

Community Outlook Survey

LETTER FROM THE COMMUNITY DEVELOPMENT OFFICE

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 fourth quarter 2012, growth of the Texas economy slowed slightly. However, at a 3.2 percent annual rate, Texas job growth is still greatly outpacing the 1.4 percent U.S. rate. Low natural gas prices have caused a decline in the region's drilling, though the energy sector is still a strong positive contributor to the economy. Existing-home sales have soared, while sales growth has declined in the retail sector.² In the region's low- and moderate-income (LMI) communities, the sense of optimism is strong. After midyear decline and uncertainty, service providers see improvement in many areas of well-being for LMI families. Despite these advances, many are still worried about transportation and housing issues, as well as federal and state program funding. In 2013, nonprofits are looking to strengthen the financial situations of both LMI families and their own organizations.

PARTICIPATE IN THE 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, please submit the [request form](#).

[View a copy of our survey.](#)

Job Outlook Improves, While Financial Concerns Linger for Communities in the Eleventh District

FOURTH QUARTER SURVEY RESULTS

In January 2013, we asked service providers how they evaluated changes in the needs of low- and moderate-income (LMI) households—ranging from the availability of jobs and affordable housing to financial well-being and access to credit—from third quarter 2012 to fourth quarter 2012. 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 expected from fourth quarter 2012 to first quarter 2013. Table 1 summarizes their feedback.

Observations of the well-being of LMI households have rebounded after a few quarters of decline and stagnation. The percentage of service providers who saw increases in financial well-being rose 9 percentage points, (19 versus 10), while the share of providers seeing increases in affordable housing rose 10 (21 versus 11). The percentage of service providers reporting an increase in funding for their organization climbed 3 percentage points (14 versus 11), although the share of providers noticing an increased ability to serve clients fell 5 percentage points to 14 percent. Once again, availability of jobs saw the biggest improvement—47 percent of service providers indicated an increase in this measure, compared to 35 last quarter and 30 percent the quarter before.

Taking a look at the diffusion indexes, we see that all four measures of household conditions rose this quarter (*Chart 1*). Financial well-being is out of negative territory for the first time since first quarter 2012 and has reached 50, indicating that respondents are overall neutral on this measure. The diffusion index for jobs, at 67, has reached its highest peak ever and continues to be the most positive indicator. Indexes for affordable housing and access to credit both increased, though still remain below the baseline of 50, suggesting that service providers are on average negative on these indicators—but increasingly less so.

Expectations about job availability for next quarter are also at their highest point ever. With a diffusion index of 75, job availability is expected to improve even more in the first quarter of the new year. The diffusion indexes for expectations of affordable housing availability and access to credit are both in positive territory this quarter, after dipping below 50 last quarter. Expectations about financial well-being also increased, up 2 points from last quarter's expectations (58 versus 56).

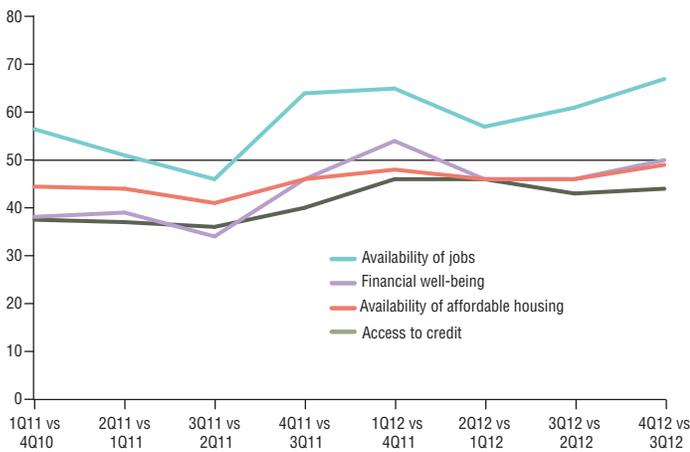
Interestingly, although providers expect to see improvements in all areas of LMI conditions, they also believe demand for their services will increase. The diffusion index for expectations of demand for services jumped 10 points to 81, from 71 last quarter. They also believe that their capacity to serve clients will improve

Table 1	Demand for Services										
	Current 2012:Q4 vs. 2012:Q3			Expectations for next quarter 2013:Q1 vs 2012:Q4			Diffusion index* 2012:Q4		Diffusion index* 2012:Q3		
	Percent increase	Percent no change	Percent decrease	Percent increase	Percent no change	Percent decrease	2012:Q4 vs. 2012:Q3	2013:Q1 vs. 2012:Q4	2012:Q3 vs. 2011:Q2	2012:Q4 vs. 2012:Q3	
Availability of jobs	47	41	12	56	40	5	67	75	61	73	
Availability of affordable housing	21	68	22	29	56	15	49	57	46	49	
Financial well-being	19	61	19	32	51	17	50	58	46	56	
Access to credit	4	80	17	17	75	8	44	54	43	47	
Demand for services	60	38	3	64	34	1	79	81	75	71	
Capacity to serve clients	14	68	19	27	59	14	48	56	53	53	
Funding for organization	14	50	36	15	56	29	39	43	36	44	

*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.

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



slightly, with a diffusion index of 56. However, the diffusion index for expectations about funding for organization is one point lower this quarter than last quarter (43 versus 44). Expectations for funding are below the baseline of 50, suggesting that service providers continue to be pessimistic, on the whole, regarding their future funding.

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 that highlight the top factors that affect LMI households' access to credit. Underwriting standards and credit ratings regained the top spot, after falling to number two last quarter. Lack of cash flow and lack of financial knowledge are the second and

third most cited determinants, respectively. Comments on this question highlight the sentiment that banks have become more risk-adverse and are tightening lending standards, leaving LMI households with few options. Other comments note that in some cases, incomes are simply too low to qualify for loans.

Availability of Affordable Housing

Once again, the top three factors respondents pointed to as affecting the availability of housing are lack of capital, development costs and competition for grants or subsidies (Chart 3). Within the comments, respondents cited access to affordable land and bank lending requirements as large barriers to affordable housing. Many also pointed to population growth and growth in military families as contributing factors to housing shortages and rising costs.

Financial Sustainability

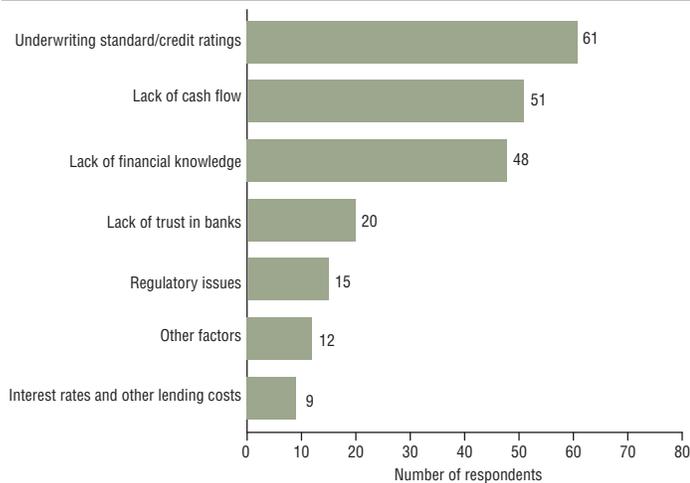
Chart 4 shows the top factors affecting respondents' organizations' financial sustainability. Lack of grant and governmental funding and market conditions are among the highest ranked factors. Service providers further discuss factors in the comments, writing that federal and state funding sources are changing and dwindling. Others discuss how economic and regulatory uncertainties have impacted their work.

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. Housing was the most frequently mentioned issue this quarter. Respondents wrote about the difficulty of building and maintaining affordable units with smaller funding streams. One respondent explains:

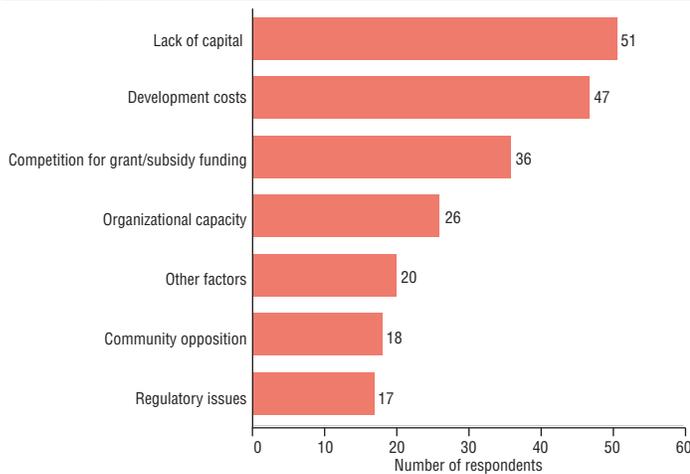
- LMI households seek security, safety, a means to provide for their family, decent affordable housing and reasonably priced transportation. Yet HUD programs

Chart 2 Factors That Affect Access to Credit



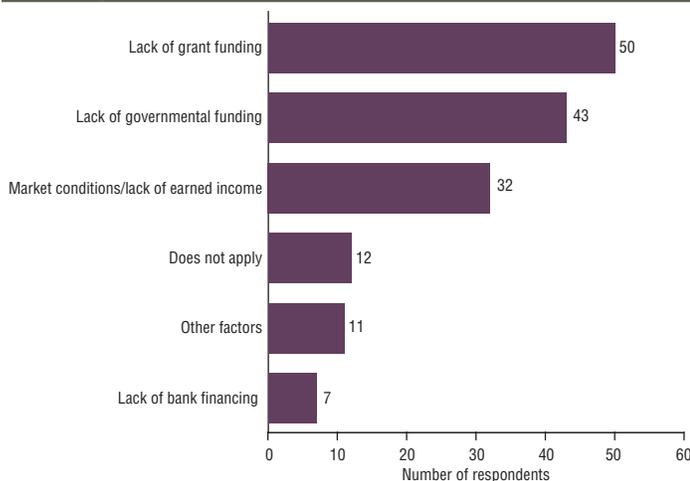
Note: Respondents could check more than one box.

Chart 3 Factors That Affect the Availability of Affordable Housing



Note: Respondents could check more than one box.

Chart 4 Factors That Affect Organization's Financial Sustainability



Note: Respondents could check more than one box.

that can provide these things are facing reduced funding that will affect affordable housing for millions of LMI Americans.

Other providers suggest that fear is keeping LMI families away from homeownership, and they seek to provide services to alleviate these fears:

- There is great hesitancy to step into homeownership, for fear all will be lost. Homeownership is considered by the LMI community as beyond reach—primarily due to this being unfamiliar territory. There is comfort in familiarity, which is a life in rental units (with high utility payments). Our most effective program is our eight-hour Homebuyers Workshop. Fear is reduced in stepping forward to a more secure and stable financial future.

Finally, transit issues pervade concerns about housing, as well as employment. Without reliable and affordable transportation, LMI households can be left without a way to get from their homes to work. This problem is often more pronounced in rural communities.

- Here in the Valley, lack of transportation is a major issue for accessing community services, health care, education, etc. Costs of transportation are too high for LMI families.
- Lack of dependable transportation to jobs is critical to affordable housing; however, no system is available to small, rural areas.

Challenges and Solutions for Nonprofit Organizations

For fourth quarter 2012, we posed an additional set of questions to service providers: *What is the most prominent issue affecting LMI communities that your organization will focus on in 2013? Additionally, what information, resources or actions do you believe are needed to move this issue forward?*

Providers took the time to describe a range of initiatives that focused on education, workforce development, financial well-being, housing and health services for LMI communities. Others detailed what they will do internally to reinforce their organization's sustainability. Below are selected comments that have been edited for publication:

- We are focusing on financial education in hopes LMI households will take the steps necessary to improve their credit rating enough to qualify for a mortgage. We can build energy-efficient homes at a price point affordable to families with 60–80 percent of area median income, but we cannot find a sufficient number of mortgage-ready buyers to support a sustainable economy of scale.
- We must address the lack of jobs with living wages. We also need more private investment in local businesses.
- Achieving financial stability is a challenge for many households, not just LMIs. We are working with our local United Way (and many of their partner organizations),

local financial institutions, Habitat for Humanity and Goodwill to engage a few families in pilot projects to help teach and coach them for financial stability so they can move their families out of poverty. We need funding to hire behavioral health staff and community health workers to suggest, support and sustain the actions and changes individuals and families take to help them improve not only their financial stability, but their personal health.

Though the services provided by these nonprofit organizations vary, financial well-being is at the heart of many concerns. For LMI families, job security and financial stability are crucial steps on the path to overall well-being.

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/2012/1208.cfm.

³ The number of respondents to the fourth quarter 2012 survey is 82.

Questions regarding the Community Outlook Survey can be addressed to Emily Ryder at emily.ryder@dal.frb.org