Community Outlook Survey

Community Development Studies & Education Department

Fourth Quarter 2016

Identifying Key Challenges and Promising Opportunities for Household Financial Stability

The Federal Reserve Bank of Philadelphia's ***Community Outlook Survey*** *(COS)* monitors trends affecting the well-being of low- and moderate-income (LMI) households and communities in the Third Federal Reserve District, which encompasses Delaware, southern New Jersey, and the eastern two-thirds of Pennsylvania. Beginning in 2016, each quarterly survey focuses on one of four topical areas: housing and neighborhood development; workforce and economic development; health, wellness, and family services; and household financial stability.

The 4Q2016 *COS*, focusing on the theme of **Household Financial Stability**, was sent to participants in October 2016. Survey responses were welcomed from credit and housing counselors; financial coaches; and representatives from organizations involved in asset building, financial literacy, benefits enrollment, and/or consumer financial services. A total of 24 organizations responded, with 63 percent servicing Pennsylvania, 21 percent servicing New Jersey, and 25 percent servicing Delaware.[1] Respondents were asked to describe the most pressing challenges affecting household financial stability in the communities they serve in a series of open-ended questions. Qualitative research methods were used to identify key challenges and promising solutions reported by survey respondents. The findings are summarized here and include direct quotes from the respondents.

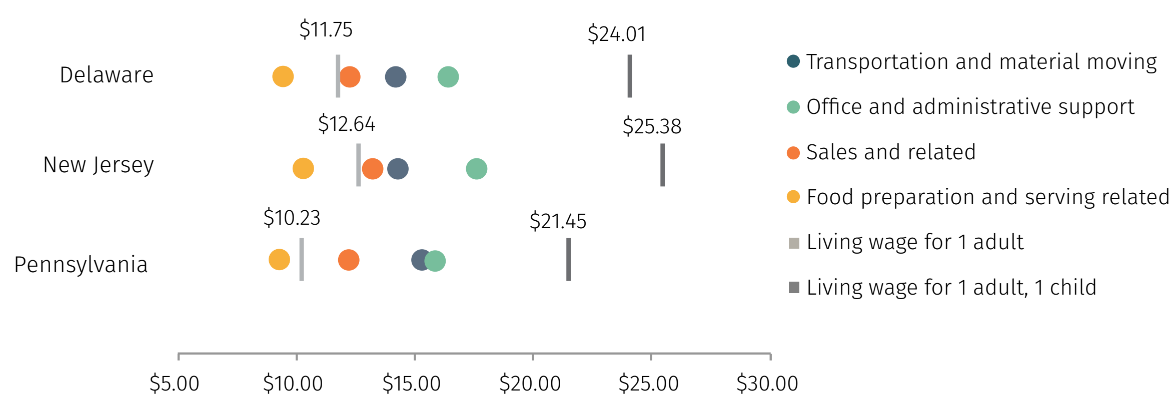
Pressing challenges

1. Unemployment, underemployment, and stagnant wages coupled with the rising cost of living impact families' ability to become financially successful.

[1] Some organizations surveyed serve multiple states.

Figure 1. Median wages for selected occupational groups compared with living wages for different household types, 2015

Third District States



Sources: Amy K. Glasmeier, Living Wage Calulcator, http://livingwage.mit.edu (date accessed: 11/16/2016); U.S. Bureau of Labor Statistics, May 2015 State Occupational Employment and Wage Estimates, www.bls.gov/oes/current/oessrcst.htm.

An overarching theme in almost every survey response was the need for more and higher-paying jobs. Figure 1 compares the typical hourly wages associated with common occupational categories considered accessible to workers without postsecondary degrees[2] with the living wage for two different household types. The living wage represents the minimum hourly wage that one full-time worker (2,080 hours per year) would need to earn to cover basic living expenses such as food, shelter, transportation, health care, and child care, if applicable. It does not include savings or other forms of asset building that make individuals and families more resilient to financial shocks. As Figure 1 shows, in each Third District state, food preparation and serving occupations typically paid less than a living wage for an individual, while all four occupations fall far short of the living wage for an adult with one child. A number of respondents reported that many families are unable to cover basic living expenses even if they are in a stable two-income household.

While some individuals are struggling to find work, others are living paycheck to paycheck with little or no savings. According to the Federal Deposit Insurance Company (FDIC), in 2015, 57.8 percent of families with incomes of $15,000 to $30,000 in the United States had not saved for unexpected expenses or emergencies in the prior 12 months.[3] Households without emergency savings are likely to be especially vulnerable to income or expense volatility. Without quality employment, it is nearly impossible for families to improve their household financial stability.

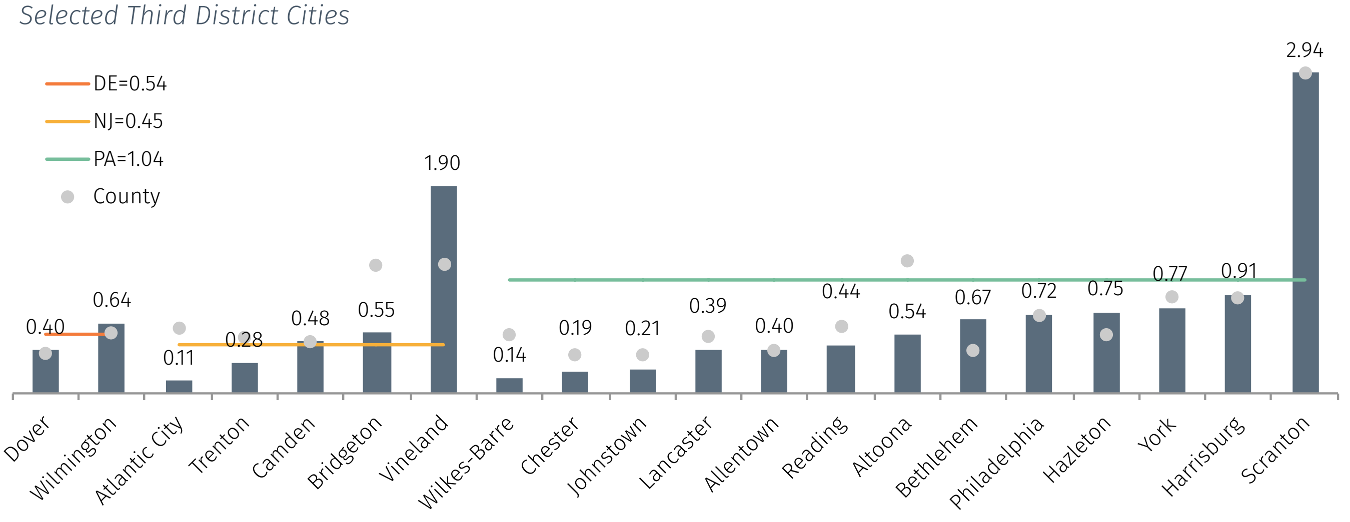
> ***Underemployment results in insufficient or unstable income with no savings, so even a small emergency (car repair, sick child, etc.) results in delinquent bills, potential job loss, and risk of homelessness.***
>
> ***Regulations requiring health insurance, overtime pay, etc. for full-time employees result in employers offering only part-time hours, which contributes to underemployment and financial instability.***
>
> ***What I have observed over the 15 years in housing and financial counseling is that continuously rising costs and falling/stagnant wages make financial management an increasingly more difficult task. Households are in need of no less than two incomes, making it increasingly difficult for an average family to meet basic needs, let alone create wealth or repay debt (student loan/credit card/car payment).***

[2] For an in-depth analysis of occupations accessible to workers without a bachelor's degree, see Keith Wardrip, "Identifying Opportunity Occupations in Pennsylvania, New Jersey, and Delaware," Community Development Studies & Education Special Report, September 2015, available at www.philadelphiafed.org/-/media/community-development/publications/special-reports/identifying_opportunity_occupations/identifying_opportunity_occupations_complementary_report.pdf?la=en.

[3] FDIC, "2015 FDIC National Survey of Unbanked and Underbanked Households," October 2016, available at www.fdic.gov/householdsurvey.

Figure 2. Head Start centers per 200 children under five years old in poverty, 2014

Selected Third District Cities



Source: Authors' calculations using U.S. Census Bureau 2010–2014 American Community Survey Table B25074.

2. *Insufficient affordable child care impedes individuals from obtaining work and becoming financially independent.*

In addition to general unemployment concerns, several survey respondents discussed the difficulty of finding affordable child care options. Without these options, it is very difficult for many parents to work, forcing them to rely on social services or the single income of the other parent.

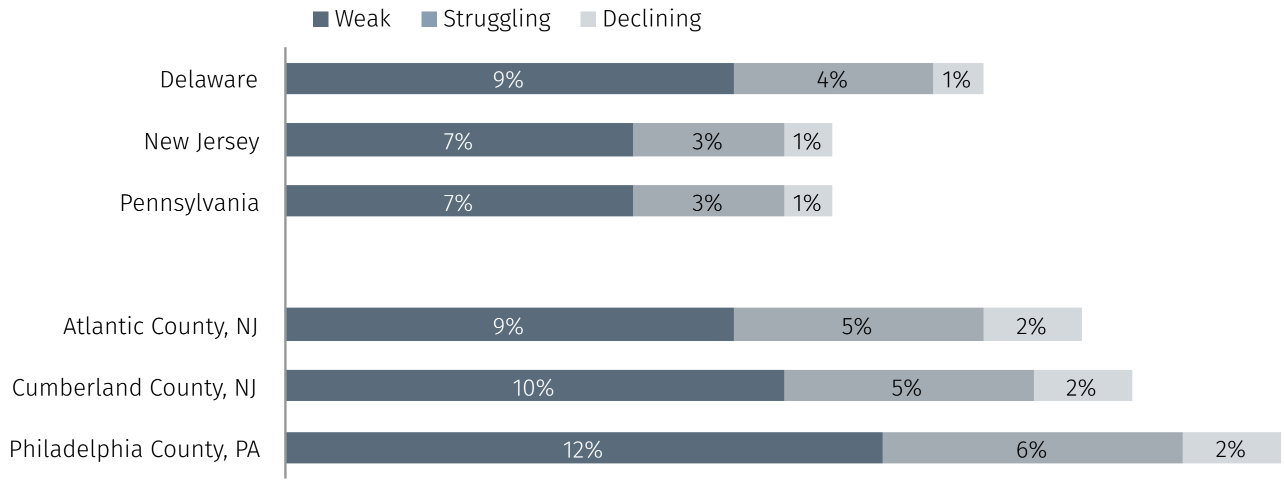
Child care accessibility is a multifaceted challenge for many households, encompassing issues related to affordability, geographic proximity, and alignment with parental work schedules. There are three primary types of child care: care provided by other family members (e.g., grandparents), home-based care (e.g., family day care), and center-based care (e.g., preschools). Public subsidies for child care tend to favor licensed, center-based care, making access to these facilities particularly important for low-income families. Figure 2 illustrates the variation in the accessibility of federally funded Head Start centers across the Third District. While subsidies offered through the federal Child Care and Development Fund and state-funded prekindergarten programs may also be options for low-income households, Head Start centers are a key source of relatively high-quality care for children living in poverty. As Figure 2 demonstrates, the ratio of Head Start centers to children in poverty varies widely across cities within the same state and is notably lower in many smaller Pennsylvania cities.

> ***We continue to see single mothers who are not receiving child support payments and have issues finding child care so they can work.***
>
> ***Many of our clients are single mothers with young families, so they have a challenge of affordable day care for the children so they can work.***

3. *Many households do not utilize financial products and services due to low financial literacy, lack of credit history, or a poor credit score.*

Figure 3. Share of credit users with weak, struggling, or declining credit profiles, 2015

Third District States and Selected Counties

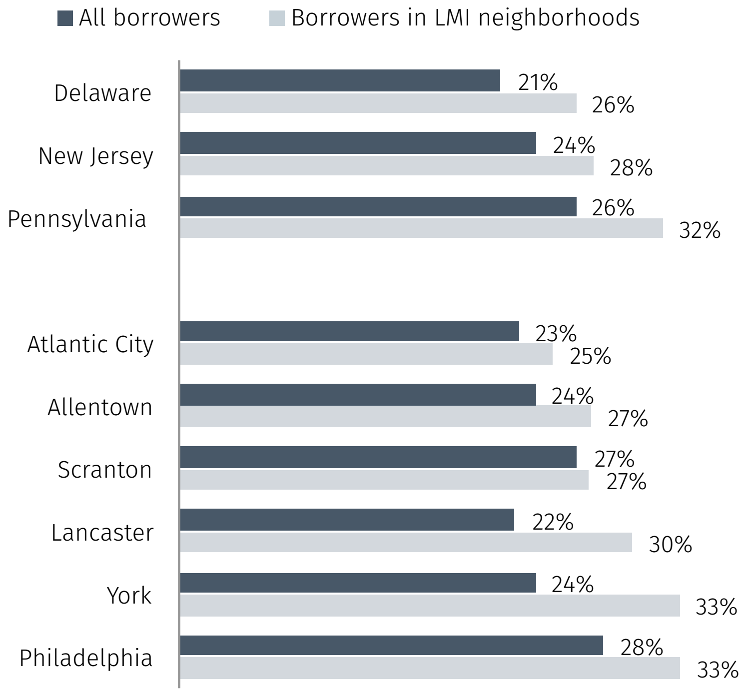


Source: Federal Reserve Bank of New York (FRBNY), Community Credit data tool (date accessed: 11/17/2016) based on FRBNY Consumer Credit Panel/Equifax, www.newyorkfed.org/data-and-statistics/data-visualization/community-credit-profiles/index.html.

Weak: 60+ days overdue for all four quarters of previous year; Struggling: 60+ days overdue for one to three quarters of previous year; Declining: deteriorated from less than 60 days overdue to 60+ days overdue at end of 2015.

Figure 4. Share of borrowers with student loan debt, 4Q2015

Third District States and Selected Metropolitan Areas



Source: FRBNY Consumer Credit Panel/Equifax data, tabulated by the Federal Reserve Banks of Philadelphia and Minneapolis and accessed via the Consumer Credit Explorer (date accessed: 11/17/2016), www.philadelphiafed.org/eqfx/webstat/index.html.

Borrower: an individual with total debt >$0.

From bank accounts to mortgages, survey respondents spoke to the spectrum of financial services and products available to LMI households. Prior financial troubles prevent some individuals from successfully accessing or even trying to open more basic products such as checking accounts. Figure 3 illustrates the share of borrowers in Third District states with challenged credit histories in 2015, suggesting that issues were somewhat more common among credit users in Delaware. Additionally, blemished credit histories were particularly prevalent among borrowers in Philadelphia as well as Atlantic and Cumberland counties in New Jersey.

Other households are finding it difficult to obtain a mortgage due to poor credit history or lack of a formal credit history. In 2015, roughly one in ten adults in Third District states lacked a credit file with sufficient information to generate a credit score. Again, there was considerable variation across the region; in Philadelphia, one in five adults lacked a credit score, while in Cumberland County the equivalent figure was one in four. A number of nonmetropolitan counties in central Pennsylvania had similarly high rates of unscored adults.[4] Several respondents stressed the need for more funding and resources for education to improve financial literacy.

Financial institutions still are not creating bank accounts and mortgage products to allow these clients access to mainstream banking.

Prior history of financial challenges frequently leads to disqualification or participants' belief that they are no longer eligible for services.

4. Over indebtedness holds families back from moving into home ownership.

In addition to the challenges previously discussed, respondents often noted that some households are unable to obtain a mortgage due to high levels of debt. Specifically, student loan debt was mentioned several times as a barrier to successfully transitioning into homeownership. Figure 4 summarizes the prevalence of student loan debt among borrowers in Third District states and selected metropolitan areas. In each state and metropolitan area, borrowers living in LMI neighborhoods[5] were more likely to have outstanding student loan debt than borrowers overall. Further, in each of the Third District states, roughly one-quarter of borrowers in LMI neighbor-

[4] Federal Reserve Bank of New York (FRBNY), Community Credit data tool (date accessed: 11/17/2016) based on FRBNY Consumer Credit Panel/Equifax, available at www.newyorkfed.org/data-and-statistics/data-visualization/community-credit-profiles/index.html.

[5] LMI neighborhoods are defined as census tracts in which the median family income (MFI) is less than 80 percent of the MFI in the associated metropolitan area or nonmetropolitan portion of the associated state.

hoods with student loan debt were severely delinquent[6] on at least one of their student loans in 4Q2015.[7] For these borrowers, the effect that delinquent loans have on their credit histories can pose additional long-term barriers to credit building and mortgage access.

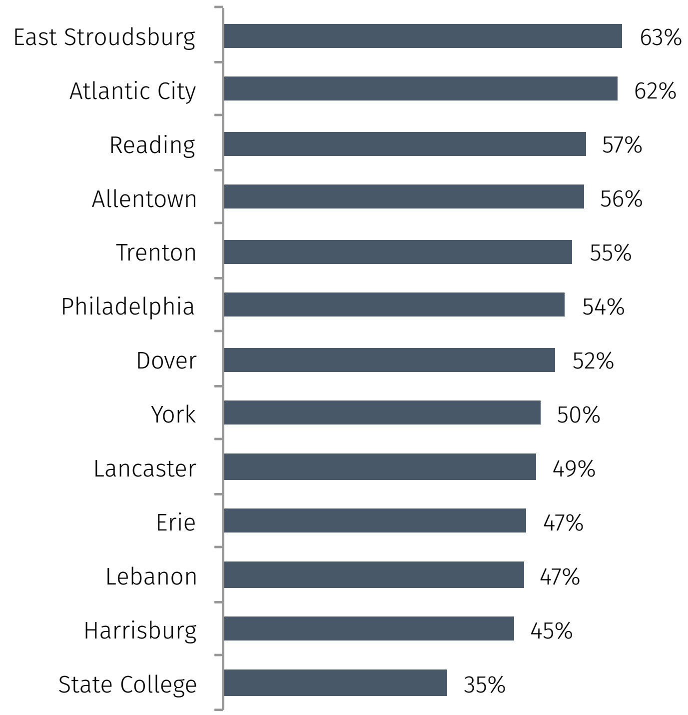
> ***The majority of people we serve are carrying a lot of student loan debt. That coupled with the high rents in our area make it difficult for people to be mortgage-ready.***

> ***The clients we serve must qualify for our mortgage (for a 0 percent mortgage, minimum requirements are a 570 credit score and no more than $1,500 in delinquent debt). Too many clients don't meet these minimum requirements; they have too much debt, are delinquent, or either don't have the financial acumen or discipline to try to maintain credit.***

5. *Many individuals and families suffer from housing instability due to the high cost of housing.*

Figure 5. Share of renter families with children that are cost-burdened, 2014

Selected Third District Metropolitan Areas



Source: Authors' preliminary calculations based on 2010–2014 and 2014 American Community Survey Public Use Microdata Sample accessed via IPUMS-USA.

Cost-burdened: gross rent >30 percent of monthly household income.

For all geographies other than the Philadelphia metropolitan area, estimates pertain to 2010–2014 period.

When asked about the state of household financial stability in the communities they serve, survey respondents frequently cited high housing costs leading to housing instability as a major concern. Some respondents cited the risk of foreclosure as the cause of housing instability among their clients. Within the Third District, borrowers in New Jersey continue to have persistently high rates of severe mortgage delinquency.[8] Among borrowers in LMI neighborhoods, the rate of severe mortgage delinquency in New Jersey was more than twice the national rate in 4Q2015 (9.8 percent and 3.9 percent, respectively), and in the Atlantic City–Hammonton metropolitan area, the rate was nearly five times higher (18.7 percent).[9]

For renters, respondents identified a lack of affordable housing options combined with rising rents as a driver of instability. Several respondents noted that many families in their community are on the brink of homelessness. As shown in Figure 5, in many Third District metropolitan areas, more than half of renter family households that include children were cost-burdened in 2014, meaning

[6] Severe student loan delinquency is defined as loans that are 30+ days past due (although many lenders do not begin to report past-due student loans until payments are 90+ days past due), in collections, or classified as severely derogatory.

[7] FRBNY Consumer Credit Panel/Equifax data, tabulated by the Federal Reserve Banks of Philadelphia and Minneapolis and accessed via the Consumer Credit Explorer (date accessed: 11/18/2016), available at www.philadelphiafed.org/eqfx/webstat/index.html.

[8] Severe mortgage delinquency is defined as having at least one account 90+ days past due, in collections, or classified as severely derogatory.

[9] FRBNY Consumer Credit Panel/Equifax data, tabulated by the Federal Reserve Banks of Philadelphia and Minneapolis and accessed via the Consumer Credit Explorer (date accessed: 11/18/2016), available at www.philadelphiafed.org/eqfx/webstat/index.html.

that more than 30 percent of their monthly household income went toward rent and utilities. Excessive housing costs leave fewer resources for meeting other household needs, increasing the strain on family budgets.

> ***We see housing instability as the next chief concern. Many of those who had been previously laid off have exhausted all benefits, and we have new families whose homes are in foreclosure. The foreclosure rate continues to rise.***

> ***Rapidly rising market rental rates and lack of affordable housing are increasing the risk of homelessness for working families.***

> ***Homelessness amongst families has begun to rise, and finding shelter for families is becoming more of a challenge. Many leading housing experts are recommending families "double" up. It's difficult to find a relationship that can withstand the challenges of successfully sharing a living space, let alone finding an opportunity to do so.***

Opportunities

When asked, "Over the past year, have you seen any promising trends or changes?" the following were cited by survey respondents as promising opportunities for improvement.

1. Financial coaching model

Several Delaware respondents said that a shift from financial counseling to coaching is a promising trend. Through the statewide $tand By Me program, individuals and families can proactively work to improve credit issues and overall household financial stability, thereby increasing access to financial products and services. The program provides targeted services to a wide range of audiences, including college students, seniors, people with disabilities, and Hispanic and Latino individuals and families.

> ***I've had the opportunity to work as a case manager for a nonprofit agency and as a financial coach. The difference is phenomenal and shows that financial coaches are much needed in our area. Rather than working with people with money emergencies and tragedies all the time, I now get the chance to teach young adults the right ways to handle money before they make any mistakes.***

2. State earned income tax credit match and free income tax assistance

One respondent mentioned that providing free income tax assistance is helpful for LMI households. The federal earned income tax credit (EITC) for LMI working individuals and families is a helpful tool in managing household financial stability. Additionally, many states are now offering matching EITC programs. Delaware matches 20 percent of the federal EITC while New Jersey matches 30 percent. Currently, this type of program is not available in Pennsylvania.[10]

> ***The increase in both access to free income tax assistance as well as state EITC match is promising.***

[10] Information current as of May 2016 is available at www.governing.com/gov-data/finance/state-earned-income-tax-credit-list-map.html.

Digging deeper: More resources from CDS&E

For a more in-depth look at topics discussed in this report, see the following resources and publications from the CDS&E Department of the Federal Reserve Bank of Philadelphia:

"Beyond the Numbers: A Mixed-Methods Exploration of Consumer Credit Trends by Age in the Third Federal Reserve District," available at www.philadelphiafed.org/-/media/community-development/publications/beyond-the-numbers/0716-beyondnumbers_credittrends.pdf?la=en

"Consumer Credit Explorer" Interactive Data Tool, available at http://philadelphiafed.org/eqfx/webstat/index.html

"Borrower Credit Access and Credit Performance After Loan Modifications," available at www.philadelphiafed.org/-/media/research-and-data/publications/working-papers/2016/wp16-26.pdf?la=en

"The Effectiveness of Pre-Purchase Homeownership Counseling and Financial Management Skills," available at www.philadelphiafed.org/-/media/community-development/homeownership-counseling-study/2014/homeownership-counseling-study-042014.pdf?la=en

"Capital for Communities: Financing Human Capital through Income Share Agreements," *Cascade* 92, available at www.philadelphiafed.org/community-development/publications/cascade/92/03_capital-for-communities

"Savings and Credit Building Can Be Integrated in Youth Employment Programs," *Cascade* 92, available at www.philadelphiafed.org/community-development/publications/cascade/92/08_savings-and-credit-building

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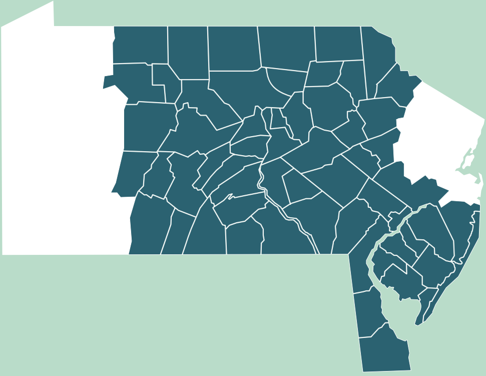
The Third Federal Reserve District

The Federal Reserve Bank of Philadelphia serves the Third District, which covers eastern Pennsylvania, southern New Jersey, and Delaware. The Bank's Community Development Studies & Education Department supports the Federal Reserve System's economic growth objectives by promoting community development in low- and moderate-income communities and fair and impartial access to credit in underserved markets.



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