

COMMUNITY OUTLOOK SURVEY

Community Development Studies and Education Department

Financial Well-Being of LMI Households Continues to Decline

About the Community Outlook Survey

January 2011 marked the launch of the Federal Reserve Bank of Philadelphia's Community Outlook Survey. This quarterly survey monitors the economic factors affecting low- and moderate-income (LMI) households in the Third Federal Reserve District, which includes Delaware, southern New Jersey, and eastern Pennsylvania.

Those responding to the survey include a variety of servicers to LMI populations throughout the Third Federal Reserve District. The survey is sent to one representative per organization. Since the responding organizations may vary from quarter to quarter, survey results represent the opinions of those organizations that responded. The survey contains questions about the financial well-being of LMI populations, as well as service providers' capacity to meet their clients' needs. Respondents are asked how selected conditions compare with those in the previous quarter, as well as expectations for the next quarter. The data collected will help the Philadelphia Fed further assess the general status of LMI households and assist the Bank in its efforts to encourage community and economic development and promote fair and impartial access to credit.

First Quarter 2011 Survey Results

In April 2011, we asked service providers to evaluate how factors affecting LMI populations had changed from the fourth quarter of 2010 to the first quarter of 2011. Specifically, we asked about the availability of jobs and affordable housing, as well as the general financial well-being of LMI populations and their access to credit. To better understand how well the needs of LMI households are being met, we also asked servicers about the demand for their

services, their organizations' capacity to serve their clients, and the adequacy of their funding.

In addition, we asked the respondents for their expectations about these factors three months from when they took the survey in mid-April 2011. Table 1 summarizes their feedback.

Table 1

	Current 2011: Q1 vs. 2010: Q4			Expectations three months from now		
	% Increase	% No change	% Decrease	% Increase	% No change	% Decrease
Availability of jobs	24%	47%	29%	41%	46%	13%
Availability of affordable housing	8%	60%	32%	19%	61%	19%
Financial well-being	1%	40%	59%	16%	49%	35%
Access to credit	4%	36%	59%	10%	58%	32%
Demand for your services to LMI households	76%	23%	1%	68%	32%	0%
Capacity to serve clients' needs	18%	53%	29%	15%	44%	41%
Funding for your organization	10%	40%	49%	9%	38%	53%

Note: Percentages may not add up to 100 due to rounding

Source: Federal Reserve Bank of Philadelphia

We use a diffusion index to summarize overall responses in Table 1. This index is calculated by adding the percentage of service providers that responded “Increase” to half the percentage of service providers that responded “No change,” then multiplying that number by 100. The diffusion index captures the overall response and expresses it in one number. If that number is above 50, the service providers’ responses are positive; if it is below 50, their responses are negative; and if the number is exactly 50, it represents a neutral response indicating no change. Table 2 summarizes the diffusion indexes for the current survey, as well as for the previous survey (Fourth Quarter 2010).

Table 2: Diffusion Indexes

	Current Survey 2011: Q1		Previous Survey 2010: Q4	
	2011:Q1 vs. 2010:Q4	2011:Q2 vs. 2011:Q1	2010:Q4 vs. 2010:Q3	2011:Q1 vs. 2010:Q4
Availability of jobs	47	64	40	60
Availability of affordable housing	38	50	39	48
Financial well-being	21	41	23	42
Access to credit	22	39	28	43
Demand for your services to LMI households	87	84	84	88
Capacity to serve clients’ needs	45	37	52	55
Funding for your organization	31	28	38	38

Note: The diffusion index may vary slightly when calculated from Table 1 due to rounding.
Source: Federal Reserve Bank of Philadelphia

General Findings

Overall, the negative trend identified in the first Community Outlook Survey in January 2011 continued. All diffusion index values remained below 50 except for demand for service providers’ services. All seven indicators for this survey were below the future expectations reported by respondents to the previous survey.

The diffusion index for the availability of jobs, at 47, indicates that service providers had a slightly negative view of the availability of jobs in this survey. Although still unfavorable, the index is 7 points higher than it was in the previous survey. Additionally, respondents had more favorable expectations for the availability of jobs over the next three months; that index stands at 64, compared with a diffusion index of 60 when respondents were asked about future expectations in the previous survey. However, the index of their responses about the availability of jobs in this survey, at 47, did not meet the future expectations they indicated in the previous survey (60).

Respondents reported a decline in the availability of affordable housing as they did in the last survey. The majority indicated that there was no change in the availability of affordable housing (60 percent), but many more reported a decline (32 percent) than an increase (8 percent), resulting in a diffusion index of 38, similar to the last survey’s result (39). Expectations three months from now are neutral (50) and close to the index for expectations from the previous survey (48), although the diffusion index of 38 in the cur-

rent survey did not meet the future expectations (48) from the previous survey.

As in the previous survey, respondents have an unfavorable opinion of their clients’ financial well-being and access to credit. The diffusion index for financial well-being was 21 for this survey, similar to the last survey’s index of 23: Only 1 percent of survey takers saw their clients’ financial well-being increase, while 59 percent saw it decrease. Relative to the diffusion index from the current survey (21), the index of expectations about clients’ financial well-being three months from now is higher (41), but that value is still under the 50 mark, indicating that respondents are still somewhat pessimistic. Moreover, respondents had similar future expectations in the previous survey (42).

Attitudes about their clients’ access to credit continued to deteriorate, as the diffusion index fell from 28 in the previous survey to 22 in this survey. However, respondents were relatively optimistic about access to credit three months from now: 10 percent anticipate an increase, while most expect it to stay the same (58 percent), yielding an overall diffusion index of 39. This value, though, is lower than that for respondents’ future expectations in the previous survey (43).

As these economic factors affecting their clients continue to show weakness, service providers find themselves in a more difficult position. They reported that demand for

their services increased strongly once again (87), similar to the last survey (84). Moreover, service providers expect demand for their services to increase again over the next three months. This is the only indicator for which the last survey's future expectations (88) come close to matching what we see in the current survey (87).

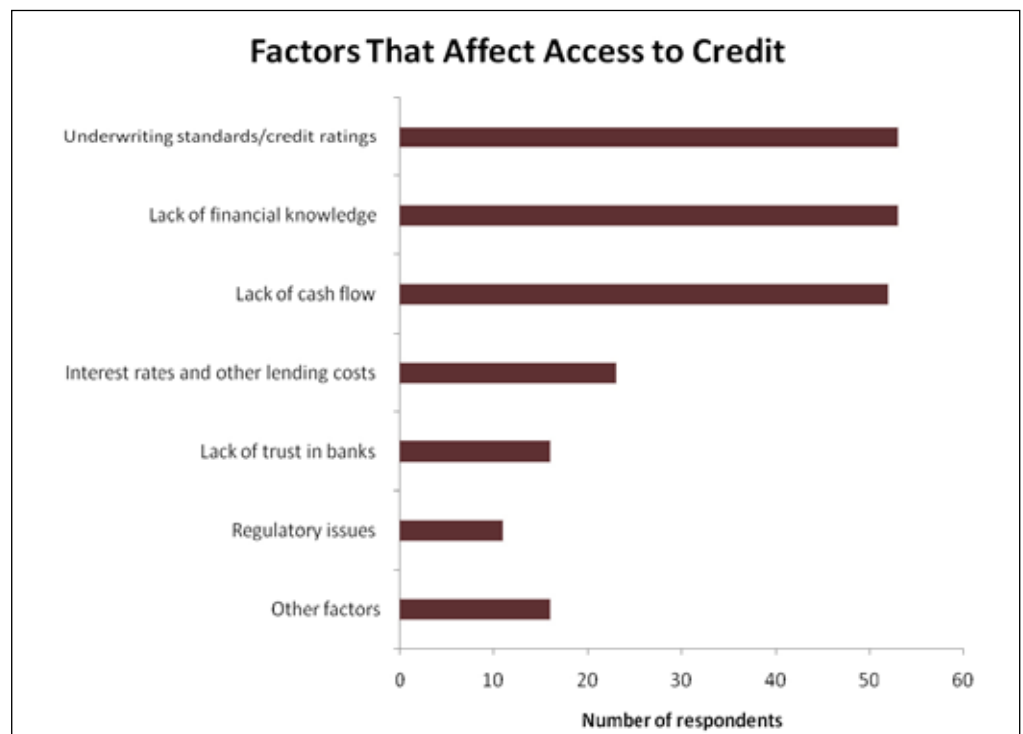
As demand for their services continues to increase, service providers are facing an increasingly difficult environment for satisfying this demand. In the last survey, respondents noted that demand increased much more rapidly than their capacity to service their clients' needs (84 to 52). Responses in the current survey indicate that the situation is deteriorating, with a higher diffusion index for demand for services (87) and a lower diffusion index for their capacity

to meet the demand (45). There was a significant decrease in respondents' future expectations relative to the last survey. In the previous survey, respondents expected a small increase in capacity in the future, as represented by a diffusion index of 55, but in the current survey, the index has fallen to 37, suggesting that respondents expect a decrease in their capacity to serve their clients three months from now. Funding problems continue to persist and may be a contributing factor to the operational difficulties experienced by the organizations. More organizations report facing funding problems than in the previous survey, as the diffusion index dropped from 38 to 31. Future expectations also declined from 38 to 28, indicating that organizations expect to continue to lose funding over the next three months.

Factors That Affect Access to Credit

Respondents were asked what factors most affect their LMI clients' access to credit. The chart on the right shows their responses. The three most important factors cited were underwriting standards/credit ratings, lack of financial knowledge, and lack of cash flow. These are the same three factors cited in the last survey.

Chart 1



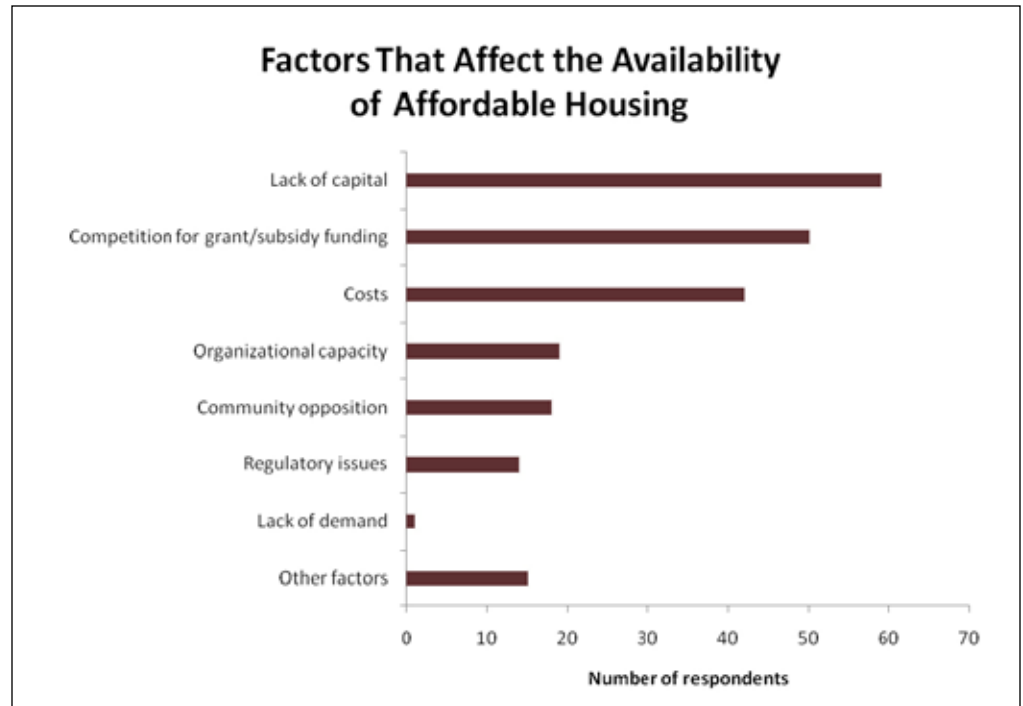
*Note: Respondents could check more than one box.
Source: Federal Reserve Bank of Philadelphia*

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Factors That Affect the Availability of Affordable Housing

Respondents were asked what factors most affect the availability of affordable housing. The chart on the right shows their responses. The three main factors cited were lack of capital, competition for grant/subsidy funding, and costs. These are the same three factors reported in the previous survey.

Chart 2

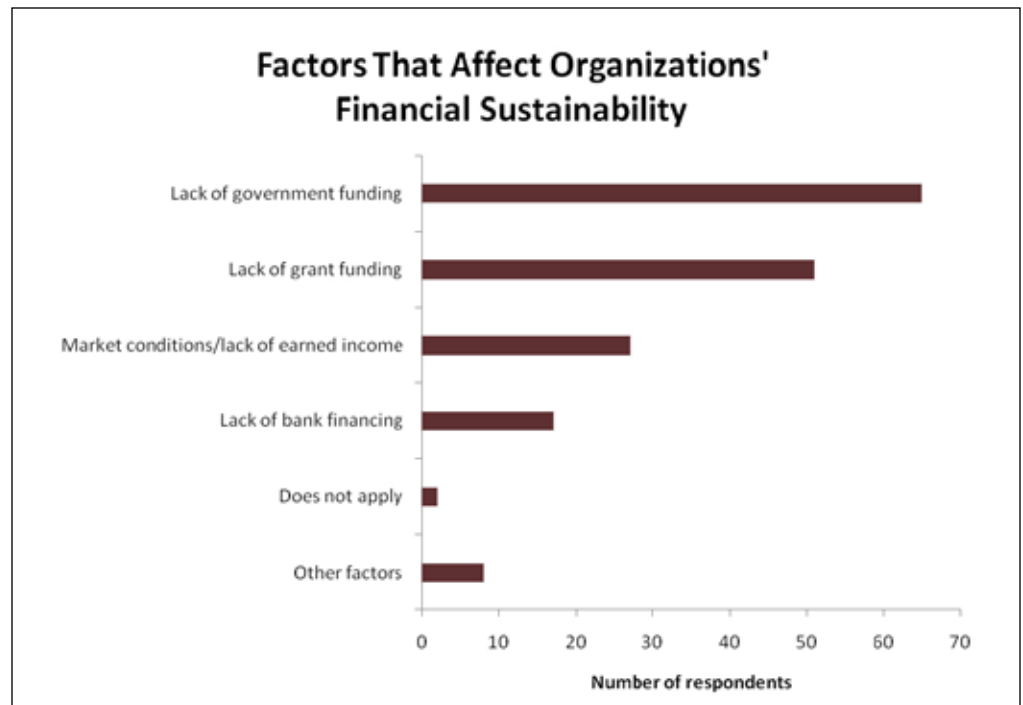


*Note: Respondents could check more than one box.
Source: Federal Reserve Bank of Philadelphia*

Factors That Affect Organizations' Financial Sustainability

Respondents were asked what factors most affect the financial sustainability of their organization. The chart on the right shows their responses. The two main factors cited were lack of grant funding and lack of government funding. These were the two factors most frequently cited in the last survey, as well; however, in the last survey, lack of grant funding was cited more often than lack of government funding.

Chart 3



*Note: Respondents could check more than one box.
Source: Federal Reserve Bank of Philadelphia*

Additional Insights

The Community Outlook Survey asks nonprofit service providers for additional insights on unusual events affecting the demand for their services and other comments that would help us better understand the issues faced by LMI households. Many respondents cited the recent economic crisis as an unusual event that increased the demand for their services. Cuts in government funding and the uncertainty about future funding were other factors mentioned by a number of respondents, as well as the Marcellus shale mining in northern Pennsylvania and the effect it has had on affordable housing. Respondents identified a number of other issues as well, including a variety of con-

cerns about the employment situation. In particular, the respondents cited the lack of jobs and the low pay for jobs that are available. Other issues that respondents brought up include higher utility costs and the limited economic earning power of first-generation immigrants with limited English proficiency and the need to increase government and service agencies' ability to serve these emerging immigrant communities.

Any questions, concerns, or comments about the Community Outlook Survey should be addressed to Brian Tyson at Phil.COSurvey@phil.frb.org.