



Recovery Under Way for Communities in the 11th District

Fourth 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. To view a sample of the survey, visit www.dallasfed.org/ca/cos/survey.pdf.

Fourth Quarter 2010 Survey Results

In January 2011 we asked service providers how they evaluated 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 third quarter to fourth 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.

Table 1

	Current 2010:Q4 vs. 2010:Q3			Expectations for next quarter 2011:Q1 vs. 2010:Q4			Diffusion index Q4 survey		Diffusion index Q3 survey		Diffusion index Q2 survey	
	% Increase	% No change	% Decrease	% Increase	% No change	% Decrease	2010:Q4 vs. 2010:Q3	2011:Q1 vs. 2010:Q4	2010:Q3 vs. 2010:Q2	2010:Q4 vs. 2010:Q3	2010:Q2 vs. 2010:Q1	2010:Q3 vs. 2010:Q2
Availability of jobs	27	53	19	52	39	1	54	72	42	66	38	54
Availability of affordable housing	13	74	13	27	65	9	50	59	47	56	47	53
Financial well-being	13	60	27	30	60	11	43	59	33	53	35	44
Access to credit	5	64	31	14	72	14	37	50	26	45	26	38
Demand for services	64	35	1	63	37	0	81	82	85	85	85	83
Capacity to serve clients	15	72	15	22	69	1	51	56	51	62	59	60
Funding for organization	15	50	35	27	47	26	40	51	41	51	37	47

NOTE: Percentages may not add to 100 due to rounding

In addition, we asked what changes they expected from the fourth quarter of 2010 to the first quarter of 2011. Table 1 summarizes their feedback.

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.

Bright Spots and Areas for Improvement

Comparing the fourth quarter’s survey to the previous one, most of the diffusion indexes went up or remained at similar level. For the first time since the inception of the survey, the diffusion index on the availability of jobs for low- and moderate-income households is in the positive territory (54).

Notably, the percentages of respondents reporting a decrease in the financial well-being and the access to credit of LMI households went down substantially from the third quarter (from 39 percent to 27 percent, and from 50 percent to 31 percent, respectively), which boosted the diffusion indexes a bit higher (43 and 37 from 33 and 26, respectively). However, still very few of the respondents agreed that there was much improvement in these areas (only 13 percent and 5 percent, respectively).

There was a small drop in the index of the demand for services, although it still remained very high (at 81), and very few respondents considered the demand to have decreased. The survey respondents didn’t think the availability of affordable housing or their capacity to serve had changed from the third quarter. The respondents had noticed a decrease in funding for their organizations. The diffusion index did not change from the last survey and remained in the negative area at around 40.

Again, when we compare respondents’ expectations for the fourth quarter in the last survey to their observations and experiences that quarter, we see that the expectations were all much more positive than the realities they observed or experienced.

The Momentum Continues

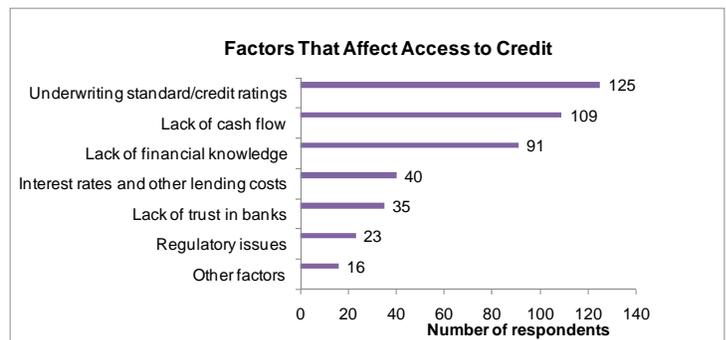
When we ask the survey respondents to tell us their expectations for the first quarter of 2011, we see that they are again increasingly optimistic about the economy: They expect to see more jobs and more available housing, and they believe the financial well-being and capacity to serve will improve. However, the expectation on the improvement on capacity to serve is lower than their expectation from the last quarter’s survey, likely because of the anticipated decline in public funding in the coming year.

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 the third quarter 2010, in the fourth 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 tightening/tightened underwriting standards/credit ratings, clients’ lack of cash flow and lack of financial knowledge. (Chart 1). The concerns about interest rates and other lending costs exceed those about the lack of trust in banks and regulatory issues.

Chart 1



NOTE: Respondents could check more than one box.

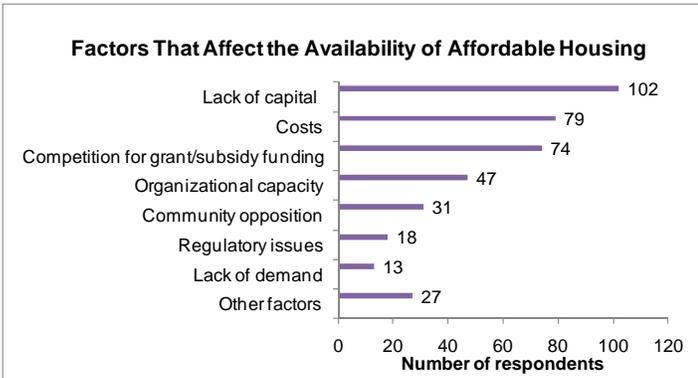
Service providers also cited other factors that affect LMI households’ access to credit, such as lack of income, lack of good financial products, appraisal issues, incorrect credit scores and clients’ old debts and credit issues.

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 the lack of capital, costs, and the competition for grant/subsidy funding (*Chart 2*). The challenges associated with organizational capacity, community opposition, regulatory issues and lack of demand still remained.

Chart 2



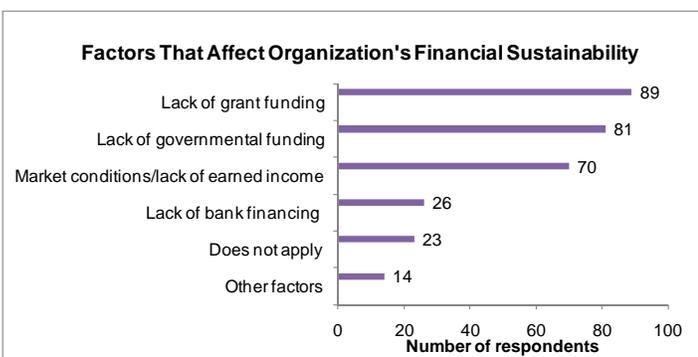
NOTE: Respondents could check more than one box.

Service providers also pointed to additional factors that affect the availability of affordable housing, including lack of incentives for investment in rehabilitation and development of affordable housing and lack of expertise and funding in developing housing in rural communities.

Factors That Affect Organization’s Financial Sustainability

The service providers again list lack of grant funding as the number one issue associated with the organization’s financial sustainability. The concerns for the lack of governmental funding exceeded the concern about market conditions/lack of earned income (*Chart 3*). The lack of bank financing also remained as an influential factor on the organization’s sustainability.

Chart 3



NOTE: Respondents could check more than one box.

Service providers cited additional factors that affect their financial sustainability, including complexity of transactions, higher energy costs, large inventory of single family homes and regulatory issues.

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. This quarter respondents added a few arising issues, such as the demand for more affordable housing and workforce training for veterans and elder citizens as well as lack of resources for rural capacity building. The increase in oil prices has created jobs, but also caused housing cost increases and demand for workforce housing. The decline in local, state and federal funding may afflict the capacity of organizations to serve. The violence in Mexico has increased the in-migration of low-income Mexican families and the risks in business development in border cities. Respondents also cite moral hazard issues in foreclosures mitigation, challenges of the elderly getting health services and aftermath from hurricanes.

Comments from Survey Respondents

These comments were selected from respondents’ completed surveys and have been edited for publication.

Local and Federal Funding

We have seen a disturbing trend for municipalities and counties to end or significantly reduce funding to social service agencies. This has become detrimental to having the resources to provide the needed services to our low- and moderate-income households.

We dread the 2011 federal budget—we expect deep program cuts in the programs we administer.

Poverty and Lack of Income

There is a lack of awareness and understanding of the plight of the working poor.

Due to the rising unemployment rate and population increase, the demand for our services has increased. In addition, affordable housing has been hard to come by in our border region, mainly because the rapidly growing population remains poor. Our area’s population is expected to increase by almost 60 percent. The poverty rate—more than 34.8 percent in 2009 compared to 16.2 percent for the state—is not expected to fall significantly any time soon.

The main concern we have in the Permian Basin is the availability of a skilled workforce.

Access to Credit

Changes in the credit market and underwriting requirements have impacted first-time home buyers’ ability to qualify and the financial feasibility of multifamily projects.

The current economic environment has negatively impacted our business model. We must redefine our model and find additional resources to provide financial and credit counseling to enable our target market to meet the new underwriting criteria.

In Corpus Christi and surrounding areas, the large number of payday loans and title loans, especially in neighborhoods where low- and moderate-income families and individuals live, work and conduct day-to-day operations, continues to increase.

Rural Communities

Rural communities face the same problems as urban ones, but services for them are often distant and inaccessible even with Internet or phone projects. Low- and moderate-income citizens are usually the ones that have the most problems accessing the help they need.

Housing

As a HUD-approved housing counseling agency, we continue to see a large number of families losing their homes with very little hope that we can negotiate with mortgage companies for loan modification; the process is time consuming and in many of our cases nonproductive.

The households we serve are wounded servicemen and women from the Iraq and Afghanistan conflicts who need specialized housing. There are almost no rentals that meet their needs. Building rental units for them and their families in the community is paramount to restoring mind and body.

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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.

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