up to $58.0 billion in lost annual property taxes.[3]

Americans urgently need solutions, both big and small, but the banks are not doing their part. Instead, the banks plan to pay $74 billion[4] in bonuses and compensation this year, while foreclosing on millions more homes, cutting back on lending to small businesses and state and local governments, and raising consumer fees.

The banks' actions have also compromised state and local government budgets, which depend on property and income taxes to fund basic public services. For 2009/2010, states have faced budget shortfalls of $163 billion; by 2011 the shortfall is estimated to more than double to $350 billion.[5] In California, state lawmakers recently closed a $26.0 billion deficit, with another $15 billion gap projected for 2010/2011.6 The 2009/2010 budget included drastic cuts to education and social programs, including $6 billion from K-12 education, $2.8 billion from the University of California and California State University systems, $1.3 billion from MediCal, and $878 from CalWORKs program, In-Home Supportive Services and the children's health insurance program.7 The deal also diverted $4 billion from local governments.8

Taxpayers made trillions available to rescue the banks and now it is time for the banks to do their part to stimulate the economy:

1. Stop foreclosures and help save California homes.

California has been crippled by banks' foreclosures and the resulting home value declines. Over 523,000 homes were affected by foreclosure filings in 2008 alone,9 contributing to a loss of home value which has exceeded $2.7 trillion in the last three years. Furthermore, as property values are assessed downward, this decline in home values will cost the state's local governments $13.7 billion in annual property tax revenues. The situation in California's largest counties is equally bleak after the home value declines of the last three years:

- Los Angeles County lost $666.8 billion in home value, which could drain $3.3 billion in annual tax revenue from the county and its municipalities.
- San Francisco County lost $43.7 billion in home value, which could drain $218.7 million in annual tax revenue from the county and its municipalities.
- San Diego County lost $202.6 billion in home value, which could drain $1.0 billion in annual tax revenue from the county and its municipalities.

- Riverside County lost $157.6 billion in home value, which could drain $945.5 million in annual tax revenue from the county and its municipalities.
- San Bernardino County lost $133.2 billion in home value, which could drain $666.1 million in annual tax revenue from the county and its municipalities.
- Santa Clara County lost $116.0 billion in home value, which could drain $695.8 million in annual tax revenue from the county and its municipalities.
- Sacramento County lost $89.6 billion in home value, which could drain $537.4 million in annual tax revenue from the county and its municipalities.

Yet the worst has not passed. The Center for Responsible Lending projects that there will be 1,709,539 more foreclosures in California from 2009 to 2012.[10] Banks must **implement a foreclosure moratorium now to stop the bleeding and begin to repair our communities.**

If the banks stopped foreclosure filings in California now, they could:

- Keep families in their homes and save **$827.1 billion in California homeowner wealth**.[11]
- Stop the budget free fall and save state and local governments as much as **$4.2 billion in annual property tax revenue**.[12]
- Save additional **$735.1 million in local government costs** associated with dealing with foreclosed properties – and much more in the event that the banks do not keep up or secure the properties.[13]

To put these potential savings in perspective, the City of Los Angeles resolved a massive $529 million budget deficit for 2009/2010 with 1,200 layoffs and 26 furlough days.14 If the banks implemented a moratorium on foreclosures, the resulting savings could avoid approximately eight similarly sized deficits around the state in the future.

2. Provide the same affordable loans to state and local governments that banks receive from the federal government.

Wall Street and the Big Banks are exacerbating the budget crisis, forcing cuts to vital public services and potentially triggering new waves of layoffs. As part of the banking industry bailout, the federal government is lending money to banks at a "special" interest rate for short-term borrowing that is speculated to be as low as 0.5%. However, when state and local governments need to obtain short term financing, they pay market rates between 2-4%, costing taxpayers hundreds of millions of dollars in interest payments.

If the banks were to lend directly to state and local governments at the same special interest rate for short-term loans that they are offered by the Fed, they could:

- Save taxpayers an estimated **$792 million nationally** in interest payments on the states' outstanding short-term debt.
- Save **California taxpayers** an estimated **$105 million** in interest payments on the state's outstanding short-term debt.
- Save **Los Angeles area taxpayers** an estimated **$30 million** in interest payments on local government outstanding short-term debt.

- Save **Bay Area taxpayers** an estimated **$3 million** in interest payments on local government outstanding short-term debt.

3. Restore small business lending to save jobs and tax revenue.

Since receiving a taxpayer bailout, banks have decreased small business lending through the SBA 7(a) program, the Small Business Administration's main program. Between October 2008 and April 2009, SBA 7(a) lending declined 42% over the previous year. Meanwhile, the national unemployment rate has climbed 59% since October from 6.1% to 9.7% (it is up to 11.6% in California). In a National Small Business Association survey, 56% of small businesses that have problems finding available credit reported having to lay off employees as a result.[15]

If the banks restore small business lending to last year's levels, they could inject an estimated $1 billion into the California economy annually ($5.4 billion nationally). This would inject an additional:

- **$556 million** into the **Los Angeles** area local economy by way of loans made through the SBA's Los Angeles and Santa Ana district offices.
- **$156 million** into the **Bay Area's** local economy by way of loans made through the SBA's San Francisco district office.
- **$119 million** into the **San Diego** area local economy by way of loans made through the SBA's San Diego district office.
- **$109 million** into the **Sacramento** area local economy by way of loans made through the SBA's Sacramento district office.

4. Lower interest rates on consumer credit cards and stop charging abusive overdraft fees to put billions back in consumer pockets.

As Californians struggle with job losses and foreclosures, banks are raising credit card and banking fees to make a profit. Banks have tightened consumer credit by substantially raising credit card interest rates, even on customers who haven't missed a payment. According to a recent study, banks stand to make $38.5 billion in overdraft fees this year. Reduced credit availability and increasing bank fees lower consumers' spending power, which can impact consumption and stifle economic recovery. Monthly personal consumption declined by $227.5 billion between September 2008 and June 2009.[16]

If the banks lower credit card interest rates by just 1%, they could inject $1.1 billion back into the California economy every year ($9.1 billion nationally). This would inject an estimated:

- **$382 million** back into the **Los Angeles** area local economy every year.
- **$127 million** back into the **San Francisco** area local economy every year.
- **$89 million** back into the **San Diego** area local economy every year.
- **$122 million** back into the **Inland Empire** local economy every year.
- **$54 million** back into the **San Jose** area local economy every year.
- **$63 million** back into the **Sacramento** area local economy every year.

If the banks stop charging abusive overdraft fees, they could inject $4.8 billion back into the California economy. This would inject an estimated:

- **$1.7 billion** into the **Los Angeles** area local economy.
- **$994 million** into the **San Francisco** area local economy.
- **$262 million** into the **San Diego** area local economy.
- **$205 million** into the **Inland Empire** local economy.
- **$284 million** into the **San Jose** area local economy.
- **$164 million** into the **Sacramento** area local economy.

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1 http://www.google.com/hostednews/ap/article/ALeqM5heUXausbmwbNjC7_DaF4ZnJ3dYhgD99IEBJG4
2 http://www.reuters.com/article/pressRelease/idUS153982+03-Feb-2009+PRN20090203
3 Calculation is $6.1 trillion x 0.95%, the median effective property tax rate for U.S. owner-occupied housing. Source: http://www.taxfoundation.org/files/proptax_owner-occ_bystate2004-2007-20080923.xls.
4 http://www.washingtonpost.com/wp-dyn/content/article/2009/07/22/AR2009072203687.html?hpid=topnews
5 http://www.cbpp.org/cms/index.cfm?fa=view&id=1283
6 http://www.cbpp.org/cms/index.cfm?fa=view&id=711
7 http://www.mercurynews.com/topstories/ci_12908874
8 http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2009/07/22/MNC518SN2J.DTL
9 http://www.realtytrac.com/ContentManagement/PressRelease.aspx?ItemID=5781
10 CRL released foreclosure projections by state in January 2009. However, in May 2009, when CRL updated its projected foreclosures for 2009-2012 from 8.1 million to 9 million, it did not release new state-specific estimates. SEIU updated CRL's state estimates to May 2009 under the assumption that each state's share of national foreclosures would remain constant. Specifically, each state's January 2009 state estimate was adjusted by adding the following: 900,000 x (the state's January 2009 estimate / 8.1 million). Sources: http://www.responsiblelending.org/mortgage-lending/tools-resources/projected-foreclosures-by-1.html; http://www.nhc.org/Credit%20Suisse%20Update%2004%20Dec%2008.doc; http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf.
11 The estimates of the homeowner wealth which could be saved reflect the immediate impact a foreclosure has on a) the property value of a foreclosed home (direct impact), and b) the property values of nearby homes (indirect impact). The estimates only include the declines associated with individual foreclosures and do not reflect the broader housing market improvement which might result from a bank moratorium on foreclosures. Direct impacts were calculated using the Tax Foundation's analysis of American Community Survey property value data and a methodology from the U.S. Joint Economic Committee. Indirect impacts were calculated by the Center for Responsible Lending. Projections for foreclosures by state are from the Center for Responsible Lending and were adjusted in the manner discussed above. Sources: http://www.taxfoundation.org/files/proptax_owner-occ_bystate2004-2007-20080923.xls; http://jec.senate.gov/index.cfm?FuseAction=Reports.Reports&ContentRecord_id=c6627bb2-7e9c-9af9-7ac7-32b94d398d27&Region_id=&Issue_id=6b00ae19-7e9c-9af9-7cb0-83a2e779eb00.
12 The estimates of property tax revenues which could be saved were calculated by applying the effective tax rates derived from the Tax Foundation's analysis of American Community Survey data to the foreclosure and property value data discussed above. Source: http://www.taxfoundation.org/files/proptax_owner-occ_bystate2004-2007-20080923.xls.
13 The estimates of local government costs associated with responding to foreclosures are based on a study of Chicago by Harvard professor William C. Apgar. Dr. Apgar calculated the municipal cost for ten different foreclosure scenarios. The above estimates are based on the projected number of foreclosures (adjusted from CRL data) multiplied by the costs of Dr. Apgar's second least-expensive scenario – that of a foreclosed home sold at auction which is vacant but secured (cost: $430/foreclosed property). Costs associated with foreclosures could be much higher, however. For example, the third least-expensive scenario – in which a foreclosed home sold at

auction is vacant and in violation of municipal code – costs local government $5,358. Source: http://www.995hope.org/content/pdf/Apgar_Duda_Study_Full_Version.pdf.

14 http://www.nbclosangeles.com/news/local-beat/Its-Official-City-Budget-1200-Layoffs-Approved.html

15 http://www.nsba.biz/docs/09CCSurvey.pdf

16http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=82&ViewSeries=NO&Java=no&Request3Place=N&3Place=N&FromView=YES&Freq=Month&FirstYear=2008&LastYear=2009&3Place=N&Update=Update&JavaBox=no