May 6, 2008

The Need for a New Direction on Economy:
Stabilizing Housing Is Key to America's Economic Recovery

Families Are Losing Homes or Value in Their Homes

- **Millions of families are losing their homes.** Between 7,000 and 8,000 people a day are filing for foreclosure on their homes. One in 33 homeowners is projected to be in foreclosure over the next two years, as a result of subprime loans made in 2005 and 2006. **[Pew Center on the States, 4/08]**
- **Rising foreclosures are affecting nearly every state.** In 47 states the number of mortgage loans entering foreclosure as of December 2007 had increased by at least 20 percent in the last year. **[Pew Center on the States, 4/08]**
- **Millions of neighboring families will see their home values drop.** An additional 40 million neighboring homeowners could see their property values drop. Forty-four percent of all homeowners will likely feel the ripple effect of foreclosures from subprime loans, with affected homeowners expected to lose nearly $9,000 on average from declining property values. **[Pew Center on the States, 4/08]**
- **Housing values down economy-wide.** The median home price has fallen 7.7% in the last year and home prices are projected to decline over 11% from 2007-2009. **[Joint Economic Committee, 4/10/08]** Price declines are much more severe in particular cities and suburbs.
- **Trillions in household wealth will be lost.** Americans have much of their savings in their homes, and could see a substantial portion of that savings wiped out. Families in a majority of states will lose more than $2.6 trillion in housing wealth from 2007-2009. **[Joint Economic Committee, 4/10/08]**
- **Mortgages exceed equity in home.** With falling housing prices, more than 10 percent of homeowners now owe more on their mortgage than their homes are worth. Homeowners' debt on their houses exceeds their equity in their homes for the first time since 1945.

Ripple Effects Throughout the Economy

- **The slump has hurt manufacturers, construction firms and other businesses that depend on strength in the housing industry, forcing companies to lay off workers.** The number of new residential construction projects started has trended downward sharply for 22 months, and the American construction industry has lost 457,000 jobs since September 2006. Declines in residential fixed investment subtracted almost one percent from GDP during 2007. [JEC]
- **Consumer spending and consumer confidence are depressed by housing crisis.** Now that home values are dropping and people are losing their homes, consumer spending and consumer confidence are declining. Consumer spending, vital to the health of the economy, fell to its slowest rate of growth since the 2001 recession and consumer confidence fell to a 5-year low in April.
- **Loans and credit are harder to get and more expensive for everyone.** The credit problems, which began with subprime mortgages, have spread to more creditworthy borrowers and spread to other types of loans and credit cards. As bank and financial company losses on securities linked to mortgages that defaulted have grown, these companies have significantly tightened lending standards across a variety of sectors, from mortgages and credit cards to student loans.
- **Housing crisis affects broader economy.** Foreclosures could reduce economic activity by $166 billion in 2008 because of declines in the real estate and construction industries and in consumer spending. **[Global Insight, *The Mortgage Crisis: Economic and Fiscal Implications for Metro Areas*, November, 2007]**

- **American retirement funds take a hit with housing crisis.** Each foreclosure costs lenders nearly $60,000, and these losses are borne by investors in pension funds, IRAs, and other investments held by middle-class Americans. **[Center for Responsible Lending]**

State and Local Economies and Neighborhoods Suffer

- **State and local governments face lost tax revenues and jobs.** One study estimates that in just 10 states (AZ, CA, FL, GA, IL, MA, MI, MN, NV, NY), lost tax revenue in 2008 will total $6.6 billion due to foreclosures. Further, an estimated 524,000 fewer jobs are projected to be created this year because of the foreclosure crisis. [Global Insight, *The Mortgage Crisis: Economic and Fiscal Implications for Metro Areas*, November, 2007]
- **Neighborhoods face rising crime and increasing need for services.** "In 2005 http://www.chicagofed.org/cedric/files/2005_conf_paper_session1_immergluck.pdf a Federal Reserve Bank of Chicago study found that "higher foreclosure levels do contribute to higher levels of violent crime." This increased crime burdens states, cities, and towns with dramatically increased costs to secure abandoned homes and provide police, fire and other services, and with even lower home values. There are widespread reports of increased crime in high foreclosure areas (see, for example, http://www.washingtonpost.com/wpdyn/content/article/2008/04/26/AR2008042601288.html).