



Progress Continues for Communities in Eleventh District

First Quarter 2012

About the Community Outlook Survey

The Community Outlook Survey (COS), a quarterly online survey by the Federal Reserve Bank of Dallas, helps assess community and economic development in the Eleventh District of the Federal Reserve System—Texas, northern Louisiana and southern New Mexico.¹ The community organizations participating in the survey provide housing, health and nutrition, financial aid, workforce development and education services to cities and counties in the Eleventh District.

In first quarter 2012, the regional economy showed positive growth. Texas employment rose rapidly from last quarter, at a rate of 3.1 percent compared with just 1.9 percent in the nation. The energy sector remained a primary driver of the economy, resulting in heavy mining activity in the Eagle Ford and Permian Basin areas. Real estate progress was mixed in the first quarter, though Texas sales and inventory data indicate modest improvement in the housing market² Within the region's low- and moderate-income (LMI) communities, the optimistic outlook felt in fourth quarter 2011 has carried over into 2012. Service providers continue to see improvements in the areas of job availability and financial well-being, though concerns about credit loom. Nonprofit sustainability is of great concern to service providers in the Eleventh District, who are actively seeking partnerships and developing new communication strategies to sustain services for their LMI clients.

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/microsites/cd/cos/request.cfm to submit your request. To view a sample of the survey, visit www.dallasfed.org/assets/documents/cd/cos/survey.pdf.

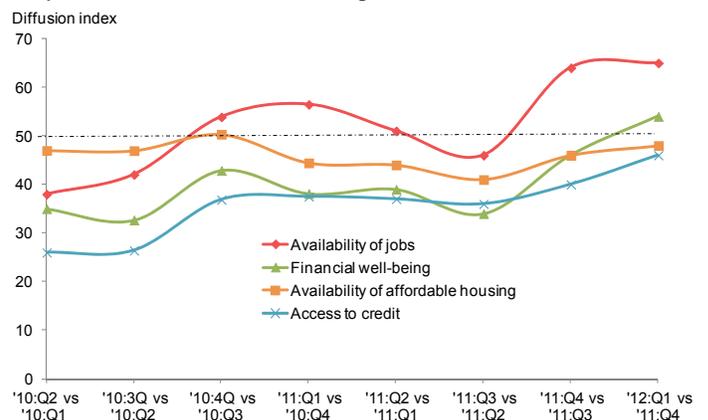
First Quarter 2012 Survey Results

Taking a look at the diffusion indexes reaffirms this upward trend. Chart 1 shows the diffusion indexes for four measures of LMI well-being, over the past eight quarters. The diffusion index for all indicators has increased over the past three surveys, with particularly large gains seen in the availability of jobs measure. Additionally, for the first time since the beginning of the Community Outlook Survey, financial well-being is now in positive territory, suggesting that a majority of service providers believe financial well-being of clients is increasing.

Only the diffusion index for availability of affordable housing has shown little increase over the past eight quarters. Although still negative, access to credit has been on a steady upward trend, suggesting a perceived slight easing of credit recently.

Expectations about second quarter 2012 are not as high as expectations from the previous quarter, though some remain positive. Service providers continue to be optimistic about the availability of jobs, with the diffusion index at 69,

Chart 1
Respondents' Observations of the Changes in Situation of LMI Households



down only slightly from 74 last quarter. The diffusion index for financial well-being for next quarter is positive as well, at 54, but down four points from last quarter's expectations. Still, the indexes for affordable housing and access to credit are below 50, suggesting service providers expect to see declines in these areas.

	Current 2012:Q1 vs. 2011:Q4			Expectations for next quarter 2012:Q2 vs. 2012:Q1			Diffusion index* 2012:Q1		Diffusion index* 2011:Q4	
	Percent increase	Percent no change	Percent decrease	Percent increase	Percent no change	Percent decrease	2012:Q31 vs. 2011:Q4	2012:Q42 vs. 2012:Q1	2011:Q4 vs. 2011:Q3	2012:Q1 vs. 2011:Q4
Availability of jobs	46	38	16	47	44	9	65	69	64	74
Availability of affordable housing	16	64	20	18	63	19	48	49	46	53
Financial well-being	27	55	18	23	62	15	54	54	46	58
Access to credit	13	66	21	12	73	15	46	48	40	48
Demand for services	59	39	2	61	39	0	78	80	77	82
Capacity to serve clients	15	73	12	24	68	8	52	58	51	60
Funding for organization	12	47	41	30	41	29	36	51	39	46

*The diffusion 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, the attitudes of the service providers are positive. If it is lower than 50, the attitudes of the service providers are negative. If it is 50, there is no overall change in attitudes

NOTE: Percentages may not add to 100 due to rounding.

With regard to service providers' expectations for their organization's well-being, the diffusion index for demand for services decreased by two points from fourth quarter 2011 (80 versus 82). The index for expectations for funding for organizations, at 51, is in positive territory for the first time in a year. This finding is particularly interesting because it is in stark contrast to the diffusion index for current funding conditions, at a low score of 36. Projections for capacity to serve clients dropped slightly from last quarter (58 vs. 60), but the index is still above the baseline of 50.

In addition to asking service providers about the change in the situation of LMI households, we asked them to identify factors affecting their answers to many of the indicators. The following charts show the responses to factors affecting LMI households' access to credit and affordable housing and the factors impacting service providers' financial sustainability:³

Access to Credit

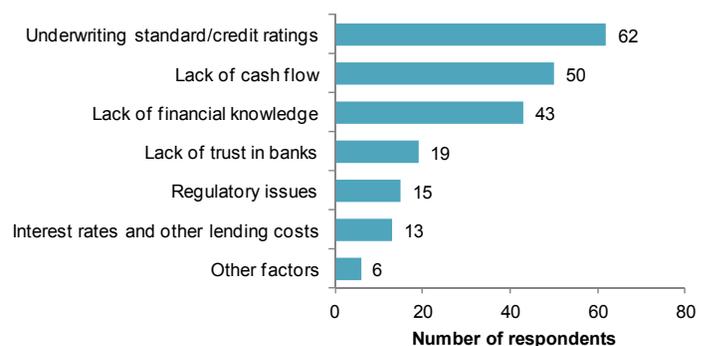
Chart 2 shows the breakdown of responses to the question inquiring about the top factors that affect LMI households' access to credit. Consistent with results from prior surveys, the top three reasons are underwriting standards/credit ratings, lack of cash flow and lack of financial knowledge.

Respondents selecting "other factors" included comments addressing concerns about high-cost loans provided through alternative financial services, ongoing debt issues and lack of quality employment or underemployment.

Availability of Affordable Housing

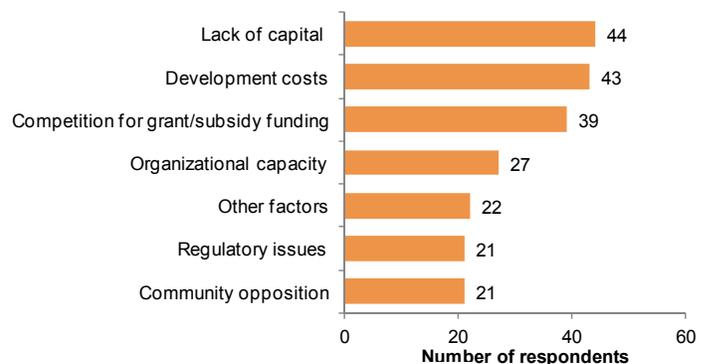
As in past surveys, service providers pointed to lack of capital, development costs, and competition for grant funding as the most important factors affecting the availability

Chart 2
Factors that Affect Access to Credit



NOTE: Respondents could check more than one box.

Chart 3
Factors that Affect the Availability of Affordable Housing



NOTE: Respondents could check more than one box.

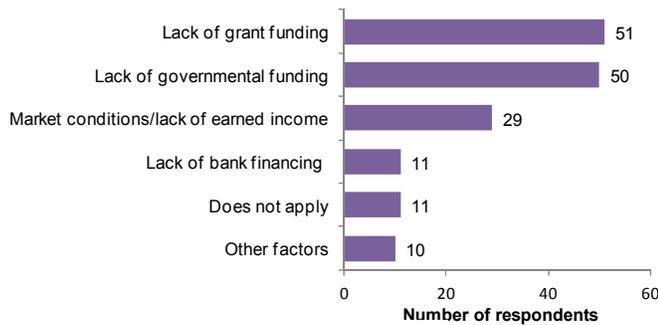
of affordable housing (Chart 3). Comments point to low appraisals and lack of inventory as well as the notion that profit margins that are too slim on affordable housing relative to higher-end alternatives. Other respondents cited in-

flux of both military families and immigrants from Mexico into the area, leaving demand for affordable housing higher than the supply.

Financial Sustainability

We asked service providers about factors affecting their organization’s financial sustainability. Chart 4 shows that respondents selected lack of grant and governmental funding and market conditions as the top factors. The comments indicate worries about the political landscape and regulatory environment, competition from other nonprofits and decreased community support. Other respondents cited banking partners being acquired by other institutions. However, some service providers pointed to positive trends, such as revenue from the economic development sales tax—although market conditions such as reduced consumer spending can decrease this amount.⁴

Chart 4
Factors that Affect Organization's Financial Sustainability



NOTE: Respondents could check more than one box.

Additional Insights from Survey Respondents

We also asked nonprofit service providers for any additional insights they would like to report about the conditions of LMI households. Many respondents pointed to housing-related concerns facing LMI populations. Lack of affordable housing, for instance, is a frequently cited issue, especially as it relates to job availability. As one respondent articulates:

They are caught between a rock and a hard place. The lower the income, the greater the financial risk and the higher the interest rates they have to pay. Available affordable housing is located in the unincorporated areas of the county. This places families far away from jobs and community services, which can bring their transportation (gas) costs into unaffordable levels.

Many service providers described similar ways in which a combination of conditions is imposing a greater burden on LMI families. Although the diffusion index for job availability has been increasing, the first quarter 2012 comments provide insight that full-time employment with a living wage is still a primary concern for the Eleventh District.

The following examples have been edited for publication:

- Higher fuel prices, along with increased costs for groceries, without an increase in wages, are putting a strain on all households.
- The economic conditions facing LMI households are very challenging. Lack of decent-paying jobs, low wages, fear of job loss, paired with increased cost of gasoline, food and rent create severe challenges for LMI households.
- Rising costs for utilities and transportation put a disproportionately greater burden on our low-income working families than on higher-wage workers. Sadly, wages are not nearly keeping up with inflation, especially in our area.
- There are no jobs in our area; most families do not have vehicles to drive to where the jobs are, 20 miles away. If they do have a vehicle, they do not have money for gas to get there. A no-win situation.

Challenges and Solutions for Nonprofit Organizations

For first quarter 2012, we also posed the following question to service providers: *Consider a recent challenge your organization has encountered in providing services to LMI households and identify the steps you have taken to resolve it. In addition, describe a challenge (if any) you have yet to resolve.*

The topics covered in the responses range from housing to fair lending to job development. Yet, at the heart of most narratives are concerns about funding. Community organizations are realizing they can no longer rely on grants or government subsidies, and many are anxious in the wake of an uncertain political future. Still others are experiencing dwindling community support, such as fewer volunteers or decreased private funding. Many of the unresolved challenges described by respondents involve an inability to fund the projects they planned to implement. Examples of challenges and strategies for coping include:

- We have lost a portion of state funding and are attempting to recuperate some of the funding lost with fundraisers. The price of gasoline keeps increasing, which affects volunteers.
- We are challenged by recent cuts in Congress for rural housing and cuts in private funding. We also are challenged by building better sustainable housing that will lower utility costs but at the same time raises taxes and home insurance. We are researching ways to make our organization financially sustainable by perhaps forming an LLC to bring money into the nonprofit.
- Helping residents gain employment has been hard in the past, but we partnered with a local social enterprise, and we've employed more than 75 folks in the past two years.

- One challenge has been clients securing mortgage loans. We partnered with lenders to discuss our clients and subsidies available to them, developed training sessions for lenders to work with clients individually, and developed a communication process for lenders to share with both clients and us.

These comments speak to the notion that complex challenges with multiple roots require multisector approaches. As mentioned in the previous two surveys, some service providers are partnering across industries to address a multitude of concerns. Others are restructuring their programs and ramping up communications and marketing in efforts to better serve clients.

Notes

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.
2. For more economic statistics and analyses on the Eleventh District, see www.dallasfed.org/research/update/reg/2012/1203.cfm.
3. The number of respondents to the fourth quarter 2011 survey is 86.
4. Many Texas cities have voted to include a local sales tax to help finance community and economic development projects. Economic development entities in these areas receive revenue from this tax; the amount often is dependent upon the amount of consumer spending. For more information, see www.texasahead.org/lga/96-302.pdf.

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