



Lack of Affordable Housing, Jobs and Credit Pushes Up Demand for Nonprofit Service Providers

Third Quarter 2010

About the Community Outlook Survey

In July 2010, the Federal Reserve Bank of Dallas launched the Community Outlook Survey, a quarterly online survey to assess community and economic development in the Eleventh District of the Federal Reserve System—Texas, northern Louisiana and southern New Mexico.¹

This seven-question survey focuses on changes in financial well-being for low- and moderate-income (LMI) populations as well as service providers' capacity to serve the needs of these clients. The Bank uses providers' responses to measure increases/decreases/unchanged conditions from the previous quarter as well as expectations for changes in the following quarter. The data collected will help the Dallas Fed further analyze and encourage community and economic development and fair and impartial access to credit.

Survey

If you are interested in participating in our 10-minute survey and are a nonprofit service provider to LMI households in Texas, northern Louisiana or southern New Mexico, visit www.dallasfed.org/ca/cos/request.cfm to submit your request.

Third Quarter 2010 Survey Results

In October 2010 we asked service providers how they evaluate changes in the needs of low- and moderate-income households—from the availability of jobs and affordable housing to their financial well-being and access to credit—from the second quarter to third quarter of 2010. To better understand how well the needs of LMI households are being met, we also asked service providers

about the changes in demand for their services, their organizations' capacity to serve clients and funding for their organizations.

In addition, we asked what changes they expect from the third quarter to the fourth quarter. Table 1 summarizes their feedback.

Table 1

	Current 2010:Q3 vs. 2010:Q2			Expectations for next quarter 2010:Q4 vs. 2010:Q3			Diffusion index Q3 survey		Diffusion index Q2 survey	
	% Increase	% No change	% Decrease	% Increase	% No change	% Decrease	2010:Q3 vs. 2010:Q2	2010:Q4 vs. 2010:Q3	2010:Q2 vs. 2010:Q1	2010:Q3 vs. 2010:Q2
Availability of jobs	18	48	34	40	52	8	42	66	38	54
Availability of affordable housing	16	61	22	24	65	11	47	56	47	53
Financial well-being	5	56	39	23	61	16	33	53	35	44
Access to credit	3	47	50	14	63	23	26	45	26	38
Demand for services	71	27	1	70	29	1	85	85	85	83
Capacity to serve clients	23	57	20	31	61	8	51	62	59	60
Funding for organization	14	53	33	23	56	21	41	51	37	47

NOTE: Percentages may not add to 100 due to rounding

Diffusion Index: Assessing Attitudes of Nonprofit Service Providers

We use the diffusion index to assess the attitudes of service providers each quarter and track how their attitudes change over time. The index summarizes the three percentages (Increase/No change/Decrease) into one number for each question and is calculated by adding the percentage of the “Increase” responses to half of the percentage of the “No change” responses and then multiplying that total by 100.

If the index is greater than 50, then the attitudes of the service providers are positive. If it is lower than 50, then the attitudes of the service providers are negative. If it is 50, then there is no overall change in attitude.

Comparing this quarter’s survey to last quarter’s survey, most of the diffusion indexes did not change or went up. The exceptions were financial well-being and capacity to serve clients. From the first to second quarter versus the second to third quarter, attitudes about financial well-being were slightly more negative (35 to 33), and attitudes about capacity to serve clients became more noticeably negative (59 to 51).

When we compare respondents’ expectations for the third quarter to their observations and experiences that quarter, we see that—with the exception of the demand for their services—their expectations were more positive than the realities they observed or experienced.

We also see that respondents are increasingly optimistic: Their expectations for the fourth quarter exceed their expectations for the third quarter, and the differences between the diffusion indexes in this quarter’s survey are greater than the differences between the diffusion indexes in last quarter’s survey. There are two exceptions: In this quarter’s survey there was no change in attitude for demand for their services. Also, respondents’ expectations for funding for their organizations increased just as much in this quarter’s survey (by 10 points) as last quarter’s survey.

General Findings

Most service providers reported that the availability of jobs for low- and moderate-income households stayed the same or diminished from the second to third quarter of 2010. However, more of them anticipate jobs to become increasingly available in the fourth quarter of 2010. The diffusion index reflects this change in attitude: From the second to third quarter, respondents had a negative attitude about the availability of jobs (diffusion index of 42) but from the third to fourth quarter, they had a positive attitude (diffusion index of 66).

Respondents also had a slightly negative attitude about the availability of affordable housing (diffusion index of 47) from the second to the third quarter, but from the third to fourth quarter, they had a positive attitude (diffusion index of 56).

When asked for their observations on LMI households’ access to credit and financial well-being, most service providers said that these households’ situations remained the same or worsened from the second to third quarter of 2010. The diffusion index for access to credit did remain below 50, but much fewer respondents thought that these households’ access to credit would decrease during the fourth quarter. Unlike last quarter, the diffusion index for financial well-being surpassed 50—reaching 53—suggesting that respondents had a slightly positive attitude about LMI households’ financial well-being from the third to fourth quarter of 2010.

Predictably, most service providers saw the demand for their services increase from the second quarter to the third quarter, and they expect this trend to continue through the fourth quarter 2010. The diffusion indexes for demand for services are very high—85—for both time frames.

Nonetheless, less than 10 percent had a negative outlook on their capacity to serve clients, and an increasing number of them anticipated their organizations’ funding to improve from the third to the fourth quarter. The diffusion indexes reflect this change in attitude: From the second to third quarter, respondents had a negative attitude about their organizations’ funding (diffusion index of 41), but from the third to fourth quarter, their attitude improved (diffusion index of 51).

The following charts identify the factors affecting LMI households’ access to credit and affordable housing and the factors impacting service providers’ financial sustainability. As the Dallas Fed continues to collect feedback from respondents every quarter, we will monitor trends, patterns and emerging issues in the data and note them in future Community Outlook Survey reports.

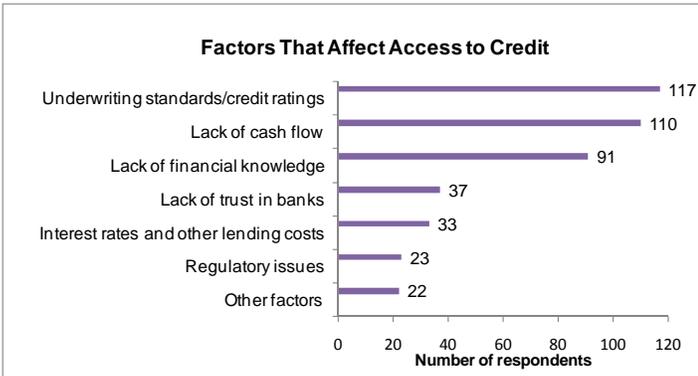
Factors That Affect Access to Credit

Just like last quarter, this quarter most service providers who responded to the Community Outlook Survey reported that the factors that most affect their LMI clients’ access to credit are tighter underwriting standards/credit ratings and clients’ lack of cash flow.

Also, last quarter a number of respondents said that their clients lack financial knowledge. We added “lack of financial knowledge” to the list of answer choices in this quarter’s survey, and a majority of respondents cited this as a

factor that affects LMI households' access to credit (Chart 1).

Chart 1



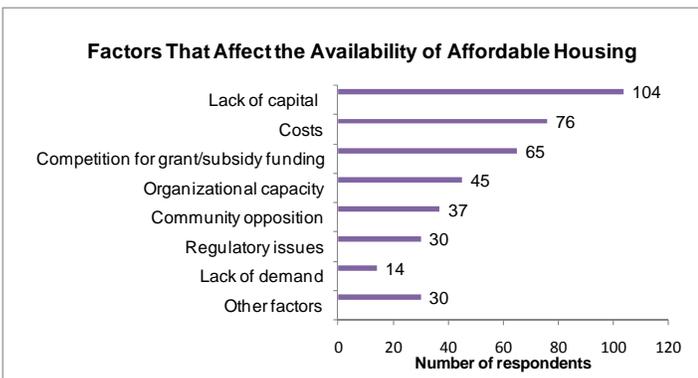
NOTE: Respondents could check more than one box.

Service providers also cited other factors that affect LMI households' access to credit, such as banks not lending, clients' poor or nonexistent credit scores/history and low confidence levels/uncertainty in the market.

Factors That Affect Availability of Affordable Housing

Both last quarter and this quarter, the factors that were most commonly noted as affecting the availability of affordable housing are costs, the lack of capital and the competition for grant/subsidy funding (Chart 2).

Chart 2



NOTE: Respondents could check more than one box.

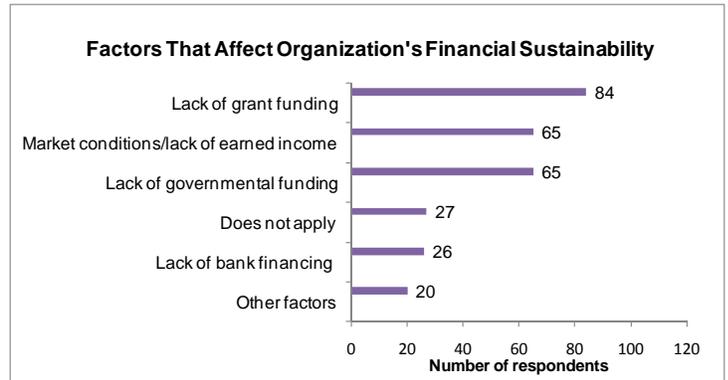
Service providers also pointed to other factors that affect the availability of affordable housing, including the lack of available/affordable land.

Factors That Affect Organization's Financial Sustainability

Consistent with last quarter's respondents, most service providers this quarter identified the lack of grant funding to be the major issue for their organization's financial

sustainability. Quite a few others chose market conditions/lack of earned income and the lack of governmental funding to be the influential factors (Chart 3). In this quarter's survey, 27 respondents said "does not apply" when asked what factors are affecting their organization's financial sustainability while in last quarter's survey, only 9 respondents said "does not apply." This could suggest that fewer organizations see financial sustainability as an issue of concern.

Chart 3



NOTE: Respondents could check more than one box.

Service providers cited additional factors that affect their financial sustainability, including less money from sales tax revenues.

Additional Insights

The Community Outlook Survey 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. Both last quarter and this quarter respondents cited a number of issues, including unemployment/underemployment/layoffs/lack of jobs, foreclosures, hurricanes pushing up the demand for housing, the immigration of residents increasing the demand for services, the need for more workforce training, and the lack or loss of health insurance/access to health care.

Note

1. Data collected represent the opinions of organizations that complete the survey and should not be interpreted to represent the opinions of all service providers to low- and moderate-income households in the Eleventh District of the Federal Reserve System. In addition, the organizations that respond to the survey will not necessarily be the same from quarter to quarter. The responses to open-ended questions will not be publicized until patterns and trends can be assessed.

Questions regarding the Community Outlook Survey can be addressed to Elizabeth Sobel Blum at