The banks crashed the North Carolina 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 North Carolina, state lawmakers faced a $4.6 billion deficit in 2009/2010, with another $4.4 billion gap projected for 2010/2011.6 As a result of the deficit, health and human services programs were cut by $1 billion and public schools were cut by $225 million, although some of the funds are likely to be restored using federal stimulus money. Other cuts included the following: community support services by $65 million; group homes by $15.9 million less; Medicaid by $76 million, and the early childhood education by $16 million.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 North Carolina homes.

North Carolina has been crippled by banks' foreclosures and the resulting home value declines. Over 33,000 homes were affected by foreclosure filings in 2008 alone,8 contributing to a loss of home value which has exceeded $22.6 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 $169.5 million in annual property tax revenues. In Mecklenburg County, for example, homeowners lost $4.7 billion in home value, which could drain $46.7 million in annual tax revenue from the county and its municipalities as properties are reassessed. Similarly, Wake County homeowners lost $6.0 billion with a potential property tax impact of $48.0 million.

Yet the worst has not passed. The Center for Responsible Lending projects that there will be 172,271 more foreclosures in North Carolina 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 North Carolina now, they could:

- Keep families in their homes and save **$13.6 billion in North Carolina homeowner wealth**.[10]
- Stop the budget free fall and save state and local governments as much as **$177.6 million in annual property tax revenue**.[11]
- Save additional **$74.1 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, Mecklenburg County closed a $78.9 million shortfall in its 2009/2010 budget by cutting, among other things, $38 million from county services and $34 million from the school system.13 If the banks implemented a moratorium on foreclosures, the $177.6 million in annual savings could go a long way to eliminating or reducing similar cuts 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 **North Carolina taxpayers** an estimated **$9.9 million** in interest payments on the state's outstanding short-term debt, enough to restore more than half of the $16 million in cuts made to early childhood education in 2009/2010 budget.

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% (75% increase in the Charlotte 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.[14]

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.

- **$86 million** into the **North Carolina** 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 North Carolinians 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.[15]

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.
- **$274 million** back into the **North Carolina** economy every year.
- **$50 million** back into the **Charlotte** 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.
- **$1.2 billion** back into the **North Carolina** economy**.**
- **$597 million** into the **Charlotte** 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.myfox8.com/wghp-story-state-budget-deal-090805,0,2308650.story
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.charlotteobserver.com/597/story/783042.html
14 http://www.nsba.biz/docs/09CCSurvey.pdf
15http://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