The banks crashed the Michigan 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 Michigan, state lawmakers are still struggling to close a $2.8 billion deficit, with another $2.7 billion gap projected for 2010/2011.6 In response to the deficit, legislative leaders and the governor are negotiating over cuts including he elimination of the Michigan Promise college scholarship program, $165 million in cuts to revenue sharing with cities and townships, $95 million in cuts to state Medicaid reimbursements, and $54 million in cuts to community mental health clinics.7

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 Michigan homes.

Michigan has been crippled by banks' foreclosures and the resulting home value declines. Over 106,000 homes were affected by foreclosure filings in 2008 alone,8 contributing to a loss of home value which has exceeded $162.5 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 $2.2 billion in annual property tax revenues. In Wayne County, for example, homeowners lost $39.3 billion in home value, which could drain $707.1 million in annual tax revenue from the county and its municipalities as properties are reassessed. Similarly, Ingham County homeowners lost $4.6 billion with a potential property tax impact of $83.4 million.

Yet the worst has not passed. The Center for Responsible Lending projects that there will be 346,838 more foreclosures in Michigan from 2009 to 2012.[9] Banks must **implement a foreclosure moratorium now to stop the bleeding and begin to repair our communities.**

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

- Keep families in their homes and save **$32.0 billion in Michigan homeowner wealth**.[10]
- Stop the budget free fall and save state and local governments as much as **$441.2 million in annual property tax revenue**.[11]
- Save additional **$149.1 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.[12]

To put these potential savings in perspective, the City of Detroit is facing a $300 million budget deficit, and Detroit's mayor is threatening 1,200 layoffs and cuts to basic services if city workers don't accept a 10% wage cut.13 If the banks implemented a moratorium on foreclosures, the savings could go a long way to reducing or eliminating similar budget issues 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 **Michigan taxpayers** an estimated **$77 million** in interest payments on the state's outstanding short-term debt, which would enable the legislature to shelve almost half of the $165 million in proposed cuts to city and township revenue sharing.
- Save **Detroit area taxpayers** an estimated **$10 million** in interest payments on outstanding short-term debt, an amount comparable to mayor's current proposals to raise cash, which include an agreement to turn the operations of a city arena over to a regional authority $20 million) and drawing from an energy incinerator escrow account ($25 million).14

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% (79% increase in Michigan). 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:

- **$5.4 billion** into the **national economy** every year.
- **$157 million** into the **Michigan** economy every year.

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

As Michiganders 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 $297 million back into the Michigan economy every year ($9.1 billion nationally). This would inject an estimated:

- **$131 million** back into the **Detroit** area local economy every year.
- **$13 million** back into the **Lansing** area local economy every year.

If the banks stop charging abusive overdraft fees, they could inject $862 million back into the Michigan economy. This would inject an estimated:

- **$496 million** into the **Detroit** area local economy.
- **$26 million** into the **Lansing** 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 http://www.cbpp.org/cms/index.cfm?fa=view&id=711
7 http://www.mlive.com/news/index.ssf/2009/06/state_senate_republicans_propo.html; http://www.mlive.com/news/index.ssf/2009/09/gov_jennifer_granholm_and_legi.html
8 http://www.realtytrac.com/ContentManagement/PressRelease.aspx?ItemID=5781
9 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.
10 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.
11 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.
12 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.
13 http://www.chicagotribune.com/news/chi-ap-mi-detroitmayor-layo,0,636086.story
14 http://www.forbes.com/feeds/ap/2009/08/28/business-financial-impact-us-detroit-mayor-layoffs_6826872.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