



NEW AMERICA
FOUNDATION

Looking Out for Consumers In Extremely Tough Times

Ellen Seidman

Senior Fellow, New America Foundation

seidman@newamerica.net

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The Framework

- Economic slide worse than anything since the 1930s; international, across all countries
- Great uncertainty; every time someone thinks there's a bottom, it gets worse
- Accelerating pace of decline since Lehman
- Government trying hard, but both what should be done and what can be done are unclear and will not generate immediate results



Today's Challenges

- Consumers are used to a credit-based economy but now:
 - They know they need to cut back
 - They can't get either the credit they once had or the [hopefully smaller] credit they really need
- Many of those who own houses are “stuck,” in that they owe more than their house is worth, so they cannot move if there are job opportunities elsewhere
- Unemployment is high and rising, and few consumers have significant built-up savings, especially outside the retirement context
- Remittance providers are less able to send money home



Improve the Income/Expense Balance

- Get incomes and expenses in better balance with respect to basic needs: housing, transportation, energy, health care, education
 - This is primarily NOT a financial services problem; in fact our attempt to deal with these needs through credit and financial engineering caused some of today's crisis
 - Not only a jobs/income issue
 - Need to provide greater support on expense side also, reducing costs of housing, education, health care, transportation and energy
 - Housing plus transportation a much better measure of the true cost of housing than housing alone
 - In Atlanta, whole area south of city looks affordable at 30% of income for housing; but is unaffordable at 45% of income for housing plus transportation



Deal With Mortgage Crisis

- Respond to needs of homeowners, especially those whose mortgages are underwater and/or who have lost their jobs
 - Most of the modification proposals assume that people want to stay in their homes; this may not be realistic for either incomes or job prospects
 - Need to make short sales far easier
 - Need to unfreeze new mortgages for affordable housing
- Quality affordable rental housing
- Neighborhood stabilization



Back to Basics on Credit

- Develop and implement new and better algorithms for analyzing creditworthiness
 - Old ones didn't work; too little for thin and no file; too much for those piling on debt
 - Many people's credit is shot because of maxing out on credit cards and mortgage defaults, and need some way to evaluate what they will do going forward
- Return to traditional underwriting, with focus on ability to pay
- Need to deal with ability of borrowers to add credit, potentially reducing ability to pay on prior debt, without penalizing borrowers who can in fact take on bigger load



Make Saving Easy

- Maximize automatic enrollment and saving
 - Child accounts
 - AutoSave
 - 401(k) opt-out
 - Auto IRA
- Add saving to credit products
- Take advantage of tax time
- Make savings accounts the first account



Next Generation Education

- Financial understanding part of education from pre-school through college
- For adults, focus on
 - Improving defaults
 - Making saving easy
 - Knowing what you don't know
 - Just-in-time education and alerts
 - System for asking for and getting help



Role of Regulation

- Align incentives of providers with what consumers need
 - Skin in the game
 - Compensation reform
- Product regulation
 - Across providers
 - Enforced
- Affirmative obligation to serve all consumers and communities well

