COMMUNITY DEVELOPMENT STUDIES AND EDUCATION DEPARTMENT

COMMUNITY OUTLOOK SURVEY

Negative Trend Observed in Previous Surveys Continues

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. Since 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 July 2011, we asked service providers to evaluate how factors affecting LMI populations had changed from the first quarter of 2011 to the second quarter of 2011. Specifically, we asked about the availability of jobs and affordable housing, as well as the general financial well-being of LMI populations and their access to credit. To better understand how well the needs of LMI households are being met, we also asked servicers about the demand for their services, their organizations’ capacity to serve their clients, and the adequacy of their funding.

In addition, we also asked the respondents for their expectations about these factors three months from when they took the survey in mid-July 2011. Table 1 summarizes their feedback.

Table 1

<table>
<thead>
<tr>
<th>Current 2011:Q2 vs. 2011:Q1</th>
<th>Expectations three months from now</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Increase</td>
<td>% No change</td>
</tr>
<tr>
<td>Availability of jobs</td>
<td>17%</td>
</tr>
<tr>
<td>Availability of affordable housing</td>
<td>16%</td>
</tr>
<tr>
<td>Financial well-being</td>
<td>1%</td>
</tr>
<tr>
<td>Access to credit</td>
<td>4%</td>
</tr>
<tr>
<td>Demand for your services to LMI households</td>
<td>79%</td>
</tr>
<tr>
<td>Capacity to serve clients’ needs</td>
<td>15%</td>
</tr>
<tr>
<td>Funding for your organization</td>
<td>8%</td>
</tr>
</tbody>
</table>

Note: Percentages may not add up to 100 due to rounding
We use a diffusion index to summarize overall responses in Table 1. This index is calculated by adding the percentage of service providers that responded “Increase” to half the percentage of service providers that responded “No change,” then multiplying that number by 100. The diffusion index captures the overall response and expresses it in one number. If that number is above 50, the service providers’ responses are positive; if it is below 50, their responses are negative; and if the number is exactly 50, it represents a neutral response indicating no change. Table 2 summarizes the diffusion indexes for the current survey, as well as for the previous survey (First Quarter 2011).

### Table 2: Diffusion Indexes

<table>
<thead>
<tr>
<th></th>
<th>Current Survey 2011:Q2 Survey</th>
<th>Previous Survey 2011:Q1 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of jobs</td>
<td>43</td>
<td>51</td>
</tr>
<tr>
<td>Availability of affordable housing</td>
<td>42</td>
<td>47</td>
</tr>
<tr>
<td>Financial well-being</td>
<td>31</td>
<td>36</td>
</tr>
<tr>
<td>Access to credit</td>
<td>35</td>
<td>39</td>
</tr>
<tr>
<td>Demand for your services to LMI</td>
<td>89</td>
<td>79</td>
</tr>
<tr>
<td>Capacity to serve clients’ needs</td>
<td>43</td>
<td>41</td>
</tr>
<tr>
<td>Funding for your organization</td>
<td>25</td>
<td>31</td>
</tr>
</tbody>
</table>

Note: The diffusion index may vary slightly when calculated from Table 1 due to rounding.

### General Findings

The negative trend observed in previous Community Outlook Surveys continued in July 2011. Similar to the April 2011 survey, all diffusion index values remained below 50 except for demand for the services provided by the organizations surveyed. In the April 2011 survey, service providers were asked to give their future expectations for the second quarter of 2011. In the current survey, they gave their opinions of what actually occurred in the second quarter of 2011. Service providers reported that the availability of jobs, the availability of affordable housing, financial well-being, access to credit, and funding for their organization all decreased more than they initially expected. They reported that their capacity to serve clients’ needs still decreased, but less than their initial expectations, and also reported that the demand for their services to LMI households increased more than expected.

Service providers had a negative view of the availability of jobs in this survey, with a diffusion index of 43. This was slightly more negative than the last survey’s value of 47. However, future expectations were more optimistic, with a barely positive diffusion index of 51. Service providers also indicated a negative value for the availability of affordable housing (42). Although still negative, this value is above the last survey’s value of 38. Future expectations are more optimistic, although still slightly negative (47).

When asked about the financial well-being of their LMI clients, respondents had a negative view. Only 1 percent reported an increase in their clients’ financial well-being, while 39 percent reported a decrease, giving a diffusion index of 31. However, this is not as negative as the last survey’s result (21). Respondents also had somewhat higher future expectations (36), although this value is still negative. Attitudes about their clients’ access to credit were still negative (35), but not as negative as in the last quarter (22). Future expectations were also negative (39), but more optimistic than current results. As the economic factors affecting their clients continue to show weakness, service providers are finding that demand for their services continues to increase, with a diffusion index of 89. This is slightly higher than the last survey’s results (87). Furthermore, respondents expect demand for their services to increase again next quarter (79).

However, despite the increased demand for their services, service providers’ resources to meet their clients’ needs are decreasing. The percentage of respondents indicating that their capacity to serve their clients was decreasing (30 percent) was twice as high as the percentage who said their capacity was increasing (15 percent). This result produced a diffusion index of 43, down slightly from last quarter (45). Respondents had slightly more negative expectations for next quarter (41). A contributing factor to capacity problems may be the organizations’ ongoing challenges to maintaining their funding. Fifty-eight percent of organizations reported a decrease in funding, compared to only 8 percent reporting an increase, producing a diffusion index of 25. This continues the negative trend and is even lower than last quarter (31). Future expectations are higher (31) but still negative overall.
Factors That Affect Access to Credit

Respondents were asked what factors most affect their LMI clients’ access to credit. The chart below contains their responses. The three most important factors cited were underwriting standards/credit ratings, lack of financial knowledge, and lack of cash flow, and they were all cited the same number of times. These are the same three factors cited as most important in the last survey.

Chart 1

Factors That Affect Access to Credit*  
- Underwriting standards/credit ratings  
- Lack of financial knowledge  
- Lack of cash flow  
- Interest rates and other lending costs  
- Lack of trust in banks  
- Regulatory issues  
- Other factors  

Number of respondents

* Note: Respondents could check more than one box.  
Source: Federal Reserve Bank of Philadelphia

Factors That Affect the Availability of Affordable Housing

Respondents were asked what factors most affect the availability of affordable housing. The chart below shows their responses. The three main factors cited were lack of capital, competition for grant/subsidy funding, and costs. These are the same three most important factors reported in the previous survey.

Chart 2

Factors That Affect the Availability of Affordable Housing*  
- Lack of capital  
- Competition for grant/subsidy funding  
- Costs  
- Organizational capacity  
- Community opposition  
- Regulatory issues  
- Lack of demand  
- Other factors  

Number of respondents

* Note: Respondents could check more than one box.  
Source: Federal Reserve Bank of Philadelphia

Factors That Affect Organizations’ Financial Sustainability

Respondents were asked what factors most affect the financial sustainability of their organization. Their responses are shown in the chart below. The two main factors cited were lack of government funding and lack of grant funding, while the third most cited factor was market conditions/lack of earned income. These were the three factors most frequently cited in the last survey, as well.

Chart 3

Factors That Affect Organizations’ Financial Sustainability*  
- Lack of government funding  
- Lack of grant funding  
- Market conditions/lack of earned income  
- Lack of bank financing  
- Does not apply  
- Other factors  

Number of respondents

* Note: Respondents could check more than one box.  
Source: Federal Reserve Bank of Philadelphia

Additional Insights

The Community Outlook Survey also asks nonprofit service providers for additional insights on unusual events affecting the demand for their services and other comments that would help us better understand the issues faced by LMI households. Many respondents cited the economic downturn as an unusual event that affected demand for their services. More specifically, the issues brought up by multiple respondents included a demand for affordable housing that is higher than the supply, lack of jobs, and concerns about the social safety net.
Selected Comments

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

“More and more people seem to fall into this [LMI] category with the ongoing state of the economy.”

“Many of these households are taking jobs to get by that have wages significantly below their previous employment. Lack of employment opportunities and affordable housing are keeping women in our program longer and also increasing the number of applicants we are receiving.”

“Very few services are available for people in need.”

“While the low-income community must address the same issues as others, e.g., earning a salary, getting access to health care, keeping the kids in school, putting food on the table, they do so in markedly different ways than many of the people we work and socialize with because the money they earn is lower and less predictable of attainment than for many of us. In the low-income community, unemployment carries the certainty that life is unreliable and presents the additional challenge of uniting the right income with emerging necessities. In such circumstances, in the 21st century, access to financial tools such as savings accounts and checking accounts is critical to the maintenance of a subsistence standard of living. Not only are such tools a lifeline to the low-income community, they are the pathway to a better life. These tools are increasingly diminishing.”

“Government program emphasis seems to be shifting from direct basic needs assistance (food, shelter, clothing) to education (teach better budgeting so assistance is not needed), but current economic realities do not include opportunities for LMI households to stretch their limited dollars to make ends meet even with education. So support dollars are starting to shift from the most needy and vulnerable to those who have sufficient resources and can benefit from education. The “safety net” is fraying or becoming unavailable to those who need it most in favor of those who can be “chalked up” as success stories (i.e., “helping” families which would have been successful anyway to bump up outcome numbers).”

“Funding for affordable homes is falling further behind need, even as need increases.”

“As the social safety net frays, there will be increased crisis in our families and communities.”

“Many are working two or three part-time jobs, with no benefits. Health care costs to families continue to become more of an overwhelming, if not insurmountable, issue.”

“The future for folks on the margins is quite terrifying. Employment is shaky, government is cutting back support for programs and services, charities are competing with one another for meager resources, and donations are down 40 percent.”

“Need to address with nontraditional programs and activities that encourage education, training, and self-reliance.”

“Lack of literacy and bridge skills hinders job engagement.”

“Need easing of credit for first-time, low-income buyers.”

“Housing discrimination, long a problem in Greater Philadelphia, is being exacerbated by the national housing crisis, the recession, and a troubling rise in unfair lending practices. Discriminatory barriers to families with children, people with disabilities, and racial minorities limit access to the region’s small supply of affordable housing stock.”

“Affordable housing continues to be a crisis for families and older residents due to the impact of Marcellus Shale workers on the housing market.”

“There is a tremendous demand for affordable housing. The Council on Affordable Housing (COAH) programs in New Jersey are producing significant numbers of units, but this does not help the extremely low-income people who require some form of operating subsidy to make the rents affordable. The primary source of operating subsidy is the federal government. That source has nearly dried up.”

Any questions, concerns, or comments about the Community Outlook Survey should be addressed to Brian Tyson at Phil.COSurvey@phil.frb.org.