

# COMMUNITY OUTLOOK SURVEY

COMMUNITY DEVELOPMENT STUDIES AND EDUCATION DEPARTMENT

## Service Providers of LMI Communities Continue to Face Financial Stress

### 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 eastern Pennsylvania. To see previous reports or to register as a survey respondent, please visit <http://www.philadelphiafed.org/community-development/community-outlook-survey/>.

### Overview

Sixty service providers responded to the survey in October and evaluated several key indicators affecting the LMI community. Although there was little change in the conditions facing households, there was a decline in the conditions facing the organizations providing services to those households. In particular, service providers continued to struggle with reductions in funding, with most of the cuts coming from a pullback in government spending. This steady decline in resources does not bode well for future quarters, especially when coupled with consistently high demand for services. Although the increase in job availability may seem to provide a glimmer of hope in this quarter's survey, the increase was negligible and is likely too small to provide a foundation for improvement in the other indicators.

Figure 1 and Table 1 provide a breakdown of the types of services provided by the organizations surveyed and summarize their responses pertaining to changes in various indicators affecting the LMI community and their organizations. Table 2 calculates the third quarter diffusion indexes, which measure the dispersion of the change in conditions relative to the second quarter of 2012, and compares the indexes with the diffusion indexes from the previous quarter (2Q2012) and four quarters ago (3Q2011). The computation of the diffusion indexes is shown in the footnote on page 3. Figures 2 to 5 display changes in the indicators over time and examine how

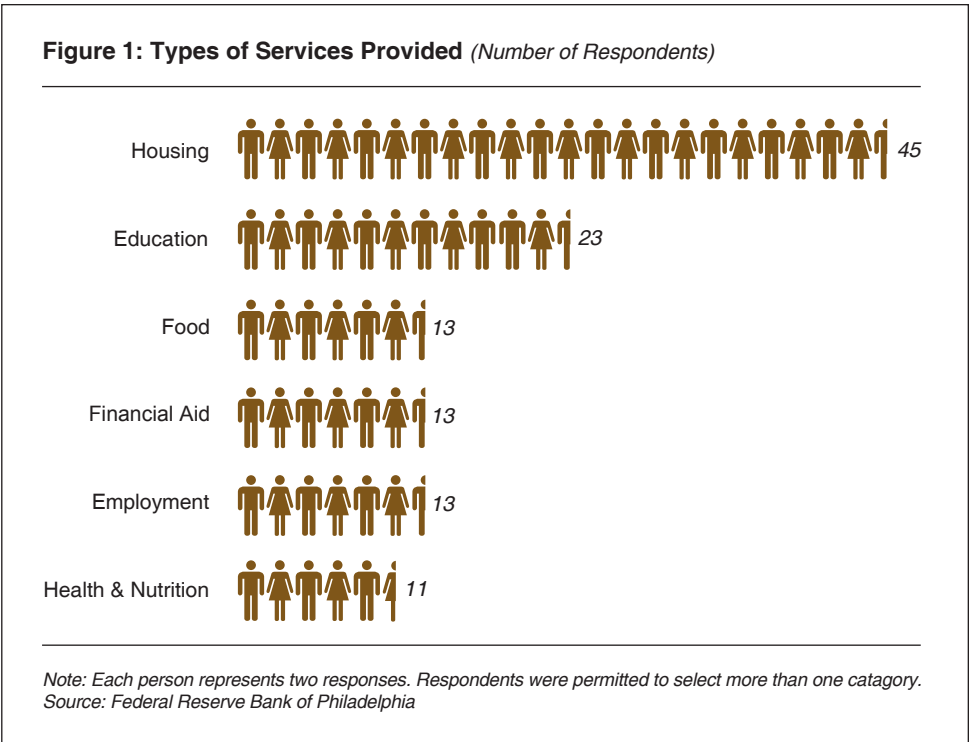
changes in the indexes observed in the third quarter of 2012 compare with respondents' expectations contained in the previous survey. Table 3 ranks the top challenges facing LMI service providers over time. The last section contains selected comments made by respondents.

### Respondent Breakdown and Observations

The service providers that received the third quarter survey offer a broad range of services to LMI households. Of those that responded, three are headquartered in Delaware, 11 in New Jersey, and 46 in Pennsylvania. However, the service areas for these organizations often include more than one state.

Service providers were asked to report their organizations' operating budget for the current fiscal year. Twenty-five percent of the responses were below \$0.6 million, while 25 percent were above \$7 million. However, the operating budgets reported had a wide variance; some organizations reported budgets of less than \$0.2 million, while others indicated budgets greater than \$25 million. We also asked respondents to indicate which types of services they offered to LMI communities. Seventy-eight percent of the service providers that responded offer housing services, while 40 percent provide educational assistance. Fifty-two percent indicated that they offered more than one type of assistance. The complete results are displayed in Figure 1.

In each survey we elicit respondents' opinions of how conditions affecting LMI households and their organizations' ability to provide services to those households have changed in the current quarter (3Q2012) relative to the previous quarter (2Q2012) as well as expectations for those same indicators in the upcoming quarter (4Q2012). More specifically, respondents are asked to answer multiple-choice questions regarding job availability, affordable housing availability, financial well-being, and access to credit for LMI populations in addition to questions about the demand for their organizations' services, their organizations' capacity to serve their clients, and the adequacy of their funding. The aggregated responses can be found in Table 1.



**Table 1: Survey Responses** (Percentages)

	3rd Qtr 2012 v. 2nd Qtr 2012			Expectation for 4th Qtr 2012		
	Increase	No Change	Decrease	Increase	No Change	Decrease
<b>Household Indicators</b>						
Job availability	23	57	20	44	49	7
Availability of affordable housing	11	59	30	25	52	23
Financial well-being	9	55	36	25	54	21
Access to credit	13	57	30	17	61	22
<b>Organizational Indicators</b>						
Demand for services	71	27	2	59	39	2
Organizational capacity	12	55	33	17	60	22
Organizational funding	3	36	60	17	47	36

Note: Percentages may not add up to 100 due to rounding  
Source: Federal Reserve Bank of Philadelphia

For all household indicators, 55 to 59 percent of respondents reported that conditions remained unchanged in the third quarter. While these values seem to point to stagnation in the indicators, the same values from the second quarter ranged from 70 to 78 (see corresponding Table 1 in the Second Quarter 2012 survey), which suggests that there was actually more volatility in household conditions relative to the previous survey. Similarly, 55 percent of respondents believed that organizational capacity was unchanged in the third quarter, down from 65 percent in the second quarter. Less than half indicated that demand for

services and funding did not change. Seventy-one percent reported increases in demand for services, while 60 percent reported decreases in funding.

Expectations for the fourth quarter of 2012 are optimistic; a greater percentage of respondents anticipate improvements in all seven indicators relative to the current quarter. Furthermore, the number of service providers that are predicting increases in job availability, affordable housing availability, and financial well-being is greater than the number anticipating decreases.

## Diffusion Indexes

The diffusion indexes\* from the third quarter survey are shown in Column A of Table 2. Indexes above 50 signal an overall improvement, while those below 50 signal an overall decline. An index of exactly 50 indicates that conditions remained unchanged from one quarter to

the next. Only the demand for services index deviates from this rule, since an increase in the demand for an organization's services is deemed to be a sign of the declining welfare of LMI people. Consequently, a value above 50 for this index indicates a decline in conditions.

**Table 2: Diffusion Indexes for Low- and Moderate-Income Indicators**

	A	B	C*	D	E**
	3rd Qtr 2012	2nd Qtr 2012	1 Qtr Change	3rd Qtr 2011	1 Year Change
<b>Current conditions relative to previous quarter</b>					
Job availability	51.8	46.3	5.5	33.1	18.7
Availability of affordable housing	40.2	46.3	<b>-6.1</b>	38.8	1.4
Financial well-being	36.2	39.3	<b>-3.1</b>	22.3	13.9
Access to credit	41.5	39.2	2.3	28.2	13.3
Demand for services	84.7	81.6	<b>3.2</b>	89.1	-4.3
Organizational capacity	39.7	46.5	<b>-6.8</b>	42.9	<b>-3.2</b>
Organizational funding	21.6	26.3	<b>-4.8</b>	25.4	<b>-3.8</b>
	4th Qtr 2012	3rd Qtr 2012	1 Qtr Change	4th Qtr 2011	1 Year Change
<b>Expectations for conditions over the next quarter</b>					
Job availability	68.2	50.9	17.2	51.8	16.4
Availability of affordable housing	51.0	50.0	1.0	46.4	4.5
Financial well-being	51.8	44.5	7.2	34.7	17.1
Access to credit	47.2	46.0	1.2	40.0	7.2
Demand for services	78.8	83.0	-4.2	89.1	-10.2
Organizational capacity	47.4	49.1	<b>-1.7</b>	46.8	0.6
Organizational funding	40.5	39.3	1.2	35.7	4.8

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

Changes may appear off due to rounding.

\*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 job availability index rebounded in the third quarter, increasing by 5.5 points, from 46.3 to 51.8. The index suggests a slight improvement in job availability relative to the second quarter and marks the third time in four quarters that the index has exceeded 50. The access to credit index (41.5) also increased compared with the previous quarter's (39.2) but still points to a substantial deterioration in LMI households' ability to gain access to credit. The remaining indexes not only signify worsening conditions, but they are also lower than those of the previous quarter, which indicates that the rate of decline for those conditions is more pronounced. The indexes for both organizational capacity and organizational funding

reached their lowest levels since we began administering the survey in the fourth quarter of 2010, a troubling sign that will likely affect LMI households in future quarters.

Shifting our attention to Columns D and E in Table 2, we can assess the changes in the various indexes from the previous year. Five of the seven indexes improved relative to their values from one year ago, with the largest improvements coming in job availability, financial well-being, and access to credit. Although the indexes for organizational capacity and organizational funding hit an all-time low, they are only moderately worse than those in the third quarter of 2011.

\*The 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. See Table 1 for percentages.

## Expectations

The indexes measuring respondents' expectations for the fourth quarter of 2012 remain close to their corresponding values from the previous survey (Table 2, Column B). The exception is the job availability index, which increased considerably, from 50.9 to 68.2. However, it should be noted that the job availability index exceeded 60 in both the first and the second quarter of 2012, so the large increase might be influenced by its position prior to the second quarter.

The values in Column E depict an improvement in all expected indexes relative to those from one year ago. The indexes suggest that respondents are more optimistic about the fourth quarter of 2012 than they were about the fourth quarter last year.

## Trends

Figure 2 illustrates the changes in the four household indexes since the advent of the survey. Points on the graph represent the diffusion indexes for each factor for the corresponding quarter. For instance, in the fourth quarter of 2010, the indexes for job availability and affordable housing availability were 40.1 and 39.4, respectively. The triangles represent respondents' expectations for the third quarter contained in the second quarter survey. For example, in the second quarter of 2012, respondents predicted that the index for financial well-being in the third quarter would be 44.5. The actual index was 36.2.

For the household indicators, respondents predicted the rate of change in job availability and access to credit fairly accurately; job availability was within 1 point of the value predicted in the second quarter (51.8 vs. 50.9), while access to credit was within 5 points. There was a more substantial margin of 9.8 and 8.3, respectively, for the indexes for affordable housing availability and financial well-being. Interestingly, the observed job availability index outperformed the expected index, the only household indicator to do so.

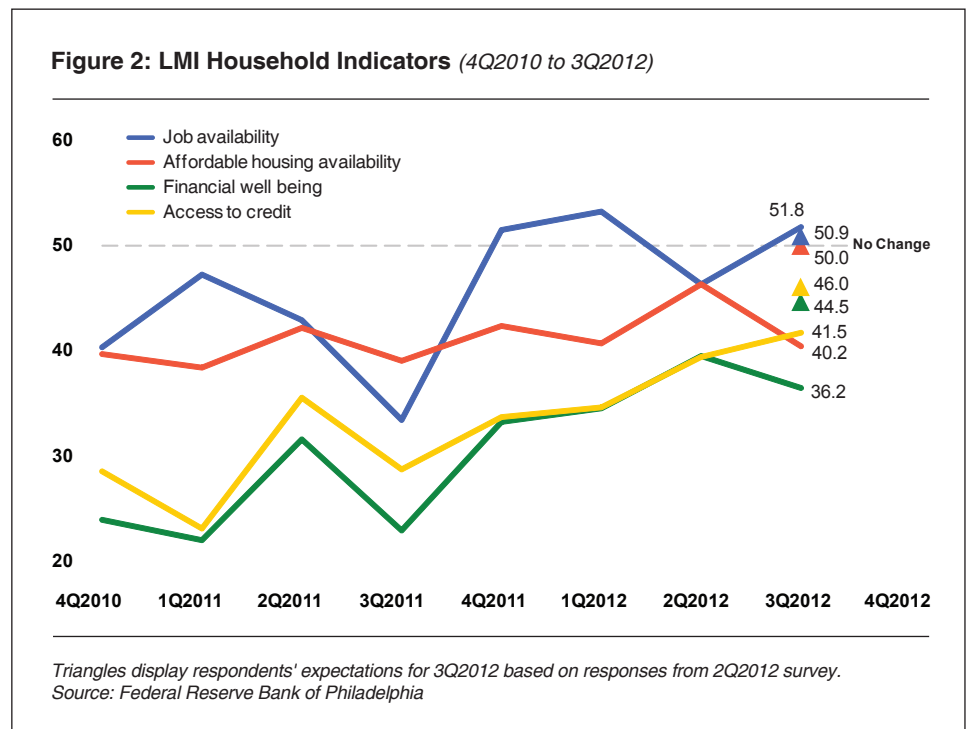
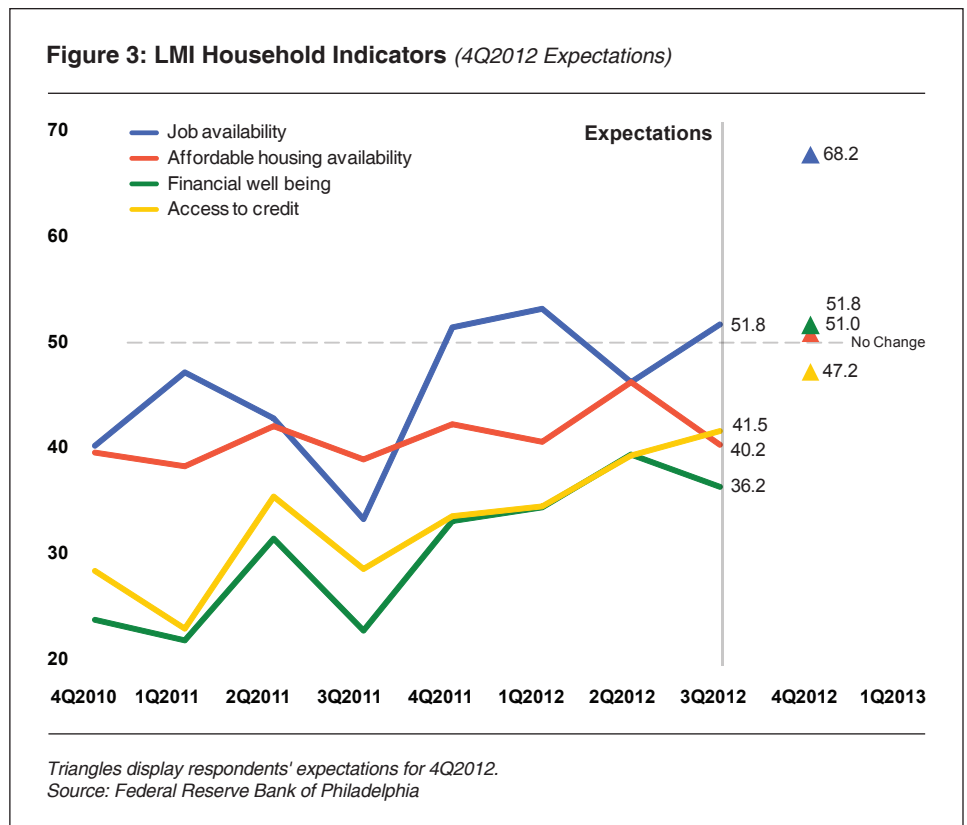
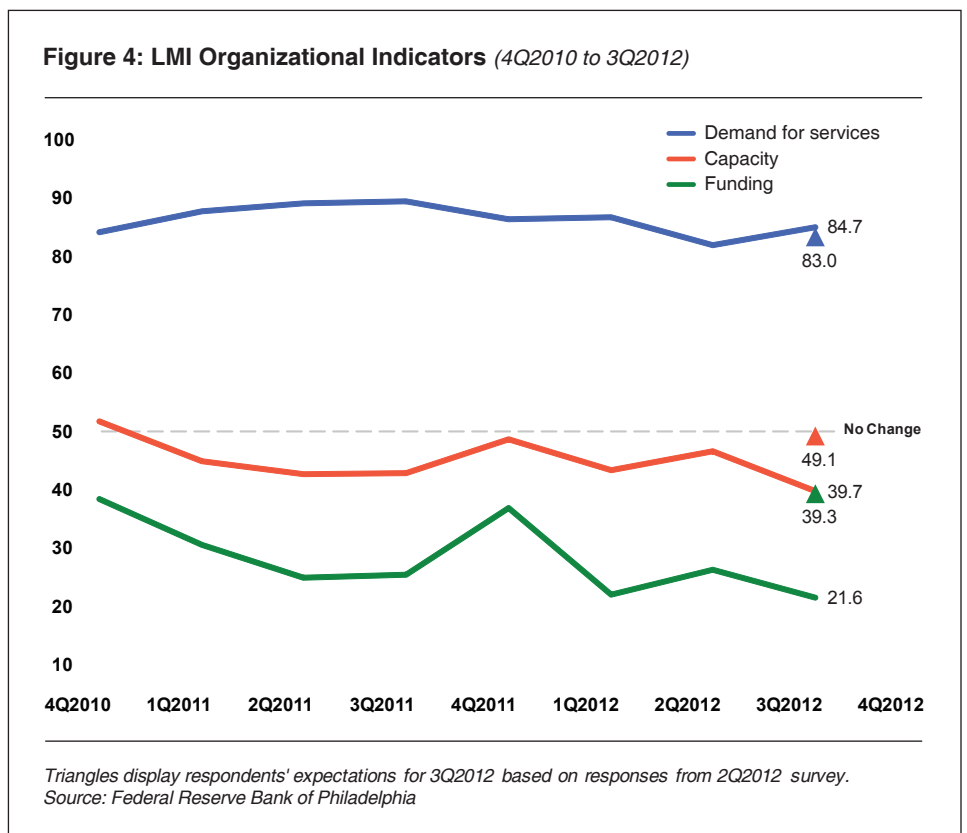


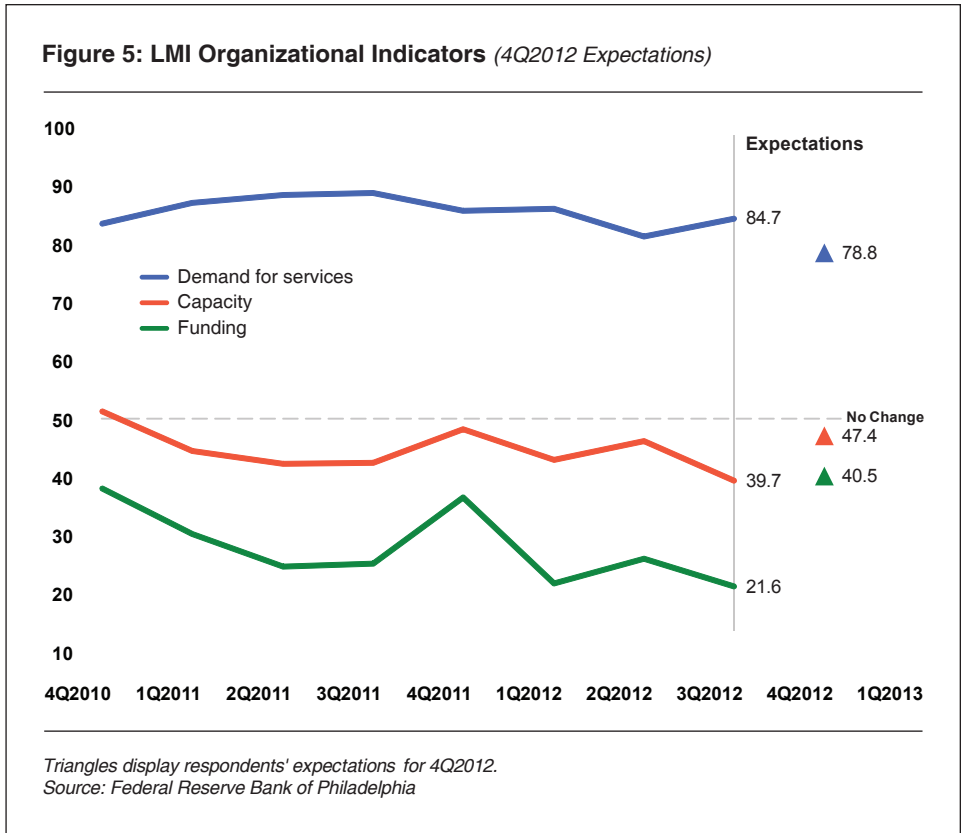
Figure 3 tracks the observed changes in the household indexes across time, but now the triangles depict respondents' expectations for the fourth quarter of 2012. Consistent with the pattern of optimism witnessed in past surveys, all of the expected indexes show improvement compared with the current indexes. Service providers expect job availability to increase significantly in the fourth quarter, but they anticipate that the other three indicators will show nominal declines or improvements.



Figures 4 and 5 display the trends for the organizational indicators. In Figure 4, it appears that respondents reasonably predicted the level of the index for demand for services but overestimated the indexes for capacity and funding.



In Figure 5, respondents anticipate that organizational capacity will decline slightly, but they expect a considerably larger decline in organizational funding. Respondents also anticipate that demand for their services will remain high but will still be less than in the third quarter.



## 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 3 (on the following page) displays the rankings from the current survey as well as past surveys.

The top three challenges from previous surveys remained in the top three in the third quarter of 2012. Seventy-seven percent of respondents cited lack of cash flow as

the greatest barrier to credit for LMI households, while 71 percent selected underwriting standards/credit ratings and a lack of financial knowledge. Seventy percent of respondents believe that competition for grant/subsidy funding was one of the main factors affecting affordable housing, while 68 and 59 percent, respectively, considered a lack of capital and development costs to be a major hindrance. Finally, 81 and 76 percent of those surveyed deemed a lack of government funding and a lack of grant funding to be impediments to their organizations' sustainability.

**Table 3: Comparison of Challenges Across Time\***

	Rank Q3 2012	Rank Q2 2012	Rank Q1 2012	Rank Q4 2011	Rank Q3 2011	Rank Q2 2011	Rank Q1 2011	Rank Q4 2010
<b>Challenges affecting LMI households' access to credit</b>								
Lack of cash flow	1	1	3	t2	t1	t1	3	3
Underwriting standards/credit ratings	t2	2	2	t2	t1	t1	t1	1
Lack of financial knowledge	t2	3	1	1	3	t1	t1	2
Lack of trust in banks	4	4	4	4	4	5	5	5
Interest rates and other lending costs	5	6	5	5	5	4	4	4
Regulatory issues	6	5	6	6	6	6	6	6
<b>Challenges affecting the availability of affordable housing in community</b>								
Competition for grant/subsidy funding	1	t1	3	2	2	t2	2	3
Lack of capital	2	t1	1	1	1	1	1	1
Development costs**	3	3	2	3	3	t2	3	2
Community opposition	4	t4	t4	4	5	t4	5	4
Organizational capacity	5	6	t4	5	4	t4	4	5
Regulatory issues	6	t4	6	6	6	6	6	6
Lack of demand	7	7	7	7	7	7	7	7
<b>Challenges affecting organization's financial sustainability</b>								
Lack of government funding	1	1	1	1	1	1	1	2
Lack of grant funding	2	2	2	2	2	2	2	1
Market conditions/lack of earned income	3	3	3	3	3	3	3	3
Lack of bank financing	4	4	4	4	4	4	4	4

\*Ranks preceded by a t indicate ties. 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

## 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.

### **Affordable Housing**

"Construction of the building is only one part of housing low-income folks. Providing rental subsidies is also required. We have a two- to three-year wait for some of our properties. Soft costs associated with tax credit development are very high and have a negative impact on the affordability of the project. A change in the regulatory environment that would reduce legal costs associated with tax credit development would be a big help."

"We provide elderly housing in the HUD 202 Section 8 program. So applicants must be at least 62 years old. Under 62 years old the applicant must be disabled and occupy designated handicapped units only. Both categories must income qualify, and we are finding that their gross income is exceeding the income limit that HUD sets. We also provide elderly housing in the USDA Rural Development 515 program and are experiencing the same problem, even though net income is compared to the published income limit. The affordable housing income limits need to be adjusted in order to accommodate the new elderly."

"New HUD Section 202 funding has been eliminated, essentially stopping all development that includes rental subsidy. It does no good to put up tax credit buildings if tenants can't afford to pay the rent. We are using substantial resources to rent up tax credit buildings that don't have rental subsidies in them."

“Competition for low income housing tax credit is stiff. The major challenge is getting the capital to fund projects that could add additional units. In our community there is so much vacancy that we could do multiple projects, but it takes too long to get the funding. Furthermore, the cost of new construction is too high to meet the current market values in the neighborhood.”

“Elderly refugees were denied access to Section 8 housing because of “bad credit.” Their lack of understanding contributed to the denial. We worked with low-income housing assistance agencies to overcome their credit rating and identify other affordable housing options. We are continuing to educate consumers about subsidized housing and establishing good credit.”

“We are trying to convince local leaders that affordable multi-family developments are not a detriment to communities.”

### ***Budget and Funding Cuts***

“The state of Pennsylvania has systematically cut access and funding for safety net programs, facilitating increasing demand for services with very large reductions in public funding for counties and organizations to provide services.”

“The loss of general assistance at the state level has had an impact on single women fleeing domestic violence. We have participated in advocacy to prevent this but were not successful, and the governor allowed the cut to take place. We anticipate that there will be additional fallout from this and other state budget cuts that were part of the social safety net for our communities’ most vulnerable individuals.”

“Cuts in state funding for mental health have severely affected our capacity to provide housing for people with serious mental illness. Also, the elimination of PA state public welfare general assistance has made it almost impossible for people affected to get mental health housing. Many of these people will end up homeless, especially since funding for homeless shelters was also cut in ours and surrounding counties. This will ultimately result in more hospitalizations, which will only cost the state more money in Medicaid dollars, probably more than they have saved by cutting general assistance and funding for homeless shelters.”

“The uncertainty around funding continues to be a serious challenge in providing services to LMI clients. We are working on an earned income project that over the long term may alleviate dependency on this type of funding.”

“The cuts in general assistance dollars have resulted in greater needs and a crisis among the poor.”

“LMI households continue to struggle. They are challenged by funding cuts to government programs, which are supposed to offer safety nets.”

### ***Organizational Capacity***

“Loss of income from profitable programs has required that we reduce staffing and services to programs that were never expected to pay for themselves on their own. This challenges our ability to pursue our agency mission. We have yet to learn how to adjust our business model to meet the new realities.”

“Lack of resources has forced us to serve fewer people.”

“The demand for social service assistance from LMI households continues to challenge our staff capacity. As a result, we opened two intern positions for college graduate students. These students are helping existing family services staff to meet client demands – translation, benefits application, re-enrollment for government benefits, and client file management.”

### ***Employment***

“Many of our clients are on fixed incomes and cannot keep up with rising gas and food prices. We are also noticing an increase in the number of people that have exhausted their unemployment benefits and now have to rely on our services to feed their families. There has also been an increase in the number people with disabilities who are unable to work and have mounting medical bills.”

“The financial situation of LMI households is very fragile. Job loss by one member of the household can be devastating.”

### ***Financial Literacy***

“The skill level of job seekers does not match the positions that are available. Lack of appropriate training and/or skills keep LMI household members from entering the workforce. Advances in technology by local businesses have also reduced the number of entry-level jobs available. The most frequent complaint by employers is that too many applicants cannot pass the drug test. Training programs need to be developed that suit available job openings. Also, more basic skills training needs to be available to LMI household members looking for work to address interview skills, capitalizing on local training, and the necessity to be drug-free.”



## Miscellaneous

“While traditional LMI groups continue to struggle, there is also an emerging group that is quite different. These are educated or partially educated young people who have large student debts and cannot obtain full-time, professional level employment. Unless there are major improvements in the economy, this group is going to remain heavily burdened with student loan debt for a generation.”

“Food prices are skyrocketing, and during the summer months, donations decline drastically. We were forced to send out an appeal letter to raise necessary funds to cover our food acquisition costs. We will be forced to do additional fundraising in order to continue to provide our clients with the allotment of food they are currently receiving.”

“LMI households need to realize that traditional forms of assistance have been reduced or eliminated. The reality of

increased self-reliance is a necessary message that needs to be reinforced for those who have relied on various forms of public support.”

“Due to the concentration of LMI households in urban centers, those areas are most impacted by the disinvestment in public welfare. If the morale of urban residents was already taxed, it grows no more confident as a result.”

“Employment and housing affordability remain major issues in our area. Rental vacancies are down, and the market is very competitive. While foreclosures have not increased, they are still affecting the area.”

“Banks are using more stringent underwriting guidelines for access to capital.”

## 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 newsletter 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](mailto:Phil.COSurvey@phil.frb.org).