

The Economic Crisis

How we got into this mess.

**What we as a nation and as
advocates can do about it.**

October 30, 2008



COALITION ON HUMAN NEEDS

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Presenters:

- **Jared Bernstein**, Director of the Living Standards Program, Economic Policy Institute, author of *Crunch: Why Do I Feel So Squeezed? (And Other Unsolved Economic Mysteries)*
- **Barry Zigas**, Housing Policy Director, Consumer Federation of America
- **Deborah Weinstein**, Executive Director, Coalition on Human Needs
- Moderator: **Lisa Carr**, Senior Director of Public Policy for Lutheran Services in America

Where we are, how we got
here, how to get out
(in 10 minutes)

Jared Bernstein

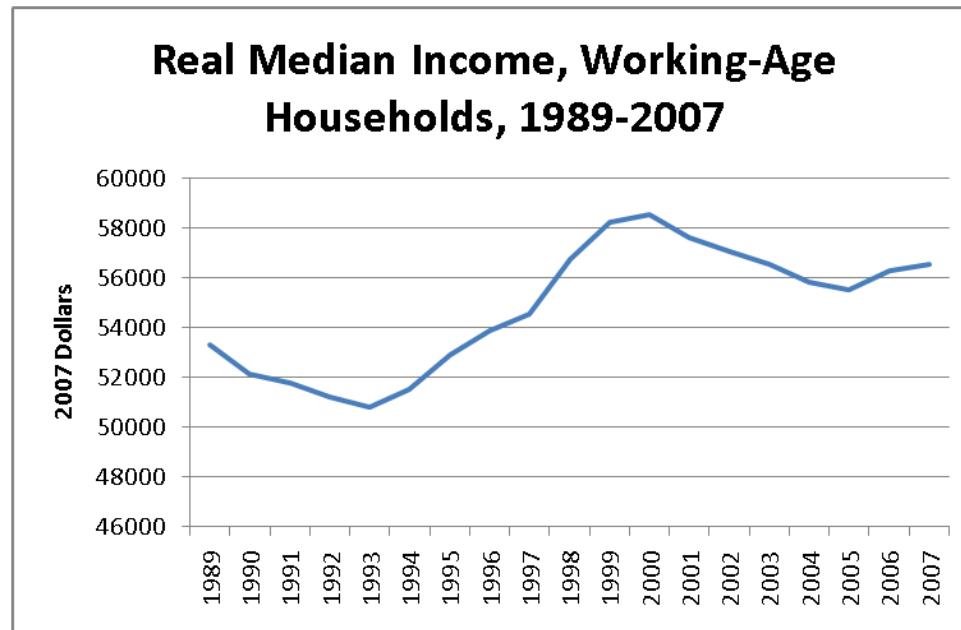
EPI

jbernstein@epi.org

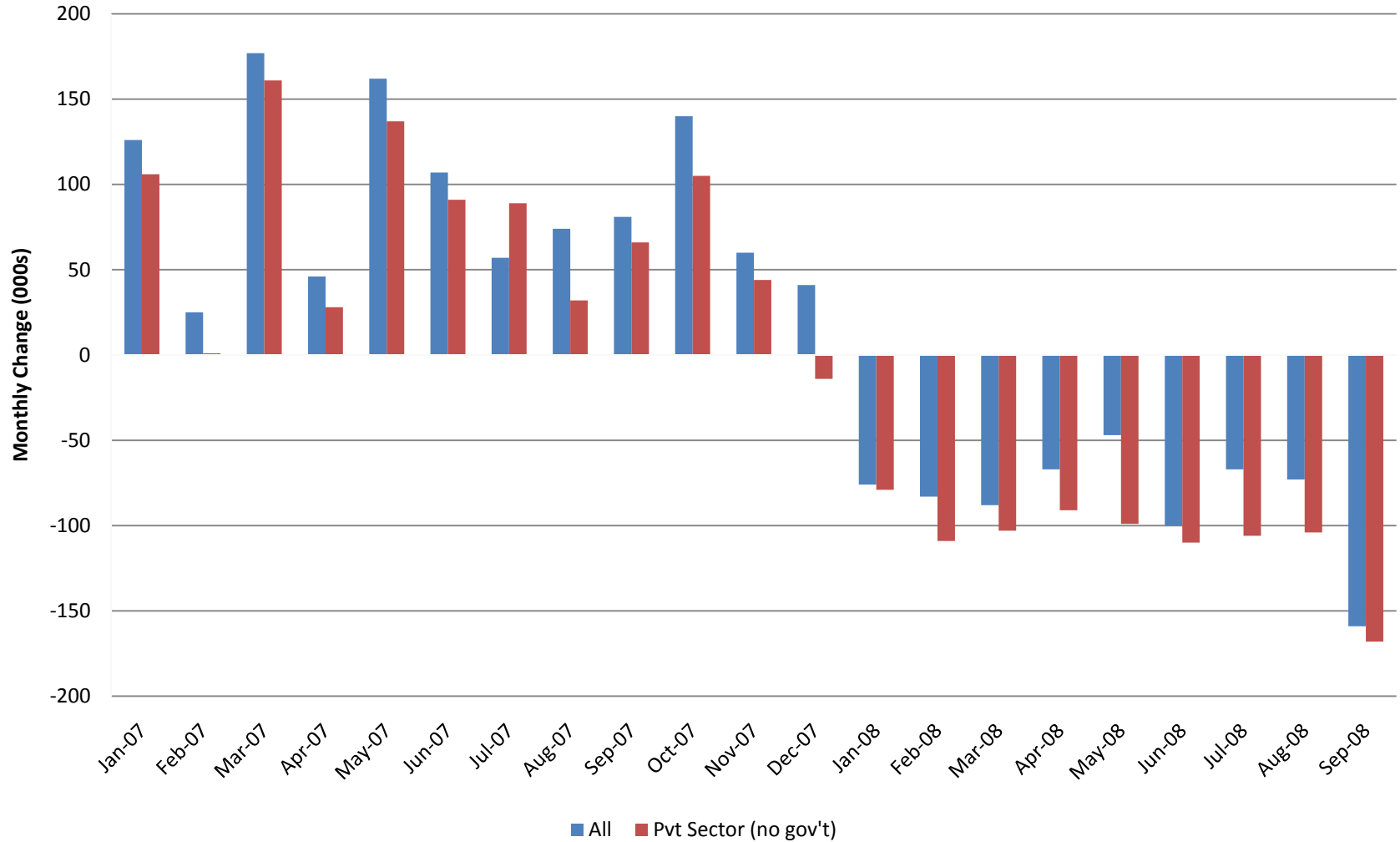
Where we are

- Are we in recession? Um, yes...
- Context...how did middle/low income families do in the 2000s?
- The “real” economy
(jobs, consumption, investment)
- The “unreal” economy (financial markets)

The context for the recession

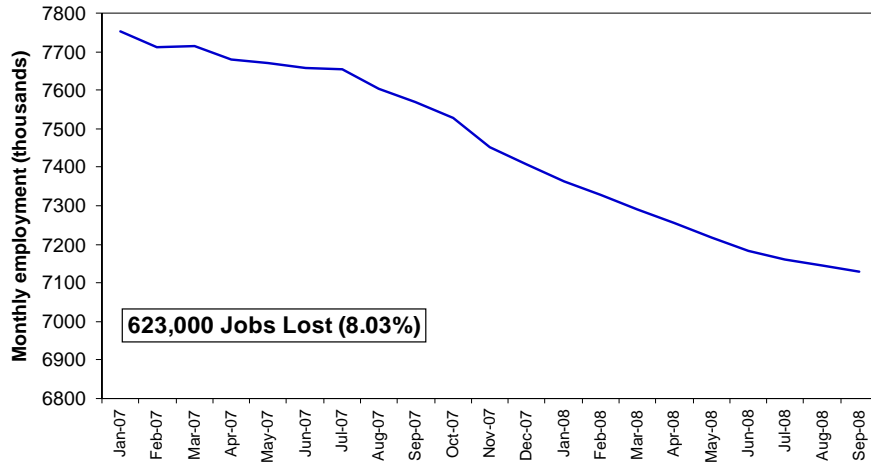


Jobs per Month (000s)



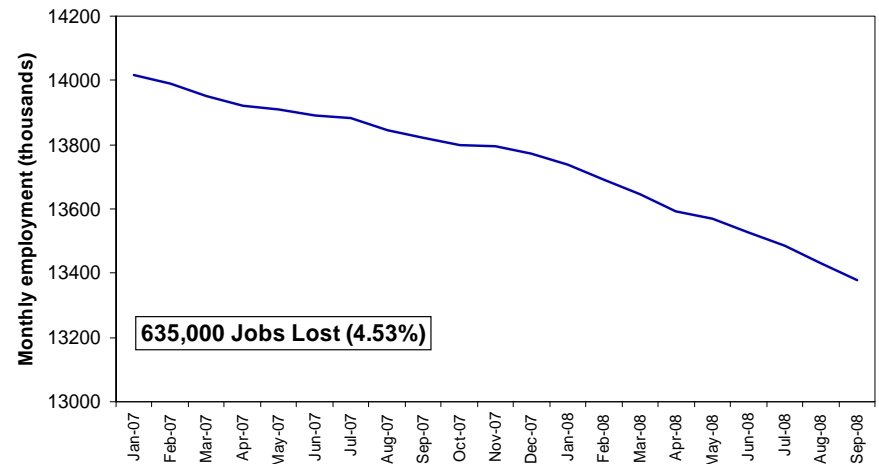
Employment Declines Across Sectors

Housing Employment, Jan. 07 - Sep. 08

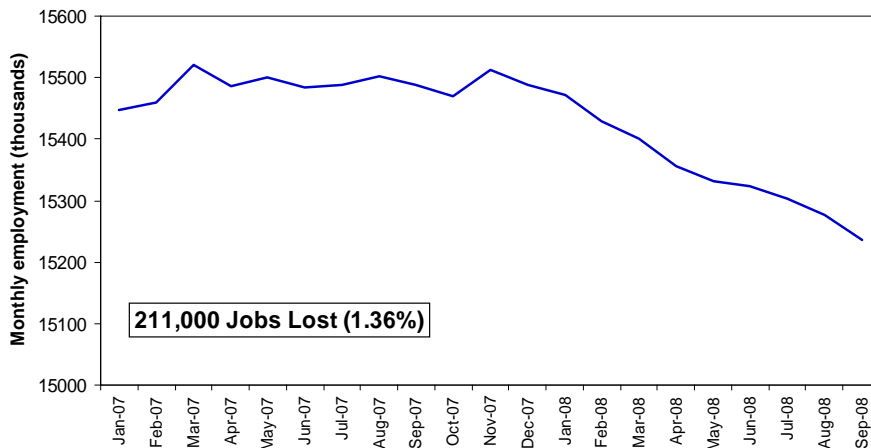


Source: EPI calculated housing index, including residential building, real estate, and credit intermediation

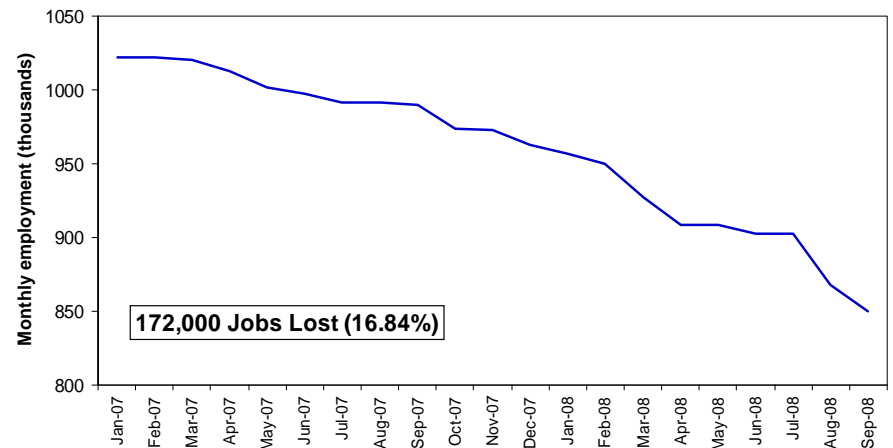
Manufacturing Employment, Jan. 07 - Sep. 08



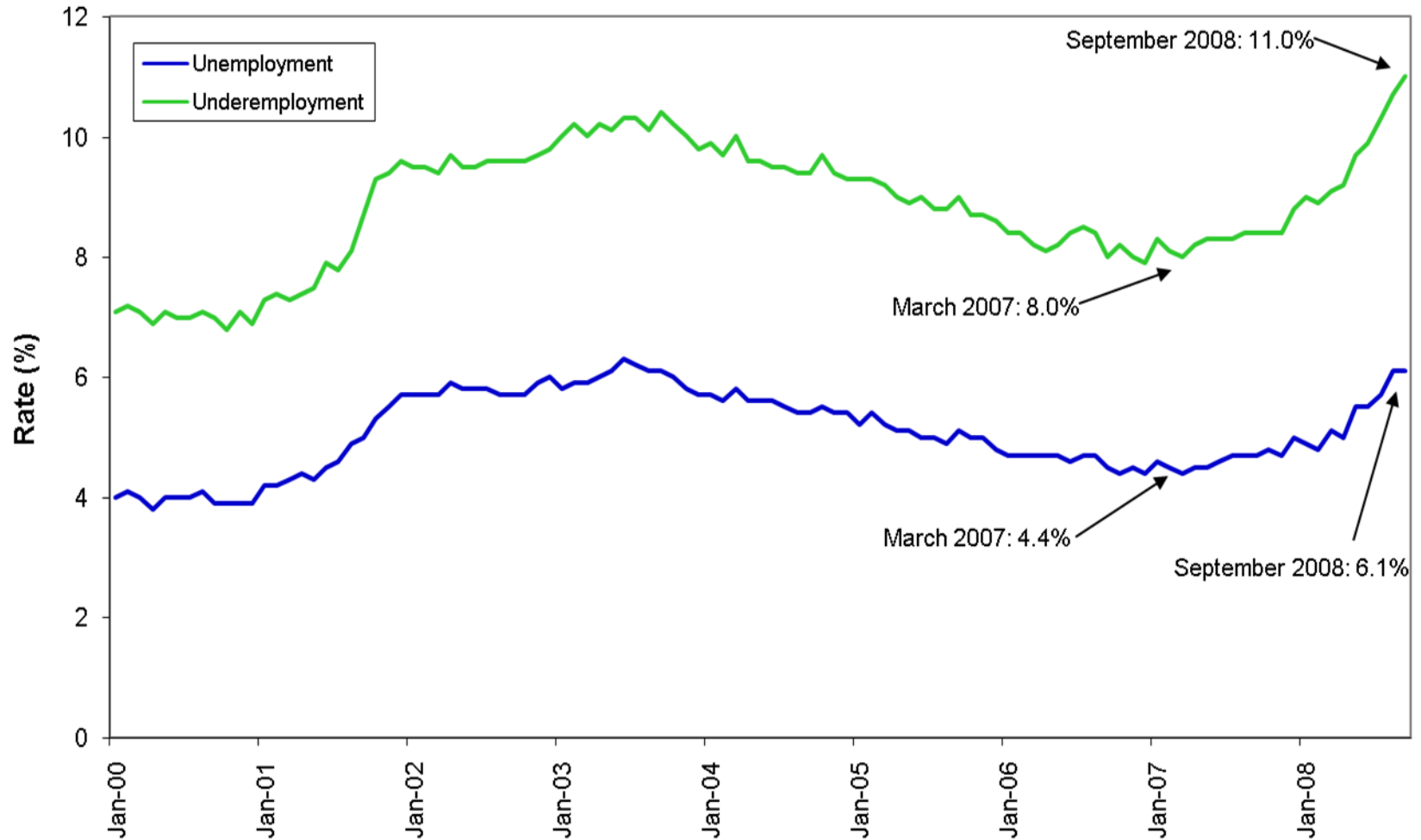
Retail Employment, Jan. 07 - Sep. 08



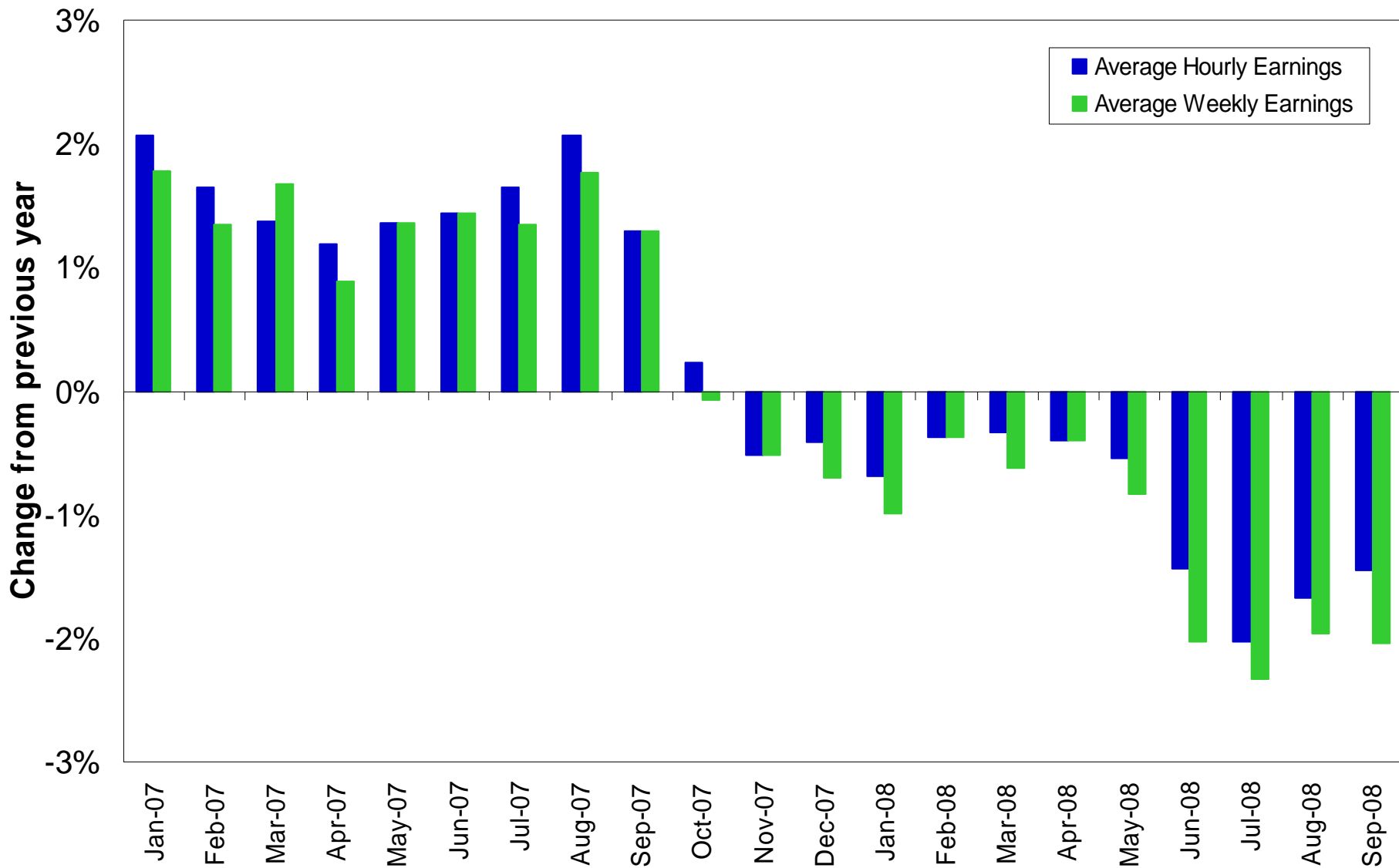
Automotive Manufacturing Employment, Jan. 07 - Sep. 08



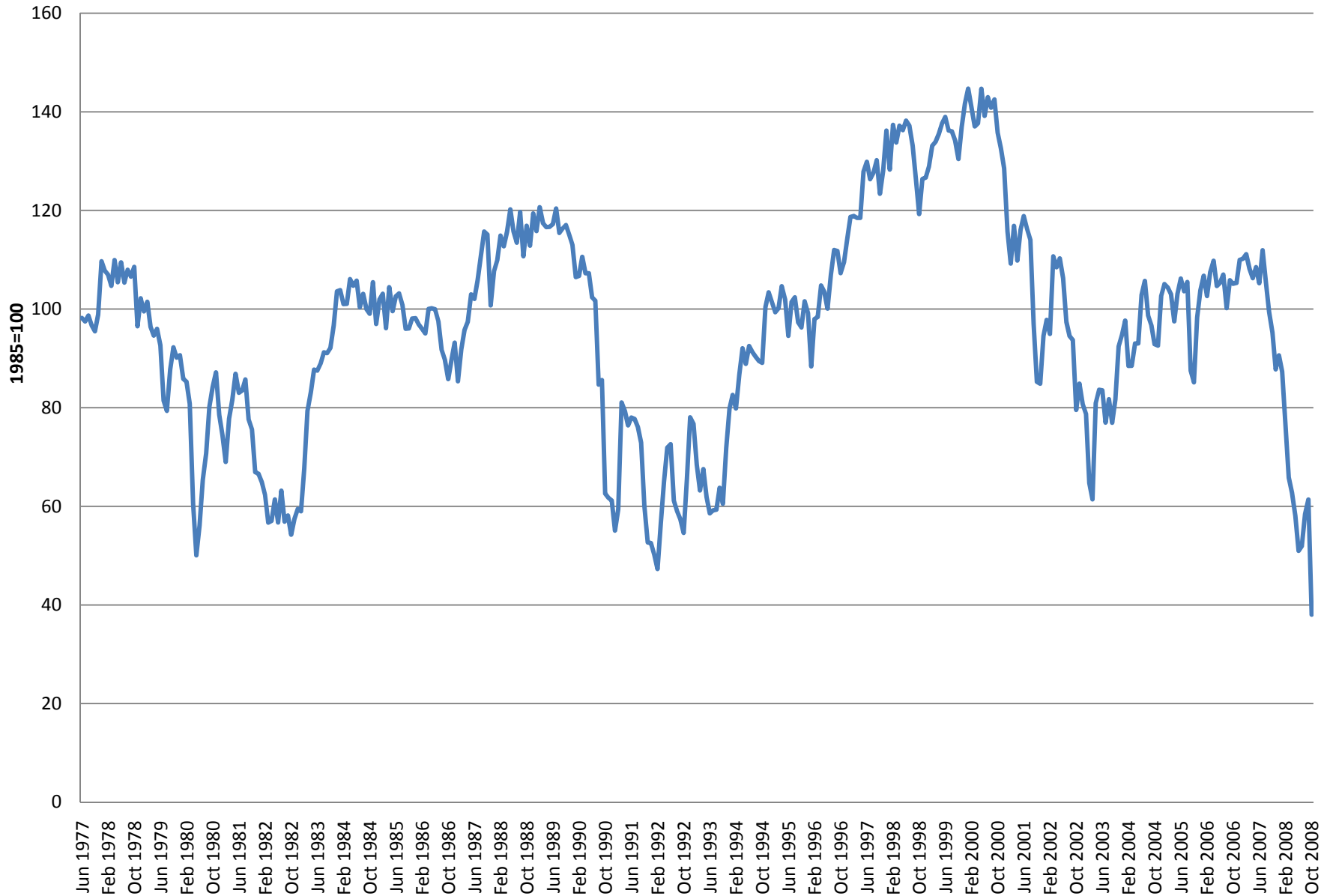
Underemployment Outpaces Unemployment



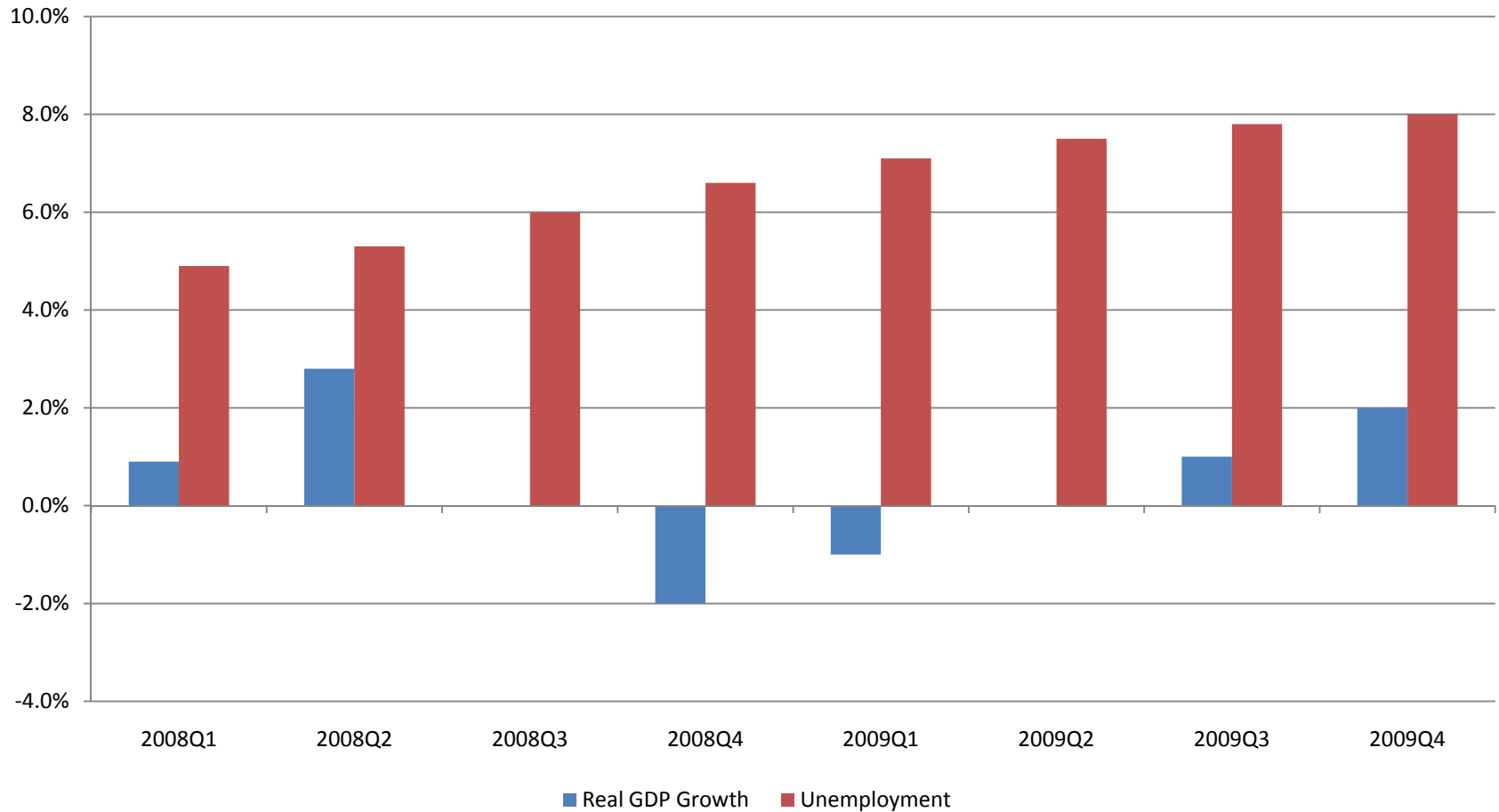
Yearly Changes in Average Weekly and Hourly Earnings, Jan. 07 - Sep. 08



Consumer Confidence (Conference Board)

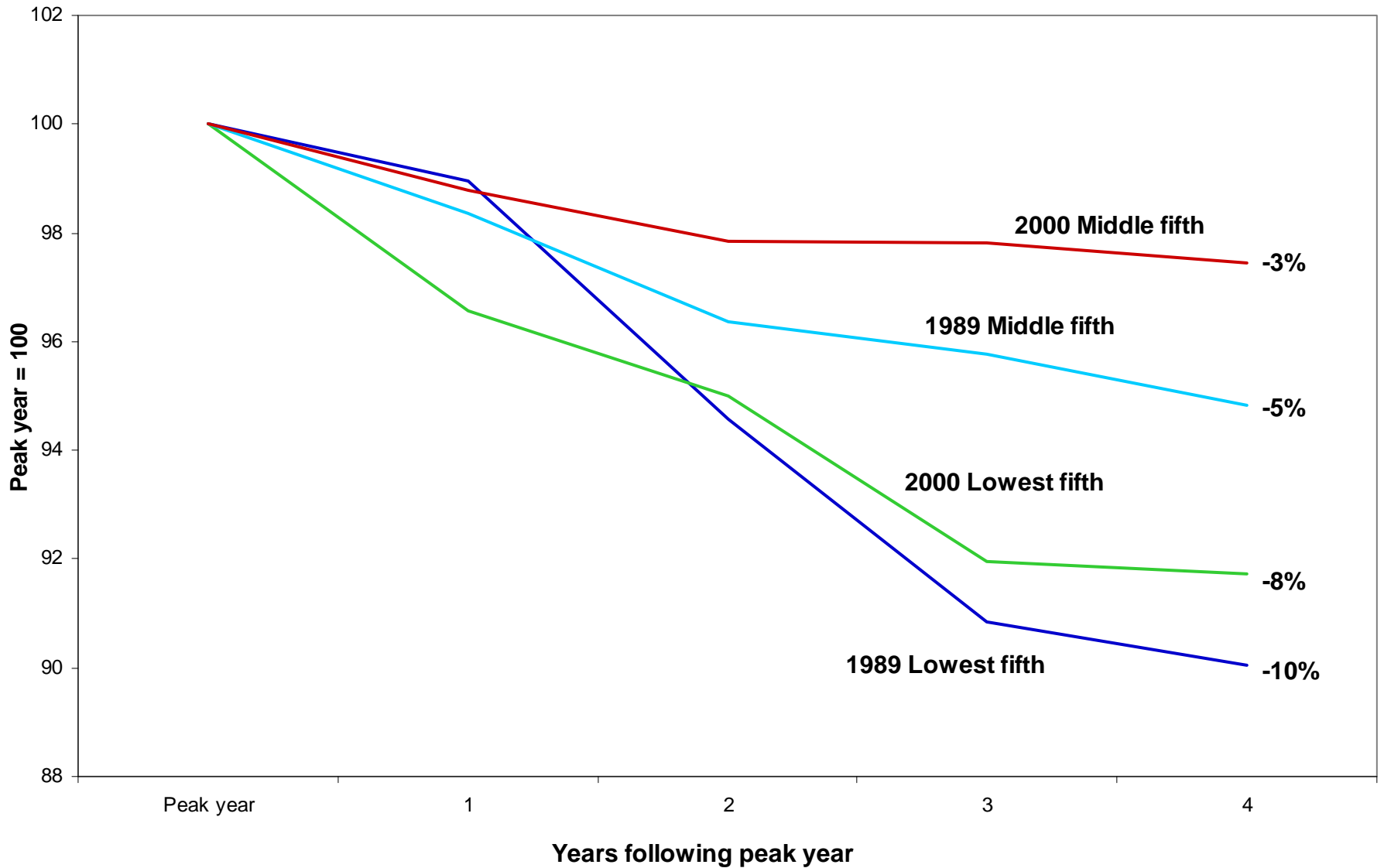


Real GDP, Unemp: 2008q1-2009q4



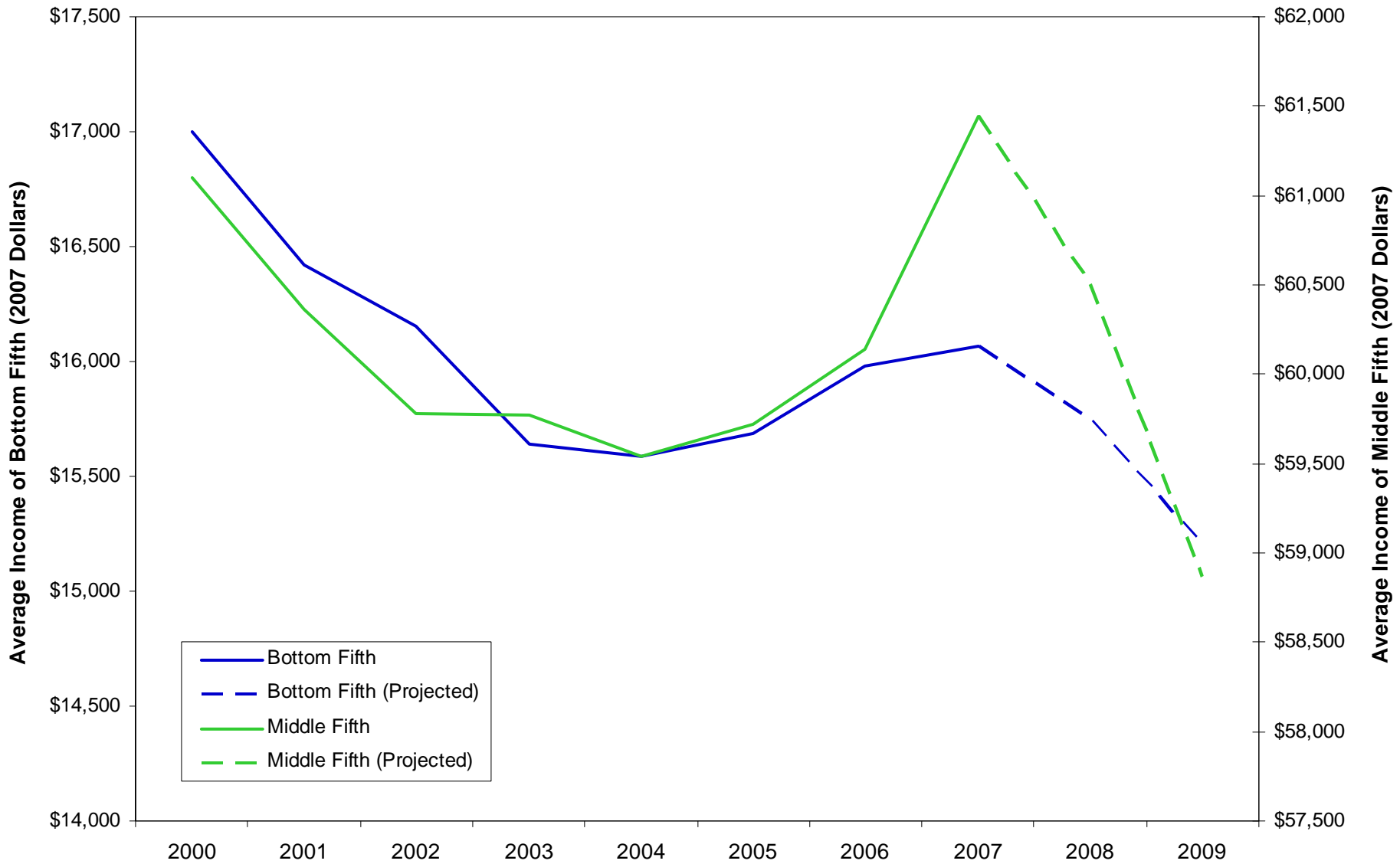
Source: Goldman Sachs Forecasts

Change in Average Real Family Income Following Peak Years, by Selected Income Quintiles



Source: EPI analysis of Census Bureau data.

Average Income of Bottom and Middle Fifths, 2000-2009 (Projected)



Un-Real Economy

- Financial Markets: Dow, Nasdaq, S&P 500, Russell 2000...all down about 40% ytd.
- But: good news...Ted Spread responding (4.6 10/10; 2.7 10/24)?
- Housing: some signs bottom in sight, but no signs re uptick...prices still falling...inventory overhang;
- TARP: Certainly not a confidence builder yet.
- Fed: pushing on string but not giving up.

Recovery Package

- Stimulus II
 - Ingredients: state fiscal relief, infrastructure (jobs), UIX (exhaustions!), food stamps, less emphasis on tax rebates.
 - Magnitude...1-2% of GDP (\$150-300b)?
 - Politics of stimulus: wait for the new pres?

Next president

- Hits the ground running with recovery package
 - we can and should do what we can, but we can't avoid the correction in housing markets;
 - HH's and banks must deleverage;
 - must not abandon agenda due to alleged budget constraints.
- Who's your treas sec'y?
- What did we learn in YOYOland, Dorothy?

The Big Lessons

- Ideology that's impervious to facts is deadly;
- Markets do not self-regulate; even Greenspan admits it;
- Shampoo economy—bubble, bust, repeat—must end;
- Perhaps most importantly for CHN cause: the money's there if you need it.

And finally...

Let us never again accept:
there's money for
war, there's money for
the bailout...but there's
no money for SCHIP (eg).

Housing and The Economic Crisis

Barry Zigas

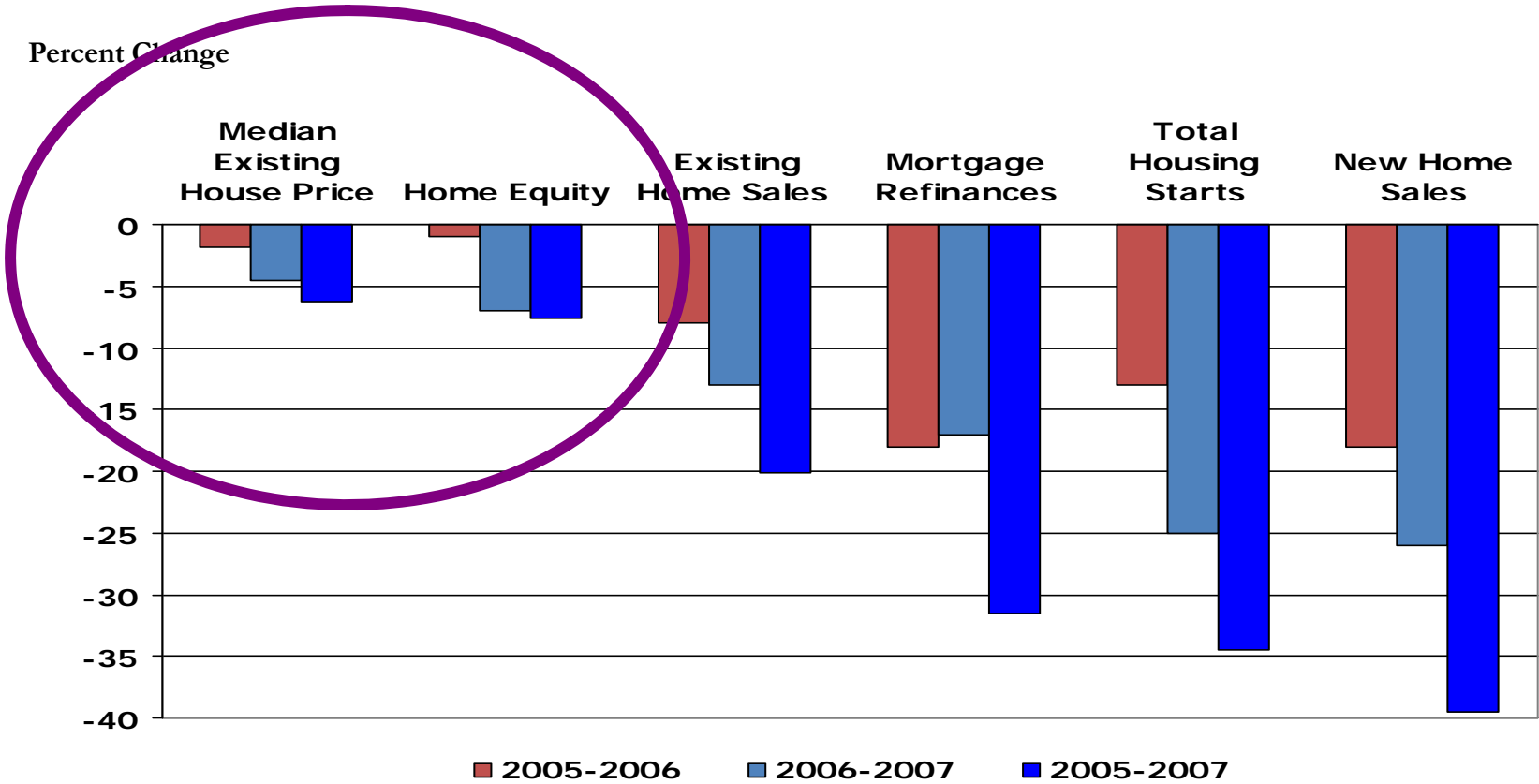
Director of Housing Policy
Consumer Federation of America

Coalition on Human Needs
October 30, 2008

Lessons Learned

- What Goes Up Does Come Down

Housing Market Declines Are Steep and Accelerating



Notes: Changes in dollar values are adjusted for inflation by the CPI-U for All Items. New sales and median existing house prices include single-family units only.

Sources: US Census Bureau, New Residential Construction; National Association of Realtors®, Median Existing Single-Family Home Price; Freddie Mac; Federal Reserve Board, Flow of Funds Accounts.

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Lessons Learned

- What Goes Up Does Come Down
- **Lincoln's Law**

PRIME

Good Credit,
Good Assets

SUBPRIME

Weak Credit,
Good Assets

ACCESS

Good Credit,
Weak Assets

?????

Weak Credit,
Weak Assets

Lessons Learned

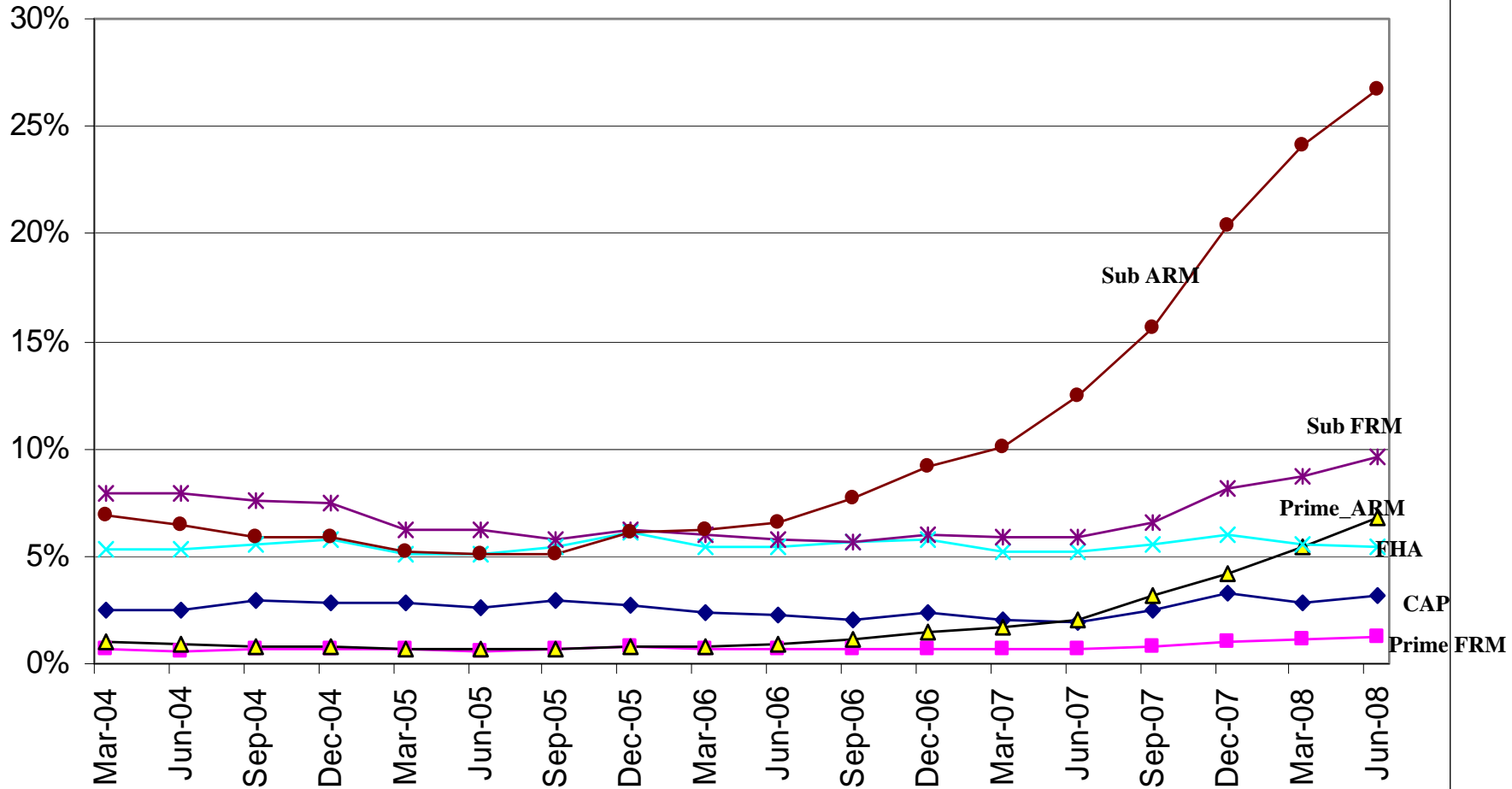
- ◊ What Goes Up Does Come Down
- ◊ Lincoln's Law
- **Pigs Don't Fly**

Lessons Learned

- What Goes Up Does Come Down
- Lincoln's Law
- Pigs Don't Fly
- **When Bad Products Happen to Good People**

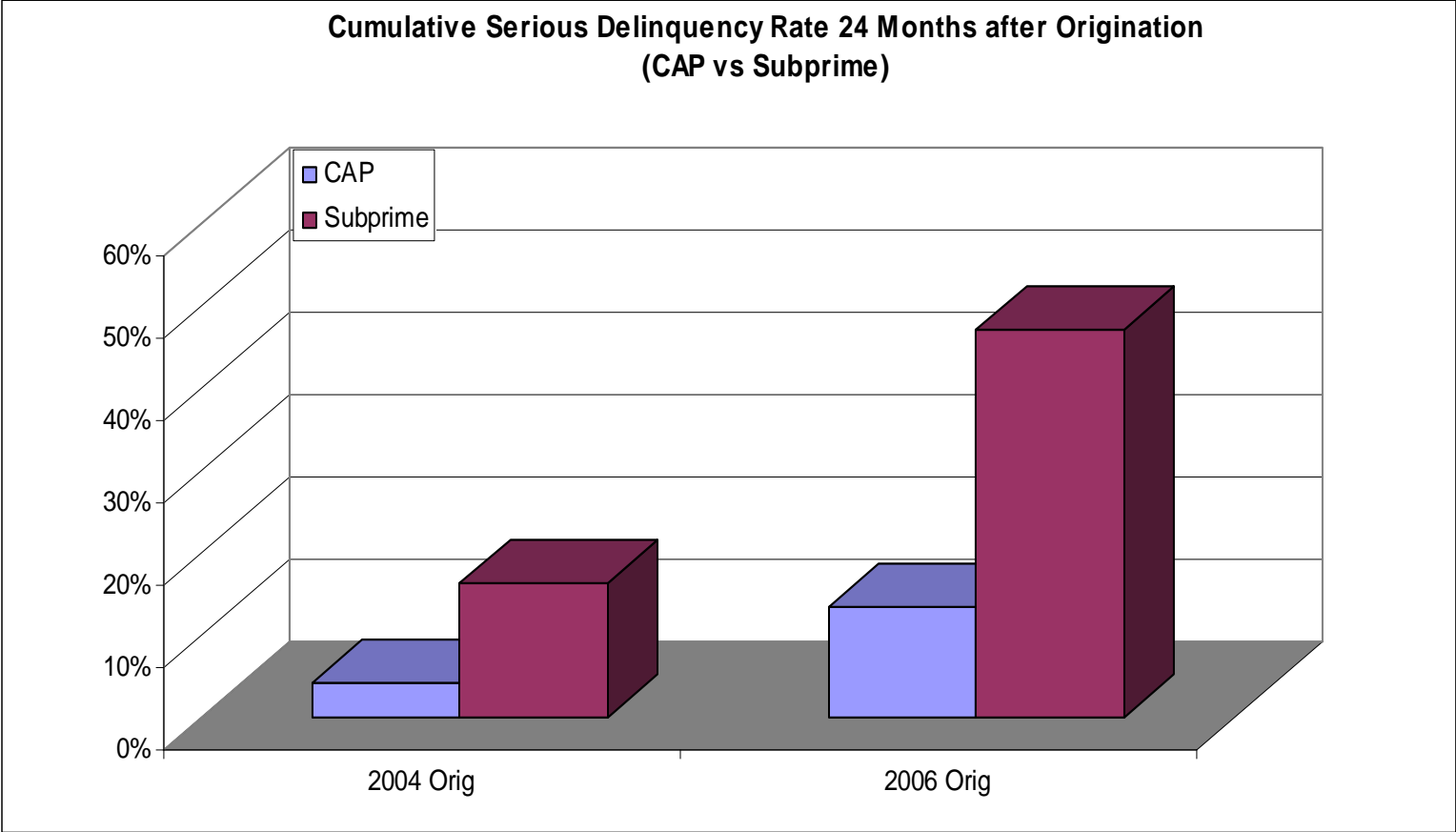
Community Advantage Loan Performance

Portfolio 90+day Delinquency Rate



Source: Mortgage Bankers Association and Self-Help. 90+day delinquencies include loans in different foreclosure stages. Prepared by UNC Center for Community Capital

CAP Loans Outperform Subprime Loans



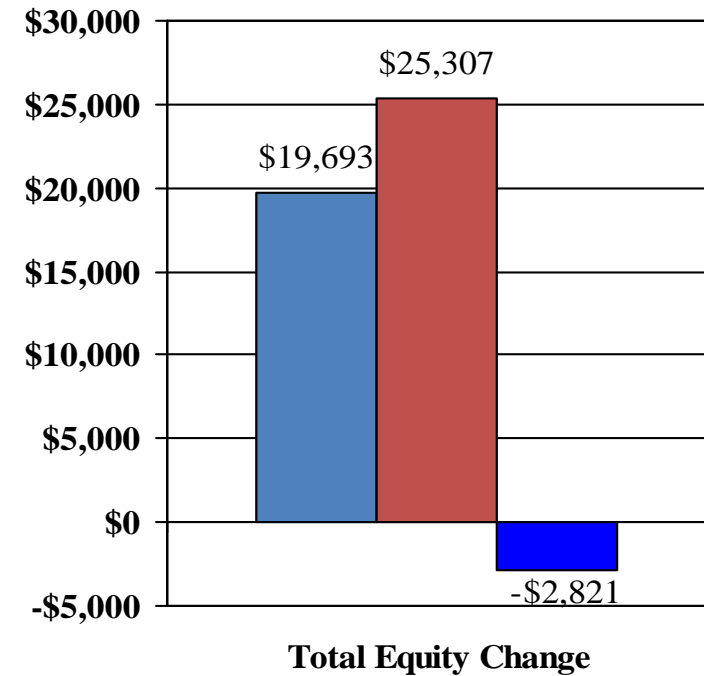
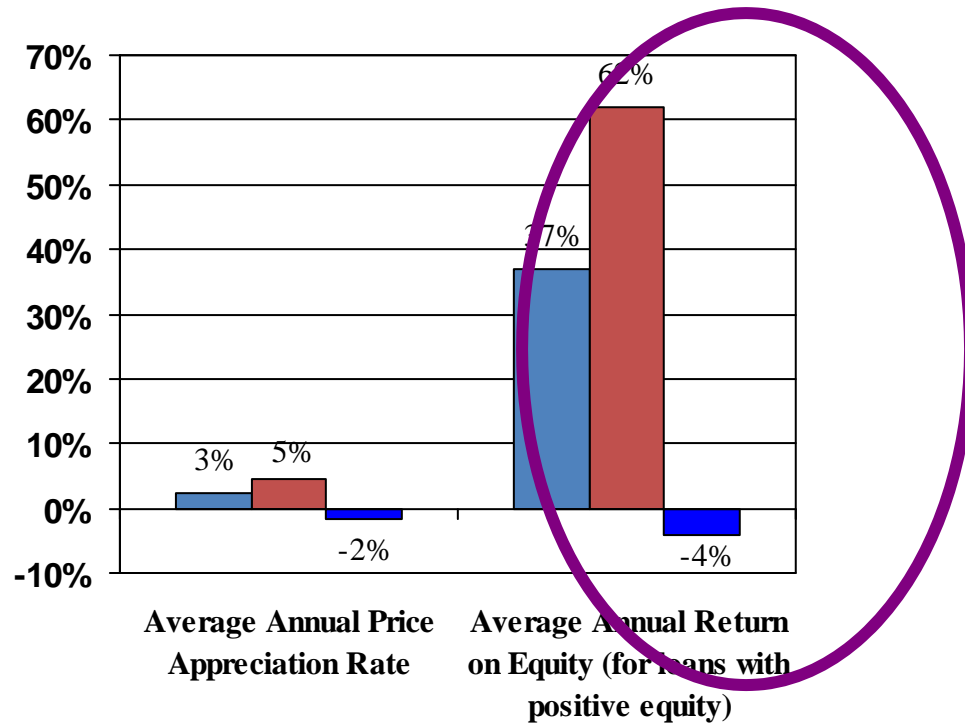
Note: Estimation is based on a borrower with a FICO score between 580-620 with the mean value of other regressors. Controlling variables include borrower DTI, FICO_score, home equity, loan age, loan size, area credit risk, area unemployment rate, and interest rate environment.

Source: **UNC Center for Community Capital**

Lessons Learned

- What Goes Up Does Come Down
- Lincoln's Law
- Pigs Don't Fly
- When Bad Products Happen to Good People
- **Safe Homeownership Can Build Wealth**

Wealth Building for CAP Borrowers



Lessons Learned

- What Goes Up Does Come Down
- Lincoln's Law
- Pigs Don't Fly
- Products Matter
- Safe Homeownership Can Build Wealth
- **Culture Follows Compensation**

Unanswered Questions

- Performance of other prime market low-mod, low wealth loans?
- What role does counseling play in success?
- Is property deflation an opportunity for low-mod, low wealth borrowers?

Resources

- \$3B FHA refinance program
- \$4B CDBG supplement for neighborhood stabilization
- Bankruptcy reform
- Helping renters in foreclosed properties

Towards Shared Recovery

**The most effective recovery
must include those most in need.**

Deborah Weinstein, Coalition on Human Needs

**Trickle
Down...**



The “good times” weren’t so great

- From the recession year 2001 to the last good year, 2007:

4.4 million more poor people

- From 2000 to 2007:

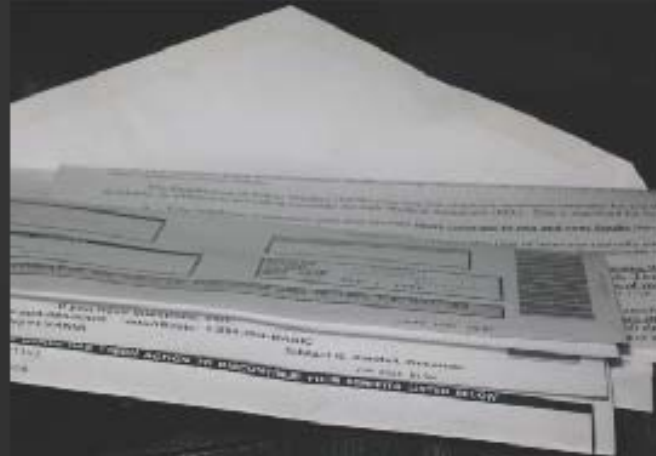
Incomes of working age

households shrunk by \$2,000

No more good times

- Nearly **800,000** jobless people exhausted their unemployment benefits on October 5; about **1.1 million** will have lost UI benefits through December.
- Unemployment claims: more than **480,000**/week for 3 weeks ending Oct. 18.
- 6.1% unemployment rate
- African Americans: 11.4%
- Latinos: 7.8%
- Youth (16-19): 19.1%

Quianna



Food stamp termination notice from the Governor



Results of her shopping trip

Increasing Hardship

- Food prices way up:
 - ⬆ Eggs up 24%
 - ⬆ Bread up 13.5%
 - ⬆ Thrifty Food Plan costs \$56.60/month more for family of 4 than a year ago.
 - ⬆ People seeking emergency food up 20%.



We need **shared** recovery

A package of recovery items that targets help to low-income people:

- Provides the most effective boost to the economy for all
- Builds towards future prosperity by developing a more skilled workforce
- Protects poor children from ill health and developmental delays

When we work together, we make progress!

Some examples so far:

- ★ Extension of unemployment insurance benefits
- ★ Increase in Low Income Home Energy Assistance (LIHEAP)
- ★ Improving the Child Tax Credit to help 13 million children
- ★ Increase in Food Stamp benefits

The Shared Recovery Package

A set of proposals necessary if we are to ensure that economic recovery includes low-income and vulnerable people.

The pricetag: \$90 billion

Provides Income to Families in Need

- **Nutrition assistance:**
 - Food Stamps (SNAP): \$10 billion
 - WIC, Commodity Supplemental Food Program, The Emergency Food Program: \$645m
- **Unemployment Insurance:** \$6 billion
- **Child Support:** \$1.1b



Creates Jobs

- **Green jobs:** \$15 b - \$18 b
 - Energy efficiency savings
 - Healthier environment
- **Transitional and summer jobs:** \$1.4 b
 - Increases skills, connection to work
- **Education and training:** \$2.25 b
 - Improves access to better jobs



Prevents State Cuts

- More federal dollars for Medicaid (\$30b-\$35b)
- Grants to states for other services (\$15b - \$20b)
 - 29 states have budget shortfalls totaling \$48b
 - 17 states have implemented Medicaid cuts
 - 15 states cut services for low-income elderly and disabled
 - 16 states cut K-12 education



Helps Children and Working Parents

- **Restores funds for Head Start: \$832m**
 - Head Start cut 13%, FY02-FY08
 - 62% of Head Start programs have reduced operations
- **Provide child care for 164,000 low-income children: \$956m**
 - Monthly fees for 2 children exceed median rent cost in every state



**Thank you, Witnesses to
Hunger, from the Philadelphia
GROW Project!**

Prevents Loss of Housing

- **Assistance for renters threatened with foreclosure: \$200 m**
 - 40% of those losing housing through foreclosure are renters
- **Maintain public housing stock: \$1 b**
- **Allow renegotiation of home loans in bankruptcy proceedings**



“...Being in a situation like this, your kids can stay hungry.”

Congress must act.

- They'll be back the week of November 17.
- The House has passed UI extension, small recovery package.
- The Senate hasn't.
- **Will they respond?**



If not in November...

**New Administration and Congress
must get clear message about how
urgent it is to enact a *shared*
recovery package.**

What You Can Do:

- ★ Soon: contact your Senators and Rep.
- ★ Send letters to the editor about the need for a shared recovery package.
- ★ Participate in a town hall forum near you in December – for more info, contact Marvin Silver of US Action: msilver@usaction.org
- ★ Be a spokesperson. Willing? Contact Maricela Donahue at mdonahue@chn.org
- ★ Send us info about need in your community – and examples of how the need can be successfully met.

What we face may not be unprecedented,

(after all, the Depression),

but we are likely headed
for the worst period in
decades.

**Achieving shared
recovery will require all
of us to work together.**

**Hold our
leaders
accountable!**

Thanks!

CHN is so grateful for the support and hard work of its Board of Directors, including Chair Ellen Teller of FRAC, and for the generous support of The Annie E. Casey Foundation, the George Gund Foundation, and anonymous donors. We are also proud and thankful to have included photos and stories from Witnesses to Hunger , from the Philadelphia GROW Project, www.growproject.org



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