Oregon Center for Public Policy

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In the Shadows of the Recovery

The State of Working Oregon 2004

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by Michael Leachman

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Executive Summary

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Oregon's economic picture may be brightening, but too many of Oregon's working families still labor in shadows cast by the economic downturn. Personal bankruptcies, home foreclosures, and debt to high-cost lenders soared after the recession hit. Household incomes fell sharply while family costs rose for health care, housing, child care, gasoline, and higher education tuition. Cuts to public assistance programs have made rising health care and other costs even more painful for lower income families. Economic recovery may be underway, but healing Oregon's families from the effects of the last few years will be a long-term process.

Incomes slide backwards

- The typical Oregon household lost nearly $3,000 during the downturn, as the real median household income fell from $45,100 in 1999-00 to $42,200 in 2002-03.
- Average annual earnings for Oregon workers in 2003 were $34,442, down nearly $600 from the 2000 peak, and over $100 less than in 1976 in real terms.
- While the wages of median- and low-pay workers have fallen behind where they were in 1979, high-wage workers in 2003 were 12 percent ahead of their 1979 wage.
- Through August 2004, Oregon still has fewer jobs than it did when the downturn started more than three and a half years ago. After the previous recession of the early 1990s, by contrast, it took only one year and 8 months for jobs to recover to their pre-recession levels.

Inequality growth hits speed bump

- The capital gains bust in 2001 and 2002 tightened the gap between the richest Oregonians and the typical family. Still, compared to 1979, the real adjusted gross incomes of the richest one percent of Oregon taxpayers in 2002 were up 91 percent, while the average income of the middle fifth of taxpayers was down 3.6 percent.
- Over the eighties and nineties, the income gap between the richest one percent and middle-income families shrank in only two of the 33 counties with data. In 2002, Crook County held the distinction of being Oregon's most unequal.

Poverty among workers remains high

- Despite some recent improvement, the percent of working families who are poor remains nearly double the rate of the late 1970s.
- Just eight percent of poor families with children in Oregon received the majority of their income from cash assistance in 2002-03. About 64 percent of poor families with children worked at least one quarter of the year, and 27 percent worked full-time, year-round.

Rising costs delay recovery

Health care and insurance costs skyrocket

- In 2002-03, about 562,000 Oregonians went a full year without health insurance, an increase of 105,500 from before the downturn in 1999-00.
- The percent of Oregon employees required to pay part of their own health coverage rose from 36 percent in 1993 to 60 percent in 2002.
- The value of charity care reported by Oregon hospitals shot up 70 percent in 2003 after rising 39 percent in 2002.

Housing costs squeezing more families

- In 2001-02, 87 percent of Oregon renters with incomes under $20,000 had unaffordable rental costs.
- In Multnomah County, the share of renters paying more than half their income to rent rose from 21 percent in 1999-00 to 27 percent in 2002-03.
- A surge in home purchases by modest-income buyers in 2003 helped push Oregon's homeownership rate up to the national rate.

Other costs rise, too

- For the 2004-05 school year, fees and tuition at the University of Oregon will cost $5,670, a jump of 48 percent in just four years.
- Taxes for most have become more affordable. Oregon households paid 6.8 percent of their income to state and local taxes in 2002, compared to 7.4 percent in 1989. For low-income households, though, the state and local tax burden is up.

Debt problems skyrocket

- The personal bankruptcy filing rate during the recent economic downturn was four times the rate during the early 1980s downturn. There were more bankruptcy filings in Oregon than new college degrees awarded in 2002.
- Oregon went from a state with relatively few foreclosures on prime mortgages in the late 1990s to one with foreclosure rates well above the national rate after the downturn hit.
- Compared to 1993, the value of subprime loans in Oregon has grown 99 times. At the peak of the downturn, nearly one in ten subprime mortgage loans in Oregon was in foreclosure.
- Total loans made by payday lenders in Oregon nearly tripled in three years, rising from $64 million in 1999 to $175 million in 2002. There are now substantially more payday lenders in Oregon than McDonald's.
- The fees collected by pawnbrokers soared during the downturn, rising 62% between 2000 and 2003.
- The percentage of low-income working families losing money to high-cost, rapid tax refund loans has been rising. The zip code with the highest share of low-income working families with rapid refund loans is in Warm Springs.
- The value of bad debt reported by Oregon hospitals nearly doubled during the economic downturn.

Introduction

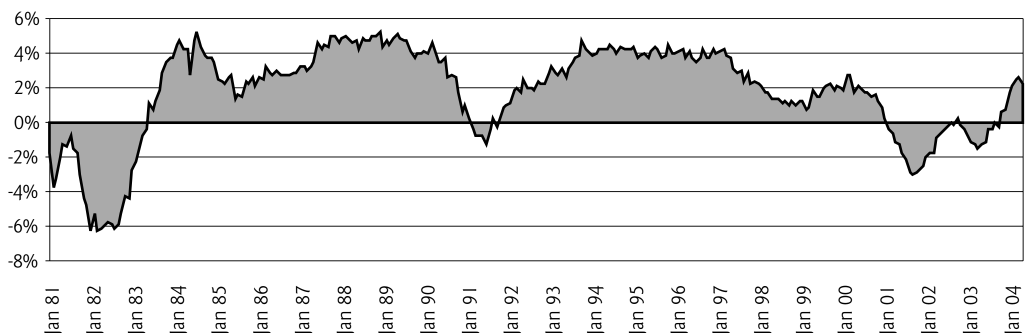
In the Shadows of the Recovery

The State of Working Oregon 2004

Oregon's economic picture may be brightening, but too many of Oregon's working families still labor in shadows cast by the economic downturn.

From February through June of this year, Oregon added an average of 7,300 jobs per month. In July, job growth slowed substantially, and in August Oregon lost jobs. This reversal may be temporary, or it may signal a sustained return to job losses in the months ahead. The economic signs through August 2004 suggest a hesitant and uncertain recovery is underway.

Despite the recent reversal, there were 34,300 more jobs in Oregon in August than there had been a year earlier, an increase of 2.2 percent (Figure 0-1).[1] Initial claims for unemployment benefits are down sharply from their peak in December 2001.[2] Layoffs are down from last year, though still up from prior to the recession.[3] For seven months, help wanted ads posted in The Oregonian, the state's largest newspaper, have been trending upwards compared to 2003, although they remain at about half the levels of the boom years.[4]



Source: OCPP analysis of Oregon Employment Dept. data. Nonfarm employment. Data through August 2004. Year over year percent change.

Figure 0-1: Employment growth in Oregon

Jobs declined in August, but were still up 2.2 percent compared to a year earlier.

Business was clearly picking up over the first half of 2004. The total value of products exported from Oregon to consumers outside the U.S. rose relative to the previous year between January and May, the latest month for which data are available.[5] Office vacancy rates in Portland, which shot up when the recession hit, have leveled off, though they remain higher than at any point in the 1990s.[6]

This is all good news, but Oregon's recent economic experience suggests that only a cautious optimism is warranted. Oregon's economic downturn struck in early 2001. After a severe setback that year, the state economy appeared headed toward recovery in 2002 and early 2003. Hopes for an early recovery were dashed, though, as the economy and job market sagged in 2003, falling back into a mild slump before moving into recovery mode again in early 2004.

Whether or not the business cycle has turned, Oregon's working families labor in the shadows of economic events, tending to wounds sustained during the downturn.

Although it is never certain that economic recovery will continue, the signs nationally and in Oregon suggest job growth will return in the months ahead. At the same time, Oregon still has fewer jobs than it did when the downturn started more than three and a half years ago, and the number of working-age adults in Oregon has grown by almost 100,000 since then. After the mild recession of the early 1990s, by contrast, it took only one year and 8 months for jobs to recover to their pre-recession levels.

Whether or not the business cycle has turned, Oregon's working families labor in the shadows of economic events, tending to wounds sustained during the downturn. Shattered family finances are part of the fallout of the recession. Personal bankruptcies and home foreclosures in Oregon soared the last few years. Thousands of Oregon families lost their homes and their credit standings. Too many Oregonians built a mountain of debt and continue to carry its burden on their backs. The emotional and financial impacts of the downturn on Oregon's families still reverberate through our communities.

In the real lives of Oregonians, "recovery" does not provide the immediate relief portrayed by positive economic statistics. Healing Oregon's families from the effects of the last few years will be a long-term process.

This healing process – true economic recovery – is made more difficult in Oregon because government assistance programs were capped, cut, or eliminated during the downturn, and economic recovery will not be enough to restore these supports any time soon. These programs help Oregon's families pay for health care, child care, and other basic necessities that are beyond their means. The private marketplace fails to provide these goods and services at costs that many families can afford.

With less help from government programs available, working families with low incomes and debt problems will be more dependent on their employers to provide the wages and benefits necessary to restore their hope for the future. Wages, though, have slipped and likely will grow more slowly in the next couple of years than they did in the late 1990s. Employers burdened by rapidly rising health care costs are requiring their workers to pay more of these costs themselves. The cost of buying or renting a home in Oregon has also risen sharply. Child care costs, higher education tuition, and other essential expenses weigh more heavily on families as incomes decline and government assistance dwindles.

This report is a resource guide for policy makers, advocates, the media and the general public. The data here reflect the pain of Oregon's working families in the aftermath of an economic downturn - the anguish of a mother losing her home, the despair of a teenager's college dreams slipping away, the pain of bankruptcy hiding in a father's eyes. Only by building an economy that serves, nurtures, and protects families will Oregon ever fully recover.

Endnotes

1 See Oregon Center for Public Policy, "Job Growth Stalls Out: Current Jobs Downturn Twice as Long as 1990s Recession." Press release dated August 12, 2004. Available at www.ocpp.org. See also Oregon Employment Department, "Oregon's job growth continued, but at a slower pace in July." Press release dated August 12, 2004. Available at http://www.qualityinfo.org/pubs/pressrel/0804.pdf

2 Initial claims for Unemployment Insurance peaked at 57,000 in December 2001. In June 2004, there were about 31,000 new claims, a decline of about 5,000 from June 2003.

3 An OCPP analysis of data from the Bureau of Labor Statistics shows that Oregon averaged 27 mass layoffs per month over the first six months of 2004. This is lower than the average of 33 mass layoffs per month over the first six months of 2003, but still higher than the average of 24 per month over the first six months of 2000. Data for May and June 2004 are preliminary.

4 In August 2004, The Oregonian placed 25,604 help wanted ads, up 19.3 percent from August 2003. Every month since February 2004, help wanted ads placed in The Oregonian were more numerous than they had been in the same month of the previous year. However, help wanted ads remain about half what they were before the downturn; in August 2000, The Oregonian placed 41,155 help wanted ads.

5 OCPP analysis of MISER data through May 2004 available at http://www1.miser.umass.edu/trade/statex.html

6 Federal Deposit Insurance Corporation, FDIC State Profile: Oregon, Summer 2004, p. 1-2. Available at: http://www.fdic.gov/bank/analytical/stateprofile/SanFrancisco/Or/OR.pdf

Chapter 1

Workers Fall Behind

Income does not determine an individual's character, but it does shape opportunities and affect relationships. Families with enough income to meet their basic needs are less stressed and less likely to get sick and depressed. Communities with financially stable families are more productive, safer, healthier, and more capable of investing for the long term.

Americans expect that if they work hard, they'll get ahead. Sometimes, though, larger events conspire to undermine this dream. The recent economic downturn is a case in point. Thousands of Oregonians lost their jobs when the recession hit, sending their families scrambling for sources of income. As a result, the median household income in Oregon quickly slid backwards. Meanwhile, those who retained some sort of employment saw their wages stagnate and then decline in real terms as the downturn continued through 2003.

These events presented difficult challenges for families across the state. Mothers and fathers flooded employment offices. Husbands and wives figured out how to cut expenses and, when that wasn't enough, scrambled to find help. Oregonians of all stripes and political leanings worried whether their job was next to go.

The good news is that wages did not fall as sharply in the recent downturn as they did during Oregon's disastrous early 1980s back-to-back recessions. The bad news is that just when wages in Oregon had finally – after nearly two decades – recovered from the 1980s collapse, the recent recession halted all improvement and pushed wages backwards again. Moreover, with wages likely to continue to stagnate or grow only very slowly relative to inflation, workers will continue to struggle to get ahead. Hard work in the next couple of years will be more likely to be repaid in meager amounts. For the thousands of Oregon families now struggling with credit problems and debt, this is not very encouraging news.

Just when wages in Oregon had finally – after nearly two decades – recovered from the 1980s collapse, the recent recession halted all improvement and pushed wages backwards again.

Workers' earnings slip back

Twenty years ago, during the back-to-back recessions that took place in the early 1980s, the average annual pay earned by Oregon workers plummeted. In 1978, average annual worker earnings in Oregon was over $34,317 in 2003 dollars (Figure 1-1). Just four years later, in 1982, earnings had fallen nearly $3,500 to under $30,862. That means that the average worker took home $288 per month less than just four years earlier.

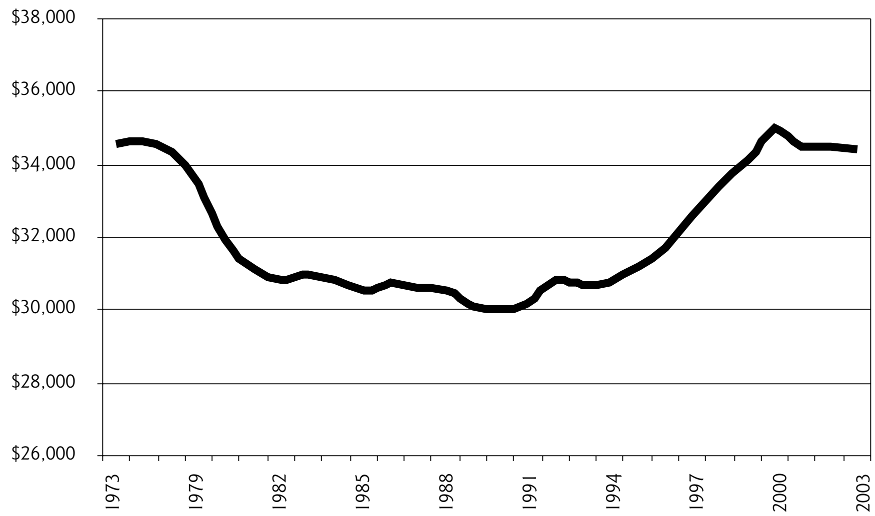
It took well over a decade for earnings to begin to recover from that early 1980s disaster. In 1994, annual earnings were still stuck at $30,765, or about $100 less than twelve years earlier in 1982. Then, beginning in 1995 and through 2000, as Oregon's high-tech sector boomed and the labor market tightened, earnings finally surged. By 2000, average earnings had reached $35,022, an improvement of about $700 over 1978. Finally, the average worker in 2000 was getting a little bit ahead, making $60 more per month in real earnings than 22 years earlier.

Then the economy fell into recession again.

The downturn that began in 2001 did not generate the drastic cuts in earnings that the 1980s recession did. However, the recent recession sharply halted the gains of the late 1990s, and caused a modest decline, assuring that the average Oregon worker in 2003 was still earning only about as much as workers a generation earlier. Average annual earnings in 2003 were $34,442, down nearly $600 from the 2000 peak, and over $100 less than in 1976 (Figure 1-1).

Figure 1-1: Oregon real average earnings

Average annual earnings in 2003 were $34,442, down nearly $600 from the 2000 peak, and over $100 less than in 1976.



Source: OCPP analysis of Oregon Employment Dept. data. Adjusted for inflation to 2003 dollars.

Workers in Portland area shoulder the downturn

The downturn did not strike payrolls across Oregon equally. The Portland area, where the state's high technology industry is concentrated, was hardest hit. The five-county Portland region saw average annual pay per worker decline by three percent over the 2000 to 2003 period (Table 1-1). Washington County alone saw annual earnings fall by over nine percent for the average worker. However, pay in the Portland area is still substantially higher than in other parts of the state.

In the Willamette Valley and on the Oregon Coast, pay per worker stagnated over the downturn, gaining just 0.3 percent annually. Eastern Oregon fared best, with pay gains of 1.1 percent annually.

Table 1-1: Change in average annual pay per worker, by Oregon region

	2000	2003	% change	Average annual growth
Oregon Coast	$25,764	$25,999	0.9%	0.3%
Willamette Valley	$30,531	$30,807	0.9%	0.3%
Southern Oregon	$27,803	$28,413	2.2%	0.7%
Central Oregon	$27,230	$27,959	2.7%	0.9%
Eastern Oregon	$26,130	$27,022	3.4%	1.1%
Portland area	$40,306	$39,098	-3.0%	-1.0%

Source: OCPP analysis of Oregon Employment Dept. data. Adjusted for inflation to 2003 dollars

Table 1-1: Change in average annual pay per worker, by Oregon region:

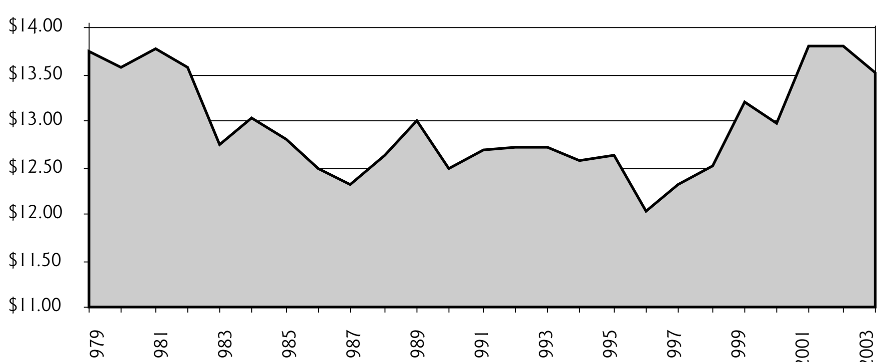
The downturn did not strike payrolls across Oregon equally. The five-county Portland region saw average annual pay per worker decline by three percent over the 2000 to 2003 period.

Since 1979, hourly wages up only for high-wage workers

Focusing on average earnings can be valuable, but it is not sufficient to understand the economy's impact on workers at various levels of income.

Across the income spectrum, hourly wages followed a pattern generally similar to the trend in average annual wages over the last generation. In 1979, the median hourly wage was equivalent to $13.74 in 2003 dollars. By the end of the 1980s, it had fallen to $13.00. It wasn't until the tail end of the economic boom that the median wage, with a last minute surge, finally edged past its 1979 level, reaching $13.80 in 2001.

When the recession hit, the wages of workers retaining their jobs did not drop much at first. The median hourly wage fell just a penny from $13.80 in 2001 to $13.79 in 2002. As the downturn wore on, though, hourly wage losses picked up speed. The median wage slipped more than a quarter to $13.52 in 2003 (Figure 1-2), back to a level lower than the 1979 wage. The median Oregon worker is earning a higher hourly wage than a decade ago, but still not as high a wage as the typical worker a generation ago.



Source: OCPP presentation of Economic Policy Institute analysis of Current Population Survey data. Adjusted for inflation to 2003 dollars.

Figure 1-2: Median hourly wage, Oregon

The median Oregon worker is earning a higher hourly wage than a decade ago, but still not as high a wage as the typical worker a generation ago.

Table 1-2: Real hourly wages by percentile

While median- and low-wage workers have fallen behind where they were a generation ago, high-wage workers are 12 percent ahead.

The 1980s collapse in wages hit the lowest paid workers the hardest. Inflation-adjusted wages for workers at the 20th percentile (just 20 percent of workers earned less), fell 11 percent from 1979 to 1989, dropping nearly a dollar from $8.79 in 1979 to $7.80 ten years later.

In the 1990s, by contrast, wages for low-pay workers picked up rapidly. The strength of the economic boom, particularly in the late 1990s, combined with a series of minimum wage increases during the decade, pushed up wages at the bottom. The 20th percentile wage gained 11 percent to $8.56. Even so, 20th percentile workers – low-wage workers – never quite got back to the 1979 high point.

The recent downturn first caused wages in low-paying jobs to stagnate; then, they fell more sharply. The decline for low-wage workers, though, was about twice as sharp as the loss for the typical or median income worker. Workers at the 20th percentile saw their real hourly wages decline by four percent from 2001 to 2003. The median wage over this period fell two percent (Table 1-2).

Wages for very high paying jobs – those at the 90th percentile – recovered more quickly from the 1980s slump than wages at lower income levels. Inflation-adjusted wages at the 90th percentile surpassed 1979 levels as early as 1992. These high-pay jobs saw their real wages surge rapidly over the 1990s boom, with 90th percentile wages gaining 21 percent, from $24.77 to $29.88. Then, during the economic downturn of 2001 to 2003, real wages at the 90th percentile slipped back, falling nearly 6 percent to $28.18 (Table 1-2). Still, high-wage workers were earning over three dollars more per hour than they were in 1979. While median- and low-wage workers have fallen behind where they were a generation ago, high-wage workers were 12 percent ahead.

Table 1-2: Real hourly wages by percentile

	Low-wage	Median	High-wage
	20th Percentile	50th Percentile	90th Percentile
1979	$8.79	$13.74	$25.12
1989	$7.80	$13.00	$24.77
1992	$7.78	$12.72	$25.23
2001	$8.56	$13.80	$29.88
2002	$8.54	$13.79	$29.54
2003	$8.18	$13.52	$28.18
% change			
1979-1989	-11%	-5%	-1%
1989-2001	10%	6%	21%
2001-2003	-4%	-2%	-6%
1979-1003	-7%	-2%	12%

Source: Economic Policy Institute analysis of Current Population Survey. Adjusted for inflation to 2003 dollars.

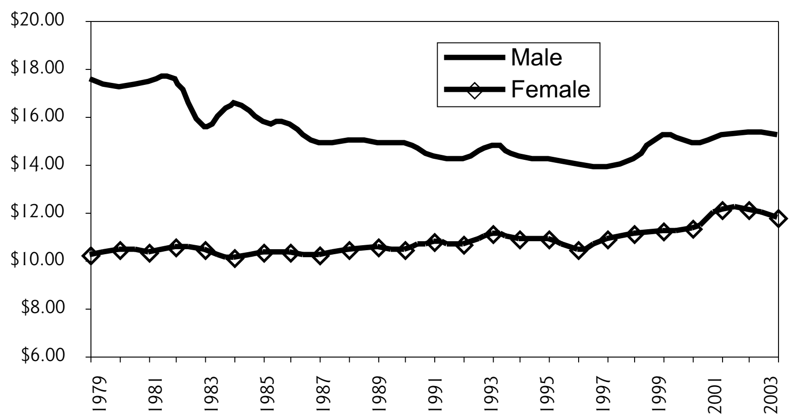
Women's gains halt during downturn

Looking only at shifts in hourly wages for all Oregon workers over the last generation masks notable differences in the trends for women and men.

The real median wage for women in Oregon rose slowly over the 1980s and 1990s, jumping upward at the tail end of the 1990s boom. Overall, the typical woman's inflation-adjusted wage increased almost two dollars from $10.21 in 1979 to $12.09 in 2001. This trend accompanied an increase in the number of women working outside the home.

The typical Oregon man's real wage, by contrast, fell by nearly two and a half dollars over the same period, sliding from $17.58 in 1979 to $15.17 in 2001.

The typical man still makes more than the typical woman, but the gap has shrunk over the last generation, as men's wages have fallen and women's have risen. The median woman worker in Oregon made 58 percent of the typical man's wages in 1979. In 2003, the median woman's wage was 78 percent of the typical man's (Figure 1-3).



Source: OCPP presentation of Economic Policy Institute analysis of Current Population Survey data. Adjusted for inflation to 2003 dollars.

Figure 1-3: Oregon median wage by gender

The median woman worker in Oregon made 58 percent of the typical man's wages in 1979. In 2003, the median woman's wage was 78 percent of the typical man's.

Over the economic downturn years of 2001 to 2003, Oregon men fared better than women. The median man's real wage actually gained two cents to $15.19, while the typical woman's wage fell 29 cents to $11.80.

Over the first six months of 2004, as the apparent economic recovery began, unemployed men seem to have benefited more than unemployed women. Between January and June 2004, the number of men receiving Unemployment Insurance (UI) benefits fell by almost half (45 percent), while the number of women receiving benefits declined by just 15 percent. The reasons behind this difference are not entirely clear. In large part, the pattern reflects typical changes in unemployment by gender over the first half of the year. That is, men's unemployment typically declines more than women's between January and June, in part because seasonal agriculture and construction jobs dominated by men become available. In 2004, though, the changes have produced a UI caseload with an unusually large share of women. In June 2004, 48 percent of all UI recipients were women, up from an average of 35 percent in June during the boom years of 1997-2000.[1]

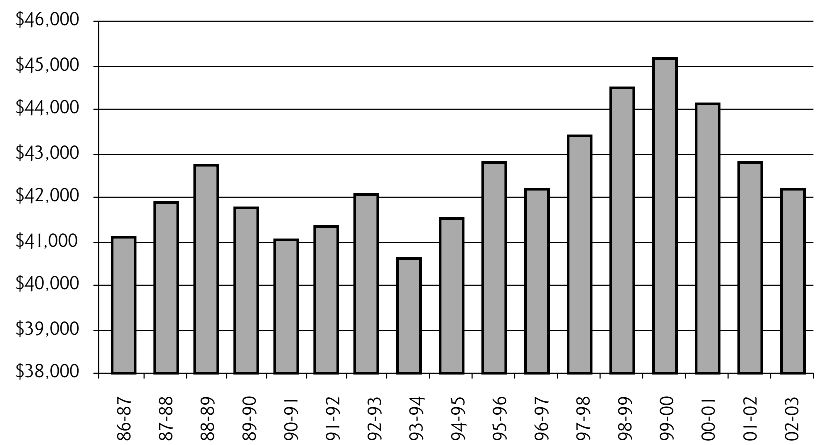
Incomes decline with job losses and wage slippage

Wages are a key measure of the downturn's impact and the recovery's challenges, but looking at what happened to household incomes provides a more expansive perspective on how Oregonians are doing. Oregon's households depend on income generally, not just on the wages of individual workers. Some families have more than one worker earning wages. Others, due to age, disability, illness, or other circumstances, do not earn any wages. Relatively few collect substantial amounts of investment income.

The typical Oregon household lost nearly $3,000 during the downturn, as the median household income fell from $45,100 in 1999-00 to $42,200 in 2002-03. The $3,000 decline was sharp enough to eliminate the gains made by the typical household during the 1990s economic boom. In 2002-03, the median income was more than $500 less than at the end of the 1980s (Figure 1-4).

Figure 1-4: Oregon median household income

The typical Oregon household lost nearly $3,000 during the downturn, enough to eliminate the gains made during the 1990s economic boom.



Source: OCPP analysis of Current Population Survey data. Adjusted for inflation to 2003 dollars.

When the stock market was booming in the late 1990s, Oregonians with lots of stock holdings made a killing. Oregonians' capital gains income soared, rising from $1.5 billion in 1992 to $6.0 billion in 2000.[2] Because stock holdings are heavily concentrated among the richest Oregonians, the benefits of this market boom were disproportionately delivered to a small number of Oregonians. Forty percent of all the capital gains income reported by Oregon taxpayers in 2000 went to taxpayers with adjusted gross incomes over $1 million that year.[3]

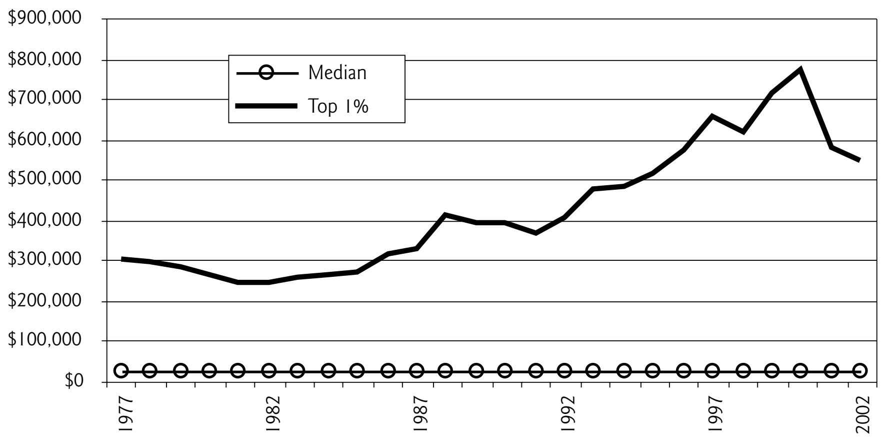
When the stock market bubble burst, capital gains income fell off and the incomes of the richest Oregonians took a hit. Capital gains income made by Oregonians dropped to $2.5 billion in 2002, substantially less than half the total from two years earlier.

Largely as a result of the capital gains decline, the real average adjusted gross incomes of the top one percent of Oregon taxpayers fell from $774,000 in 2000 to $544,000 in 2002, a decline of $230,000.

Growth in inequality hits speed bump during downturn

The decline in the income of Oregon's wealthiest taxpayers comes at the end of a long period of extraordinarily rapid growth in their incomes. Over the course of the 1990s, the take from capital gains helped produce nearly a doubling in the real incomes of the richest one percent of Oregon taxpayers. In inflation-adjusted dollars, the richest one percent saw their real incomes increase $383,000, or 98 percent, during the 1990s. By contrast, the median adjusted gross income – the income of the typical Oregon household – gained just nine percent over the same time period (Figure 1-5).

In Oregon, the inequality gap grew particularly quickly during the 1990s. No other state saw the gap between the richest fifth of families and middle-income families grow as rapidly as Oregon over the 1990s.[4] Oregon went from a relatively equal state in the late 1980s to one of the more unequal a decade later.



Source: OCPP analysis of Oregon Dept. of Revenue data. Income by all tax returns. Adjusted for inflation to 2003 dollars.

Figure 1-5: Median and top one percent income (AGI) in Oregon

The richest one percent saw their real incomes increase 98 percent over the 1990s. By contrast, the income of the typical Oregon household gained just nine percent.

The capital gains bust in 2001 and 2002 tightened the gap between the richest Oregonians and the typical family, but that gap remains wide. In 2002, the median adjusted gross income equaled just five percent of the average income of the richest one percent. In 1979, by contrast, the median equaled ten percent of the average income of the richest one percent.

The decline in incomes among the richest Oregonians during the downturn only temporarily reverses a long-term trend toward widening inequality. Compared to 1979, the real adjusted gross income of the richest one percent of Oregon taxpayers in 2002 was still up 91 percent, while the average income of the middle fifth of taxpayers was down 3.6 percent (Table 1-3). The adjusted gross income of the top one percent still averaged $544,000 in 2002, while the typical was just $27,000. In 2002, even after the capital gains bust, the richest one percent still made as much adjusted gross income as the bottom 49 percent of Oregon taxpayers.

Table 1-3:
Real adjusted gross income distribution in Oregon

Compared to 1979, the real adjusted gross incomes of the richest one percent of Oregon taxpayers in 2002 were still up 91 percent, while the average income of the middle fifth of taxpayers was down 3.6 percent.

Table 1-3: Real adjusted gross income distribution in Oregon

Average Income by Quintile

	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%	Top 1%
1979	$4,892	$14,476	$28,441	$47,332	$92,268	$285,119
1989	$4,274	$13,546	$25,858	$43,735	$98,507	$390,621
2000	$4,452	$14,753	$28,124	$48,594	$135,049	$773,891
2002	$4,282	$14,336	$27,404	$47,246	$117,335	$543,631

$ change – Average Income by Quintile

1979 to 1989	-$618	-$930	-$2,583	-$3,597	$6,239	$105,502
1989 to 2000	$178	$1,207	$2,266	$4,859	$36,542	$383,270
1979 to 2000	-$440	$277	-$317	$1,262	$42,781	$488,772
2000 to 2002	-$170	-$418	-$721	-$1,348	-$17,714	-$230,259
1979 to 2002	-$610	-$141	-$1,037	-$86	$25,067	$258,513

% change – Average Income by Quintile

1979 to 1989	-12.6%	-6.4%	-9.1%	-7.6%	6.8%	37.0%
1989 to 2000	4.2%	8.9%	8.8%	11.1%	37.1%	98.1%
1979 to 2000	-9.0%	1.9%	-1.1%	2.7%	46.4%	171.4%
2000 to 2002	-3.8%	-2.8%	-2.6%	-2.8%	-13.1%	-29.8%
1979 to 2002	-12.5%	-1.0%	-3.6%	-0.2%	27.2%	90.7%

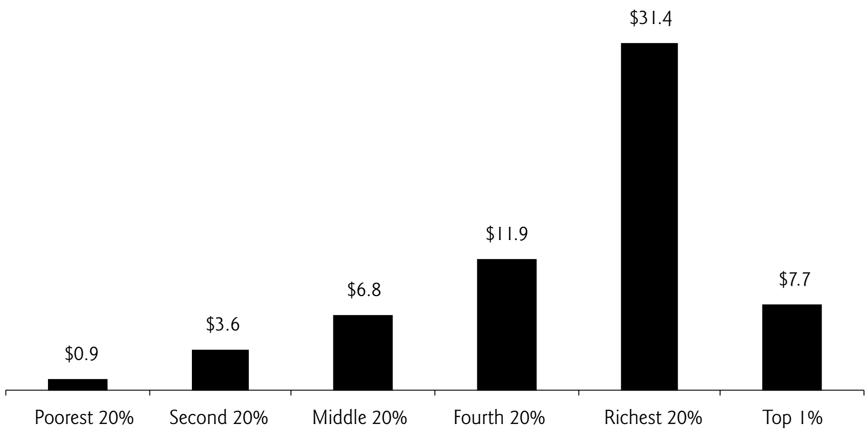
Source: OCPP analysis of Oregon Dept. of Revenue tax tables for all returns. Excludes negative returns from bottom quintile. Adjusted for inflation to 2002 dollars.

Oregonians collectively make much more money than they did a generation ago. Because inflation erodes the value of money over time, workers must earn more to stay even. Oregonians also make more money today as a group because there are more Oregonians than a generation ago. Further, economic growth has produced more total income for Oregonians. As the economy expands, more income is produced.

While it is likely that over time Oregonians will earn an increasing amount of total income, how will the "new" or "additional" money be distributed? Will a small number of Oregonians collect most of it, or will it be shared more equitably?

History does not dictate the future, but historical data suggest the new money created during Oregon's economic recovery will primarily flow to the wealthiest Oregonians.

Over the last 25 years, the new income Oregonians generated disproportionately flowed to the richest households. Even after the capital gains bust, the wealthiest fifth of households collected $31.4 billion in additional income since 1977, or 59 percent of all the new income generated in Oregon over the last generation (Figure 1-6). The middle fifth of taxpayers earned just $6.8 billion of Oregon's income, 13 percent of all new income, and the lowest-income fifth gained less than 2 percent of all new income. The richest one percent alone added $7.7 billion to their coffers over the last 25 years, 15 percent of all new income generated during the period.



Source: OCPP analysis of Oregon Dept. of Revenue data on Adjusted Gross Incomes. Excludes negative returns from poorest 20%.

Figure 1-6: New income reported in Oregon between 1977 and 2002 (in billions)

Over the last 25 years, the new income Oregonians generated disproportionately flowed to the richest households. Even after the capital gains bust, the wealthiest fifth of households collected $31.4 billion in additional income since 1977, or 59 percent of all the new income generated in Oregon over the last generation.

Looking at the changes another way, the wealthiest one percent of taxpayers in 2002 collected 13.2 percent of all adjusted gross income in the state, even after the stock market bubble burst, up from 7.7 percent in 1979. These gains have come at the expense of middle-income and lower-income households, whose share of total adjusted gross income declined over the same period (Table 1-3). Middle-income taxpayers collected 15.3 percent of all income in 1979, but just 13.3 percent in 2002. The lowest fifth collected 2.5 percent of all income in 1979, and just 1.9 percent in 2002.

Table 1-4: Share of total Oregon adjusted gross income by quintile

	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%	Top 1%
1979	2.5%	7.8%	15.3%	25.5%	49.7%	7.7%
1989	2.2%	7.4%	14.1%	23.9%	53.8%	10.7%
2000	1.9%	6.5%	12.3%	21.3%	59.3%	17.0%
2002	1.9%	7.0%	13.3%	22.9%	56.9%	13.2%

Source: OCPP analysis of Oregon Dept. of Revenue tax tables for all returns. Shares do not total 100 percent because negative returns are excluded from bottom 20%.

Table 1-4: Share of total Oregon adjusted gross income by quintile

The wealthiest one percent of taxpayers in 2002 collected 13.2 percent of all adjusted gross income in the state, even after the stock market bubble burst, up from 7.7 percent in 1979.

For the richest, the downturn was merely a speed bump on the road to vastly increasing incomes. For the lowest-income taxpayers, the economic downturn was a setback that deepened income declines over the last generation. In the 1980s, the lowest-income fifth of taxpayers lost an average of $618 in real adjusted gross income (Table 1-3). This hole proved too deep for the 1990s economic boom to overcome. Between 1989 and 2000, the lowest-income fifth added just $178 to their adjusted gross income, leaving them $440 under their income in 1979.

When the downturn hit, income among the bottom fifth fell again. On average from 2000 to 2002, taxpayers in the lowest-income fifth lost $170 in adjusted gross income, leaving them down $610 compared to 1979. Between 1979 and 2002, the average adjusted gross income of the lowest-income fifth fell 12.5 percent (Table 1-3).

Figure 1-7: Average adjusted gross income of bottom 20% of Oregon income tax filers: Negative returns included

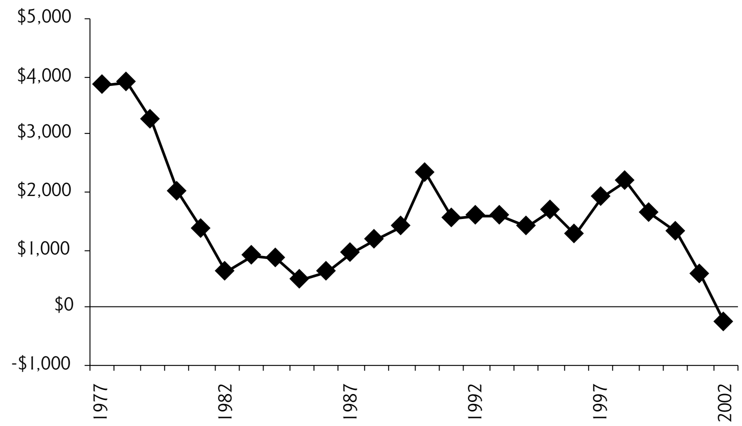
In 2002, the average Oregon taxpayer in the bottom 20 percent of the adjusted gross income distribution lost $268.

Negative incomes and the depth of reccession

About 2 percent of Oregon tax returns reported adjusted gross incomes (AGI) that were less than zero in 2002. A taxpayer can calculate and report a negative AGI under a variety of tax code provisions allowing the taxpayer to count certain losses against income, such as losses from business operations, farming, partnerships, S-Corporations, or real estate investments. The taxpayers with negative incomes likely had income from wages or salaries, but the losses they were able to claim were greater than their income. These taxpayers generally differ from other households in the bottom quintile because they typically have significant assets and other income.

Similar to analyses by the Congressional Budget Office, the OCPP's analysis in this chapter excluded from the bottom quintile taxpayers with negative incomes. While taxpayers with negative incomes account for about 8 percent of the returns in the bottom quintile, their losses are so significant that including them would paint an inaccurate picture of the income of the lowest income group.

The depth of the current recession becomes clear, however, when taxpayers with negative incomes are included in the bottom quintile. In 2002, the average Oregon taxpayer in the bottom 20 percent of the adjusted gross income distribution lost $268 because of the extent of the losses by the 8 percent with negative returns. This did not happen in the recessions of the early 1980s or early 1990s (Figure 1-7).



Source: OCPP analysis of data from Oregon Department of Revenue. Adjusted for inflation to 2002 dollars.

Inequality varies by county

The income gap between the wealthiest Oregonians and middle-income taxpayers varies from county to county. Washington County, the heart of Oregon's high tech industry, saw an explosion in income inequality over the 1980s and 1990s. In 1980, the richest one percent of taxpayers reported adjusted gross incomes averaging nine times the average income of the middle 20 percent. By 2000, the richest one percent in Washington County had an average income that was 33 times the average income of the middle 20 percent. That made Washington County the most unequal county in the state in 2000, all the way up from 24th place in 1980. The gap between the richest one percent of taxpayers and middle-income families also soared in Yamhill, Clackamas, and Curry counties between 1980 and 2000 (Table 1-5).

Over the eighties and nineties, the income gap between the richest one percent and middle-income families shrank in only two of the 33 counties with data. The two counties where inequality actually improved between 1980 and 2000 were Lake and Morrow counties (Table 1-5).

Over the eighties and nineties, the income gap between the richest one percent and middle-income families shrank in only two of the 33 counties with data.

When the recession hit, the high-tech sector was hit hard and incomes fell sharply for the richest Washington County residents. The county fell from Oregon's most unequal in 2000 to 9th most unequal in 2002.

As inequality was declining in Washington County during the downturn, it was exploding in rural Crook County. Average incomes among the highest income one percent in Crook County surged from $487,000 in 2000 to $783,000 in 2002, even after accounting for inflation. In 2002, Crook County had become the state's most unequal county, with the top one percent collecting income that was nearly 30 times the average income of middle-income families.

The rapid growth in inequality in Crook County is likely associated with explosive population growth in neighboring Deschutes County, where Bend is located. Crook County's population expanded by six percent during the downturn, even though the number of jobs in the county fell by seven percent.[5] Since just 73 income tax returns made up Crook County's top one percent of taxpayers in 2002, the county's rapid growth in inequality likely results from a small number of very affluent individuals moving into the county.

Multnomah, Clackamas, and Deschutes counties – much more populous counties than Crook County – were next most unequal, with the richest one percent enjoying incomes 21 to 22 times the income of the middle fifth in 2002. At the other end of the spectrum, Morrow and Columbia counties were the most equal, with the richest one percent averaging between seven and eight times the income of the middle fifth (Table 1-5).

Table 1-5: Income of top one percent as multiple of income of middle fifth, by Oregon county

	Average income of the top one percent				Income ratio: top one percent to middle fifth				Rank 2002
	1980	1990	2000	2002	1980	1990	2000	2002	
BAKER	$166,510	$204,245	$313,833	$236,469	9.0	10.5	13.8	11.0	29
BENTON	$236,067	$338,519	$708,286	$468,550	11.4	14.2	23.7	16.5	11
CLACKAMAS	$292,125	$493,890	$954,626	$772,379	9.5	16.3	26.9	21.6	3
CLATSOP	$200,053	$260,201	$420,576	$387,864	9.8	12.3	16.4	15.8	14
COLUMBIA	$169,539	$241,273	$356,081	$269,261	5.6	8.3	9.9	7.6	32
COOS	$197,795	$338,217	$513,935	$335,576	9.2	16.4	21.4	14.5	17
CROOK	$223,378	$279,467	$486,765	$783,014	10.4	11.6	18.3	29.6	1
CURRY	$183,188	$307,480	$534,128	$350,688	9.3	15.2	23.5	16.1	12
DESCHUTES	$246,526	$417,292	$733,223	$576,308	11.4	17.1	26.0	21.1	4
DOUGLAS	$205,304	$267,768	$515,723	$353,995	8.4	11.4	20.2	14.2	19
GILLIAM	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
GRANT	$189,458	$244,705	$291,880	$439,500	9.4	10.5	12.4	18.7	8
HARNEY	$177,937	$169,023	$211,520	$183,250	8.6	8.1	9.8	8.7	31
HOOD RIVER	$217,260	$314,125	$381,929	$309,929	9.3	15.6	15.1	12.4	26
JACKSON	$242,720	$368,662	$553,965	$497,211	11.8	16.8	21.7	19.9	5
JEFFERSON	$198,293	$294,989	$480,605	$353,552	9.8	13.2	18.8	14.9	16
JOSEPHINE	$211,959	$285,174	$482,840	$373,348	12.2	15.1	21.2	17.0	10
KLAMATH	$231,949	$282,928	$339,782	$317,508	10.1	13.5	14.2	13.5	23
LAKE	$224,437	$193,579	$204,205	$241,552	10.7	9.2	9.4	11.8	27
LANE	$257,133	$391,767	$588,106	$503,395	11.7	17.1	21.9	19.4	6
LINCOLN	$194,247	$254,705	$394,431	$321,198	10.9	12.8	16.2	13.6	22
LINN	$181,711	$266,976	$413,071	$364,817	7.7	11.5	14.1	12.7	24
MALHEUR	$192,771	$252,524	$315,922	$314,227	10.3	14.5	14.4	14.5	18
MARION	$213,698	$327,007	$631,540	$425,939	9.7	14.0	22.4	15.4	15
MORROW	$217,510	$232,792	$195,719	$196,410	8.7	9.8	7.2	7.5	33
MULTNOMAH	$302,585	$434,562	$927,080	$634,785	12.9	17.3	30.3	21.9	2
POLK	$204,920	$296,542	$395,713	$431,175	9.3	12.9	12.9	14.2	20
SHERMAN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TILLAMOOK	$183,615	$239,310	$450,627	$328,136	8.9	11.8	18.2	13.7	21
UMATILLA	$207,662	$270,353	$301,098	$278,409	9.2	12.8	11.7	10.7	30
UNION	$167,909	$231,348	$366,859	$279,307	7.5	10.1	14.5	11.2	28
WALLOWA	$168,511	$196,691	$426,505	$339,258	9.0	9.4	18.6	15.9	13
WASCO	$208,068	$356,935	$350,749	$312,478	8.4	16.1	13.5	12.7	25
WASHINGTON	$288,533	$435,203	$1,292,007	$646,575	9.0	13.6	33.2	17.2	9
WHEELER	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
YAMHILL	$219,853	$320,168	$833,489	$559,314	9.1	13.3	27.3	18.9	7

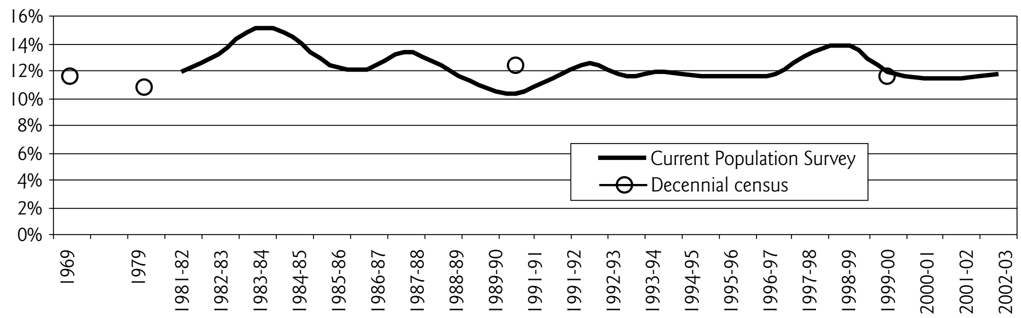
Source: OCPP analysis of Oregon Dept. of Revenue data, adjusted for inflation to 2002 dollars.

Poverty among workers improves, but remains high

Another way to examine how income trends are affecting Oregon workers is to consider what is happening among those workers whose incomes fall under the poverty line, even though they work.

The official poverty rate, which counts the number of poor Oregonians as a percentage of the state's total population, has not shown any improvement over the last generation. In 1969, poverty was at 11.5 percent, about the same as today (Figure 1-8). Over the last 35 years, the percent of Oregonians with incomes under the poverty line has fluctuated between 10 and 15 percent, but did not improve over the long-term – even during the 1990s economic boom. In 2002-03, the latest data currently available, the poverty rate stood at 11.7 percent.

The number of Oregonians with incomes so low they were considered poor was about 413,000 in 2002-03, an increase of about 93,000 from 1980-81.



Source: OCPP presentation of Current Population Survey data.

Figure 1-8: Poverty rate in Oregon

In 1969, poverty was at 11.5 percent, about the same as today.

For thousands of Oregon families, work is not enough to escape poverty. In 2002-03 there were 61,200 families with children in Oregon living in poverty, not including those in which all adults were disabled, ill, or retired. In 64 percent of these families (38,900 families), the parents worked more than one quarter of the year.[6] At the peak of the 1990s economic boom, 82 percent of these families worked more than one-quarter of the year.

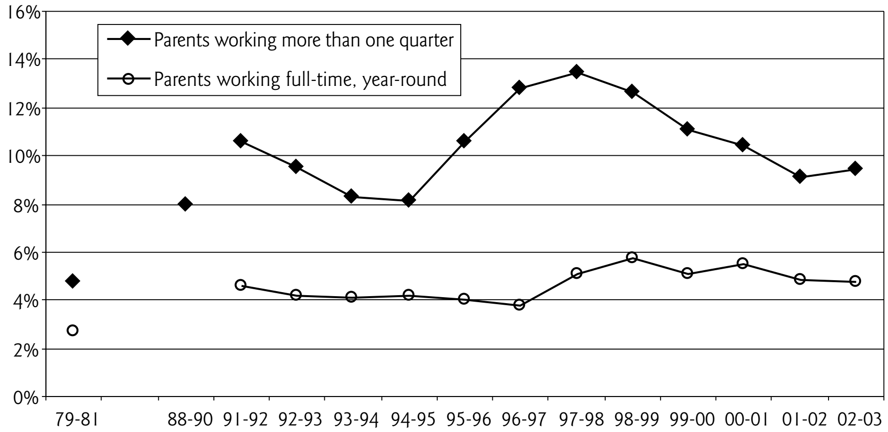
In some cases, these families were poor because they lost their jobs and were unable to find enough other work at adequate pay. In other cases, they were poor even though they worked full-time, year-round.[7] More than one-quarter (27 percent) of Oregon's poor families with children worked full-time, year-round in 2002-03.

Over the last generation it has become increasingly likely that families with children will not earn enough income to meet their families' needs, even though the adults are working more than one-quarter of the year. In 1979-81, the percentage of working families with children who were poor was 4.8 percent. By 1997-98, that figure had risen to 13.5 percent. In the late 1990s, with the economy finally delivering significant wage gains to low-income families, the percentage started to decline. Those declines continued into the first part of the economic downturn, as the late 1990s wage gains largely held up and poor families sustained a substantial work effort. In 2002-03, 9.5 percent of working families were poor (Figure 1-9), still nearly double the late 1970s rate.

The trend is similar for families working full-time, year-round. In 1979-81, 2.7 percent of these families were poor, despite their work effort. That figure more than doubled to 5.8 percent in 1998-99 before declining to 4.8 percent in 2002-03 (Figure 1-9). Despite the recent improvement, nearly one in twenty Oregon families who work full-time, year-round are still not paid enough to escape poverty.

Figure 1-9: Percent of Oregon's working families with children who were poor

Despite the recent improvement, nearly one in twenty Oregon families who work full-time, year-round are still not paid enough to escape poverty.



Source: OCPP analysis of Current Population Survey data.

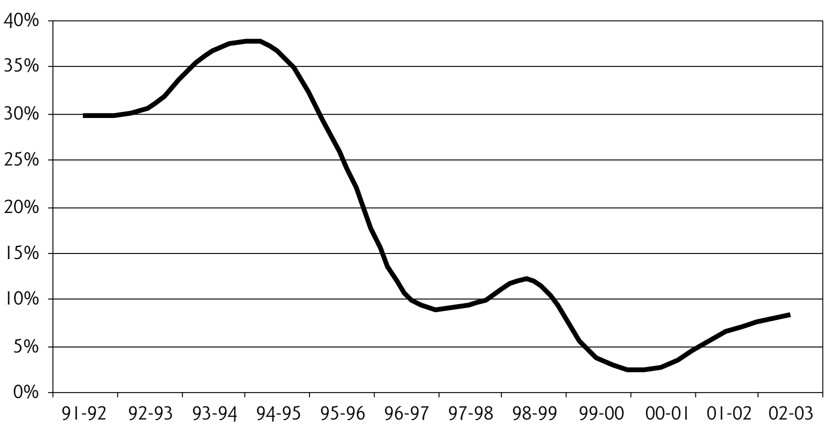
Contrary to stereotypes, very few poor families with children in Oregon are receiving most of their income from public assistance. In 2002-03, in the midst of a recession, just 8.1 percent of poor families with children in Oregon received the majority of their income from cash assistance programs, including the Temporary Assistance for Needy Families (TANF) program, General Assistance (GA), and the Supplemental Security Income (SSI) program.

The welfare system was overhauled in the mid-1990s and this sharply reduced the number of Oregonians receiving welfare. The caseload of the state's primary welfare program, Temporary Assistance for Needy Families, was down 63 percent in June 2004 compared to June 1993, prior to welfare reform. There are nearly 75,000 fewer Oregonians receiving temporary cash assistance benefits today than there were nine years ago, in 1993.[8]

Even before welfare reform, only 36.7 percent of poor families with children in Oregon received the majority of their income from cash assistance. After welfare reform, however, the percentage plummeted, reaching 3.6 percent in 1999-00, before rising slightly after the economic downturn hit (Figure 1-10).

Figure 1-10: Percentage of poor families with kids in Oregon who got the majority of their income from cash assistance (TANF, SSI, GA)

Even before welfare reform, only 36.7 percent of poor families with children in Oregon received the majority of their income from cash assistance. After welfare reform, however, the percentage plummeted, reaching 3.6 percent in 1999-00, before rising slightly after the economic downturn hit.

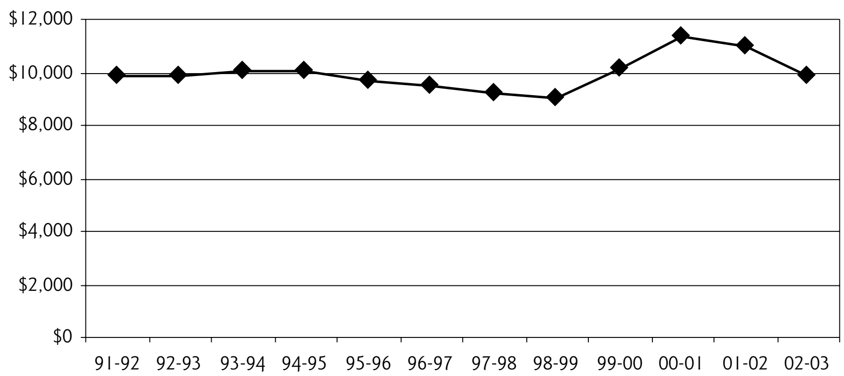


Source: OCPP analysis of Current Population Survey data.

Welfare reform's goal of reducing the caseload by pushing people into the workforce benefited from good timing during the booming 1990s. The percentage of poor families with children who worked full-time, year-round surged upwards, doubling from 18 percent in 1996-97 to 36 percent in 2000-01, before slipping back to 27 percent in 2002-03. The average number of weeks worked per year by all poor families with kids shifted upwards from 27 weeks in 1994-95, to 38 weeks in 2000-01, with most of the gains occurring at the tail end of the economic boom.[9]

Although Oregon's cash assistance caseload declined rapidly beginning in the mid-1990s, the average poor family with children did not see income gains until the end of the decade, when the labor market tightened and the minimum wage was increased. In fact, from 1994-95 when Oregon's welfare reform began, to 1998-99, real total income among able-bodied poor families with children actually fell nearly a thousand dollars, from $10,019 to $9,046.

It wasn't until the end of the 1990s that poor families with children saw some modest income gains, with the real average annual income rising from $9,046 in 1998-99 to $11,346 in 2000-01. Then, after the economic downturn took hold, incomes slipped back again for poor families with children, reaching $9,890 in 2003-03 (Figure 1-11). The average poor family with children now makes less than they did prior to welfare reform.



Source: OCPP analysis of Oregon Employment Dept. data. Nonfarm employment. Data through August 2004. Year over year percent change.

Figure 1-11: Mean total income of all able-bodied poor families with kids in Oregon

The average poor family with children now makes less than they did prior to welfare reform.

Welfare reform failed to increase incomes among those families who remained poor, but did it succeed in reducing poverty among families with children? Unfortunately, the answer is no. Poverty among all families with children in Oregon did not decline until the labor market tightened and the minimum wage was increased in the late 1990s.

The poverty rate among all families with children, excluding those in which all adults were disabled, ill, or retired, stood at 16 percent in 1996-97. Two years later, with welfare reform well under way, poverty among this group had edged up to 16.9 percent.[10] It wasn't until after 1998-99, when the minimum wage increased and the labor market tightened, that the poverty rate for these families began to decline. After 1998-99, poverty among this group descended rapidly, falling by nearly a third to 11.8 percent in 2001-02, before rising again to 13.8 percent in 2002-03.

Work does not promise escape from hunger

With too little income to meet their basic needs, one in seven working adults in Oregon lived in "food insecure" households in 2002. They could not be certain through the year that they would have enough to eat, despite their work effort.

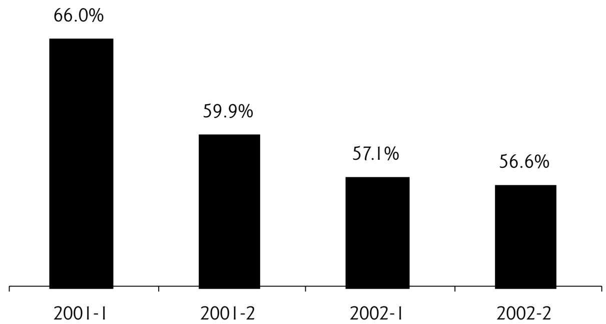
Typically, these adults and their families were sometimes on the verge of running out of money for food. In addition, help from other resources – family, friends, food banks, and government assistance – was not enough to assure these adults that their families would avoid hunger.

In some cases, despite their worries and the instability of their lives, the adults in these food insecure households managed to avoid going hungry. Help arrived in time, somehow. In other cases, these adults or other family members, or both, were forced at times to go hungry, because they didn't have enough money or access to enough other resources to eat what their bodies needed. No Oregonian starved to death, but too many involuntarily went hungry at times. In 2002, about 38 percent of adults in food insecure homes in Oregon either went hungry themselves or lived with a household member who did.

Figure 1-12: Percent of Oregon adults living in food insecure homes who were employed, by half year, 2001 and 2002

At the beginning of the recession in early 2001, two-thirds of adults in food insecure homes were employed. Then, their employment rates fell substantially.

The majority of adults in food insecure homes in Oregon are employed. In the first half of 2001, at the beginning of the recession, fully two-thirds of adults in food insecure homes were employed. By the second half of the year, however, their employment rates had fallen substantially, to 60 percent, as businesses around the state laid off workers and stalled on hiring. In 2002, as Oregon moved into a "jobless recovery," employment rates among adults in food insecure households evened off and remained relatively low (Figure 1-12).



Source: OCPP analysis of Behavioral Risk Factor Surveillance System data.

Since unemployed adults are particularly likely to be in food insecure households, job losses due to the recession made efforts to reduce hunger in Oregon more difficult. Nearly one-third (31 percent) of unemployed adults in 2002 were living in food insecure homes.

Temporary cash assistance safety net shrinks

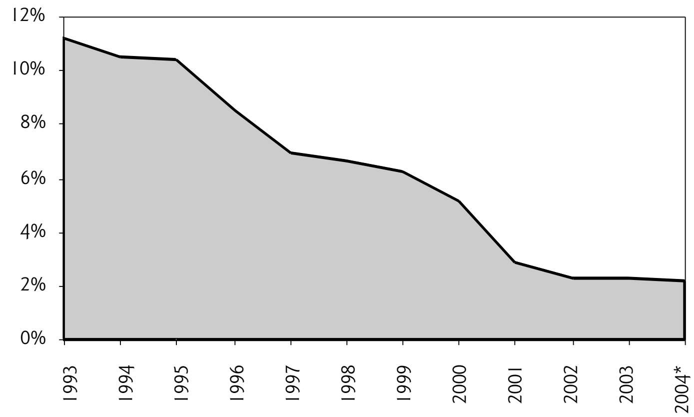
Workers who lose their jobs may need temporary cash assistance, commonly known as welfare, to support their families if they do not qualify for Unemployment Insurance or once their Unemployment Insurance is exhausted. Oregon's primary welfare program, Temporary Assistance for Needy Families (TANF), provides temporary cash assistance to very poor single-parent families with dependent children in Oregon. A small number of two-parent families with dependent children also receive TANF. TANF recipients also receive job search assistance and some receive social support such as help addressing domestic violence and drug treatments if the welfare agency considers the support necessary for the recipient to get a job.

During the economic downturn, the TANF caseload peaked in February 2003 at 18,943 families, about half the number of families benefiting in February 1991, during the previous economic downturn. Relative to previous recessions, welfare helped fewer families this time around.

Oregon's welfare safety net was smaller during the recent downturn in part because families today have to be much deeper in poverty than ten years ago to receive TANF. In July 1991, the three-person family "gross income limit" (the maximum allowable income before certain deductions and exemptions) was set at $616 per month. This means that a working mother with two children and income above 66 percent of the federal poverty guideline ($928 per month in 1991), or working 30 hours a week at minimum wage, was not eligible for welfare in 1991. Due in large part to budget constraints and the priorities of governors and legislators, and the related effort to reduce welfare caseloads under the rhetoric of welfare reform, Oregon has not raised the income limit since 1991. As a result, today a family has to be poorer and work fewer hours at minimum wage to be eligible for TANF. By 2004, the freeze shrank eligibility to 47 percent of the federal poverty level. Due to increases in the state's minimum wage, a three-person family working 21 hours a week at minimum wage earns too much to qualify for TANF.

With income eligibility frozen since 1991, the percentage of TANF recipients with earnings from work has fallen sharply over the last decade, from over 11 percent in

1993 to just two percent in 2004 (Figure 1-13). In June 2004, only 424 TANF families had any earnings from work. Today, TANF is unavailable to support all but a very small handful of low-wage workers in Oregon.



Source: OCPP analysis of Oregon Dept. of Human Services data
** 2004 data are partial, through April.*

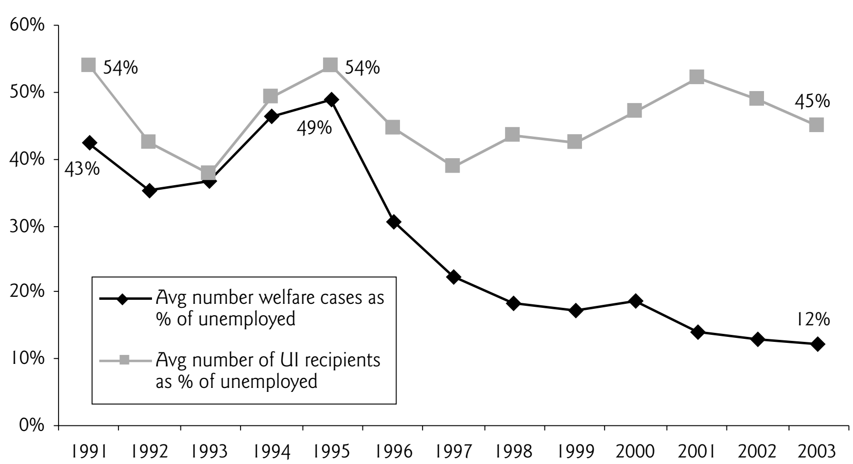
Figure 1-13: Percent of Oregon TANF cases with earnings, 1993-2004

With income eligibility frozen since 1991, the percentage of TANF recipients with earnings from work has fallen sharply over the last decade, from over 11 percent in 1993 to just two percent in 2004.

Because today it is harder to qualify for TANF than in the past, fewer unemployed Oregonians turn to welfare for help during economic hard times than during past recessions. In 1991, the total number of welfare recipients averaged 43 percent of the number of unemployed Oregonians. In 2003, the figure was down to just 12 percent (Figure 1-14). In fact, as the recent economic downturn progressed, TANF recipients as a percent of the unemployed continued to decline. Compared to the number of Oregonians out of work, the number of temporary welfare recipients is getting smaller.

Unemployment benefits don't make up for shrinking welfare system

Some former TANF recipients who were working when the economic downturn hit were eligible for Unemployment Insurance (UI), which provides cash assistance to workers who lose their jobs. However, the UI program has not made up for TANF's decline. Many workers are not eligible for UI because they have not worked long enough or earned enough prior to losing their jobs, or because they quit their jobs. In 2001, the first year of the recent downturn, 52 percent of Oregon's unemployed were receiving UI benefits. By 2003, that percentage was down to 45 percent (Figure 1-14).



Source: OCPP analysis of data from the U.S. Bureau of Labor Statistics, Oregon Employment Dept., Oregon Dept. of Human Services.

Figure 1-14: Average number of welfare cases, Unemployment Insurance recipients, as percent of the unemployed

While the welfare safety net has shrunk, the UI safety net is catching about the same percentage of unemployed workers as it did prior to welfare reform.

Welfare reform generated no discernible impact on the percentage of workers in Oregon who were receiving unemployment checks. Unemployed workers were no more likely to receive UI during the recent recession than during the recession of the early 1990s. While the welfare safety net has shrunk, the UI safety net is catching about the same percentage of unemployed workers as it did prior to welfare reform. The UI program is not making up for the shrinking welfare safety net.

Endnotes

1 Perhaps men's UI benefits were more likely to expire over the first half of 2004 than women's. Unfortunately, data on expiring benefits are not available by gender.

2 Oregon Department of Revenue, Personal Income Tax Statistics, 2001 and 2002. Available at http://www.dor.state.or.us/statistics.html

3 OCPP analysis of Statistics of Income data from the Internal Revenue Service, available at http://www.irs.gov/taxstats/article/0,,id=103106,00.html

4 Bernstein, Jared, et.al. Pulling Apart: A State-by-State Analysis of Income Trends, Center on Budget and Policy Priorities and Economic Policy Institute, April 2002. Available at: http://www.cbpp.org/4-23-02sfp.pdf

5 Ayre, Art, People Moved to Oregon Despite Recession, Oregon Employment Department, July 23, 2004. Available at http://www.qualityinfo.org/olmisj/ArticleReader?itemid=00003783

6 Families were counted as working more than one quarter if parents in the family combined worked more than 13 weeks a year.

7 Families working full-time, year-round means those families whose workers combined worked at least 50 weeks of the year for at least 35 hours a week.

8 In June 1993, 119,384 Oregonians received temporary cash assistance through TANF's precursor program, Aid to Dependent Children (ADC). In June 2004, the total number of Oregonians receiving TANF benefits was 44,617, a decline of 74,767.

9 These figures exclude those families in which all adults are disabled, ill, or retired.

10 The increase is not statistically significant and may be due to survey sampling error.

Chapter 2

Rising Costs Delay Recovery

During the economic downturn, household incomes and workers' wages declined relative to overall inflation. The declines occurred across the income spectrum. Things got harder for all Oregonians who didn't have substantial savings or a generous severance package.

That's bad enough, but the downturn has been even worse for middle- and lower-income families forced by circumstances to spend heavily on things such as health care or higher education whose costs were rapidly appreciating. These families experienced rapid price increases that far outpaced overall inflation, at a time of declining wages and high unemployment. These families are likely among those for whom personal debt problems overshadow any promising economic news.

The downturn has been even worse for middle- and lower-income families forced by circumstance to spend heavily on things such as health care or higher education whose costs were rapidly appreciating.

The downturn, and the state budget crisis it caused, was also particularly hard on low-income families who depend on various forms of public assistance to cover the gap between their wages and their bills. Unable to raise enough tax revenue, legislators severely constricted the state's primary health care subsidy program, cut the number of low-income working families eligible for child care subsidies, and allowed the income limit for cash assistance to continue shrinking relative to inflation and the minimum wage.

Public assistance cuts do not register on the official consumer price index, but they made life more expensive for low-income families by reducing their effective incomes. Suddenly, thousands of workers in Oregon were faced with higher health care or child care costs. Many attempted to do without such basic necessities; others took on more debt and hoped for a brighter future.

Health care and insurance costs skyrocket

Health care costs skyrocketed during the economic downturn and continue to rise rapidly. Nationally, the average employer-sponsored health insurance premium rose 11 percent in 2001, 13 percent in 2002, and 14 percent in 2003.[1]

These rapid increases in premiums hit workers hard at a time when wages were slipping backwards. The average monthly employee contribution nationally for family health insurance coverage rose 49 percent between 2000 and 2003, from $135 per month to $201 per month. Over the same period, employee contributions for single coverage increased 50 percent.

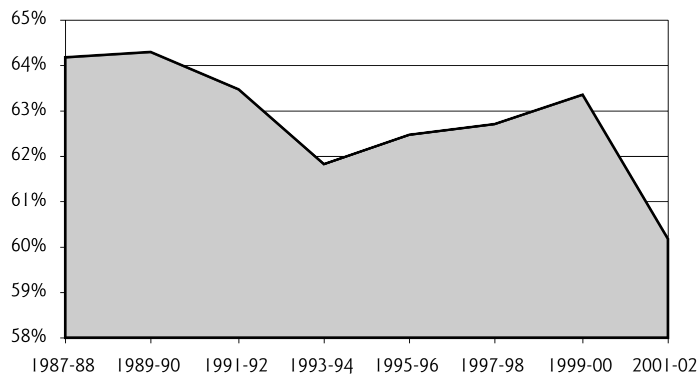
Deductibles and co-payments also rose sharply during the downturn. The average annual deductible nationally for Preferred Provider Organization (PPO) single coverage plans increased 57 percent between 2000 and 2003, rising from $175 to $275. Co-payments increased too, with co-pays for drug prescriptions rising from $13 to $19 between 2000 and 2003, a 46 percent increase.[2]

In Oregon, when the downturn hit, the share of workers with health insurance from their employers declined sharply. At the end of the 1990s economic boom, just over 63 percent of workers had employer-provided health coverage. Then, when the economic downturn hit in 2001, the coverage rate dropped rapidly to 60 percent in 2001-02 (Figure 2-1).

Compared to a generation ago, workers are much less likely to have health insurance through their employers. In 1979-81, nearly three-quarters of Oregon private-sector workers received health coverage from their employers.[3]

Figure 2-1: Percent of workers with employer-provided health care, Oregon

In Oregon, when the downturn hit, the share of workers with health insurance from their employers declined sharply.



Source: Economic Policy Institute analysis of U.S. Census Bureau data.

While fewer workers have health insurance provided by their employer, those Oregon workers with coverage are paying more for it. Only a decade ago, most Oregon businesses did not require their employees to pay for part of the costs of coverage. Just 36 percent of Oregon firms required an employee contribution for single coverage in 1993. By 2002, the percentage had shot up to 60 percent. The portion of firms requiring an employee contribution for family coverage also increased between 1993 and 2002, from 67 percent to 75 percent (Table 2-1).

Similarly, the cost to those Oregon workers paying part of the cost of their insurance increased over the last decade. The average annual employee contribution for family coverage in Oregon nearly doubled between 1993 and 2002, rising from $1,043 to $1,841. For single coverage, the average contribution grew at a similar rate, from $195 in 1993 to $350 in 2002 (Table 2-1).

Table 2-1: Rising premiums for Oregon workers

The average annual employee contribution for family coverage in Oregon nearly doubled between 1993 and 2002, rising from $1,043 to $1,841.

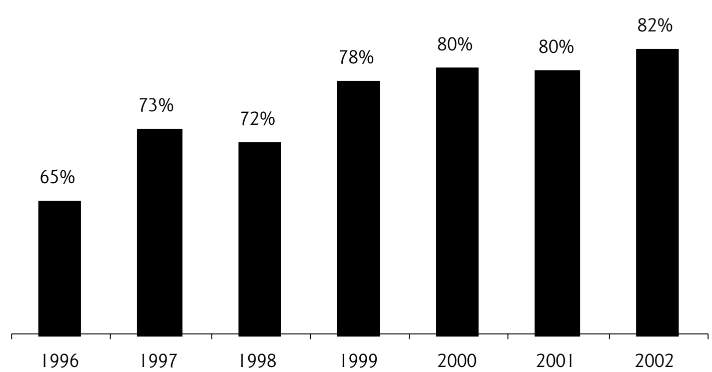
Table 2-1: Rising premiums for Oregon workers		
	1993	2002
Single coverage		
% with employee contribution	35.8%	60.1%
Average employee contribution	$195	$350
Employee share of premium	10.8%	12.0%
Family coverage		
% with employee contribution	67.4%	74.6%
Average employee contribution	$1,043	$1,841
Employee share of premium	24.5%	22.6%

Source: Medical Expenditure Panel Survey and 1993 National Employer Health Insurance Survey. Figures are not adjusted for inflation.

With health insurance costs rising, Oregon businesses have increasingly required new employees to endure a waiting period before they are eligible for health insurance. The percent of Oregon employers requiring a waiting period shot up from 65 percent in 1996 to 82 percent in 2002 (Figure 2-2). Nationally, the percentage of firms requiring employees to wait was 74 percent in 2002, eight percentage points less than in Oregon.

Figure 2-2: Percent of Oregon businesses offering health insurance that require a waiting period

The percent of Oregon employers requiring a waiting period shot up from 65 percent in 1996 to 82 percent in 2002.



Source: OCPP analysis of Medical Expenditure Panel Survey data.

Less than half of employees in low-wage firms were even eligible for health coverage in 2002. Just 48 percent of Oregon workers in businesses offering insurance and predominantly paying low wages were eligible for health insurance that year.[4] By contrast, in businesses offering insurance and paying less than half of their workers low wages, 85 percent of workers were eligible.[5]

Low-wage workers are also faced with longer waits before they are eligible for insurance through their employers. Among businesses paying half or more of their employees low wages in 2002, the wait averaged more than 12 weeks, more than a month longer than the average wait in businesses paying less than half their employees low wages.[6]

Finally, as employee health care costs rise, the increased cost takes a higher percentage of the income of low-wage workers. If employee premiums rise, deductibles go up, and co-pays per prescription or office visit increase, low-wage workers have the most difficulty coming up with the extra cash. At the national level, health care expenses absorbed 17 percent of the income of the lowest income fifth of households in 2002, on average (Table 2-2). By contrast, the highest income fifth of households spent less than three percent of their income on health care. Even though the highest income households spent more on health expenses than the poorest households – $3,300 compared to $1,400 on average – these costs absorbed a much larger share of the income of the poorest.

Table 2-2: Portion of income spent on health care, U.S., by income group, 2002

Even though the highest income households spent more on health expenses than the poorest households, these costs absorbed a much larger share of the income of the poorest.

Table 2-2: Portion of income spent on health care, U.S. by income group, 2002

	Poorest fifth	Second fifth	Middle fifth	Fourth fifth	Richest fifth
Average income	$8,316	$21,162	$36,989	$59,177	$121,367
Health care costs	$1,402	$2,183	$2,506	$2,692	$3,262
Portion of income	16.9%	10.3%	6.8%	4.5%	2.7%

Source: OCPP analysis of 2002 Consumer Expenditure Survey.

Percent lacking health insurance increases

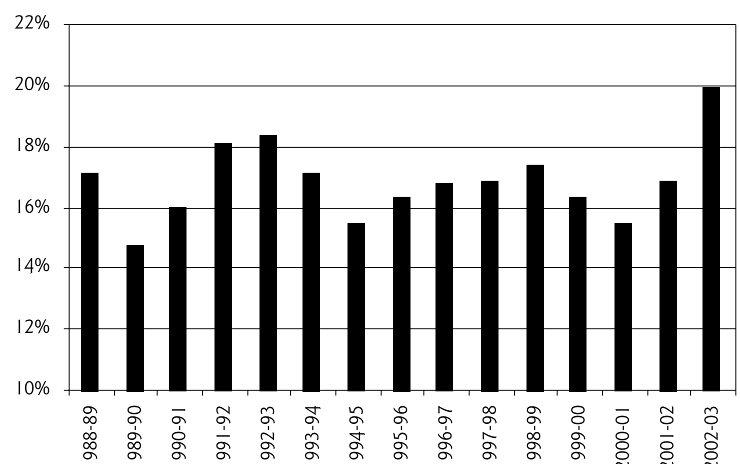
The increasing costs of health care for workers combined with rising unemployment during the economic downturn and cuts to the Oregon Health Plan increased the percentage of working-age Oregonians without any sort of health insurance.

In 2002-03, the percentage of working-age Oregonians who lacked health insurance for a full year soared to 20 percent, up from 16 percent before the downturn (Figure 2-3). That is, during the downturn, one in five Oregonians aged 18 to 64 went without insurance for a full year. In total, 456,500 working-age adults in Oregon lacked insurance for a full year in 2002-03, an increase of 104,000 from before the downturn in 1999-00.

This sharp increase in extended uninsurance among working-age Oregonians accounts for virtually all of the growth in uninsurance during the downturn. While the number of working-age adults without insurance for a year jumped by 104,000 over the downturn, the number of children and seniors without insurance for a year increased by 1,500. In total, 562,000 Oregonians went a full year without health insurance, an increase of 105,500 from before the downturn.[7]

Figure 2-3: Percentage of working-age Oregonians (18-64) without health insurance for full year

In 2002-03, one in five working-age Oregonians went without health insurance for a full year.



Source: OCPP analysis of Current Population Survey data.

In addition to those Oregonians who lacked insurance for a full year, others experienced gaps in coverage. An analysis of Census data finds that nearly one-third (31 percent) of Oregonians under age 65 lacked health insurance at some point during 2002 and 2003. That is, nearly a million (968,000) non-elderly Oregonians went without coverage during those two years. Of those who went without coverage, nearly two-thirds went for more than six months without insurance.[8]

Nearly a million non-elderly Oregonians went without health coverage at some point in 2002 and 2003.

Oregon's Hispanics were particularly likely to go without health coverage during 2002 and 2003. A full two-thirds of Hispanics under age 65 lacked insurance at some point during those two years. By comparison, a quarter of non-Hispanic whites went without coverage over the two-year period.[9]

Cuts to Oregon Health Plan may cause higher insurance rates

The Oregon Health Plan (OHP), implemented in 1994, extended Medicaid benefits to more low-income Oregonians and paid for the increase by prioritizing medical services and moving recipients into managed care.[10]

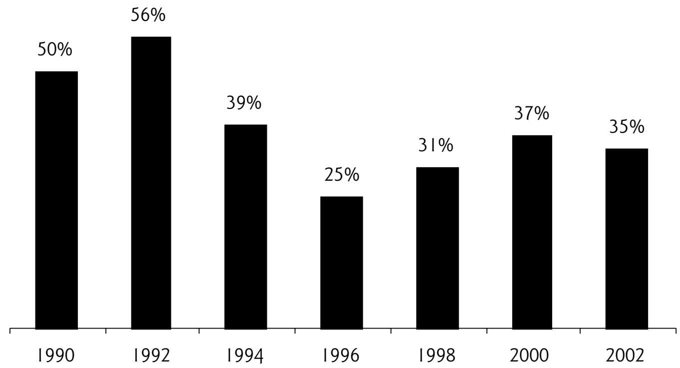
Since its inception, the OHP has provided insurance to two distinct groups. First, the OHP provides benefits to those individuals who generally would be eligible for Medicaid benefits under federal rules even if the Oregon Health Plan did not exist. This group includes the aged, blind, or disabled, low-income pregnant women, and recipients of cash assistance. The second group is those who receive benefits thanks to the Oregon Health Plan's expansion of Medicaid benefits to persons with incomes under the poverty line. This group consists of low-income Oregonians without health insurance who meet the income and financial resources restrictions of the program. Low-wage workers eligible for the OHP primarily fall into this group.

When it was first implemented in 1994, the OHP combined with a mid-1990s slowdown in health care inflation to reduce sharply the uninsurance rate among poor Oregonians. Before the Oregon Health Plan was implemented, 57.6 percent of working-age Oregonians below the poverty level lacked health insurance coverage (Figure 2-4). Following the 1994 implementation of the OHP, the rate was cut by more than half, falling to 25 percent in 1996.

Since 1996, though, the trend has been generally in the opposite direction, towards higher rates of uninsurance among poor, working-age Oregonians. By 2002, the uninsurance rate among this group was back up to 35 percent. The backsliding occurred in part because shortly after the OHP was implemented the Legislative Assembly began scaling back eligibility.[11] A provision in the original Oregon Health Plan requiring employers to provide health coverage was never implemented and was eventually repealed.

Figure 2-4: Percent of poor, working-age Oregonians without health insurance

By 2002, the uninsurance rate among poor, working-age Oregonians was back up to 35 percent.



Source: Office for Oregon Health Policy & Research for 1990-2000. OCPP analysis for 2002.

Data on health uninsurance rates for poor Oregonians in 2003 and 2004 are not yet available. In part because the Legislative Assembly continued making cuts to the OHP in response to the state revenue shortfall, it is likely that the percentage of low-income Oregonians without health insurance coverage has increased.

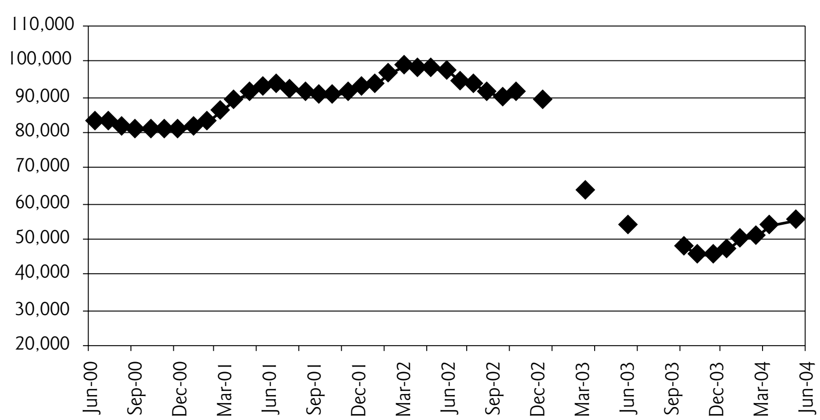
In 2001, Oregon gave different OHP populations different benefit packages. For adult recipients, those eligible for Medicaid under federal rules were enrolled under "OHP Plus," and those eligible thanks to the OHP expansion were enrolled under the "OHP Standard" benefit package.

In the first quarter of 2003, in response to the ongoing state revenue crisis, Oregon significantly scaled back the OHP Standard program, reducing access to certain benefits and cutting from the program for six months recipients unable to pay monthly premiums.[12]

These measures generated a collapse in the OHP Standard caseload, which plummeted from 91,000 in December 2002 to 54,000 in August 2003 (Figure 2-5). As of August 2004, 55,405 Oregonians were covered by OHP Standard.

Figure 2-5: Caseload for Oregon Health Plan, Standard Program

Cuts to the Oregon Health Plan generated a collapse in the Standard program caseload during 2003.



Source: OCPP analysis of Oregon Dept. of Human Services data.

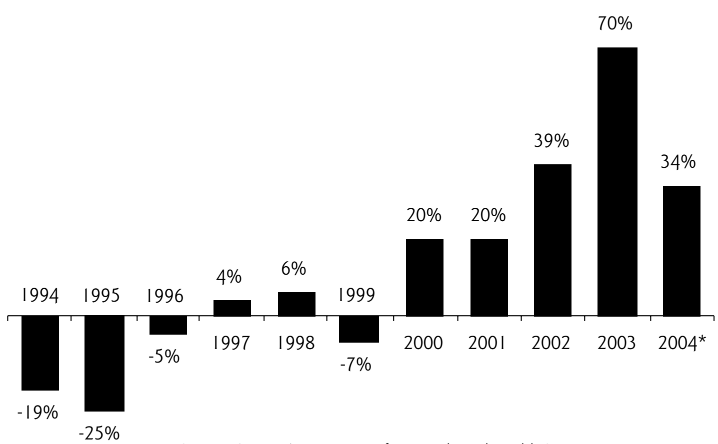
Faced with a continuing revenue shortfall, the Governor and Legislature agreed to cut the caseload to 24,000 by June 30, 2005. To reach this goal, the state stopped enrolling new recipients to OHP Standard on July 1, 2004, and will likely take additional measures to force people off the program to meet the reduced budget limitations.[13]

The cuts to the Oregon Health Plan in 2003 combined with the rising costs to workers of private insurance appear to have resulted in a flood of uninsured patients at Oregon hospitals. Between March 2003 and March 2004, the number of uninsured patients admitted to Oregon hospitals jumped 39 percent, while overall hospital admissions increased just two percent.[14]

Similarly, the economic downturn and the OHP cuts generated a sharp increase in the number of Oregonians who needed medical care but could not pay for it. The value of medical care provided by Oregon hospitals for which the hospitals require no reimbursement (known as "charity care") shot up 70 percent in 2003 alone after rising 39 percent in 2002 (Figure 2-6).[15] The rapid increases in charity care during the downturn are in marked contrast to declines that occurred after the Oregon Health Plan was implemented in 1994.

Figure 2-6:
Annual percent change in value of charity care reported by Oregon hospitals

The value of charity care shot up 70 percent in 2003 alone after rising 39 percent in 2002.



Source: Oregon Association of Hospitals and Health Systems.
Note: OCPP estimated 2004 figure based on data for first half of year.

Housing costs squeezing more families

Home prices in Oregon exploded during the 1990s. Over the decade, the median sale price of a home in the Portland area more than doubled from $79,500 in 1990 to $170,100 in 2000. Price gains in other parts of the state were similarly large, making housing less affordable.

Over the 1990s, home prices in the Portland area rose 114 percent, well more than double the 46 percent growth nationwide over the same period and more than triple the 31 percent growth in the western region as a whole (Table 2-3).

In spite of the economic downturn, low interest rates, continued population growth, and new loan products for consumers with credit problems have sustained demand for housing in Oregon and nationally, extending the price gains of the 1990s. Having grown at such a rapid pace over the previous decade, home prices in Oregon grew more slowly than prices nationally and in the western region during the downturn. From 2000 to 2003, prices in Portland grew 13 percent, less than half the 28 percent increase in the western region as a whole. Nationally over the same period, home prices gained 22 percent (Table 2-3).

Table 2-3: Single family home median sale price

Having grown at a rapid pace over the previous decade, home prices in Oregon grew more slowly than prices nationally during the downturn.

Table 2-3: Single family home median sale price

				Growth	
	1990	2000	2003	1990 to 2000	2000 to 2003
Portland/Vancouver	$79,500	$170,100	$192,000	114%	13%
Eugene/Springfield	$66,600	$132,800	$151,700	99%	14%
United States	$95,500	$139,000	$170,000	46%	22%
Western Region	$139,600	$183,000	$234,200	31%	28%

Source: National Association of Realtors and Oregon Housing Cost Study

Ownership costs burden more homeowners

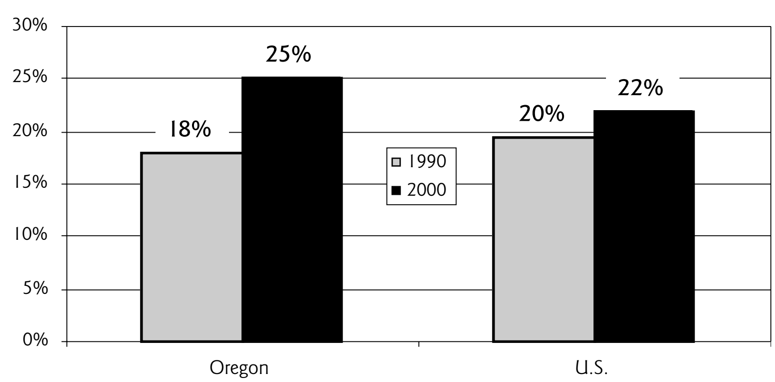
The rapid housing price gains of the 1990s were a boon for those families who sold and moved, but for those buying a home in Oregon higher costs cut deeper into family budgets. Despite low interest rates and a refinancing boom of the late 1990s, typical Oregon homeowners with mortgages devoted 23.2 percent of their income to basic ownership costs at the end of the 1990s, up from 20.4 percent at the beginning of the decade.[16]

Federal housing programs typically consider homes to be "affordable" if the monthly costs of ownership, including mortgage payments, taxes, insurance, and utilities, are less than 30 percent of an owner's income.[17] By this measure, Oregon experienced a rapid increase over the 1990s in the percentage of homeowners whose ownership costs were not affordable.

In 1990, 18 percent of Oregon homeowners paid more than 30 percent of their income in basic ownership costs. By 2000, one in four Oregon homeowners had mortgage payments and other basic housing costs considered unaffordable, a 39 percent increase. In contrast to the rapid change in Oregon, nationwide the percentage of owners paying such a high portion of their income in basic owner costs nudged up 10 percent over the decade, from 20 percent to 22 percent (Figure 2-7).

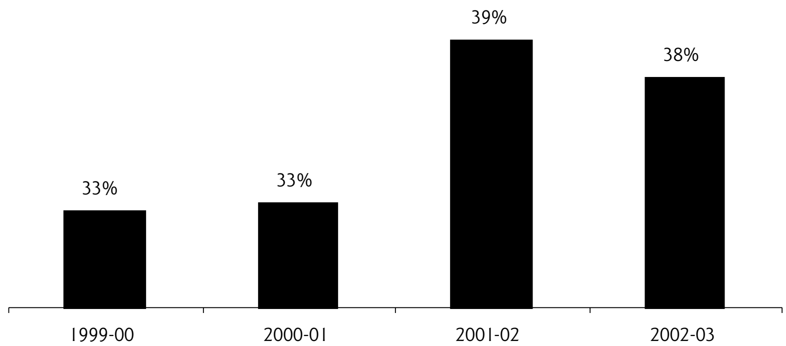
Figure 2-7. Owners paying 30% or more of income in "ownership" cost

By 2000, one in four Oregon homeowners had mortgage payments and other basic housing costs considered unaffordable.



Source: 1990 and 2000 Census.

When the economic downturn hit, the decline in household income continued to push up the percentage of owners paying high percentages of their income in ownership costs. In Multnomah County, the percentage of owners with mortgages paying more than 30 percent of their income to basic ownership costs shot up to 39 percent in 2001-02, from 33 percent in 1999-2000, an 18 percent increase (Figure 2-8).



Source: OCPP analysis of American Community Survey data.

Figure 2-8: Percentage of Multnomah County homeowners paying more than 30 percent of their income in ownership costs

In Multnomah County, the percentage of owners with mortgages paying more than 30 percent of their income to basic ownership costs shot up to 39 percent in 2001-02, from 33 percent in 1999-2000.

Homeownership rate reaches national rate

The rapid run-up in housing costs in Oregon during the 1990s also affected the state's homeownership rate. Nationally the homeownership rate steadily increased over the mid- and late-1990s as Americans took advantage of low interest rates and new loan products. The percentage of U.S. households owning their homes rose from 64 percent in 1994 to 67 percent in 2000.

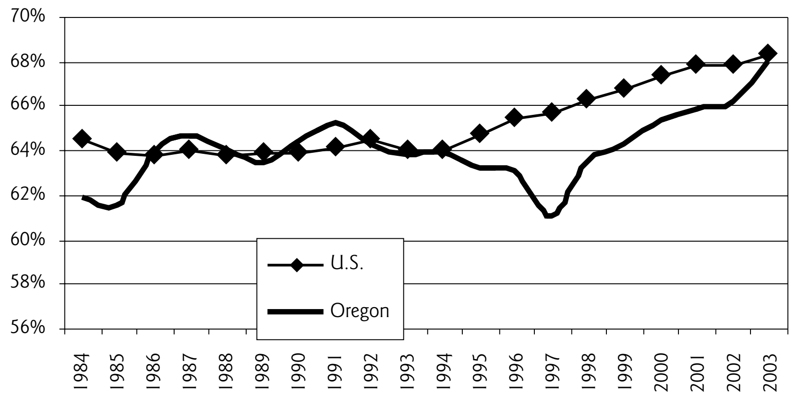
In Oregon, though, rapid housing price increases caused the state's homeownership rate to slip behind the national rate in the latter part of the decade. The percentage of Oregon households owning their homes fell from 64 percent in 1994 to 61 percent in 1997. Having fallen behind, Oregon's homeownership rate then continued to lag behind the gains nationally over the next several years.

In 2003, with home prices in Oregon rising more slowly than nationally, Oregon's homeownership rate surged forward to catch up with the national rate at 68 percent (Figure 2-9). Despite declining wages and resurgent, high unemployment rates in 2003, many Oregonians apparently decided that with interest rates so low, it was time to buy a home.

Even with the homeownership surge in 2003, Oregon's homeownership rate has stagnated over the last 40 years.[18] In 1960, 69 percent of Oregon households owned their homes, about equal the 2003 rate. For most of the 20th century Oregon had a homeownership rate well above the national rate, but fell behind in the last 20 years. In 1910, when the national homeownership rate was just 46 percent, in Oregon it was 60 percent.

Figure 2-9: Homeownership rates, Oregon vs U.S., 1984 - 2003

In 2003, Oregon's homeownership rate surged forward to catch up with the national rate at 68 percent.



Source: OCPP presentation of U.S. Census Bureau data.

Home buying by income level

Over the 1990s, more Oregon households with modest incomes bought homes. The number of modest-income borrowers securing home purchase loans grew from about 7,400 in 1993 to about 13,900 in 1999. The number was 13,500 in 2002.

Despite this growth, the percentage of all home purchase loans going to modest-income borrowers was the same in 2002 as it was in 1993. In both years, 20 percent of all home purchase loans originated by Oregon banks went to modest-income borrowers. The percentage of loans going to upper-income borrowers, by contrast, increased from 44 percent in 1993 to 48 percent in 2002.

"Modest-income" and "upper-income" home buyers defined

OCPP obtained information about the incomes of homebuyers from data that are reported to the federal government by home lenders under the Home Mortgage Disclosure Act (HMDA). Compiled by the U.S. Department of Housing and Urban Development, the HMDA data break the income of borrowers into three categories: "low-income," "middle-income," and "upper-income."

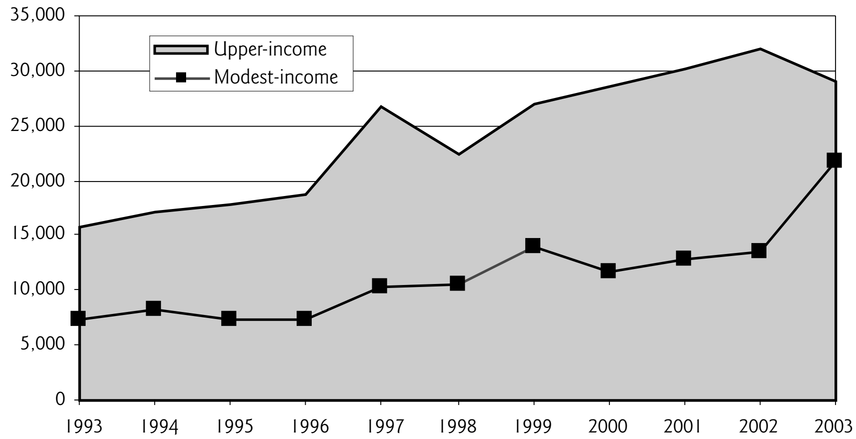
The poverty line for a four-person family in 2004 is $18,850. In the HMDA data, "low-income" borrowers are defined as borrowers with incomes under 80 percent of the median family income in the area. Eighty percent of the median family income in the Portland metropolitan area is $54,320. In the Eugene metro area in 2004, it is $43,440. In Klamath County, it is $37,040.[19]

Because "low-income" borrowers in the HMDA data include borrowers with incomes well over the poverty line, the OCPP decided to re-name them "modest-income" borrowers. "Modest-income" more accurately describes these borrowers.

"Upper-income borrowers are defined in the data as borrowers with incomes over 120 percent of the median family income in the area. In 2004, borrowers in the Portland metropolitan area with incomes over $81,480 would be counted as "upper-income." The OCPP retained the "upper-income" label employed in the data for these borrowers.

In 2003, however, very low mortgage interest rates produced a surge in home purchases by modest-income buyers. That year, Oregon lenders originated nearly 21,700 loans for borrowers with modest incomes, an increase of 60 percent over 2002 (Figure 2-10). This surge is largely responsible for the improvement in Oregon's homeownership rate in 2003.

Loans for upper-income borrowers, by contrast, declined in 2003, falling 9 percent to 29,100. Compared to the period before the downturn in 2000, loans to upper-income borrowers in 2003 were up just two percent, while loans to modest-income borrowers were up 85 percent.



Source: OCPP analysis of Home Mortgage Disclosure Act data provided by U.S. Dept. of Housing and Urban Development.

Figure 2-10: Number of home purchase loans to upper-income vs. modest-income borrowers, Oregon

In 2003, Oregon lenders originated nearly 21,700 loans for borrowers with modest incomes, an increase of 60 percent over 2002.

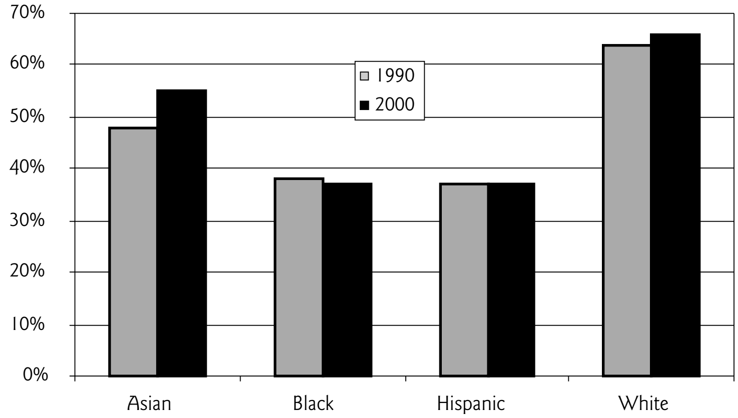
Homeownership by race

Nationally, the percentage of African-Americans and Hispanics who own their homes rose rapidly over the 1990s.[20] This does not appear to be the case in Oregon, however, where the homeownership rate among African-Americans and Hispanics was flat over the 1990s. The 1990 Census found that 38 percent of African-American and 37 percent of Hispanic households in Oregon owned their homes. Ten years later, the 2000 Census found little change, with the homeownership rate among both African-American and Hispanic households standing at 37 percent (Figure 2-11).[21]

In contrast to the stagnation in homeownership among African-Americans and Hispanics over the 1990s, ownership rates among whites and Asian-Americans in Oregon improved over the decade. Between 1990 and 2000, the rate for whites increased from 64 percent to 66 percent. Among Asian-Americans, the homeownership rate rose quickly, from 48 percent in 1990 to 55 percent in 2000 (Figure 2-11).[22]

Figure 2-11: Oregon homeownership rates by race, 1990 and 2000

In Oregon, the homeownership rate among African Americans and Latinos was flat over the 1990s.



Source: OCPP analysis of 1990 and 2000 Census.

Data on homeownership rates by race during the economic downturn are only available for the Portland metropolitan area. The American Housing Survey found that between 1995 and 2002, the homeownership rate among African-Americans in the Portland area fell from 34 percent to 32 percent. Hispanics in the Portland area are doing slightly better; their homeownership rate increased from 33 to 36 percent over the same period.[23]

While minority homeownership rates during the downturn are only available for the Portland metropolitan area, statewide data are available on minority home purchase loans originated by Oregon lenders during the downturn. In 2003, about 3.5 percent of all home purchase loans in Oregon went to Hispanic borrowers. Since Hispanics made up about eight percent of Oregon's total population, they remain under-represented as homebuyers. Similarly, African-Americans made up about two percent of Oregon's population, but received just 0.6 percent of home purchase loans in 2003.[24]

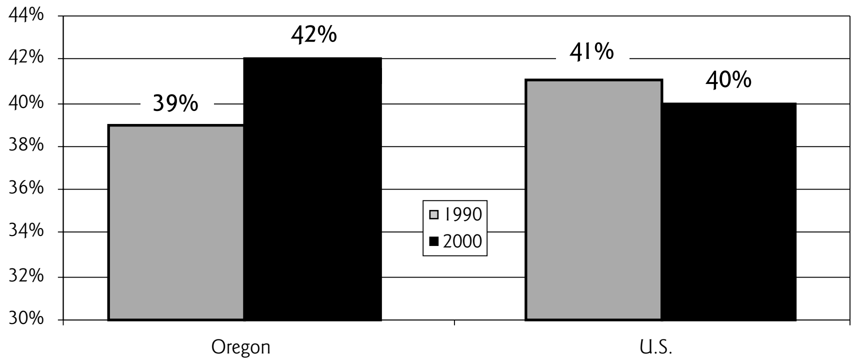
While Hispanics remain under-represented as homebuyers, more home loans are going to Hispanics as their population in Oregon increases. In 1993, Oregon lenders originated 472 loans for Hispanic borrowers. By 2003, the number had leaped to 2,595, an increase of 450 percent.[25]

Rental costs increase while incomes fall

Rents in Oregon rose over the 1990s, though not as quickly as home prices. The median rent rose from $408 in 1990 to $620 in 2000 (not adjusting for inflation), a 52 percent increase. Home values, by contrast, rose 114 percent in the Portland area and 99 percent in the Eugene area over the same period.

Even so, by the end of the 1990s, a higher percentage of Oregon renters were paying excessive portions of their income to rent. The percentage of renters paying more than 30 percent of their income to rent increased from 39 percent in 1990 to 42 percent in 2000 (Figure 2-12).

This increase in the share of renters excessively squeezed by their rental costs ran counter to the national trend. Nationally, 40 percent of renters paid "unaffordable" rents in 2000, down slightly from 41 percent in 1990.



Source: 1990 and 2000 Census.

Figure 2-12. Renters paying 30% or more of income in rent

The percentage of Oregon renters paying more than 30 percent of their income to rent increased from 39 percent in 1990 to 42 percent in 2000.

When the recession hit, rents continued to rise even as incomes fell. While the rent increases Oregonians experienced over the economic downturn were not extraordinary, in some parts of Oregon renters seeking modest apartments saw rents increase more quickly during the downturn than they had during the late 1990s (see Text Box for definition of "modest"). In the Eugene and Medford metropolitan areas, where rents for modest 2-bedroom apartments grew only slightly between 1996 and 2000, rents moved up more quickly from 2000 to 2004. Rent gains for modest apartments during the downturn also rose more quickly in the Salem area than they did in the late 1990s (Figure 2-13).

Definition of "modest" apartment

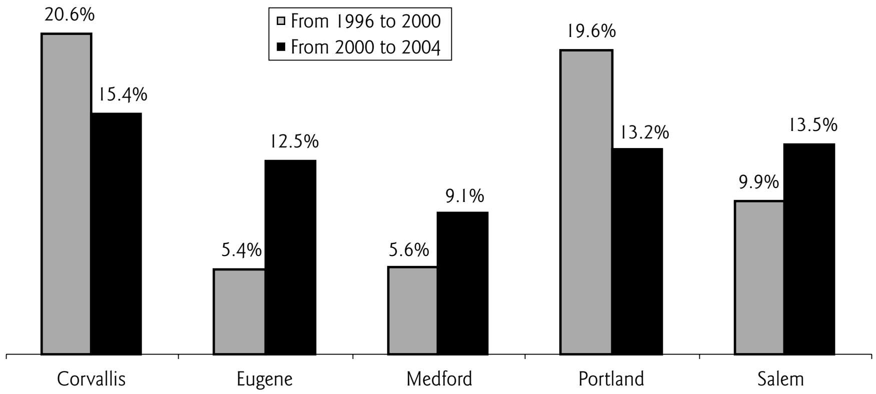
Rents for "modest" apartments in this report are based on the U.S. Department of Housing and Urban Development's "Fair Market Rents" data for two-bedroom apartments. Fair Market Rent is defined as "the amount that would be needed to pay the gross rent (shelter rent plus utilities) of privately owned, decent, and safe rental housing of a modest (non-luxury) nature with suitable amenities."[26]

HUD sets "Fair Market Rents" at the 40th percentile of rents for apartments of various sizes. That is, for two-bedroom apartments in the area, 40 percent rent for less than Fair Market Rent while 60 percent cost more.

The Portland and Corvallis metropolitan areas saw steady rental price gains during the downturn, but these gains were not as sharp as they had been in the late 1990s. Still, the Corvallis-area rent for a modest 2-bedroom rose more than 15 percent between 2000 and 2004, and rents for a similarly sized apartment in the Portland area rose about 13 percent (Figure 2-13). With wages declining for low-income workers, rising rents put a pinch on family budgets.

Figure 2-13: Percent change in rent for modest 2-bedroom apartments, by Oregon metro area

In some parts of Oregon, renters seeking modest apartments saw rents increase more quickly during the downturn than they had during the late 1990s.

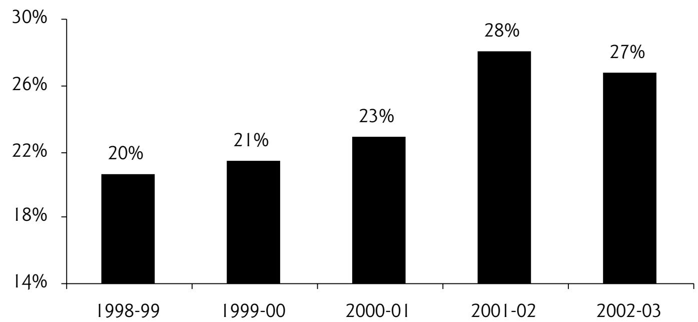


Source: OCPP analysis of U.S. Dept. of Housing and Urban Development Fair Market Rent data, calculated at the 40th percentile of rents.

While rent gains in some parts of Oregon were modest during the downturn, incomes were falling. As a result, the percentage of renters paying extraordinarily high percentages of their income to rent increased. In Multnomah County, the share of renters paying more than half their income to rent rose from 21 percent in 1999-00 to 28 percent in 2001-02 and 27 percent in 2002-03 (Figure 2-14).

Figure 2-14: Percentage of Multnomah County rental households paying over half their income to rent

In Multnomah County, the share of renters paying more than half their income to rent rose from 21 percent in 1999-00 to 27 percent in 2002-03.

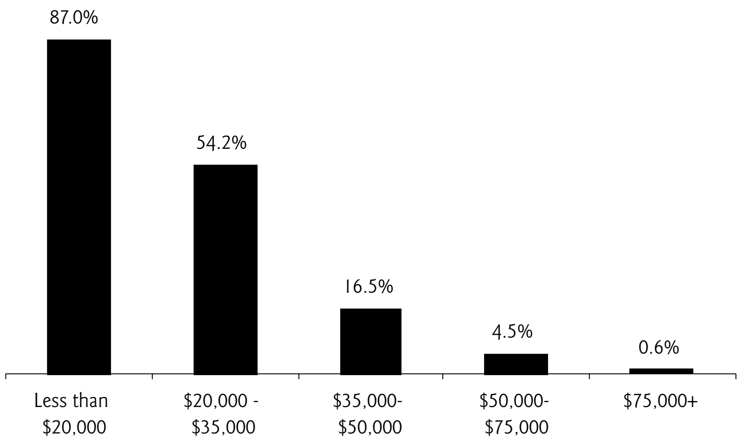


Source: OCPP analysis of American Community Survey data.

The rent squeeze is not isolated to the Portland metropolitan area. Outside the tri-county Portland area, the percentage of renters paying more than half their income to rent in 2001-02 was 27 percent, the same percentage as in Multnomah County.

Families paying over half their income to rent are paying rents beyond those considered "affordable" by the federal government. As with homeownership, federal programs typically consider the affordability threshold to be 30 percent of income. By this measure, 51 percent of Oregon renters statewide in 2002-03 were paying rents that were not affordable.[27]

Not surprisingly, those renters with the lowest incomes are most likely to pay rents considered unaffordable. In 2001-02, 87 percent of Oregon renters with incomes under $20,000 had unaffordable rental costs. The percentage is also high for renters with incomes between $20,000 and $35,000, with over half of renters in this income category paying "unaffordable" amounts to rent. For higher income renters, unaffordable rents are substantially less likely (Figure 2-15).



Source: OCPP analysis of American Community Survey, 2002.

Figure 2-15: Percent of Oregon renters paying more than 30 percent of their income to rent, by household income level, 2001-02

In 2001-02, 87 percent of Oregon renters with incomes under $20,000 had unaffordable rental costs.

The disparity in housing burdens across income groups is evident even when homeowners are included. Nationally, the poorest fifth of households – renters and owners combined – pay total housing costs that average 80 percent of their money income. The richest fifth, by contrast, pay total housing costs averaging just 20 percent of their income.[28]

Higher education costs explode during downturn

In the fall of 2001, the latest complete data set available, there were 60,000 undergraduate students and 15,000 graduate students enrolled in public universities in Oregon. At the same time, there were 30,000 students enrolled at private colleges and universities, and another 86,000 students enrolled at Oregon community colleges. In total, 192,000 students were enrolled in one of Oregon's undergraduate, graduate, or community college programs.

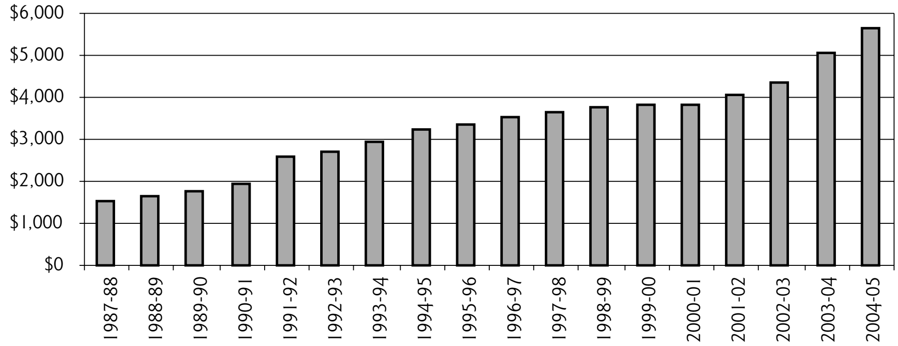
Rising costs for tuition and fees increase the financial burden on current students and their families, as well as on families with younger children preparing for college. Over the last few years, while the economy slipped into recession and then struggled into an uncertain recovery, tuition and fees at Oregon universities soared.

At the University of Oregon, annual tuition and fees cost a full-time student $3,819 for the 2000-01 school year, when the downturn first hit. For the upcoming 2004-05 school year, the same fees and tuition will cost $5,670, a jump of 48 percent in just four years.[29]

These increases continue a long-term trend of rising costs for higher education in Oregon. In the 1987-88 school year, tuition and fees for a full-time student at the University of Oregon cost $1,556. Since then, tuition and fees have more than tripled (Figure 2-16). The rate of increase since 1987-88 has been more than four times the general rate of inflation.

Figure 2-16. Resident tuition and fees at University of Oregon

For the 2004-05 school year, fees and tuition at the University of Oregon will cost $5,670, a jump of 48 percent in just four years.



Source: Oregon University System. For full-time student enrolled for 15 credit hours per term.

Rising tuition and fees understate the increased cost of education for the families of those students pursuing higher education. At the same time tuition has increased, financial aid awards have shifted away from grants and scholarships and toward loans. Nationally, loans accounted for 41 percent of student aid packages in 1980-81, but 59 percent by 1999-00.[30] Including education tax credits as part of "student aid," loans totaled 54 percent of all aid in 2002-03.[31]

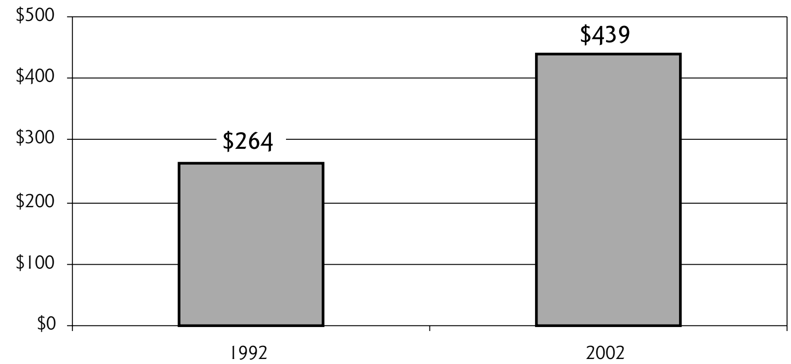
Community college has also become increasingly expensive. Tuition and fees at Oregon's two-year colleges rose from 3.6 percent of the median household income in 1992 to 5.4 percent by 2002, according to the Western Interstate Commission for Higher Education.[32]

Child care costs rise faster than worker earnings

Nearly a third of families in Oregon with children under age 13 use some form of paid child care.[33] For many of these families, the cost of child care is squeezing their monthly budget.

Oregon considers child care "affordable" if a household spends less than 10 percent of household income on the care.[34] Using this standard, child care expenses were "unaffordable" for 38 percent of Oregon families with children in 2000.[35] Child care is particularly unaffordable for low- and middle-income households. Sixty-five percent of Oregon households with children under 13 in the bottom half of the income distribution were unable to find affordable child care in 2002, up from 58 percent a decade earlier.[36]

Affordable child care has become more difficult to find as child care cost increases have outpaced wage gains. The average monthly child care cost for families with children in care in Oregon increased from $264 in 1992 to $439 in 2002, a 66 percent increase (Figure 2-17).[37] Average annual earnings for Oregon workers rose just 43 percent over the same time period.



Source: OCPP analysis of Oregon Population Survey data.

Figure 2-17. Average monthly child care cost

The average monthly child care cost for families with children in care in Oregon increased from $264 in 1992 to $439 in 2002.

A September 2003 survey of 140 metropolitan areas in the U.S. ranked Portland as the seventh most expensive city in the country for day care provided by child care centers. On average, the monthly cost for a three-year old child in a for-profit day care center five days a week for eight hours a day was $737 in Portland.[38] The survey found that Baton Rouge, Louisiana had the lowest child care costs for comparable services of any metropolitan area surveyed, at $339 (Table 2-4).

Table 2-4: Most and least expensive metropolitan areas for child care costs

Most expensive metro areas		Least expensive metro areas	
Metro area	Cost	Metro area	Cost
Manhattan, NY	$1,058	Baton Rouge, LA	$339
Boston, MA	$977	Mobile, AL	$347
Manchester, NH	$799	Winter Haven, FL	$347
Washington, D.C.	$773	Jackson, MS	$363
New London, CT	$748	Macon, GA	$364
Philadelphia, PA	$740	Billings, MT	$373
Portland, OR	$737	New Orleans, LA	$374
Milwaukie, WI	$674	Jacksonville, FL	$376
San Francisco, CA	$665	Casper, WY	$376
Chicago, IL	$657	Little Rock, AR	$379

Source: Runzheimer International

Table 2-4: Most and least expensive metropolitan areas for child care costs

A September 2003 survey ranked Portland as the seventh most expensive city in the country for day care provided by child care centers.

Cuts to Employment Related Day Care program further shrink small program

The Employment Related Day Care (ERDC) program is a child care subsidy program for working families in Oregon.[39] It subsidizes the cost of child care for families with incomes under 150 percent of poverty, or $23,505 for a family of three in 2004.

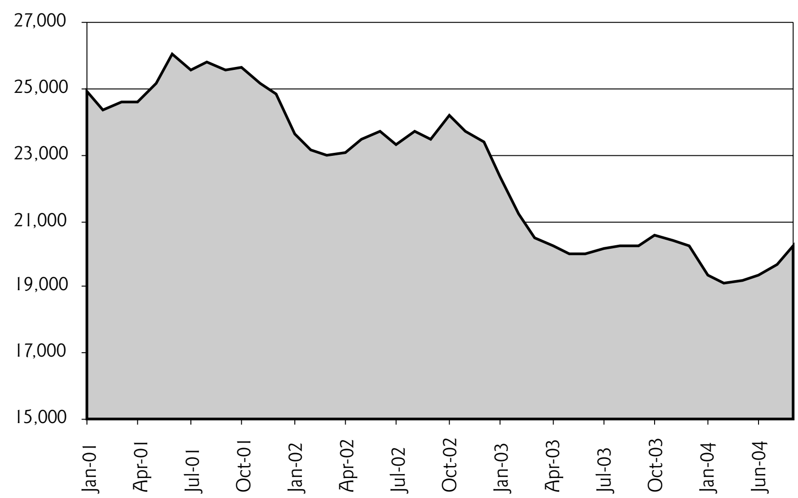
During the fifth special legislative session of 2002, faced with an ongoing revenue shortfall, Oregon lawmakers decided that if voters rejected Measure 28 – a temporary income tax increase – a number of budget cuts would automatically occur. One of these cuts reduced the maximum amount of income Oregon families can earn and still be eligible for ERDC. In addition, the co-payments required from low-income families participating in ERDC were scheduled for an increase. After Measure 28 failed in January 2003, the ERDC income limit dropped from 185 percent of the federal poverty line to 150 percent, and co-payments increased.

Following these cuts, the ERDC program shrank sharply. In March 2003, more than 1,800 fewer children were receiving ERDC benefits than just two months earlier, before the Measure 28 vote (Figure 2-18).[40] The eight percent decline that occurred over these two months is much steeper than the usual change between January and March. Over the prior seven years, the number of ERDC children receiving benefits had declined by an average of 0.6 percent between January and March.

The 2003 Legislative Assembly partially rolled back the co-payment increases. The income eligibility limit for ERDC, however, remains at 150 percent of poverty (just $23,505 for a family of three in 2004).

Figure 2-18: Number of Employment Related Day Care children in care

In March 2003, more than 1,800 fewer children were receiving ERDC benefits than just two months earlier, before the Measure 28 vote.



Source: OCPP presentation of Oregon Dept. of Human Services data.

Today, ERDC is a small program compared to the number of low-income, working families with young children. ERDC provided subsidies to 9,787 families in June 2004, only about 11 percent of all working families in Oregon with incomes under 185 percent of poverty and children under age 13. While not all low-income families with young children need child care to remain employed, the ERDC program is still only reaching about 40 percent of families in need.[41]

Sadly, ERDC has not fully helped the primary group it was intended to serve – families leaving welfare. As thousands of Oregon families with children left the welfare caseload over the last decade, only a portion received child care support. In June 2004, there were 25,325 fewer families with children receiving welfare in Oregon than in April 1993, and just 4,166 more families receiving ERDC.

ERDC also fails to meet the needs of low-income working families because the subsidy is too small. ERDC's subsidy, combined with the required co-payment, is less than the cost of child care in most of Oregon. In 2002, the maximum state child care subsidy plus the required co-pay was not enough to purchase care in any child care center in 61 percent of Oregon zip codes with child care centers reporting their rates to the state.[42] In fact, only 24 percent of child care slots statewide in 2002 could be purchased using state subsidies plus the co-pay, a sharp decline from 38 percent in 2000.[43]

In June 2004, there were 25,325 fewer families with children receiving welfare in Oregon than in April 1993, and just 4,166 more families receiving ERDC.

The Working Family Child Care Credit helps cover child care costs

The Working Family Child Care tax credit provides a refund to low-income working families of up to 40 percent of the cost of child care. Households with incomes up to 200 percent of the poverty line ($31,340 for a family of three in 2004) are eligible for the full amount of the credit. Families with incomes between 200 and 250 percent of poverty ($39,175 for a family of three in 2004) are eligible for a reduced credit. In 2002, 28,232 Oregon families benefited from the credit.

In 2003, the Working Family Child Care credit became "refundable," meaning that all eligible taxpayers can receive the full value of the credit, even when the value of the credit exceeds the taxpayers' income tax liability. Prior to this change, families whose low incomes produced tax liabilities that were less than the value of the credit could not receive the full refund. In 2000, only 62 percent of the value of the credit could be used because of this limitation.[44]

The Working Family Child Care tax credit is an efficient mechanism for helping low-income families cover the high costs of child care. However, because it provides assistance only once a year at tax time, low-income working families also need a direct subsidy program such as the Employment Related Day Care (ERDC) program to meet monthly child care expenses.

Gasoline prices soar in early 2004

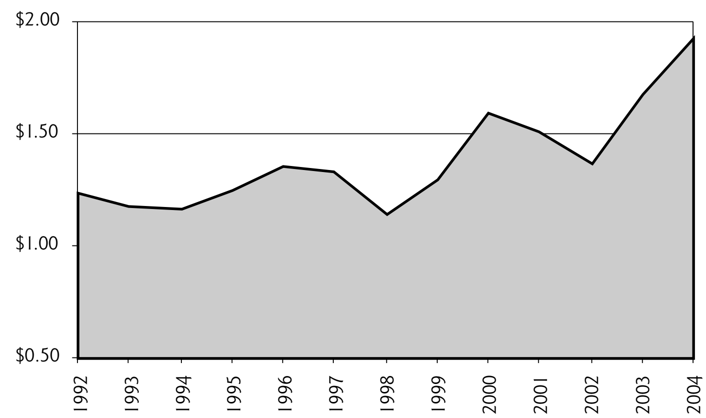
Gasoline price increases do not affect everyone equally. Obviously, those who use more gas will be more affected. In geographically large states like Oregon, people living in rural areas who must drive longer distances to work are particularly impacted. In addition, low-income families feel the pinch more than higher income families because gas price increases absorb a larger portion of their income.[45]

Gas prices in Oregon rose sharply at the beginning of 2004, just as the apparent economic recovery was beginning, limiting the benefits of job growth for low-income families. A gallon of regular unleaded gas cost on average about $1.62 in Oregon in December 2003. By May 2004, the average price had shot up to nearly $2.24.[46] Since May, the price has trended downward, but remains high by historic standards. In mid-August 2004, the average price in Oregon was $1.96.[47]

Data for Oregon for earlier periods are not available, but during the 1990s economic boom, gas prices in Western states generally held relatively steady, hovering around $1.25 a gallon. In the last two years, though, prices have suddenly shot up. In Western states as a whole, gas prices averaged nearly $2.00 during the first half of 2004 (Figure 2-19).[48]

Figure 2-19: Average gas prices, West Coast

During the 1990s economic boom, gas prices in Western states generally held relatively steady, hovering around $1.25 a gallon. In the last two years, though, prices have suddenly shot up.

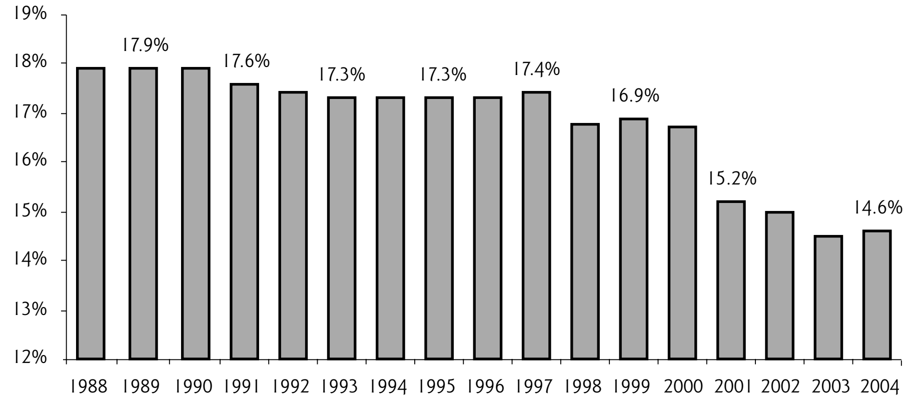


Source: OCPP analysis of Energy Information Administration data. Data for 2004 through July 12. West Coast states include OR, WA, CA, NV, AZ, AK, HI.

Taxes are more affordable for most Oregonians

Contrary to popular legend, taxes for most Oregonians are more affordable than a decade ago. This is true for both federal and for state and local taxes. However, for low-income taxpayers the state and local tax burden has increased.

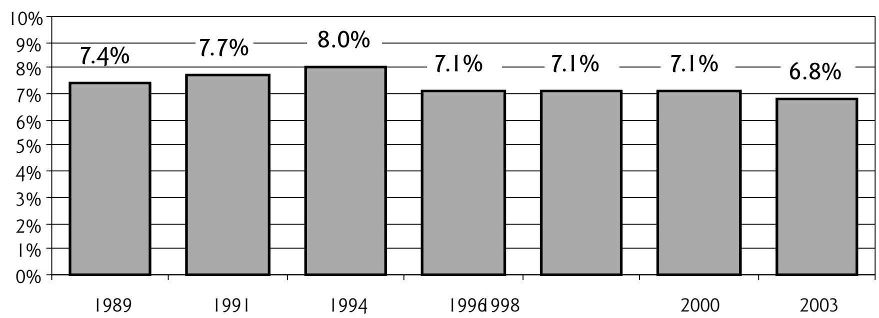
Federal taxes account for about two-thirds of total taxes paid by Oregonians, and federal taxes are down since 1989 for most taxpayers. The middle-income fifth of American households paid 17.9 percent of their income in federal taxes in 1989, including income taxes, social insurance taxes, excise taxes, and corporate taxes (Figure 2-20). By 1999 federal taxes had dropped to 16.9 percent of income, and they fell further by 2004 to 14.6 percent.[49]



Source: Congressional Budget Office, Effective Federal Tax Rates: 1979-2001, April 2004, and CBO, Effective Federal Tax Rates Under Current Law, 2001-2014, August 2004.

Figure 2-20: Effective federal tax rate, middle-fifth of taxpayers

By 1999 federal taxes had dropped to 16.9 percent of income, and they fell further by 2004 to 14.6 percent.



Source: Macdonald, Douglas, Western States' Tax Burdens: Fiscal Year 2002-03, Utah State Tax Commission, February 3, 2004.

Figure 2-21. Oregon household taxes as share of income

Oregon households now pay 6.8 percent of their income to state and local taxes, compared to 7.4 percent in 1989.

At the state and local level, taxes have declined since 1989 for all income groups except those with the lowest incomes. Oregon households now pay 6.8 percent of their income to state and local taxes, compared to 7.4 percent in 1989 (Figure 2-21).[50]

State and local taxes have declined as a share of income in Oregon, but not all households have benefited equally, and some have ended up paying more. While taxes have declined as a share of income for upper-income households, and remained unchanged for middle-income households, they have increased for those at the bottom. The effective state and local tax rate of the highest income one-percent in Oregon, with an average income of $672,000, fell from 6.5 percent in 1989 to 6.1 percent in 2002 (Table 2-5). It increased from 7.2 percent to 9.4 percent for the lowest-income fifth of households, those with incomes below $16,000.

Table 2-5: Oregon state and local taxes as share of income

While state and local taxes have declined as a share of income for upper-income households, they have increased for those at the bottom.

Table 2-5: Oregon state and local taxes as share of income

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than $16,000	$16,000 to $27,000	$27,000 to $44,000	$44,000 to $71,000	$71,000 to $132,000	$132,000 to $308,000	Above $308,000
Average	$9,300	$21,100	$34,200	$56,100	$90,900	$182,200	$672,400
1989	7.2%	7.7%	8.0%	8.0%	8.3%	6.9%	6.5%
2002	9.4%	8.9%	8.1%	7.9%	7.3%	6.7%	6.1%

Source: Institute on Taxation and Economic Policy. Taxes include value of federal offset.

Low-income households now pay a higher share of their income in state and local taxes than in 1989 primarily because Oregon increased the cigarette tax and eliminated low-income property relief programs (Table 2-6). Property tax reform in Measures 5 and 50 cut and capped property taxes but also led to the downsizing and elimination of property tax relief programs for low-income and elderly Oregonians.[51]

The adoption of a state Earned Income Credit in 1997 offset some of the tax increase on low-income households, but the impact was modest because the credit is not refundable and is small, only 5 percent of the federal Earned Income Credit.

The personal income tax is the smallest category of taxes paid by low-income households as a percent of income, but Oregon levies more income taxes on low-income families than most other states. Of the 41 states with income taxes, only six have higher income taxes on poor families of four.[52] Only one other state – Kentucky – requires higher income tax payments from families of four with incomes slightly above the poverty line (125 percent of poverty).

Table 2-6. Oregon state and local tax by type and changes between 1989 to 2002

Taxes as a share of income in 2002 (does not include federal offset)							
	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Excise Taxes	2.9%	1.9%	1.3%	1.0%	0.6%	0.3%	0.1%
Property Taxes	4.1%	3.4%	2.5%	2.7%	2.4%	2.0%	1.3%
Income Taxes	2.3%	3.8%	4.7%	5.1%	6.0%	6.6%	7.5%
Change in taxes as a share of income 1989 to 2002							
Excise Taxes	1.6%	0.8%	0.5%	0.4%	0.2%	0.1%	0.0%
Property Taxes	0.4%	0.5%	-0.3%	-0.4%	-1.4%	-0.9%	-0.4%
Income Taxes	0.2%	0.0%	0.1%	0.0%	0.2%	0.7%	0.5%
Federal Offset	-	-0.1%	-0.2%	-0.1%	0.0%	0.0%	-0.5%
Overall Change	2.2%	1.2%	0.1%	-0.1%	-1.0%	-0.2%	-0.4%

Source: Institute on Taxation and Economic Policy

Table 2-6. Oregon state and local tax by type and changes between 1989 to 2002

Low-income households paid a higher share of their income in state and local taxes in 2002 than in 1989 primarily because Oregon increased the cigarette tax and eliminated low-income property relief programs.

Taxes paid by the richest one percent of Oregonians fell by 0.4 percent of income because of the property tax reduction and limitation in Measures 5 and 50, and because of a more valuable federal offset due to increased federal tax rates in the 1990s.

The average income of the wealthiest one percent of Oregonians almost doubled (it rose 98 percent) between 1989 and 2000.[53] With a larger share of their total income taxed at the nine percent rate, the top one percent paid a slightly higher share of their income in state income taxes. Their income taxes increased 0.5 percent compared to a 0.2 percent increase for the lowest-income Oregonians. Nevertheless, the property tax reduction and limitation measures and the more valuable federal offset outweighed the wealthiest Oregonians' increased taxes, giving them a net decrease in the taxes they pay as a percent of their income.

Endnotes

[1] Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits, 2003 Annual Survey, Chart #1, Available at: http://www.kff.org/insurance/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=21185

[2] Ibid, Chart #7, Chart #20 and Chart #23.

[3] Economic Policy Institute analysis of Current Population Survey data.

[4] Medical Expenditure Panel Survey (MEPS), Insurance Component, 2002. MEPS data define establishments as predominantly paying low wages if 50 percent or more of employees are earning at or below the 25th percentile for all hourly wages in the United States, based on data from the Bureau of Labor Statistics. For 2002, employees were defined as low-wage if they made $9.50 per hour or less.

[5] Ibid. The figure is for employers who offer insurance and pay more than half their employees wages higher than the 25th percentile for all wages in the United States.

[6] Ibid.

[7] OCPP analysis of Current Population Survey.

[8] Families USA, One in Three: Non-Elderly Americans Without Health Insurance, 2002-03, June 2004, p. 2. Available at: http//www.familiesusa.org/site/DocServer/82million_uninsured_report.pdf?docID=3641

[9] Ibid. From p. 2 of state fact sheet for Oregon available at http://www <http://www/> .familiesusa.org/site/DocServer/Oregon.pdf?docID=3695

[10] For more information about the Oregon Health Plan and its history see the Office for Oregon Health Policy and Research's Oregon Health Plan web page at http://www.ohppr.state.or.us/ohp/index_ohp.htm. See also Silow-Carroll, Sharon, et al. "Assessing State Strategies for Health Coverage Ex pansion: Case Studies of Oregon, Rhode Island, New Jersey, and Georgia," funded by The Commonwealth Fund, November 2002. Available at: http://www.cmwf.org/programs/insurance/silow-carroll_statestrategieslong_565.pdf.

[11] These measures are discussed in greater detail in OCPP, Prosperity in Perspective, September 2000, p. 21. Available at: http://www.ocpp.org/2000/es20000904.htm.

[12] Colburn, Don. "10,000 Low-Income Oregonians Will Be Cut From State Health Plan," The Oregonian, April 30, 2003, p. B01.

[13] O'Neill, Patrick, "Access to Oregon Health Plan Shrinks," The Oregonian, June 9, 2004, p. A01.

[14] Colburn, Don, "Uninsured Pour into Oregon Hospitals," The Oregonian, May 14, 2004, p. E01.

[15] The rapid rise in the value of charity care is clearly due largely to an increase in patients who are unable to pay. However, it also likely reflects how hospitals calculate the costs of charity care. Hospitals may report the value of charity care at the "master charge" rate, the highest price option. Hence, the cost hospitals report for providing charity care will appear to be higher than the cost of providing the same care to an insured patient. In addition, "charity care" is defined differently by different hospitals. Some hospitals may include spending that does not involve providing medical care to individuals who cannot pay.

[16] OCPP analysis of 1990 and 2000 Census data. For homeowners without a mortgage, the median rose from 10.5 percent of income to 13.4 percent.

[17] The Census Bureau measures owner costs as the "sum of payment for mortgages, real estate taxes, various insurances, utilities, fuels, mobile home costs, and condominium fees."

[18] U.S. Census Bureau, "Historical Census of Housing Tables, Homeownership," available at http://www.census.gov/hhes/www/housing/census/historic/owner.html

[19] For HUD's full list of median family incomes for areas in Oregon, see http://www.efanniemae.com/hcd/single_family/ref_tools_info/hud_median_inc_limits.jhtml

[20] The U.S. Census Bureau reports that the homeownership rate for African-Americans rose from 42 percent in 1994 to 48 percent in 2003. Over the same period, the rate rose for Hispanics from 41 percent to 47 percent. Data available at http://www.census.gov/hhes/www/housing/hvs/annual03/ann03t20.html

[21] OCPP analysis of 1990 and 2000 Census data.

[22] Respondents to the 2000 Census could report multiple racial identities, a change from the 1990 Census. Hence, the data are not precisely comparable. However, the change in how race was measured is unlikely to affect the overall trend of improvement in homeownership among whites and Asian-Americans over the 1990s.

[23] OCPP analysis of American Housing Survey data.

[24] Data on home loans by race from OCPP analysis of Home Mortgage Disclosure Act data provided by the U.S. Department of Housing and Urban Development. The estimated share of Oregon's population that is Hispanic and African-American comes from the 2000 Census.

[25] OCPP analysis of Home Mortgage Disclosure Act data provided by the U.S. Department of Housing and Urban Development.

[26] Federal Register, Vol. 68, No. 190, October 1, 2003, p. 56704. Available at http://www.huduser.org/Datasets/fmr/fmr2004f/Preamble_FY2004F_FMRs.pdf. For more information on Fair Market Rents see HUD's overview at http://www.huduser.org/datasets/fmr/fmrover.doc.

[27] OCPP analysis of 2003 American Community Survey.

[28] OCPP analysis of 2002 Consumer Expenditure Survey. For owners, housing costs included in the survey include "interest on mortgages, interest on home equity loans and lines of credit, property taxes

and insurance, refinancing and prepayment charges, ground rent, expenses for property management and security, homeowners' insurance, fire insurance and extended coverage, expenses for repairs and maintenance contracted out, and expenses of materials for owner-performed repairs and maintenance for dwellings used or maintained by the consumer unit." For renters, housing costs include "rent paid for dwellings, rent received as pay, parking fees, maintenance, and other expenses." See Consumer Expenditure Survey's Glossary of Terms at http://www.bls.gov/cex/csxgloss.htm

[29] Oregon University System, "Annual Tuition and Fee Rates for Full-Time Students, 1974-74 through 2002-03." Available at http://www.ous.edu/budget/tuihist.pdf. Data for 2003-04 and 2004-05 obtained from Oregon University System tuition and fees data for full-time student enrolled for 15 credit hours, available at http://www.ous.edu/fr_tuit.htm.

[30] Debts and Decisions: Student Loans and Their Relationship to Graduate School and Career Choice, by Donald E. Heller, University of Michigan School of Education, Lumina Foundation for Education. (June 2001)

[31] The College Board, Trends in Student Aid, October 27, 2003.

[32] Western Interstate Commission for Higher Education, Policy Indicators, November 2002.

[33] Oregon Childhood Care and Education Data Project (OCCEDP), Data for Community Planning: 2000 Oregon Population Estimates & Survey Findings, Oregon Child Care Research Partnership, September 2002, p. 3. Data are for the year 2000.

[34] Oregon Progress Board, Is Oregon Making Progress? The 2003 Benchmark Performance Report. Report to the Legislative Assembly March 2003. "Affordable" child care levels are measured by benchmark number 47.

[35] Ibid, p. 22.

[36] Oregon Progress Board, Is Oregon Making Progress? The 2003 Benchmark Performance Report. Report to the Legislative Assembly, March 2003, p. 65, Benchmark #47. Due to changes in the methods used for calculating "low-income" levels, the reliability of the comparison of change over time for this benchmark (#47) is uncertain. While the Progress Board does provide this warning in a footnote, it includes analysis discussing the change over time in its benchmarks report.

[37] OCPP analysis of Oregon Population Survey data.

[38] Runzheimer International, "Runzheimer Analyzes Day Care Costs Nationwide," January 20, 2004. See www.runzheimer.com.

[39] The ERDC program served 9,452 families in May 2004. Oregon also provides child care assistance to welfare recipients with earnings from work, but since the income limit to be eligible for welfare is so low, only two percent of the Oregon welfare caseload – 428 families – had earnings from work in May 2004. A handful of other working families in Oregon, like migrant workers, receive child care subsidies through other small programs.

[40] The reduction in the ERDC income eligibility limit from 185 percent of poverty to 150 percent of poverty took place shortly after the failure of Measure 28, by temporary rule, on February 1, 2003. The co-pay ment increases took effect by temporary rule on March 1, 2003. Author's conversation with Lorey Freeman, Oregon Law Center, August 11, 2004.

[41] An OCPP analysis of Current Population Survey data estimates the number of working families with incomes under 185 percent of poverty and kids under age 13 was 89,835 in 2000-02. "Working" in this analysis refers to families with parents combined working at least half the year. In Data for Community Planning, the Oregon Childhood Care and Education Data Project estimates that in 2000 about 27 percent of families with low-incomes (under $25,000 annually) use some form of paid child care. OCPP took 27 percent of 89,835 (the total number of families with young children and incomes under 185 percent of poverty) to estimate the number of low-income families "in need" at about 24,256. OCPP then divided the June 2004 ERDC caseload of 9,787 by our estimate of the number of low-income families "in need" to arrive at an estimate that about 40 percent of low-income families "in need" receive ERDC. Data for Community Planning published in September 2002 and available at http://www.hhs.oregonstate.edu/familypolicy/occrp/publications/2002-Data-Community-Planning.pdf

[42] Grobe, Deana, Clara Pratt, and Roberta Weber, 2002 Oregon Child Care Market Rate Study, Oregon State University, Family Policy Program. Prepared for the Oregon Department of Human Services, January 2003, p. 22.

[43] Ibid, p. 21.

[44] Oregon Department of Revenue, State of Oregon 2003-05 Tax Expenditure Report, p. 166-67. Available at http://www.dor.state.or.us/statistical/ExpR0305/TOCexp.html

[45] One study finding that the impact of rapidly rising gas prices disproportionately affected poor households is: Hobijn, Bart and David Lagakos, Inflation Inequality in the United States, Federal Reserve Bank of New York, Staff Report no. 173, October 2003.

[46] OCPP estimates based on data in AAA Daily Fuel Gauge Report, as of July 16, 2004. Latest AAA report available at http://www.ouraaa.com/news/news/fuel.html.

[47] Ibid, August 12, 2004.

[48] Data from Energy Information Administration, U.S. Department of Energy. States in West Coast region include Oregon, Washington, California, Nevada, Arizona, Alaska, and Hawaii. Data available at http:

//www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_history.html.

49 The middle-fifth have seen their tax rates decline since 2001, but they are shouldering a larger portion of federal government costs. The middle-fifth covered 10.5 percent of total federal tax liabilities in 2004, up from 10 percent in 2001. The richest one percent, by contrast, have seen their share of total federal tax liabilities decline from 22.7 percent in 2001 to 20.1 percent in 2004. Congressional Budget Office, Effective Federal Tax Rates Under Current Law, 2001 to 2014, August 2004. Available at http://www.cbo.gov/showdoc.cfm?index=5746&sequence=1#pt4

50 Macdonald, Douglas, Western States' Tax Burdens: Fiscal Year 2002-03, Utah State Tax Commission, February 3, 2004. Available at http://tax.utah.gov/esu/burdens/WTB_2003.pdf

51 For example, the Homeowners and Renters Refund Program (HARRP) provided a minimum refund of $750 to household with incomes below $17,500 up through 1990-91, but was reduced in 1991-92 and eliminated in 1992-93. Property tax relief programs provided nearly $75 million in relief as late as 1988-89, but provided no relief by 1997-98. 2004 Oregon Public Finance: Basic Facts, Legislative Revenue Office, Research Report #1-04.

52 Zahradnik, Bob and Joseph Llobrera, State Income Tax Burdens on Low-Income Families in 2003, Center on Budget and Policy Priorities, April 8, 2004.

53 Thompson, Jeff and Michael Leachman, Boom, Bust and Beyond: The State of Working Oregon 2002, Oregon Center for Public Policy, November 2002.

Chapter 3

Debt Problems Skyrocket

During the economic downturn, the costs of crucial household budget items increased while incomes declined. As a result, too many Oregon families ran into financial trouble. Families with credit problems, few financial reserves, or weak personal safety nets were particularly vulnerable.

To cope, Oregon families facing difficult financial situations sought help from a variety of sources. Many sought loans to help them through the crisis.

Credit is available today from a wide variety of sources. For families with a solid credit history, mainstream lenders offer extensive choices in loan products, including home refinancing, home equity loans, and credit cards. For families with credit problems, a limited credit history, overextended credit, or low incomes, alternative lenders offer more expensive products like "subprime" home refinancings, payday loans, pawning opportunities, and higher interest credit cards.

Following a 1978 U.S. Supreme Court decision, states sharply curtailed usury protections.[1] The Oregon Legislative Assembly subsequently eliminated the interest rate ceilings on most loans.[2]

Deregulation opened the door for banks and alternative lenders to offer credit to riskier or "subprime" borrowers. It is a good thing that higher risk borrowers have access to credit. Access to credit can mean a chance to build wealth or escape a short-term crisis. However, the high costs of such alternative loans can make it harder for families to escape their financial difficulties.

When families are failing financially, their losses are not contained within the family balance sheet. Their debt reverberates into the communities where these families live and work. Eventually, when families fail, someone still has to pay. Lenders absorb some of the cost, but so does the broader community. A series of foreclosures lowers property values in the local neighborhood. A flood of indigent individuals into local hospital emergency rooms produces costs that get passed on as higher health insurance premiums for privately insured working families. A jump in the number of needy families increases demand for public assistance, requiring higher taxes. When a growing number of families experience financial turmoil, the overall economy is weaker and more inefficient for everyone.

When families are failing financially, their losses are not contained within the family balance sheet. Their debt reverberates into the communities where these families live and work.

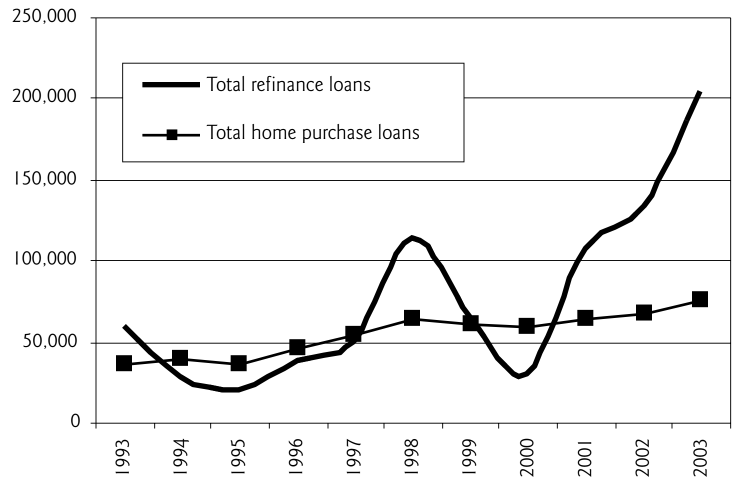
Home refinancing boom produces cash, but less equity

Homeowners refinance their homes when interest rates drop low enough to make the benefits of refinancing worth the cost. In 1998, when interest rates for 30-year conventional, fixed rate mortgage loans dropped below seven percent for the first time in five years, Oregon homeowners rushed to refinance.[3] Then, as rates increased to over eight percent in 2000, refinance loans cooled off, only to surge again in 2001 and then grow even more rapidly over the next couple of years, as interest rates hit their lowest levels in decades. Between mid-2002 and mid-2003, homeowners nationally refinanced almost half of all mortgage debt.[4]

In Oregon in 2000, there were about 29,500 refinancing loans originated on Oregon properties.[5] In 2003, refinance loans – at nearly 204,000 – were nearly seven times the 2000 figure. Refinance loans outpaced home purchase loans by almost three to one in 2003 (Figure 3-1). In 2004, the refinance market has cooled off and slipped back in line with home purchases.[6]

Figure 3-1: Total home refinance loans vs. home purchase loans, Oregon

In 2003, refinance loans – at nearly 204,000 – were nearly seven times the 2000 figure.



Source: OCPP analysis of Home Mortgage Disclosure Act data provided by U.S. Dept. of Housing and Urban Development.

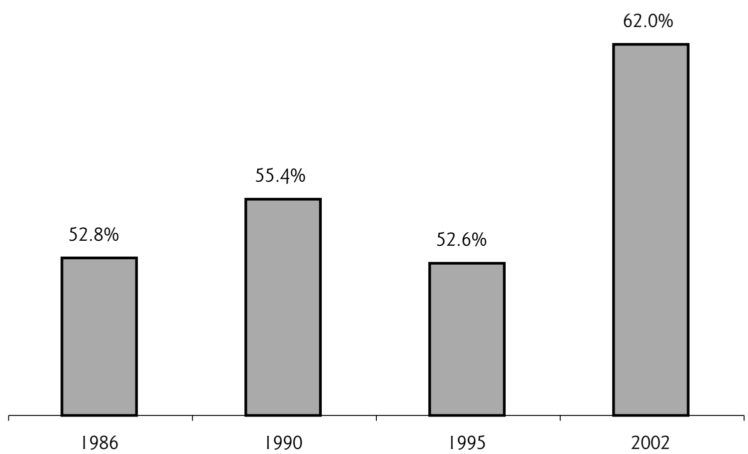
Many of those who refinanced during the economic downturn did so at least in part to extract cash from their home equity. In the metropolitan Portland area in 2002, 23 percent of those homeowners with refinanced mortgages said that they had refinanced to get cash. On average, these homeowners extracted $25,200 from the refinance, adding to their debt load but producing ready money to cover home improvements, reduce other debts, and meet other expenses.

Before the refinancing boom, home equity loans were very popular. Nationally, home equity receivables (loans on the books) rose 25 percent in 2000 and another 19 percent in 2001.[7] Then, in 2002 and 2003, as interest rates dropped to historically low levels, making refinancing a relatively inexpensive way to tap home equity, the growth of home equity loans slowed. In 2004, since many homeowners can no longer turn to refinancing for extra cash, the industry expects renewed growth of between 15 and 20 percent.[8]

The refinance boom combined with lower interest rates for new home purchases lowered interest costs paid by Oregon homeowners. The median interest rate on mortgaged homes in the Portland metro area declined from 7.6 percent in 1995 to 7.1 percent in 2002.

Lower interest rates produced lower monthly payments for some borrowers. The refinance boom combined with rising home values also allowed homeowners to pay off higher interest credit cards and other debt. Hence, homeowners with high-interest debt loads relieved their burden at least temporarily by selling part of their home's value. In the long-term, lower interest payments may improve their chances of eliminating their debt.

Although refinancing lowered interest rates, Portland-area homeowners now own a smaller share of their home's value. In 1995, the typical homeowner with a mortgage in the Portland metropolitan region carried mortgage debt equaling 53 percent of their home's value. By 2002, the typical homeowner carried debt equaling 62 percent of their home's value (Figure 3-2). To the extent that Portland homeowners reduced their home equity to pay down more expensive debt, they may be better off in the future. With less home equity wealth, however, families are not as well positioned to absorb further debt problems.



Source: American Housing Survey.

Figure 3-2: Median total mortgage loan as a percent of home value, Portland metro area

By 2002, the typical homeowner in the Portland area carried debt equaling 62 percent of their home's value, up from 53 percent in 1995.

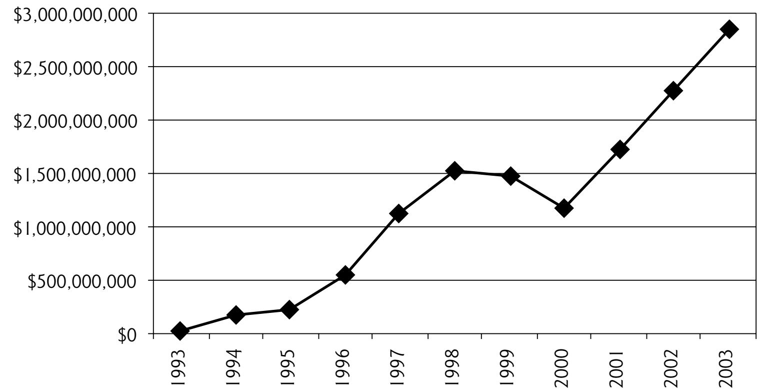
Subprime lending explosion hits Oregon

In the last decade, growth in the subprime lending industry has been explosive, both in Oregon and nationally. Subprime lenders charge higher interest rates or fees and primarily lend to borrowers who do not have access to conventional lending sources because they have, for example, impaired credit or little credit history.

Nationally, subprime loan volume shot up from $34 billion in 1994 to $332 billion in 2003.[9] The industry's growth in Oregon is similar. Lenders primarily providing subprime loans originated refinance and home purchase loans worth about $29 million in 1993. By 2003, the figure was at $2.8 billion (Figure 3-3). Compared to 1993, the value of subprime loans in Oregon has grown 99 times.

Figure 3-3: Value of all subprime refinance and home purchase originations, Oregon

Compared to 1993, the value of subprime loans in Oregon has grown 99 times.



Source: OCPP analysis of Home Mortgage Disclosure Act data provided by U.S. Dept. of Housing and Urban Development.

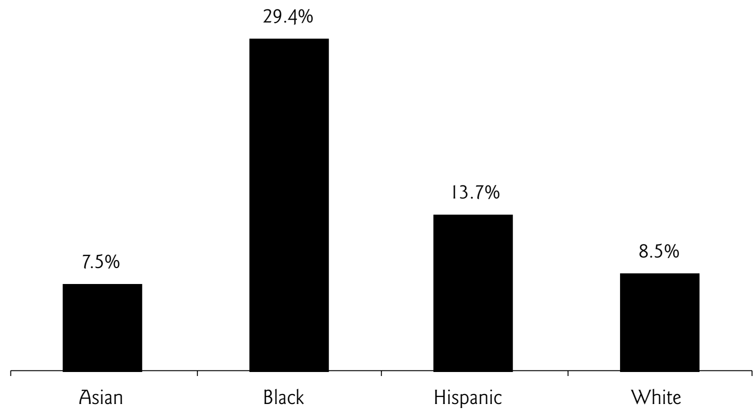
Over the last decade, subprime lenders have primarily been in the refinancing business. About two-thirds of Oregon subprime lending between 1993 and 2003 was for home refinances, rather than home purchases.[10]

While the subprime lending boom has extended credit to more families, its growth has been accompanied by a number of problems related to unscrupulous lending practices. Some subprime lenders deliberately target unsophisticated borrowers, particularly those holding significant equity in their homes, and design loan schemes designed to extract more of the homeowner's equity than is necessary. The predatory strategies include disguised and exorbitant fees, questionable mortgage insurance arrangements that are built into the loan up-front, and hidden "balloon" payments that force borrowers to refinance at higher interest rates.

Prepayment penalties – fees due to the lender if the borrower pays off the loan prior to a specified period of time – also are sometimes used by subprime lenders to extract more equity from the borrower's home. About 80 percent of subprime mortgages nationally include prepayment penalties, compared to just 2 percent of prime mortgages.[11] These penalties limit the ability of subprime borrowers to take advantage of declining interest rates by refinancing. This lack of flexibility may substantially reduce the wealth holdings of subprime borrowers or trap borrowers in loans they cannot afford, pushing the loans toward foreclosure. Those borrowers who pre-pay despite the penalty may find that doing so sharply reduces their home equity and wealth. Over half of borrowers with prepayment penalties will pre-pay their mortgage and pay the prepayment fee.[12]

The subprime market fills an important market niche, but currently it also weakens the ability of homeownership to build wealth for millions of Americans. There is evidence that a significant percentage of subprime borrowers accepted subprime loans even though they would have qualified for conventional rate, or "prime," mortgages. These borrowers will pay dearly in the long-term, as the wealth they accumulate over time will be reduced substantially by the unnecessarily poor loan terms they accepted.[13] Studies indicate that African-Americans are more likely than non-Hispanic whites to be steered to subprime loans, even after accounting for differences in income and credit risk.[14]

In Oregon, as in the rest of the country, African-Americans are substantially more likely than other racial groups to refinance and purchase homes through subprime lenders. Over the decade from 1993 to 2002, subprime lenders originated 29.4 percent of the refinance loans taken out by African-Americans in Oregon. This rate is three and a half times the rate for whites – 8.5 percent – and four times the rate for Asian-American refinance borrowers – 7.5 percent (Figure 3-4). Hispanic borrowers were also more likely than whites to refinance with these higher cost lenders, with 13.7 percent of their refinance loans coming from subprime lenders.[15]



Source: OCPP analysis of Home Mortgage Disclosure Act data provided by U.S. Dept. of Housing and Urban Development.

Figure 3-4: Percent of originated refinance loans in Oregon that were subprime, 1993-2002, by race

Over the decade from 1993 to 2002, subprime lenders originated 29.4 percent of the refinance loans originated for African-Americans in Oregon.

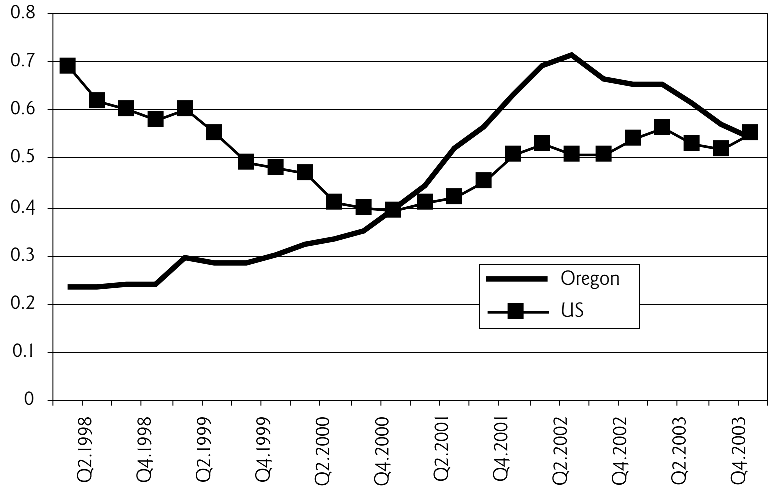
Oregon families lose their homes to foreclosure

Due to low-interest rates, Oregon housing markets remained strong during the economic downturn. Because housing prices were generally rising, Oregonians who ran into trouble paying their mortgage were more likely to be able to sell and get out from under their mortgage obligations. Nevertheless, the rapid rise in job losses combined with the increased percentage of subprime loans produced a sharp increase in foreclosures at the beginning of the recession. As the recession wore on, foreclosure rates remained at the high level established in the first year of the downturn.

Foreclosures on both prime and subprime mortgages increased when the downturn hit in early 2001. For prime mortgages, the share of all loans in foreclosure tripled between 1998 and 2002, rising from 0.2 percent of all prime loans to 0.7 percent. Stated another way, by the second quarter of 2002, one in every 141 prime loans in Oregon was in foreclosure, well up from just one foreclosure for every 435 prime loans in the second quarter of 1998. Oregon went from a state with relatively few foreclosures on prime mortgages in the late 1990s to one with foreclosure rates well above the national rate after the downturn hit (Figure 3-5). In 2003, Oregon foreclosures declined somewhat, falling back in line with the national rate but still more than double the state's rate in 1998.

Figure 3-5: Percent of all prime loans in foreclosure, Oregon vs U.S.

Oregon went from a state with relatively few foreclosures on prime mortgages in the late 1990s to one with foreclosure rates well above the national rate after the downturn hit.



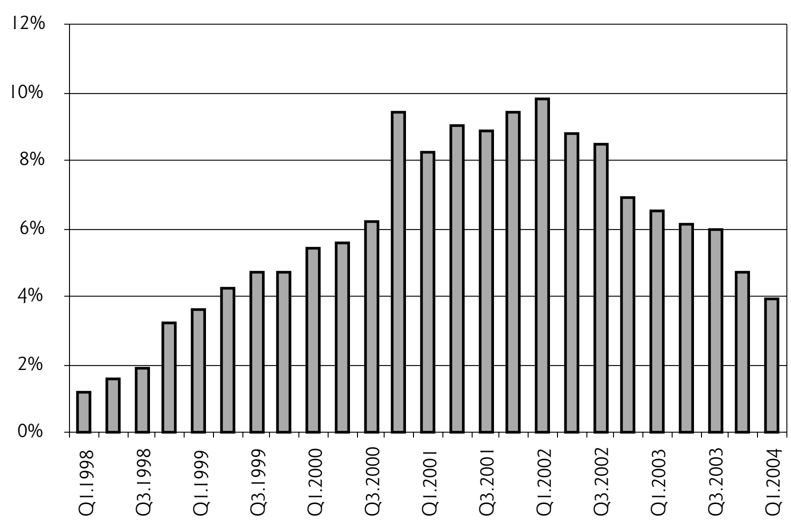
Source: OCPP presentation of Mortgage Bankers Association data.

Subprime loans are much more likely to be in foreclosure than prime loans. In the last quarter of 2003, Oregon subprime loans were nine times as likely as prime loans to be in foreclosure.

The rate at which subprime borrowers slipped into foreclosure during the downturn is extraordinary. In the last quarter of 2001, nearly one in ten subprime mortgage loans in Oregon was in foreclosure, up from a rate of one in 85 in the first quarter of 1998 (Figure 3-6). While the rate has been improving since its peak at the end of 2001, the chances a subprime loan is in foreclosure remains high. In the first quarter of 2004, foreclosure proceedings were underway for one in every 25 Oregon subprime loans, a slightly better rate than nationally, where one in 20 subprime loans was in foreclosure.

Figure 3-6: Percent of all subprime loans in Oregon in foreclosure

At the peak of the downturn, nearly one in ten subprime mortgage loans in Oregon was in foreclosure, up from a rate of one in 85 in the first quarter of 1998.



Source: OCPP presentation of Mortgage Bankers Association data.

Foreclosures are obviously hard on the family losing their home, but the communities in which foreclosures occur also suffer. Homes in foreclosure are more likely to be allowed to deteriorate, as owners unable to pay their mortgages are also less able to pay for home repairs. Neighborhoods with high percentages of foreclosures are more likely to be blighted, and home values may not grow as quickly, or may even decline. Since home ownership is the primary source of wealth for most families, the net worth of families in the neighborhood is damaged, limiting their opportunities.

The rise in subprime foreclosures during Oregon's economic downturn likely had a disproportionate impact on modest-income neighborhoods, since subprime loans are concentrated in modest-income areas.[16] Refinance loans in modest-income census tracts in Oregon are more than twice as likely to be subprime as refinance loans in upper-income tracts.[17] In other parts of the country, several studies have documented that neighborhoods with high concentrations of subprime loans are likely to experience high levels of foreclosure.[18]

More payday lenders than McDonald's in Oregon

"Payday" lenders offer short-term loans at exorbitant interest rates. In the last few years, Oregonians have increasingly turned to these lenders, at a significant cost.

Payday lenders burgeoned in Oregon and across the country because so many people needed cash immediately, could not use credit cards because of impaired or overextended credit, and found the payday lenders' services to be convenient, quick, and easy. These lenders provide cash at consumers' convenience, with evening and weekend hours. Mainstream lenders by and large are not currently offering attractive short-term loan products, in part because banking deregulation opened new opportunities that traditional lenders considered more profitable than short-term loans. In some circumstances, bank overdraft fees are more expensive than even the extraordinarily high interest rates charged by payday lenders.[19] Thus, it can be cheaper to take out a payday loan than it is to bounce a check.

Here's how payday loans work: the customer writes a personal check for the amount of the loan plus a fee, and post-dates the check, typically for the customer's next payday. The typical fee equals 15 to 20 percent of the principal. So a customer seeking $100 would need to write a check for $115 or $120 to the payday lender. The average loan in Oregon was $319 in 2002.[26]

When the check's post-date arrives many customers still do not have enough money both to pay back the loan and cover their expenses for the upcoming month. These customers may "roll over" the loan, incurring a new fee that must be paid back along with the original charges at the end of the month.

Nationally, the industry heavily relies upon "roll over" and repeat customers. The Center for Responsible Lending estimates that 91 percent of all payday loans are made to borrowers who use payday lenders five or more times in a year.[27]

No comprehensive data are available for Oregon, but preliminary results from a non-random 2004 survey of payday borrowers by the Oregon Department of Consumer and Business Services (DCBS) found that 89 percent took out more than one loan in the previous year.[28] The survey suggests that at least 75 percent of all loans were made to those taking five or more loans a year.[29] More than two in three payday borrowers (69 percent) said that they "rolled over" a loan in the past year because they were unable to pay when the loan was due.

At least 75% of all payday loans in Oregon were made to borrowers taking five or more loans a year.

High overdraft fees encourage payday loans

Payday loan borrowers must have a checking account. One reason that Oregonians use payday loans despite the high cost is to avoid bank overdraft charges that are sometimes even more expensive than payday loans.

In the past, banks offered special lines of credit to customers with large accounts who requested the service. Overdrawn checks written by customers with smaller accounts typically would be rejected and an "insufficient funds" fee would be assessed. Today, many banks automatically enroll customers with smaller accounts in overdraft programs that charge a fee to cover overdrawn checks up to a certain amount. Today's standard overdraft services are much more expensive and less lenient than the lines of credit still offered to customers with larger accounts.[20]

Nationally, overdraft fees averaged $21.80 in 2002, up 39 percent from $15.67 in 1995.[21] Overdraft fees are higher at multi-state banks, averaging $25.34 in 2002.[22] Banks may only cover overdrafts for a few days and may continually repeat the charge if it is not paid within a certain number of days.[23] A large share of the overdraft fees banks collect is paid by small percentage of customers, those who for a variety of reasons fall behind.[24]

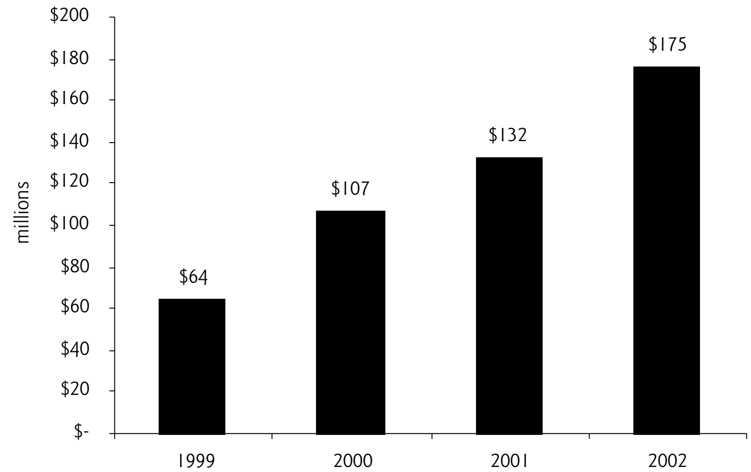
Some banks have promoted their overdraft fee programs as free lines of credit, and some banks allow customers to overdraw their account using an ATM machine and then charge an overdraft fee. Moreover, some overdraft programs give banks discretion about whether to cover bounced checks at all. Partly for these reasons, the Federal Financial Institutions Examination Council (FFIEC) is currently considering using its regulatory power to require increased disclosure about overdrafts and the fees associated with these services.[25]

A state statute restricting the number of times a payday loan can roll over offers some protection to Oregon consumers.[30] Of those borrowers reporting in the DCBS survey that they had rolled over a payday loan, the median borrower did so three times, the maximum allowed under state law. Since payday borrowers pay the 15-20 percent fee each time they roll over their loan, the median payday borrower rolling over loans paid fees that totaled between 60 percent and 80 percent of the value of their loan. With nearly two in three payday borrowers in Oregon taking out five or more payday loans a year, the fees become a significant expense.

Consumers wishing to avoid the rollover limitation can simply go to a second payday lender, or open a new account at the same lender after waiting until the next business day. A national study of payday lending borrowers in the winter of 2000-2001 found that 47 percent of borrowers had obtained loans from more than one company in the past year.[31]

There are now substantially more payday lenders in Oregon than there are McDonald's.

Oregon's payday loan industry grew at an extraordinary pace in recent years, including during the economic downturn, following a pattern similar to the national trend. Total loans made by payday lenders in Oregon nearly tripled in three years, rising from $64 million in 1999 to $175 million in 2002 (Figure 3-7). Oregon payday lenders made 549,000 loans in 2002; that's one payday loan for every five Oregon adults.[32] There are now substantially more payday lenders in Oregon than there are McDonald's.[33]



Source: OCPP presentation of Oregon Dept. of Consumer and Business Services data.

Figure 3-7: Payday lending loans, Oregon, 1999-2002

Total loans made by payday lenders in Oregon nearly tripled in three years, rising from $64 million in 1999 to $175 million in 2002.

The size of payday loans also soared during the economic downturn. Between 2001 and 2002, the average loan amount in Oregon rose nearly 20 percent.[34] Between 1999 and 2002, the average loan size was up 42 percent, from $224 to $319.

As the industry's extraordinary growth in Oregon suggests, payday lending has become big business. Nationally in 2002, payday lenders took in about $25 billion in revenues, generating between $4.0 and $4.3 billion in fees.[35] The rapid growth of payday lenders is indicative of their attractiveness to investors. One company operating in several states, including Oregon, claims in its 2004 prospectus that the company expects new stores to be operating at a profit within six months of opening.[36]

National research indicates that payday borrowers typically have difficulty obtaining credit or have already overextended their credit options. In the last five years, nearly three in four payday borrowers have been turned down for credit or had the amount of credit they wanted reduced.[37] Among those with bank credit cards, about six in ten hit their credit limit in the past year.[38] The customer base for payday lenders is primarily working people with low- and moderate-incomes and a checking account held at a bank or credit union. The median monthly income of payday borrowers responding to the DCBS survey was between $2,000 and $2,500 (the equivalent of $24,000 to $30,000 annually).

Oregon's payday lenders are most concentrated in neighborhoods with modest, but not extremely low, incomes. The five Oregon zip codes with the most payday lenders in 2004 had median household incomes between about $34,000 and $38,000.[39] One such zip code in Salem has 11 payday lending shops.

On a per capita basis, a modest-income Gresham zip code has the heaviest concentration of payday lending outfits, with one payday lender for every 3,185 residents. Zip codes in Beaverton and Portland also have high concentrations of payday lenders (Table 3-1).

On a per capita basis, a modest-income Gresham zip code has the heaviest concentration of payday lending outfits, with one payday lender for every 3,185 residents.

Table 3-1: Oregon zip codes with five or more payday lenders, 2004

On a per capita basis, a modest-income Gresham zip code has the heaviest concentration of payday lending outfits, with one payday lender for every 3,185 residents.

Table 3-1: Oregon zip codes with five or more payday lenders, 2004

City	Zip code	# stores	Median household income, 1999	Residents per payday lender
GRESHAM	97030	10	$34,716	3,185
BEAVERTON	97005	7	$34,716	3,483
PORTLAND	97267	7	$49,742	4,100
PORTLAND	97266	9	$37,234	4,241
SALEM	97301	11	$36,402	4,814
PORTLAND	97236	6	$43,515	5,517
KLAMATH FALLS	97603	5	$52,050	5,707
SPRINGFIELD	97477	6	$31,673	5,955
MEDFORD	97501	6	$30,098	6,174
GRANTS PASS	97526	5	$32,260	6,425
PORTLAND	97206	7	$38,040	6,476
HILLSBORO	97123	5	$59,280	7,260
EUGENE	97402	6	$51,303	7,512
ROSEBURG	97470	6	$35,488	7,680
ALBANY	97321	6	$40,723	8,152
MEDFORD	97504	5	$47,915	8,204
BEND	97701	5	$43,330	8,892

Source: OCPP analysis of Oregon Dept. of Consumer and Business services, 2000 Census data.

Fees for pawnbrokers rise

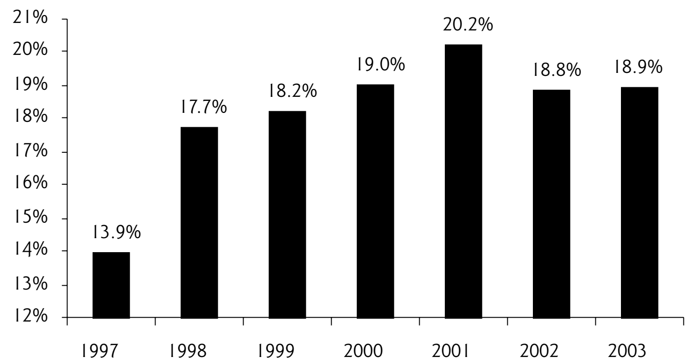
The pawn industry has existed for decades. Because their market is more mature, they have not experienced the extraordinary rapid growth that payday lenders experienced during the economic downturn. Payday lenders now lend nearly five times more money than pawnbrokers in Oregon. Still, Oregon pawnbrokers are important providers of credit in Oregon, giving out over $36 million in loans in 2003. Annual growth in loans by pawnshops has averaged a solid seven percent since 1998.

Pawnbrokers offer loans in exchange for some piece of property such as a ring or a television set. Under Oregon law, pawn loans are for 60-day periods, plus a 30-day grace period. Borrowers may redeem the loan at any time by paying back the loan with interest and fees before the loan and grace periods have expired. If the borrower does not redeem the loan before the grace period expires, the property is forfeited to the pawnbroker, who typically seeks to sell it. Rather than forfeit, borrowers who are not able to redeem the loan may open a new loan on the same piece of property by paying all interest and fees that have accumulated to that point.

Oregon law sets limits on the amount of interest and fees that pawnbrokers can charge, making these loan providers more restricted under Oregon law than payday lenders.[40] In 1997, Oregon changed the law to allow pawnbrokers to charge a "storage fee," and increased the maximum allowable "setup fee" from $5 to $100.[41] The 1997 law also shortened the loan period for pawnbroker loans (including the 30-day grace period) from four months to 90 days.

Shortening the loan period for pawn loans immediately caused the number of loans made by pawnbrokers to rise, as borrowers were forced to renew their loans in 90 days, rather than 120. The number of pawn loans shot up 22 percent between 1997 and 1998.

The new law also resulted in a higher percentage of borrowers forfeiting their items because they had less time to pay. In 1997, 13.9 percent of pawn loans were forfeited. The next year, with the new law in place, the forfeiture rate rose to 17.7 percent (Figure 3-8). Nearly 17,000 more pawn loans were forfeited in 1998 than the year before, a 50 percent increase after the new law took effect.



Source: OCPP presentation of Oregon Dept. of Consumer and Business Services data.

Figure 3-8: Forfeiture rate, Oregon pawnbrokers

In 1997, 13.9 percent of pawn loans were forfeited. The next year, with a new law in place, the forfeiture rate rose to 17.7 percent.

The forfeiture rate continued to rise gradually over the next few years, reaching over 20 percent in 2001, the first year of the recession. Over the course of the economic downturn, the forfeiture rate remained high, hovering at about 19 percent.

As the economic downturn wore on, Oregonians began pawning somewhat more expensive items. The average pawn loan amount increased 4 percent between 1998 and 2001, and 11 percent between 2001 and 2003.

Since the 1997 law increased the fees pawnbrokers were allowed to charge, it had the predictable effect of increasing the fees that pawnbrokers collected. Total fees collected also rose because the shorter loan periods shortened the amount of time borrowers had to pay the fees and redeem the loan.

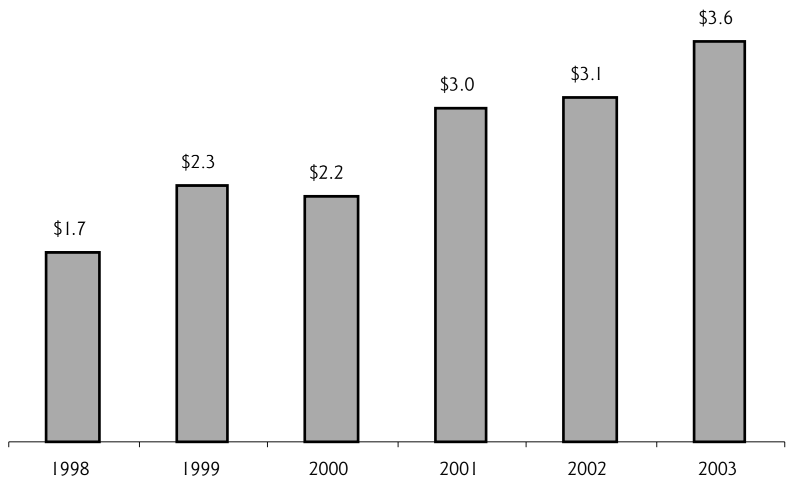
Data on fees charged prior to 1998 are not available, but fees charged by pawnbrokers rose steadily in years following the 1997 changes in the law, rising from 7.5 percent of the average redeemed loan in 1998 to 11.7 percent in 2003.

Since the 1997 changes, Oregon pawnshops have come to rely more on fees than on loan interest to make money. In 1998, pawnshops collected $1.55 in interest for every $1 they collected in fees. By 2003, the situation was reversed, with pawnshops collecting $1.52 in fees for every $1 collected in interest.

When the recession hit in 2001, the fees collected by pawnbrokers soared. That year, fees collected rose 34 percent, from $2.2 million to $3 million (Figure 3-9). Fees then held above $3 million in 2002, even as the economy briefly appeared to rebound. Then, in 2003, when Oregon's economic growth stalled and unemployment rose once more, pawnshop fees rose another 17 percent, up to $3.6 million. Pawnbrokers also collected $2.4 million in loan interest charges that year.

Figure 3-9:
Total fees collected by Oregon pawnbrokers, in millions

The fees collected by pawnbrokers soared during the downturn, rising 62% between 2000 and 2003 to $3.6 million.



Source: OCPP analysis of Oregon Dept. of Consumer and Business Services data.

"Rapid refunds" strip income from low-income working taxpayers

In recent years, income tax preparation companies have developed products known as "rapid refunds." Typically, "rapid refunds" are available to tax filers within a day or two, or on the same day for an additional fee. Without a rapid refund, taxpayers with bank accounts can expect the IRS to directly deposit their refund checks in eight to 15 days if they file their taxes electronically. Taxpayers without bank accounts who electronically file will have their refund check mailed by the IRS in 2 to 3 weeks.[42] Low-income taxpayers without the capacity to electronically file their returns have no way of getting refunds fast, other than through rapid refund loans.

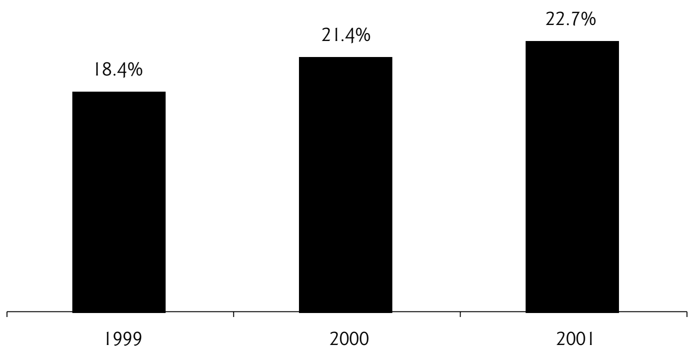
To deliver "rapid refunds," tax preparers make an arrangement with a bank to provide a loan to the taxpayer in the amount of the expected refund. Many consumers using rapid refunds do not realize they are assuming responsibility for a short-term bank loan that they will be required to pay if for some reason their tax refund check is less than anticipated.[43]

Tax preparers charge expensive fees to broker these bank loans. The National Consumer Law Center estimates that nationally taxpayers in 2004 who seek a $2,100 refund loan will pay about $100 in loan fees, including a $25 fee for the bank to set up a "dummy account" for consumers without a bank account. In addition some tax preparers also charge an additional administrative fee, averaging about $32 per loan nationally. Add the refund loan fees to the basic fee for filing an electronic return with a tax preparer, averaging $120, and the total cost to the consumer is about $250. Rather than receive $2,100 from the IRS, the consumer will receive about $1,850, in exchange for receiving the money perhaps a couple of weeks earlier.[44]

Rapid refund loans are transferring substantial amounts of money intended to support low-wage working families into the pockets of tax preparation companies. Much of the fees tax preparers collect from these loans comes out of the refunds Congress intended for low-income working families through the Earned Income Tax Credit (EITC). The EITC is a federal income tax credit designed to honor work, keep families together, reduce poverty, and offset the payroll taxes of workers in low-pay jobs. In Oregon, 52 percent of rapid refund customers in 2001 were EITC recipients.

The National Consumer Law Center estimates that rapid refund loans siphon off $749 million in fees annually from the EITC program. If tax preparation fees and check cashing fees for some filers are included, the total cost of rapid refund loans for EITC recipients in 2002 alone was about $1.75 billion.[45]

In Oregon, the percentage of EITC recipients using rapid refund loans has been rising. In 1999, 18.4 percent of EITC recipients in Oregon paid for these high cost loans. By 2001, the percentage had risen to 22.7 percent (Figure 3-10).



Source: OCPP analysis of Internal Revenue Service data compiled by Brookings Institution.

Figure 3-10: Percent of EITC recipients in Oregon getting "rapid refund" loans, 1999-01

In Oregon, the percentage of EITC recipients using rapid refund loans has been rising.

The low-income families who receive the EITC are more likely to use rapid refund loans in some parts of Oregon than in other parts. Nearly half (46 percent) of EITC recipients in Jefferson County in 2001 accessed their refunds through a rapid refund loan. On the other hand, no EITC recipients used rapid refund loans in Gilliam, Sherman, and Wheeler counties in 2001 (Table 3-2).

One of the reasons that the rapid refund rates are so high in Jefferson County is that EITC recipients in Warm Springs are very likely to use a rapid refund loan. A full 68 percent of EITC recipients in Warm Springs zip code 97761 used rapid refund loans in 2001, a much higher rate than in any other zip code in Oregon. Use of the loans is also high in zip codes widely dispersed across the state, including zip codes in Falls City, Milton-Freewater, Hammond, and in North Portland (Table 3-3).

**Table 3-2:
Percent of EITC recipients in Oregon receiving "rapid refund" loans, 2001 tax year, by county**

Nearly half (46 percent) of EITC recipients in Jefferson County in 2001 accessed their refunds through a rapid refund loan.

Table 3-2: Percent of EITC recipients in Oregon receiving "rapid refund" loans, 2001 tax year, by county

County	EITC recipients	# of EITC recipients getting rapid refund loans	Percent getting rapid refund loans
Jefferson	1,491	690	46.3%
Umatilla	5,077	1,775	35.0%
Clatsop	2,052	629	30.7%
Marion	18,269	5,358	29.3%
Polk	3,046	879	28.9%
Linn	6,208	1,776	28.6%
Coos	4,086	1,157	28.3%
Morrow	711	194	27.3%
Malheur	2,419	658	27.2%
Baker	1,144	301	26.3%
Douglas	6,789	1,776	26.2%
Tillamook	1,529	398	26.0%
Crook	1,148	294	25.6%
Lincoln	2,972	723	24.3%
Union	1,512	362	23.9%
Multnomah	38,083	8,624	22.6%
Columbia	2,032	451	22.2%
Deschutes	7,388	1,610	21.8%
Lane	18,963	4,080	21.5%
Yamhill	4,523	972	21.5%
Josephine	6,033	1,228	20.4%
Clackamas	12,572	2,511	20.0%
Hood River	1,458	280	19.2%
Klamath	4,679	837	17.9%
Grant	488	87	17.8%
Jackson	12,722	2,148	16.9%
Washington	17,687	2,948	16.7%
Curry	1,447	239	16.5%
Benton	2,630	390	14.8%
Wasco	1,578	175	11.1%
Harney	577	55	9.5%
Lake	540	18	3.3%
Wallowa	451	11	2.4%
Gilliam	92	0	0.0%
Sherman	115	0	0.0%
Wheeler	104	0	0.0%
Oregon	**192,615**	**43,634**	**22.7%**

Source: OCPP analysis of Internal Revenue Service data compiled by Brookings Institution.

Table 3-3: Oregon zip codes with highest percentage of EITC recipients getting "rapid refund" loans, 2001

Zip Code	City/Town	County	# of EITC recipients	# of EITC recipients getting rapid refund loans	Percent getting rapid refund loans
97761	Warm Springs	Jefferson	432	293	68%
97344	Falls City	Polk	89	37	42%
97862	Milton Freewater	Umatilla	991	408	41%
97121	Hammond	Clatsop	64	26	41%
97203	Portland	Multnomah	2,053	834	41%
97741	Madras	Jefferson	888	349	39%
97383	Stayton	Marion	578	212	37%
97813	Athena	Umatilla	74	27	36%
97302	Salem	Marion	1,834	659	36%
97844	Irrigon	Morrow	275	98	36%
97367	Lincoln City	Lincoln	665	234	35%
97801	Pendleton	Umatilla	1,330	467	35%

Source: OCPP analysis of Internal Revenue Service data compiled by Brookings Institution.

Table 3-3: Oregon zip codes with highest percentage of EITC recipients getting "rapid refund" loans, 2001

A full 68 percent of EITC recipients in Warm Springs zip code 97761 used rapid refund loans in 2001.

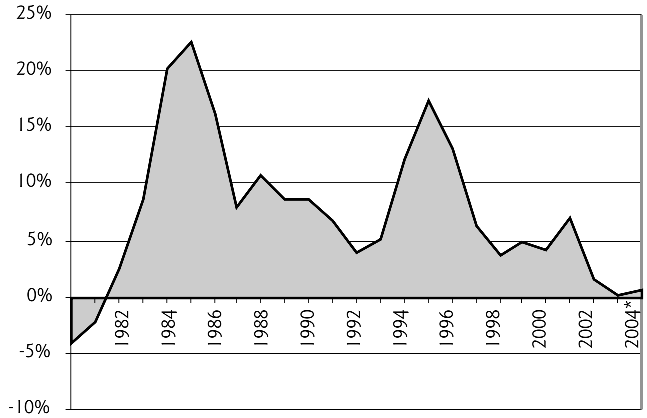
Credit card companies use new tactics to increase revenue

Between 1980 and 2000, total national revolving loan debt – made up mostly of credit card debt – exploded from $54 billion to $628 billion.[46] Even after adjusting for inflation, Americans' credit card debt more than quintupled over the 20-year period. Growth was most rapid in the mid-1980s and mid-1990s, when the economy was shifting out of recessions (Figure 3-11).

When the downturn struck in 2001, credit card debt rose another ten percent (seven percent after adjusting for inflation), then slowed as the downturn wore on, incomes declined, bankruptcies mounted, and Americans were less able to take on more credit card debt. The use of home refinancing to reduce or eliminate credit card debt contributed to the slowdown in card debt growth in the last few years. Slowdowns in card debt growth, however, also occurred during previous recessions in the early 1980s and early 1990s.

Figure 3-11: Percent real annual growth in total revolving loan debt, U.S.

When the downturn struck in 2001, credit card debt rose another ten percent (seven percent after adjusting for inflation), then slowed as the downturn wore on.



Source: Federal Reserve Board, through April 2004. Annual growh after adjusting for inflation to 2004 dollars.

While credit card debt growth has slowed recently, as a percent of disposable incomes, credit card debt remains high by historical standards. Credit card debt still stands at about 9 percent of disposable personal income nationally, up from about one-half of one percent in 1969 (Figure 3-12).

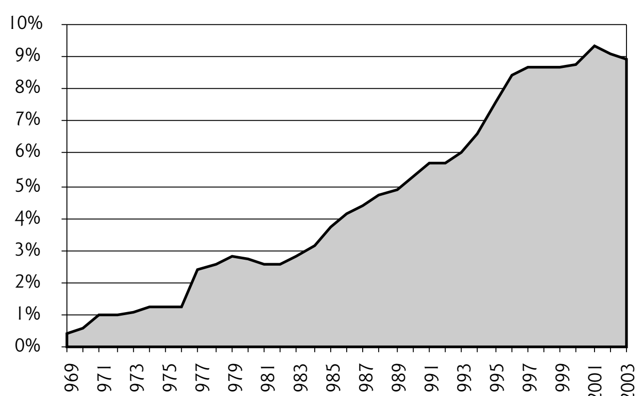
While credit card debt has grown more slowly during the downturn, the percentage of outstanding debt that is delinquent has increased. In the first quarter of 2004, 4.65 percent of credit card debt was past due, compared to 3.94 percent in the first quarter of 2000.[47] Overall credit card debt may be down relative to income in the downturn, but more card holders are in trouble with their credit card debt.

Credit card holders today are more likely to pay off their card debt in full each month than card holders in the early 1990s. The percentage of "convenience users" increased nationally from 29 percent in 1991 to 43 percent in 2000.[48] That is, even as credit card debt soared in the 1990s, fewer card holders carried debt. Card holders who did carry debt sharply increased their borrowing. In early 2000, U.S. households revolving their card debt carried outstanding debt averaging $11,575.[49]

When the downturn hit in 2001, fewer card holders were able to pay off their monthly balance in full. By 2004 the percentage of "convenience users" declined to 37 percent.[50]

Figure 3-12: Credit card debt as percent of disposable personal income, U.S.

Credit card debt still stands at about 9 percent of disposable personal income nationally, up from about one-half of one percent in 1969.



Source: OCPP analysis of Federal Reserve Board, Bureau of Economic Analysis data.

Low-income families nationally are much less likely to hold credit cards than other families, but the use of credit cards has increased sharply across all income groups in the last generation.[51] Furthermore, while low-income families who have cards are somewhat more likely to carry card debt, they typically carry just half the debt held by middle-income families.[52]

While low-income families who have cards are somewhat more likely to carry card debt, they typically carry just half the debt held by middle-income families.

Over the 1990s, average credit card debt nationally rose most sharply for low-income families. Those families with annual incomes under $10,000 saw their average card debt nearly triple between 1989 and 2001.[53] However, low-income families' median card debt did not grow nearly as quickly as their average card debt, indicating that a portion of families taking on sharply higher credit card debt pushed up the average. The real median credit card balance for the lowest income fifth of families carrying card debt rose 18 percent between 1989 and 1998, while the real average balance among this group rose 186 percent.[54] The extension of credit cards to more low-income families over the past decade, combined with higher credit limits, has made it possible for more families in financial trouble to rely heavily on credit cards as they attempt to weather difficult economic times. In addition, credit card companies have established new policies intended to increase the profit they make from cardholders who get into financial trouble, pushing families with debt problems deeper in the hole.

Since a 1996 U.S. Supreme Court decision effectively eliminated state limits on fees, credit card companies have established new fee rules that prey on borrowers with payment problems.[55] The average late fee among major credit card companies was $36.50 in April 2004, up from $13.28 in 1996, the year of the Supreme Court decision.[56] Moreover, most bank issuers now consider a payment late if it arrives after a certain time of day on the due date.[57] About one-third of issuers raise the interest rate sharply after just one late payment.[58]

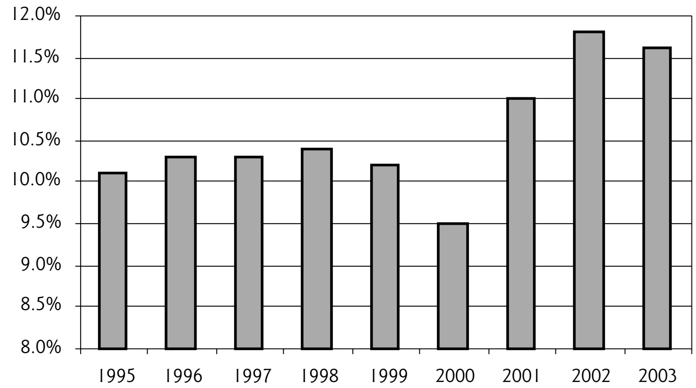
The average late fee among major credit card companies was $36.50 in April 2004, up from $13.28 in 1996.

Similarly, "over-limit" fees charged when borrowers exceed their credit limit, were non-existent in the 1980s, but now average $33.50.[59] More importantly, hitting a card's limit will not only trigger an "over-limit" fee, but is also likely to trigger a sharp increase in the card's interest rate. Increasingly, when a consumer makes late payments or hits a card's credit limit, interest rates will automatically increase on all of a consumer's credit cards, not just the card in question, regardless of issuer.[60]

Credit card fees have shot up even as the profit companies can make on interest charges has increased. Over the course of the downturn, credit card companies lowered their interest rates, but these lower rates did not cut into their profit margins. The average credit card interest rate nationally stood at 12.66 percent in the first quarter of 2004, slightly up from the previous quarter, but still well below the average rate of 15.71 in 2000.[61] However, while these rates are low by historical standards, the cost to credit card companies of lending money has also been at historically low levels. The cost to the card companies to offer loans (as described by the federal funds rate) declined from 6.2 percent in 2000 to just 1.1 percent in 2003. As a result, the difference between what card companies charge borrowers and their cost actually increased during the downturn, from 9.5 percent in 2000 to 11.6 percent in 2003 (Figure 3-13).

Figure 3-13: Difference between average credit card interest rate and the federal funds rate

The difference between what card companies charge borrowers and their cost increased during the downturn, from 9.5 percent in 2000 to 11.6 percent in 2003.



Source: OCPP analysis of Federal Reserve Board data.

Oregonians carry about as much debt as other Americans.[62] The average cardholder in Oregon carries a balance equaling nearly one-quarter the credit limit, very similar to the average cardholder nationally (Table 3-4). Oregonians hold slightly fewer cards – including gas, department store, and entertainment cards – than Americans generally, and are notably less likely to be past due on their payments. Partly for these reasons, Experian gives Oregonians an average credit score that is slightly higher than the national average. For all states, Oregon's credit score ranks 23rd best, in the middle of the pack.

Table 3-4: Credit card data, Oregon vs. U.S.

The average cardholder in Oregon carries a balance equaling nearly one-quarter the credit limit, very similar to the average cardholder nationally.

Table 3-4: Credit card data, Oregon vs. U.S.

	Oregon	U.S.
Average credit score	685	678
Average # of credit cards, all households	2.92	3.11
Average # of credit cards, households with a mortgage	6.37	6.72
Average # of credit cards, households with no mortgage	1.98	2.19
Average card balance as percent of credit limit	23.9%	24.4%
Percent of card accounts past due	0.64%	0.79%

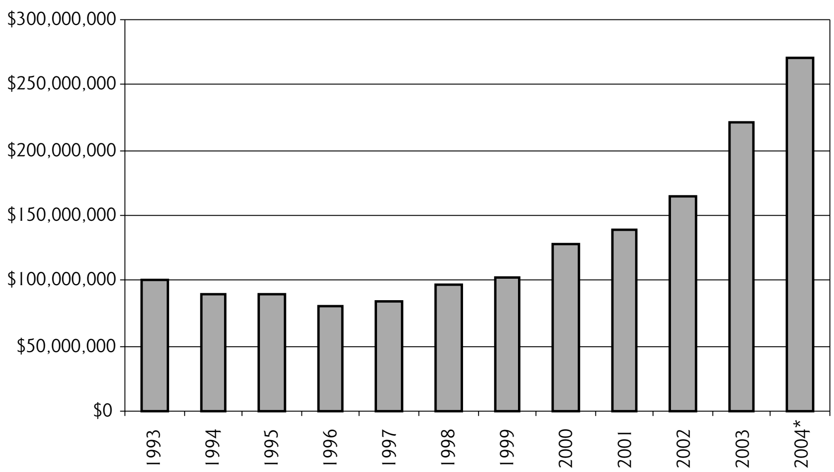
Source: Experian, July 2004. Cards include bank cards and other consumer credit cards like department store cards, gas cards, and entertainment cards.

Medical debt problems rapidly escalate

As unemployment rose and wages fell during the downturn, the costs of health care shot up. Meanwhile, employers reduced employee benefits, and state governments across the country, including Oregon, scaled back their public assistance programs for health care. Medical care today is more expensive for many Oregonians than it was prior to the downturn and medical debt has increased.

Nationally in 2003, about 20 million families reported problems paying for medical care in the previous year.[63] That is, about 14 percent of all families in the U.S. said they had problems paying for medical care. Families without health insurance are more likely to report problems paying for medical care, but two-thirds of the families having problems are insured.[64] For too many families, out-of-pocket medical care costs are difficult to cover, even with insurance.

In Oregon, the value of bad debt reported by Oregon hospitals nearly doubled during the economic downturn, rising from $129 million in 2000 to $222 million in 2003.[65] Over the first half of 2004, bad debt is on track to reach $271 million by the end of the year.



Source: OCPP presentation of data from Oregon Association of Hospitals and Health Systems. Kaiser is not included.
** 2004 data is OCPP estimate based on data through first half of year.*

Figure 3-14: Bad debt reported by Oregon hospitals

The value of bad debt reported by Oregon hospitals nearly doubled during the economic downturn.

Oregonians file for bankruptcy in droves

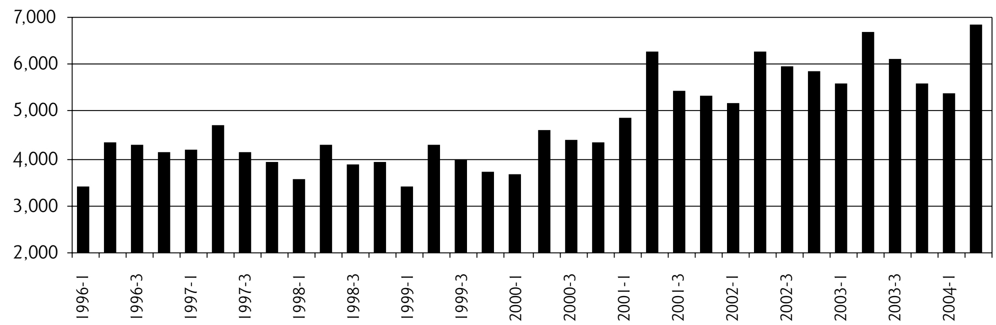
Overwhelmed by debt obligations during the economic downturn and with no help in sight, thousands of Oregonians turned to their last resort, bankruptcy, despite the long-term consequences for their credit worthiness.

After the economy slipped, bankruptcy filings skyrocketed in Oregon. In 2002, many more Oregonians filed for bankruptcy than graduated with a college degree in the state. There were over 23,000 bankruptcy filings in Oregon that year, and a total of about 15,300 bachelor degrees awarded by all public and private higher education institutions.[66]

Oregonians filed for bankruptcy in droves starting in the spring of 2001, the first year of the recession. In the second quarter of 2001, personal bankruptcy filings were up 37 percent from the year before. As the downturn wore on, the extraordinarily high rate of bankruptcy filings continued. In the second quarter of 2004, 6,766 Oregonians filed for bankruptcy, the highest number for any quarter on record (Figure 3-15). Despite strong job growth earlier this year, bankruptcy filings remain at record levels.

Figure 3-15: Quarterly personal bankruptcy filings

In the second quarter of 2004, 6,766 Oregonians filed for bankruptcy, a record.

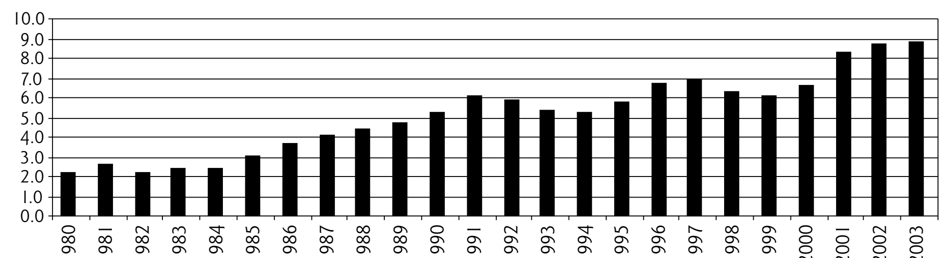


Source: OCPP analysis of American Bankruptcy Institute data.

The personal bankruptcy filing rate of the recent economic downturn easily surpasses the rate of previous economic downturns. During the steep, back-to-back recessions of the early 1980s, annual bankruptcy filings stood at only about two for every 1,000 adult Oregonians. In the milder recession of the early 1990s, the bankruptcy filing rate stood at about 6 per 1,000 adults. Over the last three years, by contrast, the rate surged to nearly 9 per 1,000 adults (Figure 3-16).[67] That is, the personal bankruptcy filing rate of the recent economic downturn was four times the rate during the downturn of the early 1980s.

Figure 3-16: Personal bankruptcy rate, non-business fillings per 1,000 adults

The personal bankruptcy filing rate of the recent economic downturn easily surpasses the rate of previous economic downturns.



Source: OCPP analysis of American Bankruptcy Institute data.

Data on why Oregonians filed for bankruptcy during the downturn are not available. However, data from five diverse districts around the country indicate that among families with children, the vast majority file for one of three reasons – they lose their jobs, they get sick, or they get divorced or separated. In 2001, 87 percent of these filers said they were forced into bankruptcy for one of these three major reasons.[68] Just 13 percent of these filers offered some other reason, including being a victim of a natural disaster or crime, overspending with credit cards, or making a bad investment.

Bankruptcy filings make it more difficult and more expensive for consumers to secure credit in the future. The growth in bankruptcies in Oregon portends continued expansion of the market for alternative, high-cost loans such as payday loans, high-interest rate credit cards, and subprime home loans.

As Oregon's economy improves, financial recovery will be expensive for many working families hit with job loss and other difficulties during the economic downturn. Eventually, the downturn will recede into memory, but its shadows will loom over too many of Oregon's working families for years to come.

Endnotes

1 In Marquette Nat. Bank of Minneapolis v. First of Omaha Service Corp., 439 U.S. 299(1978), the Supreme Court affirmed the right of banks to override credit card interest rate caps set at the state level by locating in states with weak or nonexistent interest rate caps.

2 See Or. Laws 1981, Ch. 412, ORS 82.010, and ORS 82.025.

3 Data on average interest rates on 30-year conventional, fixed rate mortgage loans obtained from Federal Reserve Board at http://www.federalreserve.gov/releases/h15/data/m/cm.txt

4 Testimony of Chairman Alan Greenspan, Federal Reserve Board's Semi-Annual Monetary Policy Report to the Congress, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, July 20, 2004. Available at: http://www.federalreserve.gov/boarddocs/hh/2004/july/testimony.htm

5 OCPP analysis of Home Mortgage Disclosure Act (HMDA) data provided to OCPP by the U.S. Department of Housing and Urban Development. HMDA data includes most, but not all, mortgage loans or refinancings. For example, for depository institutions in 2004, only banks, credit unions, and savings associations with assets over $33 million on December 31, 2003 with home or branch offices in metropolitan areas must report to HMDA, if they are federally insured or if they issue federally insured loans. For details on HMDA reporting requirements, see http://www.ffiec.gov/hmda/reporter.htm.

6 Nationally, refinancing peaked as a percentage of all loan originations in the fourth quarter of 2002 at 74 percent of all originations, according to data from the Mortgage Bankers Association available at http://www.mortgagebankers.org/marketdata/index.asp. For discussions of more recent trends in the Portland area market, see Kadera, Jim and Dana Tims, "Housing Market Continues to Sizzle," The Oregonian, March 11, 2004, Southwest Zoner Lake Oswego, p. 01. See also, Tims, Dana, "Mortgage Refinancing Frenzy Stills," The Oregonian, February 17, 2004, B(2).

7 SMR Research, Home Equity Loans 2003. Summary available at http://www.smrresearch.com/hel2003.html

8 SMR Research, Home Equity Loans: 2004 Outlook. Summary available at http://www.smrresearch.com/heoutlook04.html

9 Testimony of Eric Stein, Center for Responsible Lending, before the Subcommittee on Housing and Community Opportunity, U.S. House, March 30, 2004, p. 6. Available at http://www.predatorylending.org/pdfs/SteinStatement033004.pdf

10 OCPP analysis of Home Mortgage Disclosure Act data provided by the U.S. Department of Housing and Urban Development. In an average year between 1993 and 2002, refinancing accounted for 67 percent of the value of all subprime loan originations in Oregon.

11 Goldstein, Debbie and Stacy Strohauer Son, Why Prepayment Penalties are Abusive in Subprime Home Loans, Center for Responsible Lending, CRL Policy Paper Number 4, April 2, 2003, p. 2. Available at http://www.responsiblelending.org/pdfs/PPP_Policy_Paper2.pdf

12 Ibid, p. 3.

13 A study of 1999 data on subprime mortgages found that about 16 percent of borrowers with rated A- (the highest grade for subprime loans) had credit scores of 680 or higher. This high credit score typically would automatically qualify borrowers for a prime loan, according to the federal Office of Thrift Supervision, which authored the report. About 40 percent of all subprime borrowers analyzed had credit scores over 620, a score that might qualify a borrower for a prime loan. While other criteria besides credit scores are used to determine risk, the findings suggest that some subprime borrowers may have received subprime terms even though they qualified for a prime loan. See Phillips-Patrick, Fred, et. al., "What About Subprime Mortgages?" Mortgage Market Trends, Volume 4, Issue 1 (June 2000), Office of Thrift Supervision. This report is available at http://www.ots.treas.gov/docs/1/19010.pdf. In the mid-

1990s, Freddie Mac estimated that between 10 and 35 percent of subprime loans in their portfolio could have received conventional loans. See Freddie Mac, "Automated Underwriting: Making Mortgage Lending Simpler and Fairer for America's Families," Chapter 5, September 1996. Available at http://www.freddiemac.com/corporate/reports/moseley/mosehome.htm

[14] A U.S. Department of Housing and Urban Development study of nearly one million mortgages originated in 1998 found that subprime loans were five times more likely in black neighborhoods than in white ones. The study also found that homeowners in high-income black neighborhoods were twice as likely as homeowners in low-income white neighborhoods to have a subprime mortgage. See U.S. Department Housing and Urban Development, Unequal Burden: Income and Racial Disparities in Subprime Lending in America, April 2000, p. 3. See also Joint Center for Housing Studies, Credit, Capital, and Communities: The Implications of the Changing Mortgage Banking Industry for Community Based Organizations. Harvard University, March 9, 2004.

[15] OCPP analysis of Home Mortgage Disclosure Act (HMDA) data provided by the U.S. Department of Housing and Urban Development.

[16] OCPP analysis of Home Mortgage Disclosure Act (HMDA) data provided by the U.S. Department of Housing and Urban Development. In the HMDA data, "low-income" census tracts are defined as tracts with median family incomes under 80 percent of the median family income of the metropolitan area if the tract is in a metro area. The OCPP describes these tracts as "modest-income" tracts, not "low-income" tracts because OCPP believes that the criteria used in the HMDA data for defining "low-income" include relatively high incomes. For instance, 80 percent of the median family income in the Portland area in 2004 is $54,320, nearly three times the poverty line for a family of four. For tracts in non-metropolitan areas, the tract's median family income must be less than 80 percent of the median income for non-metropolitan tracts in Oregon to be counted as "modest-income." In the HMDA data, 1990 Census data is used to estimate median tract income.

[17] OCPP analysis of Home Mortgage Disclosure Act data provided by the U.S. Department of Housing and Urban Development. Over the 1993-2002 period, 15 percent of refinance originations in modest-income tracts were subprime. Over the same period, 6.4 percent of refinance originations in upper-income tracts were subprime.

[18] Bunce, et al., "Subprime Foreclosures: The Smoking Gun of Predatory Lending?" In Wachter, Susan M. and R. Leo Penne, eds., Housing Policy in the New Millenium Conference Proceedings, U.S. Department of Housing and Urban Development, 2001, p. 257-272. Available at http://www.huduser.org/publications/pdf/brd/12Bunce.pdf. See also Immergluck, Dan and Geoff Smith, Risky Business: An Econometric Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosures, Woodstock Institute, March 2004.

[19] The Oregon Department of Consumer and Business Services reports the average bank overdraft fee among Oregon banks they surveyed ranges between $20 and $30 per bounced check. Oregon Department of Consumer and Business Services, Policy Review of Consumer Finance and Payday Lending – DRAFT, July 2004, Appendix N.

[20] Berenson, Alex. "Banks Encourage Overdrafts, Reaping Profit," The New York Times, January 22, 2003, Late Edition, A(1).

[21] Figures for 2002 from Board of Governors of the Federal Reserve System, Annual Report to the Congress on Retail Fees and Services of Depository Institutions, June 2003, p. 5. Available at http://www.federalreserve.gov/boarddocs/rptcongress/2003fees.pdf. Figures for 1995 from Board of Governors of the Federal Reserve System, Annual Report to the Congress on Retail Fees and Services of Depository Institutions, June 1997, p. 7. Available at http://www.federalreserve.gov/boarddocs/rptcongress/feesindex.htm.

[22] Figures for 2002 from Board of Governors of the Federal Reserve System, Annual Report to the Congress on Retail Fees and Services of Depository Institutions, June 2003, p. 7. Available at http://www.federalreserve.gov/boarddocs/rptcongress/2003fees.pdf.

[23] McCulloch-Dews, Roberta, "Customer Overdraft Charges, Fees Fuel Profits for Many Banks," The Miami Herald.com, March 21, 2004. Posted March 24, 2004. Available at http://www.miami.com/mld/miamiherald/business/national/8266101.htm.

[24] Berenson, Alex. "Banks Encourage Overdrafts, Reaping Profit," The New York Times, January 22, 2003, Late Edition, A(1).

[25] Department of the Treasury, et al., Interagency Guidance on Overdraft Protection Programs, May 28, 2004. Available at http://www.federalreserve.gov/boarddocs/press/bcreg/2004/20040528/attachment.pdf

[26] Oregon Department of Consumer and Business Services, Policy Review of Consumer Finance and Payday Lending – DRAFT, July 2004, p. 7.

[27] Ernst, Keith, John Farris, and Uriah King. Quantifying the Economic Cost of Predatory Payday Lending, Center for Responsible Lending, Revised February 24, 2004, p. 2.

[28] Ibid, Appendix 0-1.

[29] Ibid. DCBS reports that 59 percent of respondents reported having taken five or more payday loans in the past year. Because these respondents take out more loans than other customers, they are responsible for a larger share of payday loan business. Conservatively assuming each of these respondents took out exactly five loans, their loans would make up 75 percent of all loans, if the survey findings accurately reflect the total state population of payday borrowers.

[30] ORS 725.622(4).

[31] Elliehausen, Gregory and Edward C. Lawrence, Payday Advance Credit in America: An Analysis of Customer Demand, Credit Research Center, Georgetown University, April 2001, p. 39-40.

[32] OCPP analysis of data from Oregon's Office of Economic Analysis (OEA). OEA estimates Oregon's population age 18 and older at 2.7 million. See June 2004 Economic and Revenue Forecast, Appendix C: Population Forecast. Available at: http://www.oea.das.state.or.us/DAS/OEA/economic.shtml

[33] OCPP's analysis of a list provided to OCPP by the Oregon Department of Consumer and Business Services in May 2004 finds a total of 246 payday lenders operating in Oregon. McDonald's Corporation regional headquarters reported in a phone call from OCPP on July 21, 2004 that there were 167 McDonald's in Oregon at that time.

[34] Oregon Department of Consumer and Business Services, Policy Review of Consumer Finance and Payday Lending – DRAFT, July 2004, p. 7.

[35] Fox, Jean Ann, Unsafe and Unsound: Payday Lenders Hide Behind FDIC Bank Charters to Peddle Usury, Consumer Federation of America, March 30, 2004, p. 4. Figures reported by Consumer Federation of America jibe with the Community Financial Services Association of America's claim of $25 billion in loan volume, reported at http://www.cfsa.net/govrelat/PaydayAdvanceIndustryOverview.htm

[36] QC Holdings, Inc., Prospectus filed with the U.S. Securities and Exchange Commission on July 16, 2004. File number 333-115297. Available at http://www.sec.gov/edgar/searchedgar/companysearch.html

[37] Elliehausen, Gregory and Edward C. Lawrence, Payday Advance Credit in America: An Analysis of Customer Demand, Credit Research Center, Georgetown University, April 2001, p. 46.

[38] Ibid, p. 44.

[39] OCPP analysis of 2000 Census data, which gathers information on household incomes in 1999.

[40] ORS 726.390, 726.395, 726.400.

[41] Senate Bill 656, sponsored by Senator Derfler at the request of the Oregon Pawnbrokers Association.

[42] "IRS e-file 2004 Refund Cycle Chart" available at http://www.irs.gov/pub/irs-utl/pub2043.pdf

[43] Wu, Chi Chi and Jean Ann Fox, "All Drain, No Gain: Refund Anticipation Loans Continue to Sap the Hard Earned Tax Dollars of Low-Income Americans," National Consumer Law Center and Consumer Federation of America, January 2004, p. 12.

[44] Ibid, p. 6-7.

[45] Ibid.

[46] Revolving loan debt, tracked by the Federal Reserve Board, includes debt from credit cards and balances outstanding on unsecured revolving lines of credit. It does not include debt from nonrevolving loans like loans for automobiles, or loans secured by real estate like mortgage loans and home equity lines of credit. The historical data, regularly revised by the Federal Reserve, is available at http://www.federalreserve.gov/releases/g19/hist/cc_hist_r.txt

[47] Cardweb.com, Inc. "Late Payers," CardTrak, July 2, 2004. Available at http://www.cardweb.com/cardtrak/news/2004/july/2a.html

[48] Manning, Robert D. Credit Card Nation. Basic Books: New York, 2000, p. 13.

[49] Ibid. Most households carrying debt owe less than the average, as households with extremely high levels of credit card debt push the average up.

[50] Cardweb.com, Inc. "Bad Debt," CardTrak, April 2004. Available at http://www.cardweb.com/cardtrak/pastissues/april2004.html

[51] Durkin, Thomas A. Credit Cards: Use and Consumer Attitudes, 1970-2000. Federal Reserve Bulletin, September 2000, p. 626.

[52] The Federal Reserve Board reported based on a 2001 survey that the poorest fifth of families with credit card debt held median card debt of about $1,000, while the middle fifth of families with card debt held a median of about $2,000. See Aizcorbe, Ana M., Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances from the 1998 and 2001 Survey for Consumer Finances," Federal Reserve Bulletin, January 2003, p. 23. The finding that the lowest income families with cards are somewhat more likely to carry debt comes from a report by Demos that found 67 percent of card-holding families with incomes under $10,000 carried debt, a somewhat higher percentage than the percentage reported for other income categories. See Draut, Tamara and Javier Silva, Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the '90s, Demos, September 2003, p. 10.

[53] Draut, Tamara and Javier Silva, Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the '90s, Demos, September 2003, p. 10.

[54] Durkin, Thomas A. Credit Cards: Use and Consumer Attitudes, 1970-2000. Federal Reserve Bulletin, September 2000, p. 626.

[55] Smiley v. Citibank (South Dakota), 517 U.S. 735 (1996).

[56] Data for April 2004 from CardWeb.com, Inc., "Late Fees," Card Trak, May 24, 2004. Data for 1996 from CardWeb.com, Inc. "Late Fee Bug," CardTrak, May 17, 2002.

[57] Consumer Action, "New Credit Card Survey Uncovers Increases in Anti-consumer Practices." Press release issued May 25, 2004. Available at http://www.consumer-action.org/English/PressReleases/2004_05_25_PR.php. See also CardWeb.com, Inc. "Late Fee Bug," CardTrak, May 17, 2002.

[58] Consumer Action, "New Credit Card Survey Uncovers Increases in Anti-consumer Practices." Press release issued May 25, 2004. Available at http://www.consumer-action.org/English/PressReleases/2004_05_25_PR.php.

[59] Cardweb.com, Inc., "Over-Limit Fees," CardTrak, June 15, 2004.

[60] Ibid. A February/March 2004 survey by Consumer Action found that 44 percent bank card issuers were

employing "universal default" provisions triggering rate increases based on late payments on any of a consumer's cards, regardless of issuer. See Consumer Action, "New Credit Card Survey Uncovers Increases in Anti-consumer Practices." Press release issued May 25, 2004. Available at http://www.consumer-action.org/English/PressReleases/2004_05_25_PR.php

[61] Federal Reserve Board, Consumer Credit Statistical Release, July 8, 2004. Latest release available at http://www.federalreserve.gov/releases/g19/Current/

[62] Experian, National Score Index. Retrieved by author July 2004. Latest data available at http://www.nationalscoreindex.com/?sc=300001&bcd=epshp

[63] May, Jessica and Peter Cunningham, Tough Trade-offs: Medical Bills, Family Finances and Access to Care, Center for Studying Health System Change. Issue Brief #85, June 2004. Available at http://www.hschange.org/CONTENT/689/

[64] Ibid.

[65] The value of bad debt may be reported by Oregon hospitals at the "master charge" rate, the highest rate level. The price for privately insured patients receiving the same services is typically less than the "master charge" rate.

[66] Figures for bachelor's degree graduates from Office of Degree Authorization, Oregon Student Assistance Commission, "Degrees Awarded 2001-02," Summary tables. Available at http://www.osac.state.or.us/oda/2001degrees_summary_tables.pdf

[67] The bankruptcy filing rate is the number of annual filings per 1,000 Oregon adults. Because some Oregonians file for bankruptcy more than once, these rates do not precisely indicate the percentage of Oregon adults who filed for bankruptcy.

[68] Warren, Elizabeth and Amelia Warren Tyagi, The Two-Income Trap: Why Middle-Class Mothers & Fathers Are Going Broke, 2003, Basic Books: New York, p. 81. The districts included in the survey were districts that included Los Angeles, Chicago, Philadelphia, Nashville, and Dallas and areas near these cities.

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