

COMMUNITY OUTLOOK SURVEY

COMMUNITY DEVELOPMENT STUDIES AND EDUCATION DEPARTMENT

Financial Well-Being of LMI Households Moves in Right Direction

About the Community Outlook Survey

The Federal Reserve Bank of Philadelphia's quarterly 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. Those responding to the survey include a variety of servicers to LMI populations throughout the region. 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.

Fourth Quarter 2011 Survey Results

In January 2012, the Federal Reserve Bank of Philadelphia polled 70 service providers to evaluate changes in factors affecting LMI populations from the third quarter to the fourth 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 first quarter of 2012. Table 1 provides a summary of the responses.

Table 1:
Responses

		4th Quarter 2011 vs. 3rd Quarter 2011			Expectations for 1st Quarter 2012		
		Percent Increase	Percent No Change	Percent Decrease	Percent Increase	Percent No Change	Percent Decrease
Household Indicators	Availability of jobs	23	57	20	32	59	10
	Availability of affordable housing	11	63	27	10	73	18
	Financial well-being	9	48	43	24	51	25
	Access to credit	3	60	37	9	70	20
Organization Indicators	Demand for services	74	25	1	64	35	2
	Capacity to serve clients	22	53	25	22	51	26
	Organization funding	13	47	40	12	53	35

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 indicator 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 indicator, expressing it as a single number. Numbers above 50 specify an overall increase in the indicator, while numbers below 50 indicate an overall decrease. Likewise, an index of exactly 50 suggests that there was no change in the indicator from one quarter to the next. Table 2 displays the diffusion indexes for the current survey, as well as for the third quarter 2011 survey.

**Table 2:
Diffusion Indexes**

		Current Survey: 4th Quarter 2011		Previous Survey: 3rd Quarter 2011	
		(1)	(2)	(3)	(4)
		Observed	Expected	Observed	Expected
		2011:Q4 vs. 2011:Q3	2012:Q1 vs. 2011:Q4	2011:Q3 vs. 2011:Q2	2011:Q4 vs. 2011:Q3
Household Indicators	Availability of jobs	51.5	61.1	33.1	51.8
	Availability of affordable housing	42.2	46.0	38.8	46.4
	Financial well-being	32.8	49.3	22.3	34.7
	Access to credit	33.3	44.5	28.2	40.0
Organization Indicators	Demand for services	86.0	81.1	89.1	89.1
	Capacity to serve clients	48.5	47.8	42.9	46.8
	Organization funding	36.8	38.2	25.4	35.7

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

Source: Federal Reserve Bank of Philadelphia

General Findings

The diffusion indexes signal an overall decline in the well-being of LMI households consistent with previous surveys. However, the indexes were not as negative in the fourth quarter survey (Table 2, Column 1) as in the third quarter survey (Table 2, Column 3), which indicates that while conditions deteriorated, the decline was less. In fact, the mean index* for household indicators in the current survey (40.0) is higher than any past surveys' mean indexes (32.8, 32.3, 37.8, and 30.6 for the fourth quarter of 2010 through the third quarter of 2011, respectively), suggesting that respondents' observations registered the least decline in well-being since the survey's inception.

The fourth quarter index for the availability of jobs is somewhat encouraging. In the present survey, 23 percent of respondents reported an increase in the availability of jobs, while only 20 percent noted a decrease. The resulting index of 51.5 suggests that respondents overall observed a slight increase in job availability in the last quarter, and it is the only household index denoting a positive increase in conditions. The fourth quarter survey marks the first time the job availability index has surpassed 50. In the

first quarter of 2012, 32 percent of respondents expect additional jobs to become available to LMI individuals compared with only 10 percent who predict a decrease in jobs, culminating in an expected index of 61.1, the highest since the first quarter of 2011 (64.1).

While it appears that the prospects of employment may be improving for LMI households, the availability of affordable housing, financial well-being, and access to credit for those households continued to deteriorate as 2012 approached. Although a modest 27 percent of service providers reported a decrease in affordable housing availability in the fourth quarter, a more substantial percentage of respondents noted a decline in financial well-being and access to credit (43 and 37 percent, respectively). Still, the decline is less than its third quarter level, and respondents remain optimistic that the decline will continue to lessen. The fourth quarter indexes for the availability of affordable housing and financial well-being (Table 2, Column 1) declined the least of any survey thus far, and the access to credit diffusion index registered its second smallest decline, trailing only the second quarter of 2011 (35.2).

*The mean household diffusion index is calculated as a simple average of the three household indicators.

LMI service providers continued to face challenges in the final quarter of 2011 as demand for their services increased despite diminishing funding. Seventy-four percent of respondents noted a spike in the demand for their services compared with only 1 percent who indicated a drop, resulting in an index of 86.0. Yet 40 percent of respondents also suffered from a reduction in funding. Despite this encumbrance, 75 percent of service providers surveyed indicated that their capacity to serve their clients' needs either improved or remained the same. This is reflected in a diffusion index of 48.5 in the fourth quarter, which suggests a slight overall decline among respondents in their ability to serve their clients, although the index reached its highest level since the fourth quarter of 2010. Likewise, the fourth quarter indexes for the other two organizational indicators (demand for services and funding for organization) trail only the fourth quarter of 2010 in terms of lowest levels of decline.

In the Community Outlook Survey, respondents express their expectations about changes in indicators affecting LMI households for the next quarter and subsequently report on the changes they actually observed in those indicators in the following survey. Prior to the fourth quarter of 2011, the expected estimates varied substantially with the actual results; the percentage of respondents who expected indicators to improve during the next quarter was higher than the percentage that actually reported an improvement in that quarter. While the fourth quarter survey still exhibited signs of optimism, the expectations for the fourth quarter (as indicated in the third quarter 2011 survey) were more accurate and, in some instances, remarkably close to the levels actually reported. Table 3 highlights Columns 1 and 4 from Table 2 and calculates the margin between the two sets of diffusion indexes.

Table 3: Diffusion Index Margins

Fourth Quarter 2011 Diffusion Index Margins			
Indicator	Observed	Expected	Margins
Availability of jobs	51.5	51.8	-0.3
Availability of affordable housing	42.2	46.4	-4.2
Financial well-being	32.8	34.7	-1.9
Access to credit	33.3	40.0	-6.7
Demand for services	86.0	89.1	-3.1
Capacity to serve clients	48.5	46.8	1.7
Organization funding	36.8	35.7	1.1
Source: Federal Reserve Bank of Philadelphia			-8 -6 -4 -2 0 2 4

In the third quarter survey, 25 percent of respondents predicted an increase in job availability in the fourth quarter and 21 percent predicted a decrease, compared with 23 percent who indicated they had observed an increase and 20 percent a decrease in the present survey. The accuracy of the prediction resulted in the two indexes falling within 0.3 of each other. In previous surveys, the margin was never smaller than 12.8. In fact, each margin in Table 3 is smaller than its corresponding margin in the third quarter (Table 3, Third Quarter 2011 Community Outlook Survey). We will continue to monitor the gaps between respondents' expectations and actual observations in future surveys.

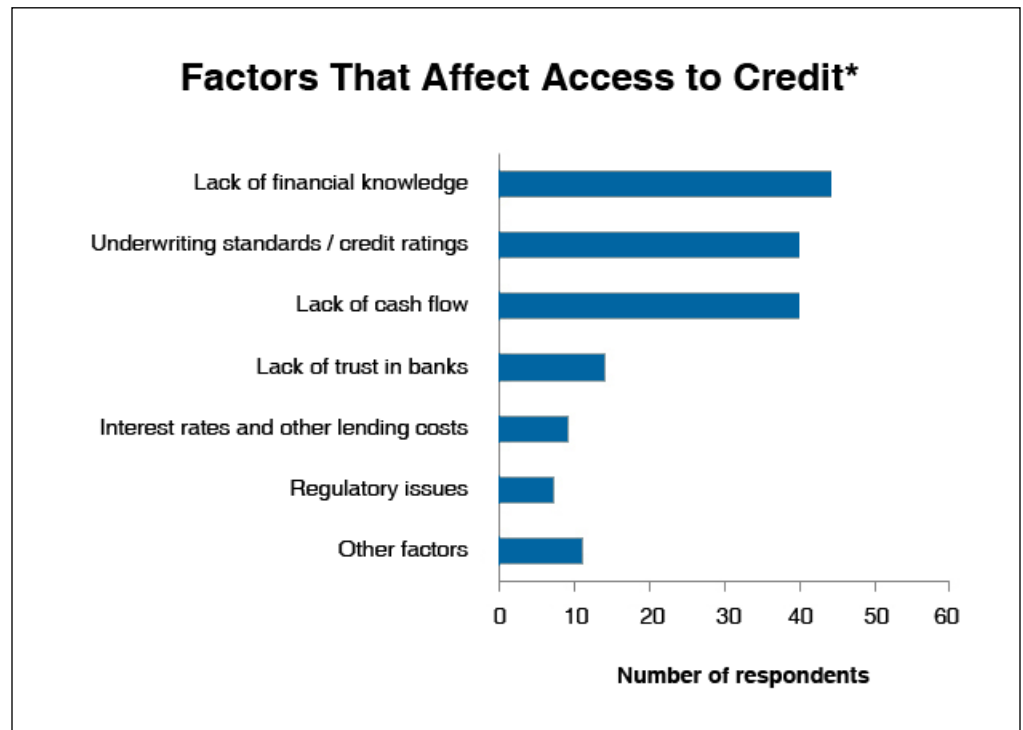
Factors That Affect Access to Credit

Respondents were asked which factors most affect their LMI clients' access to credit. As in past surveys, the three most significant factors, according to those surveyed, included lack of financial knowledge, underwriting standards/credit ratings, and lack of cash flow. The chart at right displays the responses.

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

Source: Federal Reserve Bank of Philadelphia

Chart 1



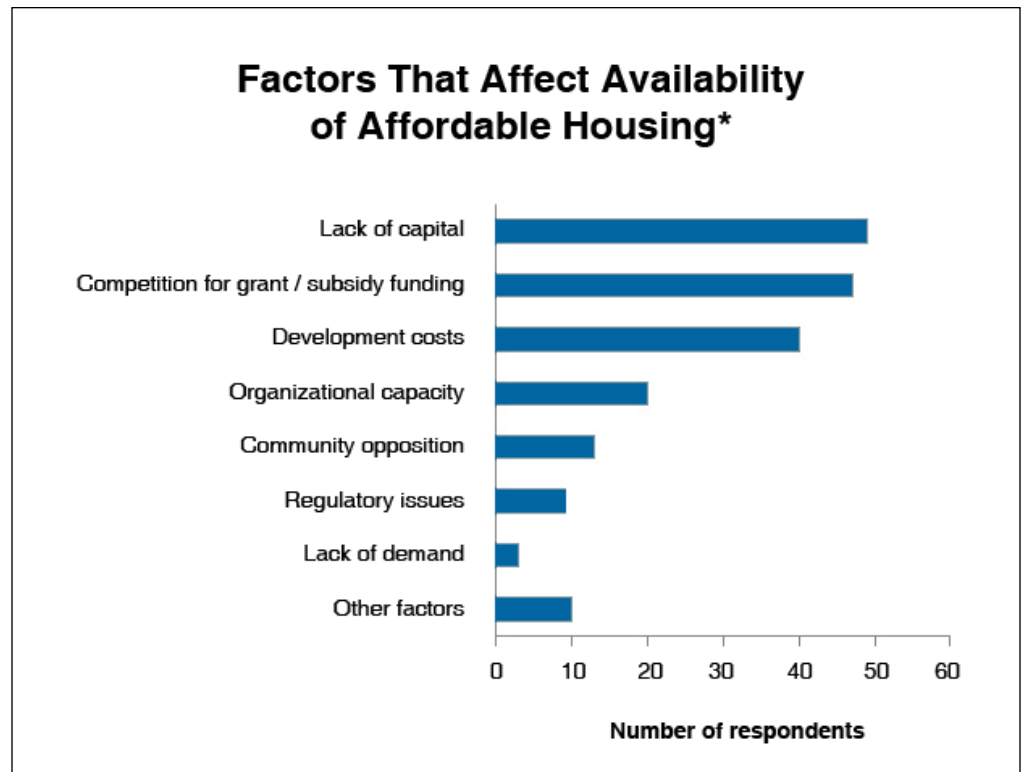
Factors That Affect the Availability of Affordable Housing

Consistent with previous surveys, respondents cited lack of capital, competition for grant/subsidy funding, and development costs as the three main factors affecting the availability of affordable housing. The responses are displayed in the chart at right.

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

Source: Federal Reserve Bank of Philadelphia

Chart 2



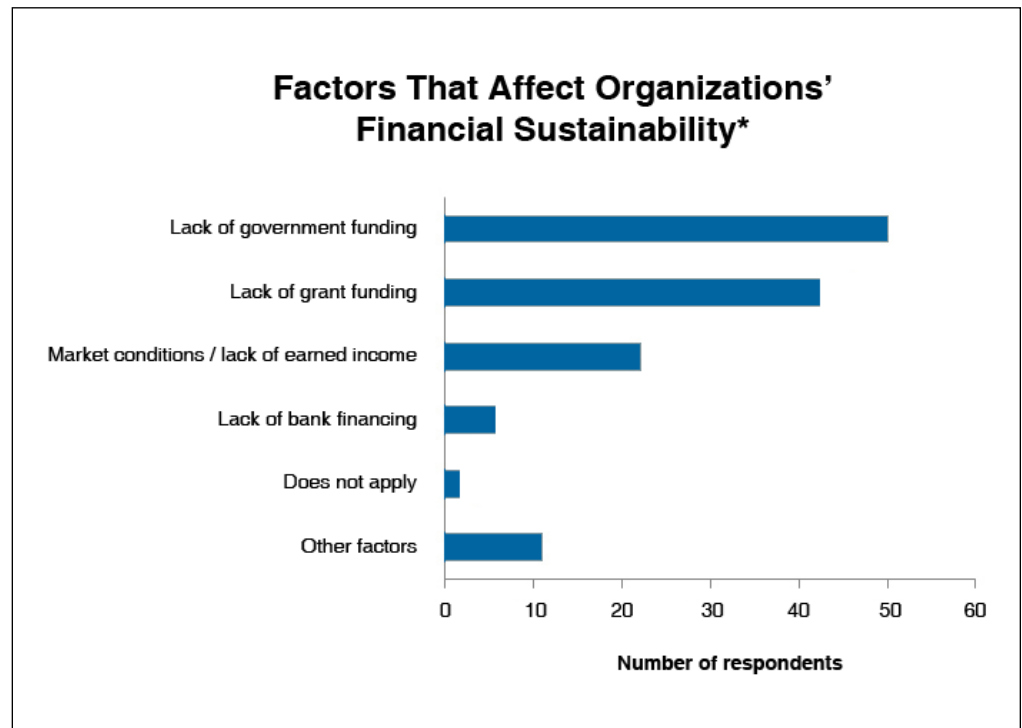
Factors That Affect Organizations' Financial Sustainability

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

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

Source: Federal Reserve Bank of Philadelphia

Chart 3



Prominent Issues in 2012

In the fourth quarter survey, respondents were asked to describe the most prominent issues affecting LMI communities that their organizations will be focusing on in 2012. Of the service providers who responded, roughly one-third pointed to either affordable housing or employment. An additional 15 percent of respondents cited financial education or foreclosures as most urgent. Possible solutions offered to improve the availability of affordable housing included eliminating "not in my back yard" sentiments that often impede the construction of new affordable units, locating additional funding sources, and calling for congressional action. In response to improving the employment prospects of LMI communities, respondents suggested opening employment and training centers in LMI neighborhoods, obtaining funds to establish those centers, and implementing training programs with guaranteed job placement programs. Many of the respondents who mentioned financial education or foreclosure suggested that service providers need to convince funding sources of the importance of financial education courses in order to move these issues forward.

Selected Comments

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

“People are afraid to buy homes and lenders have become rigid, resulting in very few home purchases in this income group.”

“We are seeing a generational issue with some LMI households. It’s become the norm for some to live in poverty; their family before them lived this way and their neighbors live this way.”

“Many LMI households are in need of sustainable jobs and affordable housing near the job location.”

“There is a need to develop a culture of ‘thrift’ – prudent use of limited resources.”

“With faith in government, churches, and schools eroding, the LMI population is looking for a place to turn and nonprofits should be that place, not because they are superior, but because they have had to learn to deal with all of these entities and often have the trust of the government, churches, and schools. This population needs a network of assistance and the nonprofits are in a position to help put those unique networks in place. All that is needed is acceptance of the need to cooperate and the role the agencies could play. In many cases, this would not even take any additional money.”

“It’s difficult for LMI households to find employment with a living wage – especially for families with children.”

“In the new year, PECO electricity rates will fall from record highs, gas rates will continue to fall, and heating oil prices will remain high. Levels of energy conservation assistance from PECO will continue to fall, and the Federal Weatherization Assistance Program assistance in our area will be cut by 85 percent.”

“Many of the services needed by our clients are best provided at the local level, where practitioners understand local needs. Funding for these services is restricted because the high level of taxation at the federal level is

drawing off funds that would otherwise be available at the local level. In order to fix this problem, the actual size of the federal government must shrink, and the total federal taxation be cut. Federal budget cuts that merely shift money to other parts of the federal government do not help at the local level and thus will provide little relief to LMI households. The ARRA funding provided temporary relief but resulted in no sustainable changes.”

“LMI households and communities are suffering greatly due to the recession and will not likely benefit from whatever recovery we realize.”

“Funding sources, whether private or public, need to commit to multi-year support. Organizations cannot plan for the short or long term and implement such plans if the revenue is not there. It distracts from expanding the mission and providing more services.”

“[We need to reach] a better understanding by the public and private sectors that people living in their own home are much more vital to the general health of the city.”

“There is an increasing need for low-income elderly housing, and there are decreasing amounts of grants and loans needed to develop them.”

“Philadelphia is the poorest major city in the U.S. and should be considered when planning for a safety net that will prevent more costly social problems in the future.”

“There is a lack of a serious effort by federal, state, and local government to care for the needs and challenges LMI households face. Unless there is a cohesive, consistent approach and a commitment at all levels, those issues will continue to drag down the advancement of the country as a whole.”

“There is a challenge in helping individuals recognize and accept what their barriers are and embrace the assistance that is offered. Education is key to successfully overcoming these barriers. Transportation is an issue affecting LMI individuals’ ability to search for a job, get to school, or go to work.”



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