

COMMUNITY OUTLOOK SURVEY

COMMUNITY DEVELOPMENT STUDIES AND EDUCATION DEPARTMENT

Tough Quarter All Around For LMI Community

About the Community Outlook Survey

The Federal Reserve Bank of Philadelphia's Community Outlook 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 the eastern two-thirds of Pennsylvania. To see previous reports or to register as a survey respondent, please visit <http://www.philadelphiafed.org/community-development/community-outlook-survey/>.

Overview

Seventy-nine agencies participated in the second quarter survey of 2013 and provided their views on key indicators affecting the LMI community. The overall findings suggest that the decline in LMI community conditions accelerated in the second quarter of 2013 relative to the first quarter. Households appear to be hardest hit by declines in affordable housing availability, financial well-being, and access to credit for the eleventh consecutive quarter; job availability neither increased nor decreased relative to last quarter. LMI service providers may take solace in the fact that the increase in the demand for their services slowed in the second quarter, but past results suggest that an improvement in one quarter tends to be followed with a period of decline. In addition to recurring concerns over job creation, affordable housing availability, and funding cuts, among others, many respondents voiced a need for increased funding for the weatherization of existing housing stock with utility costs skyrocketing in the summer months.

Figures 1 and 2 provide breakdowns of the types of services provided by the organizations surveyed and summarize their responses pertaining to changes in various indicators affecting their organizations and the LMI community. Table 1 presents the second quarter diffusion indexes, which measure the dispersion of change in conditions relative to the first quarter of 2013, and compares the indexes with those from the previous quarter (1Q2013) and four quarters ago (2Q2012). The formula

used to calculate the diffusion indexes is shown in the footnote on page 3. Figures 3 and 4 display changes in the indicators over time and compare the actual indicators with respondents' expectations from the previous survey. Table 2 displays respondents' rankings of the top challenges facing the LMI community today. Finally, the last section contains selected comments made by respondents.

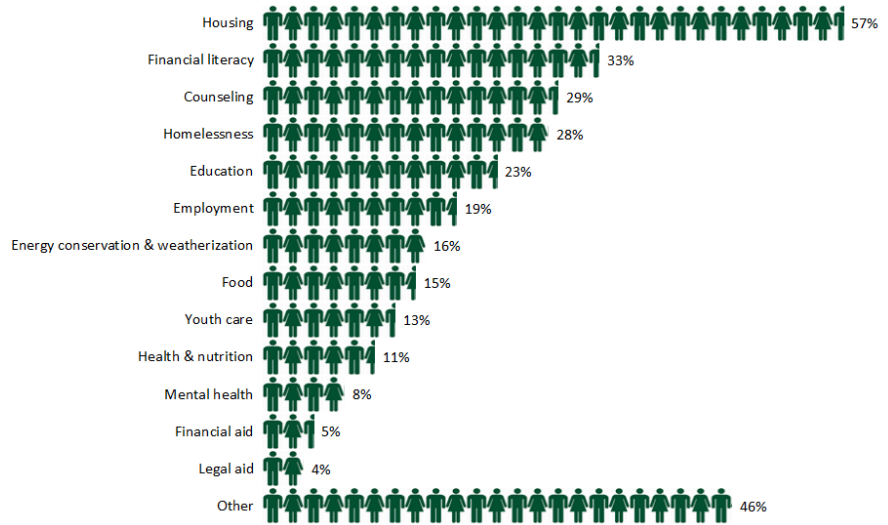
Respondent Breakdown and Observations

Participants in the Community Outlook Survey represent senior staff members from agencies that offer direct services to the Third District's LMI population. Of those that responded to the second quarter survey, seven are headquartered in Delaware, 12 in southern New Jersey, and 60 in eastern and central Pennsylvania. Two of the agencies' service areas include more than one state. Eighty-nine percent of those surveyed provided their operating budgets, of which 23 percent were under \$500,000 and 21 percent were greater than \$7 million.

The contributing organizations provide a multitude of services to the LMI community. Fifty-seven percent offer housing services, while approximately one-third offer financial literacy (33 percent) and/or counseling (29 percent) services. A list of the types of services provided by these agencies is displayed in Figure 1. Other types of services not listed include medical case management, loan programs, workforce development, home repair, and disability services, among others.

The central purpose of the Community Outlook Survey is to elicit respondents' opinions on whether conditions affecting their organizations and LMI households have changed in the current quarter (2Q2013) relative to the previous quarter (1Q2013). The survey also asks respondents to predict how those same indicators will change in the upcoming quarter (3Q2013). The aggregated responses are shown in Figure 2.

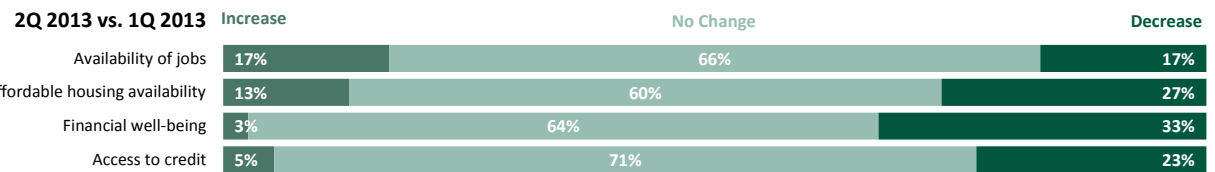
Figure 1: Types of Services Provided (Percentage of Respondents)



Triangles display respondents' expectations for 2Q2013 based on responses from 1Q2013 survey.
Source: Federal Reserve Bank of Philadelphia

Figure 2: Survey Responses

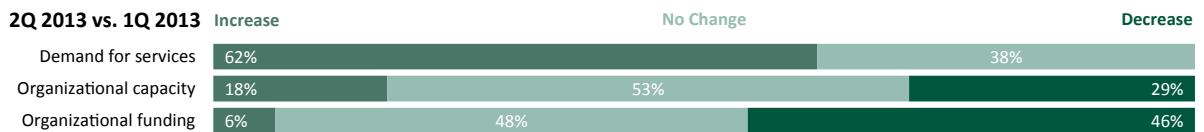
Household Indicators



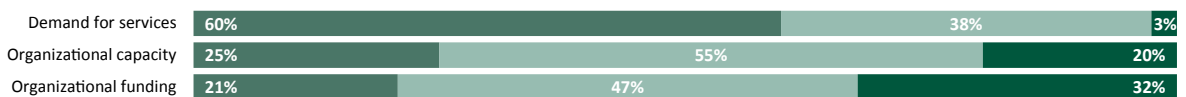
Expectation for 3Q 2013



Organizational Indicators



Expectation for 3Q 2013



Note: Percentages may not sum to 100 due to rounding.
Source: Federal Reserve Bank of Philadelphia

In most instances, survey participants did not observe any noticeable change in any of the indicators in the second quarter relative to the first quarter. An equal percentage of respondents (17 percent) witnessed increases and decreases in job availability in the second quarter while a significantly greater percentage noted decreases in the other three household indicators. For each household condition, the percentage of respondents who anticipate improvements in the third quarter of 2013 is higher than the percentage who reported improvements in the second quarter, thus suggesting that they are relatively optimistic about the third quarter.

Sixty-two percent of respondents noted that the demand for their agency's services increased in the second quarter; no one reported a decrease in demand. Even so, the percentage of respondents who indicated an increase in demand fell 10 percentage points from the 72 percent reported in the first quarter of 2013. While the breakdown of the organizational capacity indicator remained relatively the same as last quarter's, organizational funding was down significantly in the second quarter. Only six percent saw their funding increase in the second quarter compared with 18 percent in the first quarter. As with the household indicators, respondents are generally optimistic about the third quarter organizational indicators based on the percentage of agencies that expect improvements.

Diffusion Indexes

The diffusion indexes* from the second quarter survey are displayed in Column A of Table 1. Indexes above 50 signal an overall improvement, while those below 50 signal an overall decline. An index of 50 indicates that conditions remained unchanged from one quarter to the next.

**Diffusion indexes are computed by aggregating the percentage of respondents who indicate an increase in a specific indicator with half the percentage of respondents who indicate no change, and then multiplying by 100. The exception is the demand for services index, which is computed by aggregating the percentage who indicated a decrease with half the percentage who indicated no change. The demand for services index deviates from the other indexes because a decrease in demand is deemed to be a sign of improvement among LMI households. See Figure 2 for percentages.*

Table 1: Diffusion Indexes for Low- and Moderate-Income Indicators

	A	B	C*	D	E**
	2nd Qtr 2013	1st Qtr 2013	1 Qtr Change	2nd Qtr 2012	1 Year Change
<i>Current conditions relative to previous quarter</i>					
Job availability	50.0	51.9	-1.9	46.3	3.7
Availability of affordable housing	42.9	41.4	1.5	46.3	-3.4
Financial well-being	34.6	38.8	-4.2	39.3	-4.7
Access to credit	40.9	43.5	-2.6	39.2	1.7
Demand for services	19.2	14.5	4.7	18.4	0.8
Organizational capacity	44.3	44.0	0.3	46.5	-2.2
Organizational funding	30.4	31.9	-1.5	26.3	4.1
	3rd Qtr 2013	2nd Qtr 2013	1 Qtr Change	3rd Qtr 2012	1 Year Change
<i>Expectations for conditions over the next quarter</i>					
Job availability	59.6	66.0	-6.4	50.9	8.7
Availability of affordable housing	51.3	51.3	0.0	50.0	1.3
Financial well-being	47.3	49.4	-2.1	44.5	2.8
Access to credit	46.7	52.6	-5.9	46.0	0.7
Demand for services	21.4	17.5	3.9	17.0	4.4
Organizational capacity	52.6	49.4	3.2	49.1	3.5
Organizational funding	44.2	34.9	9.3	39.3	4.9

Note: Numbers in bold italics indicate that the index is worse relative to one quarter or one year ago.

**Column C is calculated by subtracting Column B from Column A.*

***Column E is calculated by subtracting Column D from Column A.*

Source: Federal Reserve Bank of Philadelphia

Current Conditions

The indexes for the second quarter (Column A, current conditions) paint a rather bleak landscape of the Third District's LMI community. Although the job availability index clung to a neutral grade of 50 and the affordable housing index rose a modest 1.5 points in the second quarter (42.9), the financial well-being (34.6) and access to credit (40.9) indexes both decreased moderately compared with the previous quarter. The financial well-being index (34.6) actually dropped to its lowest level since the first quarter of 2012 (34.2). Turning our attention to the one year changes, we see that job availability improved 3.7 points in the past year despite decreasing 1.9 points in the second quarter of 2013, which was the last quarter that job availability actually diminished. Affordable housing availability and financial well-being in the second quarter of 2013 decreased relative to the second quarter of 2012, while access to credit increased slightly.

The demand for services index rebounded in the second quarter increasing by 4.7 points from 14.5 to 19.2, its second highest level since we began conducting the survey. Still, the index remains well below neutral and suggests that LMI service providers' capacity will continue to be stretched. However, for the time being, the organizational capacity index roughly maintained the

level of decline observed in the first quarter. The funding index decreased 1.5 points in the second quarter of 2013 and indicates that agencies continue to suffer from cutbacks in government funding as well as other sources of funding, although the index has risen 4.1 points since the second quarter of 2012.

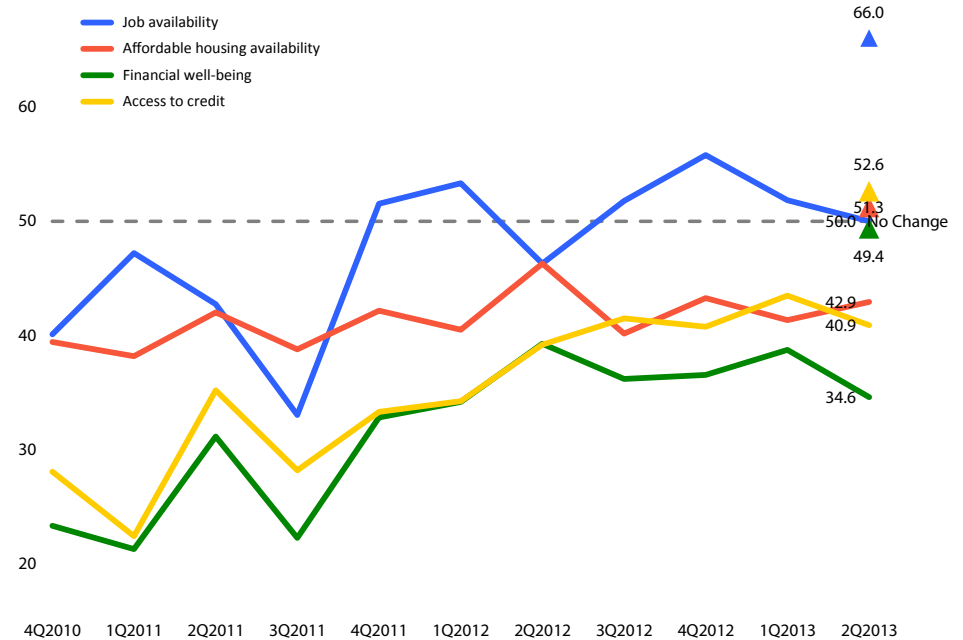
Expectations

Respondents' expectations (Column A, expectations) for the third quarter of 2013 are optimistic when compared with the observed indexes from the second quarter of 2013 (Column A, current conditions). Expectations for the household indicators, however, are more tempered than those of the second quarter of 2013 (Column B, expectations); the expected availability of affordable housing index remains at 51.3 while the other three household indicators decreased by 2.1 points or more. The expected organizational indexes for the third quarter of 2013 are actually moderately higher than those for the second quarter of 2013, which suggests that respondents are more optimistic about the third quarter than they were about the second quarter. Agencies anticipate that capacity will improve in the third quarter while the demand for services and funding indexes will increase relative to both the observed and expected indexes for the second quarter of 2013.

Trends

Figures 3 and 4 display the indexes since the fourth quarter of 2010. Each point on the graph represents a diffusion index for the corresponding quarter. For instance, in Figure 3, the indexes for job availability and affordable housing availability were 40.1 and 39.4, respectively, in the fourth quarter of 2010. The triangles represent respondents' expectations for the second quarter of 2013 contained in the first quarter of 2013 survey. For example, in the first quarter of 2013, respondents predicted that the job availability index for the second quarter of 2013 would be 66.0. The actual index was 50.0.

Figure 3: LMI Household Indicators (4Q2010 to 2Q2013)

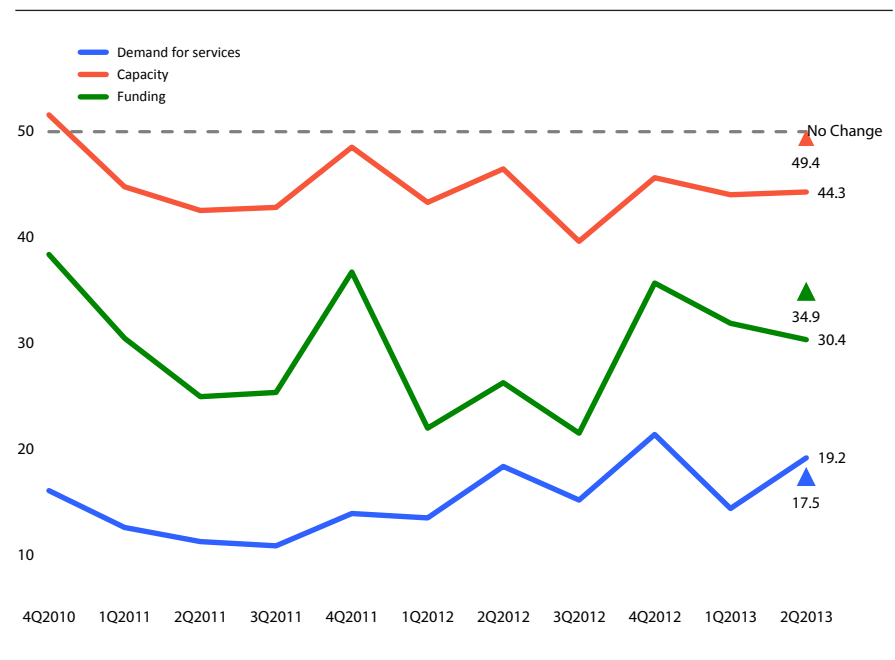


Triangles display respondents' expectations for 2Q2013 based on responses from 1Q2013 survey.
Source: Federal Reserve Bank of Philadelphia

For the household indexes (Figure 3), expectations for the second quarter were significantly more positive than observed levels. Despite the job availability index dipping from 55.8 in the fourth quarter of 2012 to 51.9 in the first quarter of 2013, respondents expected that it would rebound in the second quarter and reach a high of 66.0. Instead, the index continued to fall to a neutral level of 50.0, for a difference of 16 points. Each expected index was greater than the observed index by a significant margin.

Respondents' predictions for the organizational indexes (Figure 4) were more accurate than those for the household indexes. The expected capacity and funding indexes were greater than the actual numbers by a small margin, while the demand for services index performed better than anticipated, albeit only slightly.

Figure 4: LMI Organizational Indicators (4Q2010 to 2Q2013)



Triangles display respondents' expectations for 2Q2013 based on responses from 1Q2013 survey.
Source: Federal Reserve Bank of Philadelphia

Table 2: Challenges Across Time*

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Challenges affecting LMI households' access to credit											
Underwriting standards/credit ratings	83	71	74	71	75	75	62	72	66	72	84
Lack of financial knowledge	79	74	77	71	60	78	68	65	66	72	71
Lack of cash flow	77	73	70	77	77	71	62	72	66	70	66
Lack of trust in banks	31	24	24	18	23	37	24	22	16	22	20
Interest rates and other lending costs	29	20	17	13	9	20	17	14	26	31	28
Regulatory issues	18	18	23	9	14	14	14	11	12	15	8
Challenges affecting the availability of affordable housing in community											
Lack of capital	72	73	63	68	69	74	69	75	74	77	66
Development costs**	65	57	67	55	59	66	49	62	56	55	63
Competition for grant/subsidy funding	62	58	64	70	69	64	63	72	56	65	61
Organizational capacity	33	33	29	27	22	31	19	31	27	25	23
Regulatory issues	21	24	17	20	26	21	10	18	18	18	18
Community opposition	22	20	35	28	26	31	22	20	27	23	29
Lack of demand	1	2	3	5	3	2	4	5	0	1	2
Challenges affecting organization's financial sustainability											
Lack of government funding	76	77	75	81	79	77	81	78	77	86	61
Lack of grant funding	68	72	68	76	74	72	67	72	69	67	67
Market conditions/lack of earned income	33	41	36	20	34	28	39	34	31	36	36
Lack of bank financing	18	15	14	15	10	10	13	5	14	22	18

*Respondents were permitted to select more than one category.
**Beginning in 3Q2011, the category "costs" was changed to "development costs."
Source: Federal Reserve Bank of Philadelphia

Challenges

Each quarter, we ask survey participants to select the challenges they believe are most detrimental to LMI households' access to credit, the availability of affordable housing, and their organizations' financial sustainability. Table 2 displays the percentage of respondents who selected each category over time. For example, in the second quarter of 2013, 83 percent

of respondents believed that bank underwriting standards and LMI households' credit ratings were major obstacles impeding LMI households' access to credit. Boxes are filled based on the percentage of respondents who selected each category. Notably, the main inhibiting factors from 11 quarters ago are still just as prevalent in the current quarter.

Selected Comments

In each survey, we ask respondents to share challenges that have inhibited their ability to provide services to LMI households in addition to general observations about their organization or service area. Selected comments from their responses are included below. The comments have been edited for publication.

Access to Credit

"Bank's standards have to be reevaluated and eased up if you want to successfully help these households. People that can afford rentals that are equivalent to a mortgage and other housing costs are not able to get credit."

"A majority of our clients are low- and moderate-income individuals who wish to start their own business, but we have found that these individuals are unable to take the next step because they do not have access to capital and/or their credit is such that they are not bankable."

"We developed 18 housing units that are ready for purchase, but it's very difficult to get financing from banks for LMI people. Therefore, the housing sits instead of selling as it would have in short order five years ago."

Affordable Housing

"In the last year, we have begun to cultivate relationships with landlords and have found that it allows us to assist our clients in finding good housing and provides landlords with support when dealing with tenant issues. Now landlords call us when they have vacancies and refer tenants in need to us before pursuing eviction."

"Fair market rent is an issue in our service area. Clearfield County landlords in rural areas are increasing rents due to Marcellus Shale competition and do not take care of these apartments. We often encounter issues with heating in these units. In Centre County, the market is uncontrollable because of Penn State and completely unaffordable for renters. They must pay 50 percent or more of their income just for rent."

"Past evictions and judgments really adversely affect families' ability to get back into housing even after they've secured employment."

"There is an ever increasing reluctance by government to provide funding mechanisms for low-income housing."

"The Marcellus Shale industry continues to impact our residents. At the present time, pipeline installation workers are causing a housing shortage and the number of available units continues to fall. This problem will continue for the next five to seven years."

Emergency & Transitional Housing

"Our county wants to switch to a method for reimbursing us for Emergency Shelter Grant (ESG) housing expenses based on families moving into permanent housing rather than nights of service or actual costs. As a result, we would get nothing if a resident were to be evicted for drug use, for example. We discussed the issue with the Housing Authority, and for now they are not implementing that system."

"HUD is pushing to move people from emergency and transitional housing into permanent housing within 20 days, which is totally unrealistic. Given weekends, that really translates into 16 days. With 24 rooms and one case manager, we would have to move the equivalent of one and a half households every day. There is not much affordable housing in our area, and there is another agency in charge of rapid rehousing, so our funding is at risk because of factors beyond our control, and often beyond the control of the residents. Who can get a job, arrange for child care, and find a place to live in 16 working days?"

"Government grants, especially Emergency Shelter Grants (ESG), now require dollar for dollar matches from the community. However, community giving, especially from small businesses, is significantly down."

Financial Literacy

"We have developed a microlending program that relies on the group dynamic to begin to move these individuals from unbankable to bankable. Through follow-up training, these individuals learn hands on how to manage their financial situation, access and deploy capital, and begin the slow march to personal empowerment through financial literacy."

Funding

“There have been at least two times in the past two years when funding commitments from governmental entities were decreased during the fiscal year. Since we could not cease services to clients or reduce staff, we reallocated unrestricted resources to meet the need. This allowed services to continue, but created the challenge of operating this year with minimal or no cash reserves; which could translate into a disaster if there is a reoccurrence of funding cutbacks.”

“Most of our agency’s challenges currently relate to lower funding and the probability that this situation will not improve and may get worse in the coming year(s).”

“Our agency does not have enough money to provide the services our residents need to have. Congress does not understand the significance of the Baby Boomer population running through the retirement cycle and needing affordable housing. Congress has cut new construction spending for HUD for the past two years to zero.”

“Need is tremendous and funding is getting tougher.”

“Cuts in Pennsylvania’s general assistance programs have had a devastating effect on our clients.”

“The governor’s refusal to expand Medicaid has been of significant concern, as this will impact our clients’ ability to access basic medical care.”

Home Repair, Energy Conservation & Weatherization

“It is challenging to make existing historic, low-income housing more energy efficient. We are still looking for grants/investments to cover replacing windows, furnaces, etc. because energy costs are too high for low-income renters.”

“All of our low-income housing is scattered-site properties in the historic district of our city. Renovations are strictly regulated and very costly as are the operating costs of these properties. Since nothing is standard, every repair or improvement is a custom project. We have some empty units because the utility costs are higher than the rent.”

“There needs to be more funding for housing revitalization/ weatherization programs for an aging population and housing stock.”

Job Availability

“With the ever tightening regional job market, job seekers are accepting positions with salaries lower than what they previously earned. This pattern creates a downward cycle that negatively impacts the unemployed and underemployed. Entry-level and

minimum-wage jobs that in the past have been available to them are now taken by those with more skills who are accepting lower-paying positions.”

“There is a lack of employment options that pay enough to cover household costs.”

“We have had difficulty locating employment opportunities for individuals with barriers to employment. Strong employment is needed to be able to save for the down payment on a home.”

“Job creation is the biggest issue we see. People are willing to work; they just can’t find sustainable wages. Most are working two part-time jobs and with looming healthcare costs, that will stress the households that much more.”

Workforce Development

“We started a program in which we offset housing costs while parents attend short-term, skill-based technical/trade schools. The program is currently helping two families have a living wage and thus be able to afford market-value rent and provide for their family.”

Miscellaneous

“Everything about LMI households is increasing: the numbers of families, the number in families, the number and complexity of families’ issues; the length of time the issues have existed; the growing number of resources needed to address the issues; the challenges of coordinating the various requirements of the agencies with whom the families are involved; and a family’s willingness, ability, and means to comply with various requirements.”

“The astronomical interest rates that some people pay for other necessities like transportation or education are eating into money they need for food, housing, clothing, and other items. This inhibits people’s ability to save and build wealth.”

“Many times after we met with families they just seemed to disappear and did not keep in touch with us, so we have tried to streamline the process and make it easy for families to meet with us outside normal business hours. We will also go to them if transportation is an issue for the family.”

“Electricity bills stand in many people’s way to get into housing; we have seen them as high as \$3,500 before a shut-off will occur. This will lead the family to have to take care of the bill prior to getting into a unit because they would not be able to turn on electric/power in their name.”

“We find the LMI households are facing a number of issues that impact their self-sufficiency. It isn’t just that they need a job or need affordable housing — those issues alone would be easy to fix. We find that a lifetime of setbacks and poor choices make

getting a job and finding housing difficult. Poor credit, histories of eviction, and criminal background histories make it so the families can't even access the jobs and housing that do exist."

"Poverty isn't just about a lack of money or resources. It is about expectations, mindsets, imposed labeling, and even agencies facilitating a 'systematizing' of people (and even our services), forgetting that the 'tools' that are available to assist getting people to sustainability are just that, tools, not another form of dependency. We have failed in helping our clients realize that 'subsidized housing' isn't an end result, but another step towards something better."

"People were coming in to us one at a time to apply for a home, but they would get a different story depending on who they talked to. We have since standardized an application seminar that all new applicants must attend. Everyone hears the same story at the same time. In addition, we have added a Spanish translator in the seminar and will be hiring another bilingual person to assist in the process."

"When there is a crisis within a home, the resources and choices for extending the family's financials need to be offered immediately. Many times households do not know about hardship programs that may be able to keep them afloat."

Survey Methodology

January 2011 marked the launch of the Federal Reserve Bank of Philadelphia's Community Outlook Survey, a quarterly online poll. Respondents represent a variety of organizations providing services to LMI populations throughout the Third District, and the survey is sent to one representative per organization. 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 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. There is some variation in respondents from quarter to quarter, and the data collected represent the opinions of those organizations that responded, not the opinions of all service providers to LMI populations in the Third Federal Reserve District.



To view this survey online, scan your smartphone here.

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