The Economic and Financial Crisis in Michigan: Survey Evidence from Michigan Households
Lisa D. Cook, MSU
Financial and Economic Crises

- **My Research**
  - Banking, financial crises in developing countries and emerging markets, e.g., Russia, South Africa, Nigeria

- **My Practice**
  - U.S. Treasury Department (Council on Foreign Relations), 2000-2001
  - Senior Adviser on Finance and Development
  - Worked on international financial crises
Financial and Economic Crises

- Lessons from Other Crises
  - Recognized, like a number of other economists, that
    - Features of the housing and credit markets were unsustainable
    - Michigan was the epicenter of the crisis – rising unemployment, declining personal income, defaults on subprime mortgages
Michigan: The Epicenter

Unemployment Rate, 2007-2009

<table>
<thead>
<tr>
<th>State</th>
<th>Oct-07</th>
<th>Oct-08</th>
<th>Oct-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wyoming</td>
<td>2.7%</td>
<td>3.2%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>4.4%</td>
<td>5.8%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Texas</td>
<td>4.4%</td>
<td>5.3%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Georgia</td>
<td>4.8%</td>
<td>6.9%</td>
<td>10.2%</td>
</tr>
<tr>
<td><strong>U.S.</strong></td>
<td>4.8%</td>
<td>6.6%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Illinois</td>
<td>5.4%</td>
<td>6.8%</td>
<td>11.0%</td>
</tr>
<tr>
<td>California</td>
<td>5.7%</td>
<td>8.0%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Ohio</td>
<td>5.7%</td>
<td>6.9%</td>
<td>10.5%</td>
</tr>
<tr>
<td><strong>Michigan</strong></td>
<td>7.4%</td>
<td>9.1%</td>
<td>15.1%</td>
</tr>
</tbody>
</table>

Source: www.bls.gov
Per-Capita Personal Income:

U.S. Nonprime Foreclosures, 2007

Mortgage mess varies by state

The mortgage mess isn’t as widespread or deep as many believe. In fact, the foreclosure rate for subprime loans exceeded 10 percent in a total of 13 states — led by Ohio, Minnesota and Michigan. Congress is moving quickly to pass legislation intended to shore up the housing market by spending tens of billions. However, opponents say such action not only will reward dishonest borrowers and lenders but actually spark more foreclosures.

About one in 10 outstanding mortgages are subprime loans.
Percent of subprimes in process of foreclosure, by state:


For solutions to the mortgage mess, visit www.heritage.org/research/economy/housingandfinancialmarkets

Michigan Foreclosures, October 2009

Source: www.realtytrac.com
MI Foreclosures and Home Prices, 2008-9

Source: www.realtytrac.com
## Food Stamp Participation

<table>
<thead>
<tr>
<th>State</th>
<th>FY 2004</th>
<th>FY 2006</th>
<th>Aug-08</th>
<th>Aug-09</th>
<th>Percent change vs Aug-09</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Aug-08</td>
</tr>
<tr>
<td>California</td>
<td>732,239</td>
<td>799,469</td>
<td>962,778</td>
<td>1,226,446</td>
<td>27.4%</td>
</tr>
<tr>
<td>Georgia</td>
<td>353,040</td>
<td>386,192</td>
<td>446,050</td>
<td>598,127</td>
<td>34.1%</td>
</tr>
<tr>
<td>Illinois</td>
<td>476,050</td>
<td>556,293</td>
<td>611,531</td>
<td>712,200</td>
<td>16.5%</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>154,543</td>
<td>227,263</td>
<td>283,818</td>
<td>371,032</td>
<td>30.7%</td>
</tr>
<tr>
<td><strong>Michigan</strong></td>
<td><strong>412,666</strong></td>
<td><strong>515,030</strong></td>
<td><strong>609,359</strong></td>
<td><strong>751,922</strong></td>
<td><strong>23.4%</strong></td>
</tr>
<tr>
<td>Ohio</td>
<td>419,271</td>
<td>480,582</td>
<td>540,411</td>
<td>683,132</td>
<td>26.4%</td>
</tr>
<tr>
<td>Texas</td>
<td>864,342</td>
<td>1,017,313</td>
<td>1,056,145</td>
<td>1,204,415</td>
<td>14.0%</td>
</tr>
<tr>
<td>Wyoming</td>
<td>10,382</td>
<td>10,134</td>
<td>9,448</td>
<td>12,097</td>
<td>28.0%</td>
</tr>
<tr>
<td><strong>U.S.</strong></td>
<td><strong>10,278,593</strong></td>
<td><strong>11,734,491</strong></td>
<td><strong>13,220,994</strong></td>
<td><strong>16,559,716</strong></td>
<td><strong>25.3%</strong></td>
</tr>
</tbody>
</table>

Managing financial and economic crises requires timely information

- **Consumers**
  - Adjust current and future income and spending
  - Establish or use savings
  - Reduce household spending
    - Postpone or eliminate big-ticket purchases
    - Reduce entertainment or dining-out budget
Michigan: The Epicenter

- Managing financial and economic crises requires timely information

- Policymakers
  - Stabilize economy
  - Reduce uncertainty, restore confidence
  - Use savings (rainy-day funds)
  - Implement appropriate countercyclical policies quickly
I noticed that timely, comprehensive information was not available on the impact of the crisis on Michigan households.

From a macroeconomic perspective, could we collect data on the current situation and future activity (early warning system)?
The Household Survey

- With MSU extension, we created a survey that both
  - Gathered data on current and future situation of households and
  - Provided resources to help respondents
The Household Survey

- Questions
  - Current financial sustainability
  - Current and future changes in job status, hours worked
  - Past and future bankruptcy and foreclosure activity
  - Past and future credit-card activity
  - Financial literacy, e.g., budgets and credit scores
The Household Survey

- Web-based
- Respondents given information on where to find specific and general resources
Survey Results

- Phase I started in April
- 236 respondents so far
  - Small sample but results consistent with data collected from other sources, e.g., delinquencies, job uncertainty
- 54 of 83 counties in Michigan represented
- Median age of respondent is 45
Survey Results

- Increasing uncertainty about job loss
  - Up from 14% to 24% from June to November

- Expected total income change
  - Up from -2% in June to -5.1% on average in November
Survey Results

- Credit cards
  - Slightly fewer are reaching borrowing limit
    - 81% vs 75%, June to November
  - Total credit card debt:
    - Average is up: $5739 to $8342, June to November
    - Median is down: $3889 to $646, June to November
Survey Results

- Mortgage and rent payments:
  - Late house and rent payments in the last 12 months: 11%-13% between June and November

- Financial literacy:
  - Relatively low, given crisis
  - Check credit score: 60% -- yes
  - Household budget: 60% -- yes
Survey: What’s Next

- Phase II of survey scheduled to start in mid-December or early January
- Key questions to appear on IPPSR’s Michigan State of the State Survey in January to obtain larger and more representative sample of households
Policy Recommendations

- From survey results, any recommendations would be preliminary and offered with caution.
Policy Recommendations

- Address uncertainty, foreclosures
  - Classic market failure with market and societal objectives misaligned
  - Growing social and economic costs, e.g., deteriorating neighborhoods, public safety
Policy Recommendations

- Address uncertainty, foreclosures
  - Incentives to keep homeowners in their homes should outweigh incentives to keep them in default or in foreclosure proceedings with accruing fees
  - Philadelphia’s Foreclosure Diversion program as example
    - Estimates of 60%-78% of foreclosures averted with mediation
Policy Recommendations

- Promote financial literacy
  - Household financial sustainability
  - Forward-looking behavior
    - Savings
    - Debt management
Michigan’s Future

- Given long-term trends, continue to invest in key areas
  - Education
    - Surest way to provide buffer against declining personal incomes and future shocks
  - Infrastructure
  - Innovation
    - Michigan is the state with the 7th highest number of patents awarded
    - Should convert success to innovation
Michigan

- Thank you for your attention!