

COMMUNITY OUTLOOK SURVEY

COMMUNITY DEVELOPMENT STUDIES AND EDUCATION DEPARTMENT

No Improvement in Sight for LMI Community Conditions

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

In October 2013, 70 service providers participated in the Third Quarter 2013 Community Outlook Survey and evaluated changes in key factors affecting the LMI community. To better understand how the needs of LMI households are being met, service providers were also asked to assess changes in the demand for their services, the capacity to serve their clients' needs, and their funding levels.

Respondent sentiments were generally pessimistic in the most recent survey. All four household indicators declined in the third quarter, and only the organizational capacity index was higher than in the previous quarter. For the first time since the second quarter of 2012, more service providers noticed a decrease in job availability compared with those who observed an increase. Overall, household indicators fell to the lowest level (36.6) in two years while organizational indicators reached their lowest point (29.6) in one year. Service providers' expectations for the fourth quarter were also unenthusiastic; they anticipate that household and organizational conditions will continue to decline in the upcoming months. It is worth noting that they completed the survey in the midst of the government shutdown, which may have been an additional influence on their perspective.

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 third quarter diffusion indexes, which measure the dispersion of change in conditions relative to the second quarter of 2013, and compares the indexes with those from the previous quarter (2Q2013) and four quarters ago (3Q2012). 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.

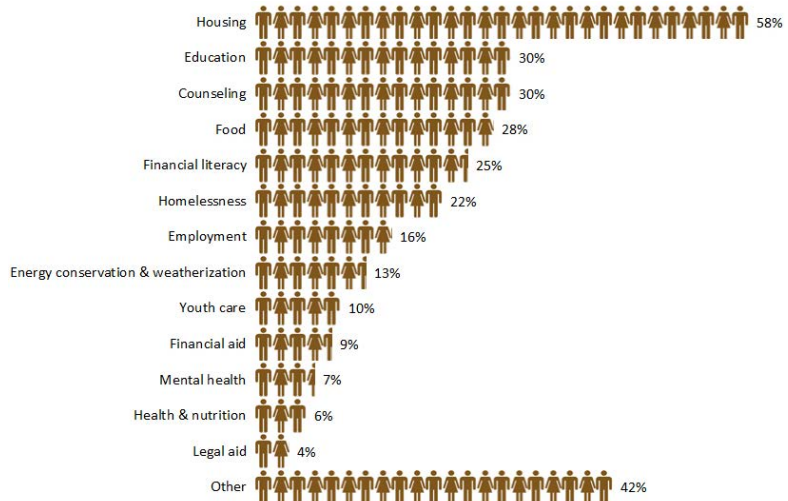
Respondent Breakdown and Observations

Participants in the Community Outlook Survey represent senior staff members from organizations that offer direct services to the Third District's LMI population. Of those that responded to the third quarter survey, 73 percent are headquartered in eastern and central Pennsylvania, 17 percent in southern New Jersey, and 10 percent in Delaware. Some agencies' service areas include more than one state. Ninety percent of those surveyed provided their operating budgets, of which 17 percent were under \$500,000 and 22 percent were greater than \$7 million.

The organizations that responded in the third quarter 2013 survey provide a multitude of services to the LMI community. Nearly three in five (58 percent) offer housing services, while roughly one-third provide education or counseling (30 percent). Twenty-eight percent of those participating in the survey offer food services compared with only 15 percent in the previous survey. A list of the types of services provided by these agencies is displayed in Figure 1 on the next page. Other services not listed in the chart include community development finance, workforce development, substance abuse treatment, and home repair, 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 (3Q2013) relative to the previous quarter (2Q2013). The survey also asks respondents to predict how those same indicators will change in the upcoming quarter (4Q2013). The aggregated responses are shown in Figure 2 (below).

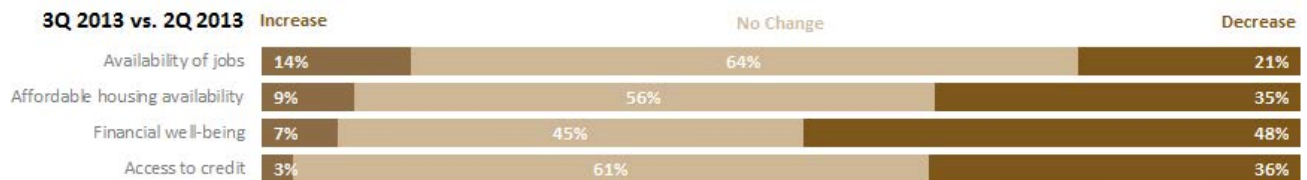
Figure 1: Types of Services Provided (Percentage of Respondents)



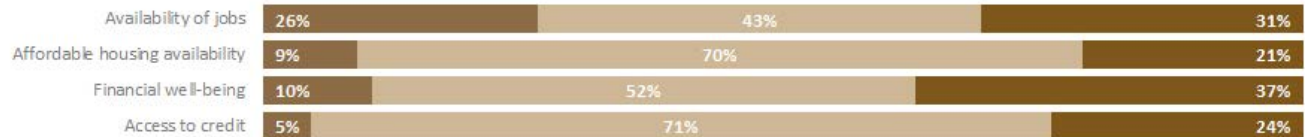
Note: Each person represents two percentage points.
 Respondents were permitted to select more than one category.
 Source: Federal Reserve Bank of Philadelphia

Figure 2: Survey Responses

Household Indicators



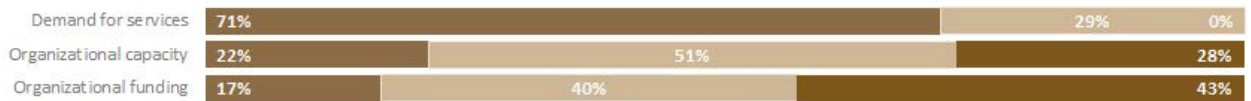
Expectations for 4Q 2013



Organizational Indicators



Expectations for 4Q 2013



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

Relative to the second quarter of 2013 survey, the share of service providers reporting improvements in household conditions dropped for three of the four indicators. Only financial well-being saw a slight rise (7 percent versus 3 percent) in the percentage who observed an improvement. In addition, a significantly larger percentage of service providers indicated that conditions had declined compared with those who indicated conditions had improved. This was most noticeable in the access to credit indicator, where 12 respondents reported a decline for every one that saw an improvement. Expectations for the upcoming months were less optimistic than those in

the previous quarter and a greater percentage of organizations anticipate continued deterioration in household conditions rather than improvement.

Seventy-four percent of respondents noted that the demand for their agency's services increased in the second quarter; only 1 percent noted a decrease. This represents an increase of 12 percentage points compared to the second quarter of 2013 (62 percent). Similarly, the percentage of respondents who reported a decline in organizational capacity and funding also increased relative to last quarter.

Diffusion Indexes

The diffusion indexes* from the third 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**
	3rd Qtr 2013	2nd Qtr 2013	1 Qtr Change	3rd Qtr 2012	1 Year Change
<i>Current conditions relative to previous quarter</i>					
Job availability	46.4	50.0	-3.6	51.8	-5.4
Availability of affordable housing	36.8	42.9	-6.1	40.2	-3.4
Financial well-being	29.7	34.6	-4.9	36.2	-6.5
Access to credit	33.6	40.9	-7.3	41.5	-7.9
Demand for services	14.0	19.2	-5.2	15.3	-1.3
Organizational capacity	47.1	44.3	2.8	39.7	7.4
Organizational funding	27.7	30.4	-2.7	21.6	6.1
	4th Qtr 2013	3rd Qtr 2013	1 Qtr Change	4th Qtr 2012	1 Year Change
<i>Expectations for conditions over the next quarter</i>					
Job availability	47.8	59.6	-11.8	68.2	-20.4
Availability of affordable housing	43.9	51.3	-7.4	51.0	-7.1
Financial well-being	36.6	47.3	-10.7	51.8	-15.2
Access to credit	40.2	46.7	-6.5	47.2	-7.0
Demand for services	14.6	21.4	-6.8	21.2	-6.6
Organizational capacity	46.9	52.6	-5.7	47.4	-0.5
Organizational funding	36.9	44.2	-7.3	40.5	-3.6

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

All seven indexes in the third quarter (Column A, current conditions) fell below neutral, signifying worsening conditions. The job availability index (46.4) registered a value below 50 for only the second time in eight quarters and the first time since the second quarter of 2012. Its 3.6 point drop in the third quarter was sizable, and the decline in each of the other three household indexes was even greater. The household indexes were also worse relative to those from the third quarter of 2012, and each index fell by a minimum of 3.4 points.

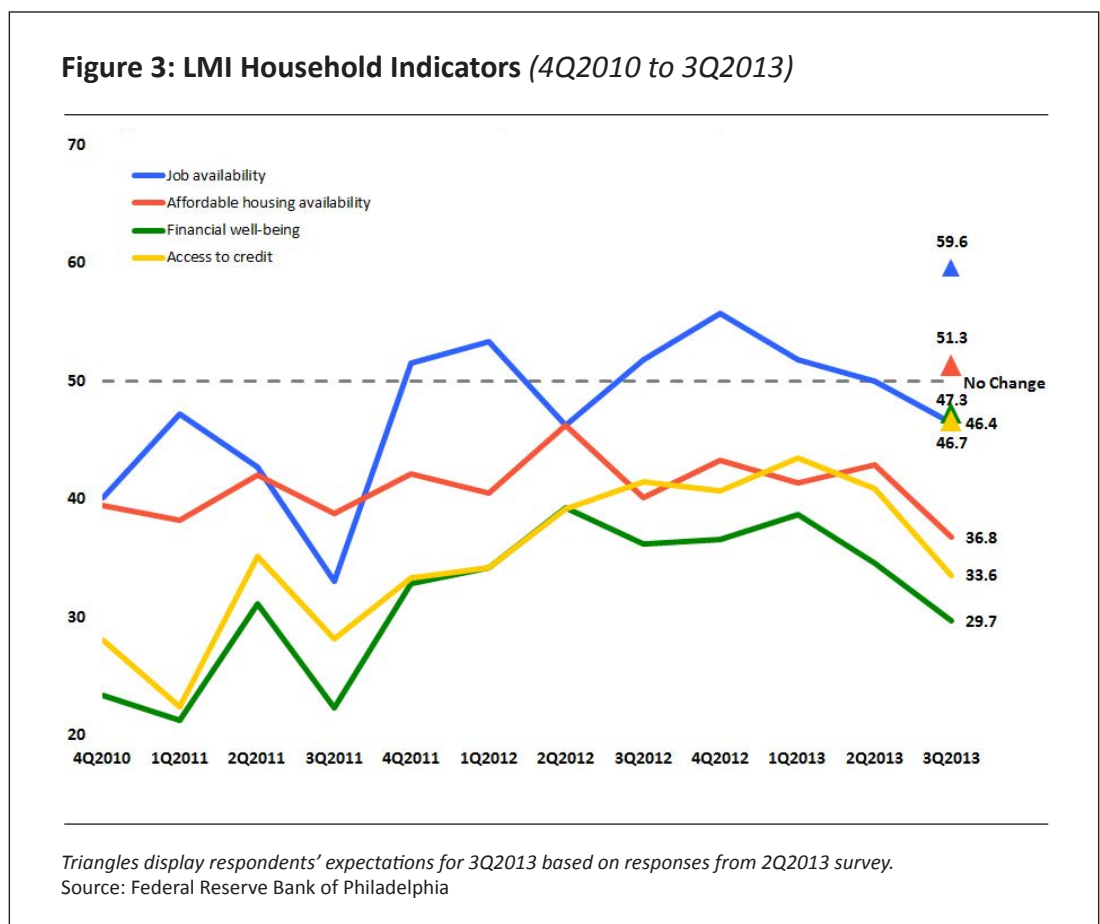
The demand for services index dropped by 5.2 points in the third quarter and reached its lowest point since the first quarter of 2012 (13.6). Although the organizational funding index also weakened, the decline was less severe. In spite of decreased funding and higher demand for services, the organizational capacity index actually improved by 2.8 points, reaching its highest point since the fourth quarter of 2011. This finding suggests that service providers may be implementing new strategies to meet the growing demands of their clients. Relative to one year ago, the demand for services index has decreased nominally, while the capacity and funding indexes have improved.

Expectations

On the whole, respondents' expectations (Column A, expectations) for the fourth quarter of 2013 are optimistic when compared with the observed indexes from the third quarter of 2013 (Column A, current conditions). However, due to looming concerns over the government shutdown, expectations for all seven indicators were more tempered than those of the previous survey (Column B, expectations). Service providers are significantly less optimistic about the fourth quarter of 2013 than they were for the third quarter. Compared with the expected indexes from the last quarter, we notice a similar pattern. The expected job availability index for the fourth quarter (47.8) is 20.4 points lower than that of the fourth quarter of 2012 (68.2).

Trends

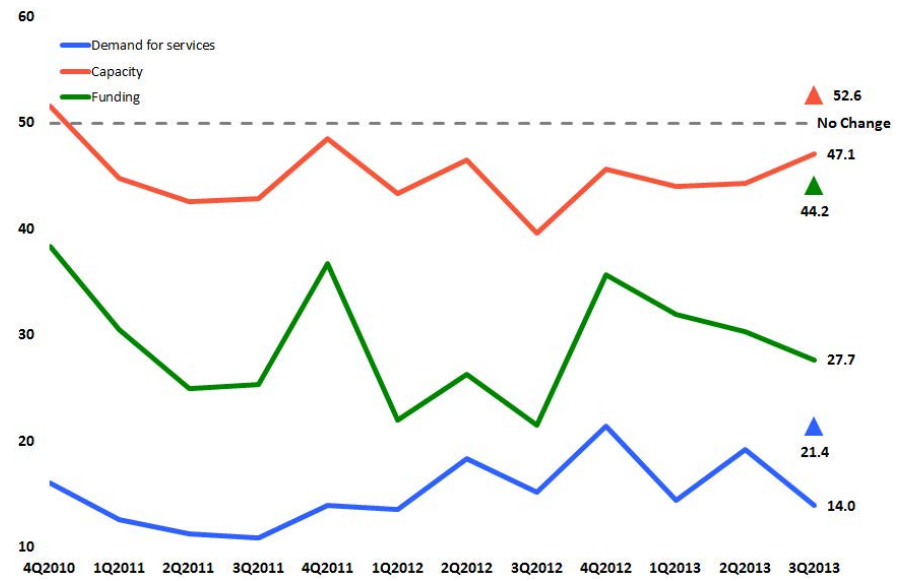
Figures 3 and 4 display the indexes for the various indicators since the fourth quarter of 2010. Each point on the graph represents a diffusion index for the corresponding quarter. For instance, in Figure 3, the indexes for job availability and affordable housing availability in the fourth quarter of 2010 were 40.1 and 39.4, respectively. The triangles represent respondents' expectations for the third quarter of 2013 as forecasted in the survey during the second quarter of 2013. For example, in the second quarter of 2013, respondents predicted that the job availability index for the third quarter of 2013 would be 59.6. The actual index was 46.4.



For the household indexes (Figure 3), expectations for the third quarter were significantly more positive than observed levels. Respondents overestimated the indexes by a sizable margin; on average the expected indexes were 14.6 points higher than the actual indexes. As a group, the household indexes have declined for two straight quarters and have greatly reduced the gains observed in the first three years of the survey.

Respondents' predictions for the organizational indexes (Figure 4) were more accurate than those for the household indexes. Although service providers greatly overestimated the funding index, the differences between the demand for services and capacity indexes were less than 10 points. Although the organizational indexes exhibit significant volatility from quarter to quarter, we notice a slightly negative trend since the advent of the survey.

Figure 4: LMI Organizational Indicators (4Q2010 to 3Q2013)



Triangles display respondents' expectations for 3Q2013 based on responses from the 2Q2013 survey.
Source: Federal Reserve Bank of Philadelphia

Table 2: Challenges Across Time*

	Q3 2013	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	81	83	71	74	71	75	75	62	72	66	72	84
Lack of cash flow	74	77	73	70	77	77	71	62	72	66	70	66
Lack of financial knowledge	69	79	74	77	71	60	78	68	65	66	72	71
Lack of trust in banks	34	31	24	24	18	23	37	24	22	16	22	20
Interest rates and other lending costs	24	29	20	17	13	9	20	17	14	26	31	28
Regulatory issues	16	18	18	23	9	14	14	14	11	12	15	8
Challenges affecting the availability of affordable housing in community												
Development costs**	66	65	57	67	55	59	66	49	62	56	55	63
Competition for grant/subsidy funding	64	62	58	64	70	69	64	63	72	56	65	61
Lack of capital	61	72	73	63	68	69	74	69	75	74	77	66
Organizational capacity	40	33	33	29	27	22	31	19	31	27	25	23
Regulatory issues	27	21	24	17	20	26	21	10	18	18	18	18
Community opposition	24	22	20	35	28	26	31	22	20	27	23	29
Lack of demand	3	1	2	3	5	3	2	4	5	0	1	2
Challenges affecting organization's financial sustainability												
Lack of government funding	79	76	77	75	81	79	77	81	78	77	86	61
Lack of grant funding	61	68	72	68	76	74	72	67	72	69	67	67
Market conditions/lack of earned income	21	33	41	36	20	34	28	39	34	31	36	36
Lack of bank financing	20	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 third quarter of 2013, 81 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 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

"Low-income households lack adequate access to banking services in their communities. These families often rely on alternative financial service providers (AFSPs) such as check-cashing services and payday lenders. The reason LMI households resort to AFSPs is because banking services are too expensive and/or not accessible in their neighborhoods."

"Those we have helped have resorted to predatory lending tactics without our knowledge. As a result, we have instituted a policy that warns participants that those who resort to predatory lending options while in our program are at risk for having our rental assistance discontinued. We are scheduling a workshop on the subject this fall."

Affordable Housing

"We partnered with a CDC in a nearby community to help obtain affordable permanent housing for a family leaving our transitional program."

"The City of Philadelphia needs to improve the process to expedite vacant property that could be turned into affordable housing."

"One of the primary issues in Centre County is addressing the critical housing needs of LMI households when the land values and cost to construct new units are high. The needs are far greater than the inventory can accommodate."

"Those serving extremely and very low-income households expect rises in homelessness, hospitalization, and imprisonment as demand for rental assistance far exceeds current resources."

"One challenge we are trying to overcome is the acquisition of additional land for affordable housing. Our organization has been challenged to afford land in the past, but it is getting

significantly more expensive to provide new, affordable homes for LMI households. While we will continue to look to rehab existing homes, it would be preferable to provide LMI households with options in areas that are desirable because of high quality of life and good schools."

"Security deposits and start-up costs for housing continue to be a barrier for our families."

"Our agency is dealing with insufficient capacity and financial resources within the community in order to increase the inventory of affordable dwelling units."

Demand for Services

"Community centers and other nonprofit agencies witness the needs of LMI households firsthand. The daily phone calls and intake appointments to apply for financial assistance are continuous. Children attend the centers looking for a safe haven and food to eat. The needs of LMI households continue to increase in many urban communities as funding continues to decrease."

Funding

"The community continues to need assistance with their utility bills, food, housing, etc. Due to a decrease in funding, assistance is not available. We continue to apply for grants that become available. However, the needs are greater than the funds being received."

"The Housing Choice Voucher appropriation is inadequate and was subject to sequestration. We reduced the size of the program by 100 families."

"[Our organization] faced a funding future that was increasingly tenuous, so we broadened the scope of the business model and funding opportunities, and recently succeeded in securing funds and partnerships that will have a big impact long-term."

"LMI households have many issues and, when providers are only reimbursing for face-to-face contacts, it is extremely difficult to provide the needed services and support. Telephone contacts are not reimbursed and no-shows are also not reimbursed."

“Government funding has steadily decreased for operating the organization. Currently, it is at 82 percent [of what we are eligible for]. Unless the organization can find ways to generate income to compensate, we will face possible layoffs and a reduction in services.”

“The organization has had to respond to funders (government) changing their reimbursement systems from cost reimbursement to fee for service. This issue is still unresolved, because we are losing monies due to a lack of systems.”

“We have to compete with other agencies for funding from the same pot of money. Funding cuts throughout each community have created a lack of resources. The number of people in need of assistance is growing daily.”

Government Shutdown

“The inability of Congress to agree on policy and appropriations is increasing the number of homeless families.”

“If the debt ceiling and federal budget are not resolved intelligently, we fear that credit will be frozen and established and emerging businesses will be negatively impacted and as a result there will be workforce layoffs, increasing unemployment, and an inability to respond to resident needs at the local level. The social service network will be overwhelmed with anticipated reduction in funding from public sources.”

“The federal, state, and city government is dysfunctional. Elected officials across the board are only interested in issues that will translate into votes, not the well-being of Americans.”

Home Repair, Energy Conservation, and Weatherization

“One of the things that our organization is thinking about is our ability to keep LMI homeowners in their homes, particularly as they age. We are launching a repair program to focus on this population, but as we roll it out, we are finding that demand could overwhelm our resources.”

“LMI families already in subsidized housing do not get repairs or other issues resolved by landlords in a timely manner.”

Job Availability

“Our residents live on the edge. It’s not that they don’t have a job; they have three jobs, but the jobs are part-time with no benefits. They are more dependent on ‘household’ income than ever. Young people feel the pressure to get a job, not an education, to help pay the bills. The loss of a job can be devastating.”

“The cost of living is going up, but wages for LMI families are not changing.”

“There seems to be fewer opportunities for LMI households to gain new skill sets relevant to contemporary workforce opportunities, particularly those that involve science, technology, engineering, and math (STEM). Good-paying jobs above minimum wage are increasingly difficult to find in general and even more challenging absent the necessary skill sets. The lack of health insurance is an even greater barrier for both the employed and unemployed, making these matters even more challenging.”

“While our families are having an easier time finding employment, the jobs still seem to be tenuous in duration.”

“Part-time employees have seen reductions in hours (to fewer than 30) as employers try to avoid health-care obligations.”

Workforce Development

“We lost state funds for workforce development, but gained almost the same amount via private sector support.”

“We need short-term public sector employment strategies for LMI households who lack a wage earner with a high school diploma.”

Miscellaneous

“A rental subsidy is now available to our clients, but it requires that they quickly access standard documents such as birth certificates, state identification, etc., which come at a cost. Our families lacked the ability to pay to get these documents. We gave them the money so that they wouldn’t miss out on the opportunity, but it wasn’t budgeted. We are now establishing an emergency fund to help cover these costs as they arise.”

“[Our organization] understands that building healthy communities requires many different affordable housing projects to work together — new construction, rehab of condemned and vacant buildings, repairs for owner-occupied homes, as well as community clean ups, community gardens, neighborhood watch programs, etc. By partnering with other organizations, we are much better at working together to have a greater impact.”

“Several of our HUD contracts were renewed this year, but the paperwork took longer than expected on the government side. At one point, we were owed over \$400,000 in rent subsidies. We drew down on our line of credit to cover our operating costs in the interim, but that is not a good operating practice. There is a continuing problem with delayed reimbursement. We are lucky to have a line [of credit] to draw on.”

“There is a challenge in accepting families with young children that require daycare, because of the extensive waiting list for Child Care Information Services (CCIS), and families are not provided CCIS unless they are working, which seems to put the cart before the horse.”

“There are always challenges; we try to work with a number of partners to make a difference. Funding only goes so far.”

“Getting the information to homeowners that we are available at nontraditional business times has been a challenge on top of the basic challenge of making them aware that counseling exists and is productive. We have joined the Community Associations Institute and have begun to market through them, so hopefully we can reach more people earlier in a more cost-effective manner. The funding cuts have reduced the marketing budget drastically.”

“Transportation costs already rival or outstrip other household costs such as housing and food.”

“Many LMI households require an array of different services in order to function and gain independence. Rarely does a subsidy alone help long-term.”

“Financial literacy on all fronts is what is needed to readjust a LMI household’s thinking and goals. There are not enough comprehensive programs that address this topic.”

“Trenton has a school system in collapse and a record homicide rate. The flight to the suburbs of LMI households is challenging the region, but regional discussions and solutions are rare. It’s time to think outside of our neighborhood boxes.”

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.