# The banks crashed the Florida 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 crippled 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 Florida, the 2010 shortfall was $5.9 billion and the state is estimated to have an additional $5 billion shortfall in 2011.[6] This year federal stimulus money has helped states partially fill the funding gap; but so far these funds are only a one time injection and even this year haven't been enough. Even after stimulus money, Florida was $600 million short.[7]

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

## 1. Stop foreclosures and help save Florida homes.

Florida has been crippled by banks' foreclosures and the resulting home value declines. Nearly 400,000 homes were affected by foreclosure filings in 2008 alone,[8] contributing to a loss of home value which has exceeded $945 billion in the last three years. Furthermore, as property values are assessed downward, this decline in home values will cost the state's local governments $3.8 billion in annual property tax revenues.[9] In Miami-Dade County, for example, homeowners lost $128 billion in home value, which could drain $1.2 billion in annual tax revenue from the county and its municipalities as properties are reassessed.[10] Since Florida does not have a state income tax, state and local governments are especially dependant on revenues derived from property values to provide needed services to their citizens.

Yet the worst has not passed. The Center for Responsible Lending projects that there will be 1,567,512 more foreclosures in Florida from 2009 to 2012.[11] Banks must **implement a foreclosure moratorium now to stop the bleeding and begin to repair our communities.**

**If the banks stop foreclosures in Florida and allow families to remain in their homes, they could:**

- Keep **1.5 million Florida families** in their homes[12] and save **$410.8 billion in Illinois homeowner wealth**. [13]
- Stop the budget free fall and save state and local governments as much as **$3.3 billion in annual property tax revenue**. [14]
- Save additional **$674 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.[15]

To put these potential savings in perspective, Miami-Dade County had a $427 million budget shortfall for this year, 16 which has forced the local government to implement far-reaching cuts with a devastating impact on the county's most vulnerable members:

- The county has proposed over 1700 layoffs and a 5% cut in pay for those that remain. Among those slated for elimination are the 213 people who provide services to the elderly, emergency services to the disabled, and services to victims of domestic violence.[17]
- 400,000 meals provided to needy seniors are also on the chopping block.[18]

If the banks implement a moratorium on foreclosures, they can ultimately protect annual revenues for local governments across the state that are nearly 8 times larger than the amount saved by the cuts in the county.

## 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 **Florida taxpayers** an estimated **$39 million** in interest payments on the state's outstanding short-term debt.
- That $39 million in savings could help to restore vital health and public safety services such as:
    - the $2.7 million cut from Home Care, Community Care, and Respite Care for the elderly:[19]
    - the 15% cut in direct health care services including county health departments whose public health functions include immunizations, ensuring quality drinking water and monitoring and containing communicable diseases, and.[20]
    - the Florida Department of Law Enforcement's closure of 15 regional offices.[21]

## 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% (62% increase in the Miami area). 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.[22]

**If the banks restore small business lending to last year's levels, they could inject an estimated:**

- **$5.4 billion** into the **national economy** every year.
- **$391 million** into the **Florida** economy every year.
- **$279 million** into the **Miami** area local economy every year by way of loans made through the SBA's Miami district office.

If the banks restore small business lending to last year's levels, they could help the more than 75,000 small businesses in Miami-Dade County that employ more than 850,000 people:[23]

- During the last quarter of 2008, bank loans to small businesses in Miami-Dade County were down 80% compared to the 2007 final quarter. According to the local Small Business Administration which provides loan guarantees there is nothing they can do to help if the banks don't provide funding.[24]
- Aníbal Pabón, who owns an engineering and construction company, has been unable to get a bank loan and as a result was forced to layoff 15 of his 25 employees. [25]
- When Apricot Office Supplies needed money, they went to Regions Bank where they had had their accounts for decades. However, Regions, which received $3.5 billion in taxpayer bailout money[26] turned them down. The owners have had to lay off 19 of its 28 employees and they have cut their own salaries by more than 40% to avoid further layoffs.[27]

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

As Floridians struggle with job losses and foreclosures, banks are raising 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.[28]

**If the banks lower credit card interest rates by just 1%, they could inject an estimated:**

- **$9.1 billion** back into the **national economy** every year.
- **$544 million** back into the **Florida** economy every year.

- **$161 million** back into the **Miami** area local economy every year.

**If the banks stop charging abusive overdraft fees they could inject an estimated:**
- **$38.5 billion** back into the **national economy** every year.
- **$2.1 billion** back into the **Florida** economy**.**
- **$800 million** into the **Miami** area local economy.

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 McNichol, Elizabeth and Iris J. Lav, "New Fiscal Year Brings no Relief from Unprecedented State Budget Problems." Center on Budget and Policy Priorities, July 29, 2009.
7 Caputo, Marc, "Florida budget is best it can be, Crist says." The Miami Herald, May 28, 2009.
88 http://www.realtytrac.com/ContentManagement/PressRelease.aspx?ItemID=5781
9 See spreadsheet from Zillow, FactFinder and Tax Foundation calculations.
10 See spreadsheet from Zillow, FactFinder and Tax Foundation calculations.
11 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.
12 Adjusted CRL data. See above for discussion of adjustments. 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.
13 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.
14 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.
15 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.
16 "Mayor Carlos Alvarez Proposes FY 2009-2010 Budget: Service cuts and workforce reductions recommended." Miami-Dade County Office of the Mayor New Release, July 15, 2009.

17 FY 2009-10 Proposed Budget, PowerPoint presentation. http://www.miamidade.gov/budget/library/2009-10-Public_Budget_Meeting_Presentation_English.pdf
18 "Mayor Carlos Alvarez Proposes FY 2009-2010 Budget: Service cuts and workforce reductions recommended." Miami-Dade County Office of the Mayor New Release, July 15, 2009.
19 Rich, Sen. Nan H., "2009 Legislature not Friend to Health Care." Sun-Sentinel, May 26, 2009.
20 Rich, Sen. Nan H., "2009 Legislature not Friend to Health Care." Sun-Sentinel, May 26, 2009.
21 Ash, Jim, "Layoff notices go to state workers." Florida Today, May 24, 2009.
22 http://www.nsba.biz/docs/09CCSurvey.pdf
23 Mann, Joseph A. Jr, "Lack of credit hurts small businesses." The Miami Herald, February 25, 2009.
24 Mann, Joseph A. Jr, "Lack of credit hurts small businesses." The Miami Herald, February 25, 2009.
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26 Goldfarb, Zachary A., "Dueling Public Interests In Policing Rescued Firms." Washington Post, August 4, 2009, http://www.washingtonpost.com/wp-dyn/content/article/2009/08/03/AR2009080303028.html.
27 Boodhoo, Niala, "Small businesses feel big credit squeeze." The Miami Herald, December 29, 2008.
28http://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