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FINANCIAL TRUST INDEX REACHES ALL TIME HIGH AT 26%

All components measured show increase in trust, including large corporations

CHICAGO (July 20, 2010) – Trust in America's financial system has reached its highest point since the start of the Chicago Booth/Kellogg School Financial Trust Index in 2008, according to the latest quarterly findings covering the period of April to June 2010, issued today. The new report shows that 26 percent of Americans trust the financial system – a gain of 3 percentage points over last quarter's figure – and that trust in all components measured by the Index are on the rise.

"The Index shows that trust has rebounded significantly since dipping to a low of a revised figure of 20 percent in March 2009 in the immediate wake of the financial crisis. This is substantial ground in a relatively short amount of time," said Index co-author Luigi Zingales, a professor of entrepreneurship and finance at the University of Chicago Booth School of Business. "Trust has increased in all areas we measure, including banks, the stock market and mutual funds, and notably also went up in relation to large corporations despite pervasive headlines about the BP oil spill in recent months."

The Chicago Booth/Kellogg School Financial Trust Index is a quarterly look at Americans' trust in the nation's financial system, measuring public opinion over three-month periods to track changes in attitude. Co-authors Paola Sapienza (professor of finance at the Kellogg School of Management at Northwestern University) and Zingales published today's report as the seventh quarterly update since the inaugural findings were issued more than a year and a half ago.

Gains for Banks, Stock Market, Corporations and Mutual Funds

According to the latest data, trust in banks has shown the largest gain in the last three months, from 34 percent in March 2010 to 39 percent in June 2010. Sapienza noted that gains were spread across all types of banking institutions, whereas in recent months confidence in local banks and credit unions had outpaced trust in national banks and banks in which the government has a stake. In the current wave, 35 percent of respondents cited trust in national banks, versus 29 percent in March. A similar significant gain can be seen with trust in banks in which the government has a stake, rising from 21 percent in March to 27 percent in June.

Likewise, the Index shows heightened trust in the stock market, with the highest proportion of people to date saying they want to invest in the next few months (17 percent) and with buyer beating seller by a 2.4 to 1 margin (versus a nearly 1 to 1 ratio in December 2008).

"Despite increased interest in investing, our data show that fear of a big drop in stock prices still pervades, as does a relatively low faith in a strong return on investment and a sense that the market is overvalued," said Sapienza. "The percentage of people who think the stock market will drop by more than 30 percent in the next year is still high at 45 percent. In addition, the average expected return on investment in the next 12 months is only 1.4 percent versus 3.5 percent three months ago, and 43 percent of people say the stock market is overvalued."

The researchers noted that trust in large corporations has hovered around 13 or 14 percent in recent waves of the Index, but jumped to 17 percent with this release.

Attitudes Toward Home Values, Strategic Default

While trust in the institutions in which people can invest their money increased this quarter, in real estate the researchers noted an inversion in a hitherto positive trend. According to this wave, fewer people think house prices in their area will increase in the next 12 months (26 percent in June versus 31 percent in

March). Also, the percentage of people who think home values will decrease remained constant at 20 percent.

This wave of data also continued to look at attitudes toward “strategic default” on mortgage loans. While the majority of homeowners surveyed (72 percent) said it was very important to maintain a good credit score so they could borrow again in the future, they perceived that the frequency of strategic default has increased (from 31 percent in March to 35 percent in June).

“Survey respondents are increasingly convinced that if they default the lender will not go after them with a deficiency judgment, and this conviction is strengthened if they know someone who defaulted strategically,” said Zingales.

Financial Trust Index: Additional Key Findings
In June, the perceived probability of unemployment dropped to 20 percent from 26 percent in March, demonstrating increased optimism on the job front. Also, anger toward the current economic situation continues to cool steadily, from its highest point in March 2009, in which 61 percent of respondents noted being angry, to today, with 48 percent angry.

Finally, demand for regulation remains high among Americans, even in the financial sector. In fact, 59 percent of survey respondents want the financial system to be more strongly regulated, in spite of the fact that the survey was conducted when the Dodd-Frank Bill was near approval.

ABOUT THE SURVEY: On a quarterly basis, the Financial Trust Index captures the amount of trust Americans have in the institutions in which they can invest their money. The survey is conducted by Social Science Research Solutions (SSRS) using ICR's weekly telephone omnibus service. As part of the most recent wave, exactly 1,016 individuals were surveyed June 16 through June 24, 2010. The institutions considered in the survey are banks, the stock market, mutual funds, and large corporations.

MORE INFORMATION: To learn more about the Chicago Booth/Kellogg School Financial Trust Index, visit www.financialtrustindex.org. To arrange an interview, contact Meg Washburn or Allan Friedman at the contact information listed above.

To learn more about the Kellogg School of Management at Northwestern University, visit www.kellogg.northwestern.edu.

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