

# COMMUNITY OUTLOOK SURVEY

COMMUNITY DEVELOPMENT STUDIES AND EDUCATION DEPARTMENT

## Financial Well-Being of LMI Households Declines for Another Quarter

### 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. Because 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.

### Survey Results

In October 2011, the Federal Reserve Bank of Philadelphia polled service providers to evaluate changes in factors affecting LMI populations from the second quarter to the third quarter of 2011. Specifically, respondents were asked about the availability of jobs and affordable housing, as well as LMI populations' general financial well-being and access to credit. To better understand the degree to which the needs of LMI households are being

met, servicers were also asked about the demand for their services, their organizations' capacity to serve their clients, and the adequacy of their funding.

In addition, the survey also solicited respondents' expectations about these factors for the fourth quarter of 2011. Table 1 provides a summary of the responses.

**Table 1:  
Responses**

		3rd Quarter 2011 vs. 2nd Quarter 2011			Expectations for 4th Quarter 2011		
		Percent Increase	Percent No Change	Percent Decrease	Percent Increase	Percent No Change	Percent Decrease
Household Factors	Availability of jobs	6.8	52.5	40.7	24.6	54.4	21.1
	Availability of affordable housing	10.3	56.9	32.8	17.9	57.1	25.0
	Financial well-being	1.5	41.5	56.9	11.3	46.8	41.9
	Access to credit	1.6	53.2	45.2	6.7	66.7	26.7
Organization Factors	Demand for services to LMI households	78.1	21.9	0.0	78.1	21.9	0.0
	Capacity to serve clients' needs	12.7	60.3	27.0	19.0	55.6	25.4
	Organization funding	9.5	31.7	58.7	17.5	36.5	46.0

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

Source: Federal Reserve Bank of Philadelphia

A diffusion index is used to summarize the responses from Table 1. The index is calculated for each factor by aggregating the percentage of respondents who indicated an increase with half the percentage of respondents who indicated no change, and then multiplying by 100. The diffusion index captures the overall response for each factor, expressing it as a single number. Numbers above 50 indicate an overall increase in the factor, while numbers below 50 indicate an overall decrease. Likewise, an index of exactly 50 suggests that there was no change in the factor from one quarter to the next. Table 2 displays the diffusion indexes for the current survey, as well as for the second quarter 2011 survey.

**Table 2:  
Diffusion Indexes**

		Current Survey: 3rd Quarter 2011		Previous Survey: 2nd Quarter 2011	
		(1)	(2)	(3)	(4)
		Observed	Expected	Observed	Expected
		2011:Q3 vs. 2011:Q2	2011:Q4 vs. 2011:Q3	2011:Q2 vs. 2011:Q1	2011:Q3 vs. 2011:Q2
Household Factors	Availability of jobs	33	52	43	51
	Availability of affordable housing	39	46	42	47
	Financial well-being	22	35	31	36
	Access to credit	28	40	35	39
Organization Factors	Demand for services to LMI households	89	89	89	79
	Capacity to serve clients' needs	43	47	43	41
	Organization funding	25	36	25	31

Note: Indexes may vary slightly when calculated from Table 1 due to rounding.

Source: Federal Reserve Bank of Philadelphia

## General Findings

The results of the survey reveal a negative trend consistent with previous surveys. With the exception of LMI households' demand for organizations' services, the diffusion indexes for each of the factors listed in Column 1 of Table 2 are less than 50, indicating that respondents reported a decline in these factors. The largest decreases for household factors were observed in financial well-being and access to credit, with diffusion indexes of 22 and 28, respectively, and the largest decrease for organization factors was in funding, with a diffusion index of 25. Conversely, the diffusion index representing the demand for services to LMI households (89) is far above 50, indicating that respondents reported a strong increase in this factor.

It is interesting to note that the diffusion indexes for all three organization factors are the same as those reported in the previous quarter (Column 3). In contrast, the indexes for the household factors are lower than those observed in the second quarter by margins of -10, -3, -9, and -7, respectively, thus indicating that respondents perceive that the rate at which the conditions of LMI households decreased over the third quarter was higher than that same rate in the second quarter. This finding is reflected in the responses as well. For example, while 39 percent of respondents reported a decrease in financial well-being over the second quarter (Table 1 of previous survey), 56.9 percent reported a decrease in the third quarter (Table 1 above). In fact, for each household factor, a greater percentage of those surveyed reported a decrease in the third quarter than in the second quarter.

Focusing our attention on the respondents' expectations for the fourth quarter (Column 2), the diffusion indexes generally suggest that those surveyed believe that the situation of LMI households will continue to deteriorate as 2012 approaches. Although service providers expect a marginal increase in job availability in the fourth quarter (52), the availability of affordable housing and the financial well-being and access to credit for LMI households are anticipated to decline, but less than the decreases observed in the third quarter. A similar trend holds for the organizations' capacity to serve clients' needs and the funding for their organizations. Respondents also expect an increase in the demand for their services to LMI households in the next quarter that mirrors the increase observed in the third quarter.

In each of the previous surveys, respondents indicated their expectations about changes in household and organization factors for the next quarter. Table 3 shows a comparison of their expectations to the actual or observed change as measured by the diffusion indexes. For example, in the fourth quarter of 2010, respondents' expectations about the availability of jobs for LMI households were represented by a diffusion index of 60. However, the observed change in the following quarter (first quarter of 2011) was represented by a diffusion index of 47.2, resulting in a difference of -12.8. Thus, a negative differential in the table indicates that the observed factor was lower than expected (i.e., an overestimation), while a positive differential indicates that the factor was higher than expected (i.e., an underestimation).

**Table 3: Diffusion Index Differentials**

		2011 Q1 vs. 2010 Q4			2011 Q2 vs. 2011 Q1			2011 Q3 vs. 2011 Q2		
		Observed	Expected	Difference	Observed	Expected	Difference	Observed	Expected	Difference
Household Factors	Availability of jobs	47.2	60.0	-12.8	42.8	64.1	-21.3	33.1	51.5	-18.4
	Availability of affordable housing	38.2	48.3	-10.1	42.0	50.0	-8.0	38.8	47.0	-8.2
	Financial well-being	21.3	42.4	-21.1	31.2	40.7	-9.5	22.3	36.5	-14.2
	Access to credit	22.5	43.3	-20.8	35.2	39.1	-3.9	28.2	38.6	-10.3*
Organization Factors	Demand for services to LMI households	87.3	87.8	-0.4*	88.7	83.8	4.9	89.1	79.5	9.6
	Capacity to serve clients' needs	44.8	54.8	-10.0	42.6	36.7	5.9	42.9	41.0	1.9
	Organization funding	30.5	38.2	-7.7	25.0	27.9	-2.9	25.4	31.3	-5.9

\*Note: Values may vary slightly when calculated due to rounding.

Source: Federal Reserve Bank of Philadelphia

Table 3 reveals several noteworthy points. When asked to report on the next quarter, respondents seem to be consistently optimistic about the conditions facing households; that is, observed conditions are consistently worse than expected. Of the four household factors, only the respondents' expectations about the availability of affordable housing tended to converge toward the observed change over time. The organization factors depict a slightly different story. Although respondents overestimated organization funding in all three instances (2011 Q1 vs. 2010 Q4, 2011 Q2 vs. 2011 Q1, and 2011 Q3 vs. 2011 Q2), the demand for services to LMI households and the capacity to serve clients' needs were initially overestimated and subsequently underestimated. While there is no discernible pattern at this time, we will continue to monitor the differentials in future surveys.

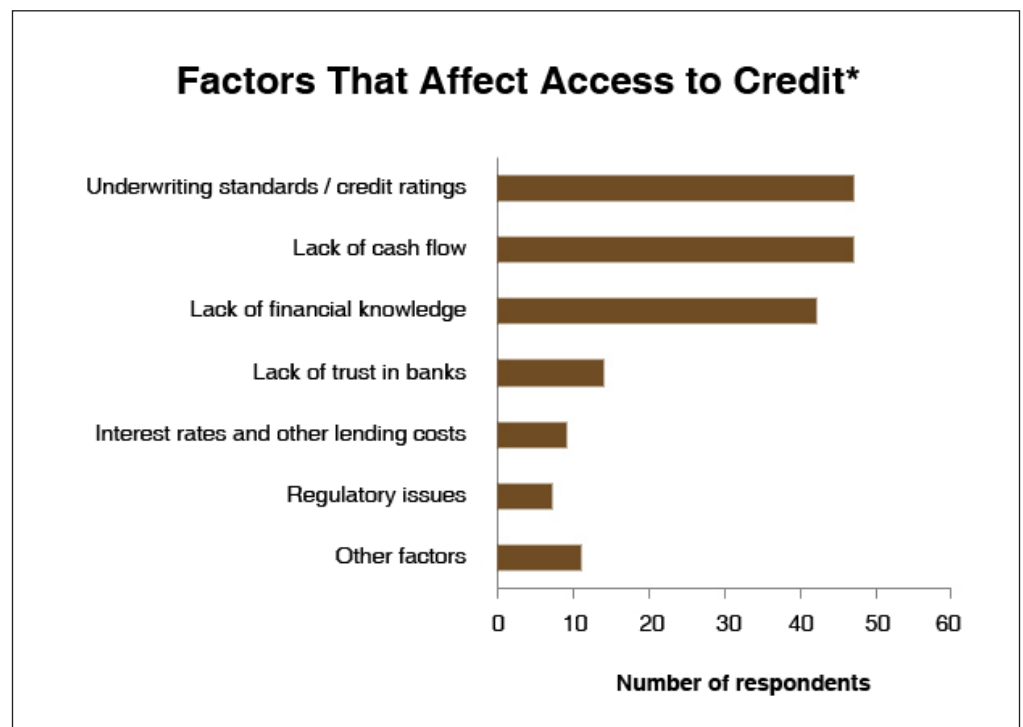
**Factors That Affect Access to Credit**

Respondents were asked which factors most affect their LMI clients' access to credit. According to the LMI service providers that participated, the three most significant factors are underwriting standards/credit ratings, lack of cash flow, and lack of financial knowledge. These findings are consistent with the results of previous surveys. The chart to the right displays the responses.

\*Note: Respondents could check more than one box.

Source: Federal Reserve Bank of Philadelphia

**Chart 1**



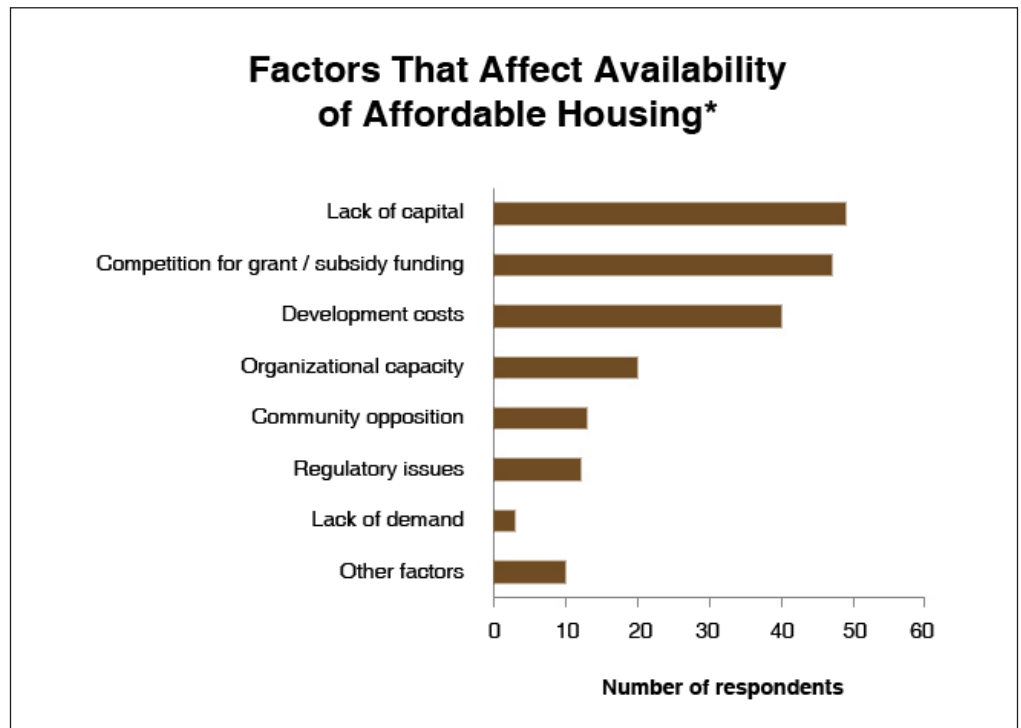
## Factors That Affect the Availability of Affordable Housing

Respondents were asked which factors most affect the availability of affordable housing. The chart to the right displays their responses. The three main factors cited were lack of capital, competition for grant/subsidy funding, and development costs. These results are consistent with previous surveys.

*\*Note: Respondents could check more than one box.*

Source: Federal Reserve Bank of Philadelphia

Chart 2



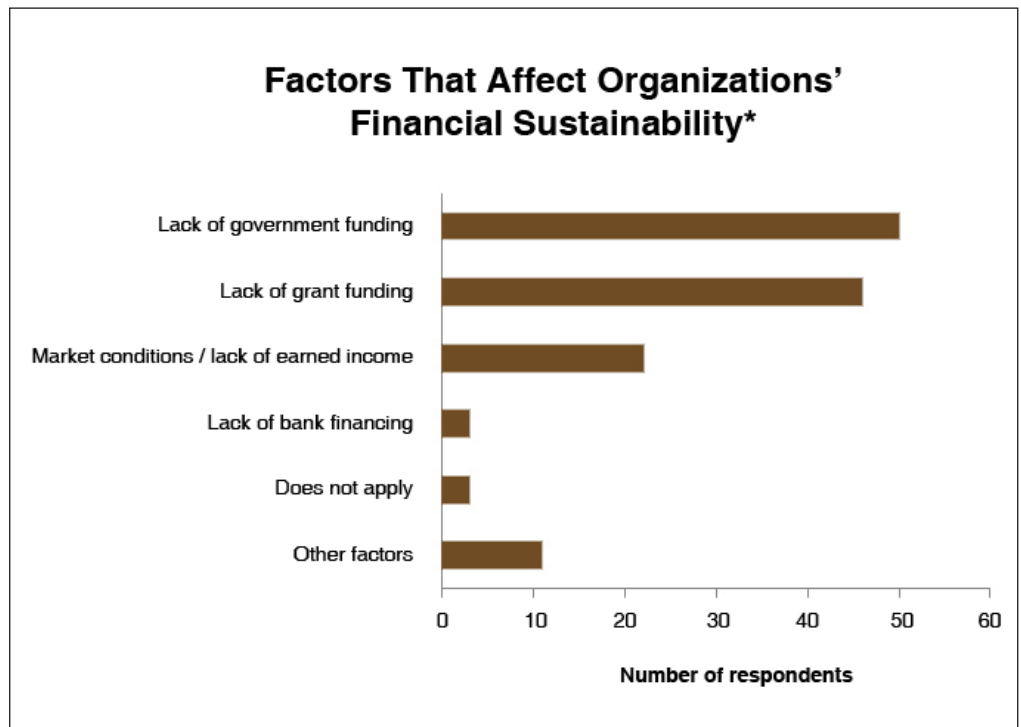
## Factors That Affect Organizations' Financial Sustainability

Respondents were asked which factors most affect the financial sustainability of their organizations. Their responses are shown in the chart to the right. The two main factors cited were lack of government funding and lack of grant funding. These factors were most frequently cited in previous surveys as well.

*\*Note: Respondents could check more than one box.*

Source: Federal Reserve Bank of Philadelphia

Chart 3



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

## Additional Insights

The Community Outlook Survey also asks nonprofit service providers for additional information on measures their organizations have taken to cope with financial or capacity constraints. A majority of respondents indicate they have been forced to lay off staff members and increase fundraising as well as place increased scrutiny on expenses in order to stay afloat. Furthermore, many organizations have begun pursuing more diversified grant opportunities. In some cases, organizations have chosen to streamline operations or develop entirely new business plans to contend with smaller budgets.

## Selected Comments

Some selected comments from survey responses are included below. The comments have been edited for publication.

“Affordable rental housing is a major factor. LMI households face increasing competition from former homeowners and higher-income households in the rental market.”

“Job instability creates concerns about committing to long-term obligations such as a mortgage.”

“The combined decrease in subsidies and higher costs are likely to result in higher levels of homelessness in 2012 (when assistance like HUD’s HPRP stimulus program and the Section 8 voucher program will be cut). For instance, many adults in PA lost basic health care last year, CHOP costs have increased for their children, and Title XX day care funding was cut back, just as the electric deregulation occurred. The number of households that are paying far in excess of 35 percent of their income toward housing is growing, leading to far greater numbers that are imminently homeless.”

“Do not underestimate the importance of disseminating information about programs and services to LMI households by people (human beings) that residents can trust.”

“The continued funding challenges are causing the nonprofit world to lose key staff members that are leaving for more secure careers. This exodus is diminishing our capacity, which will take years to recover.”

“LMI households are impacted the hardest by the recession. They already struggle to make financial ends meet. Some of these households are worried about making the rent and keeping their homes. This is the result of loss of employment and loss of hours.”

“Government cuts are impacting low-income households most. Moderate-income families (typically one wage earner) do not qualify for any programs. Recently qualifying “Moderate Income” households are under the impression that there are programs that can/will help them, and a full safety net of social services for all their needs. They are shocked to learn that they will have to lose most of what they have before they become “eligible” for assistance. At a time when

our requests for services are at their highest ever, we have to slash services due to cutbacks. While the expectation is savings, they are short term. The result will be (make that “is”) more families sliding into low income/poverty, and this will be long term and devastating.”

“Serving these households has become more difficult. Many are now falling into poverty from the middle class and they have no survival skills. They do not know where to go, who to ask, or even what to ask. This is a fundamental shift for our middle class, and it will hurt our national economy for many years to come.”

“Financial institutions have to increase their support of nonprofits and decrease their appetite for increasing fees on consumers. Taxes have to be raised on the wealthy (over \$1 million). Immigration reform will be a boost to the economy as more folks will be eligible to borrow and spend.”

“The Marcellus Shale industry influx of employees continues to directly impact available housing in the area.”

“The continued cuts in funding are creating a situation that is becoming dire.”

“Mortgage modifications should be made easier for LMI homeownership households. It should be as easy for LMI homeowners that have FHA or other quasi-federally backed mortgages to get a modification as it is for middle- to upper-income homeowners with in-house bank-financed mortgages to get a loan modification.”

“Nonprofits are going out of business.”

“We need to fix the K-12 public education system in order to provide a stable and qualified work force.”

“People we see are hanging on by a financial thread. So many more families are coming to us for help. The price of gasoline is making it difficult for people to get to work or their children to school, or even sustain having an automobile. Food prices have increased greatly and make it hard for those LMI households to buy enough food to feed their families; it also affects our budget and our capacity to meet the increasing demand for our services.”