



Uncertainty Remains for Communities in the Eleventh District

First Quarter 2011

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.

According to a background survey of the respondents, the community organizations participating in the survey provide housing, health and nutrition, financial aid, workforce development and education services to at least 93 cities and 123 counties in the three states.

The following report highlights this quarter's results.

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.

First Quarter 2011 Survey Results

In April 2011, 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 fourth quarter 2010 to first quarter 2011. 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 first quarter 2011 to second quarter 2011. Table 1 summarizes their feedback.

Worries Expressed Over Stagnant Economy

The first quarter 2011 survey depicted a less-encouraging picture from the communities in the Eleventh District than the last survey. The diffusion index on the availability of jobs increased only slightly, from 54 to 56. Although over

one-third of the respondents thought there were more jobs, about one-fifth thought there were fewer jobs from fourth quarter 2010 to first quarter 2011. Despite a slightly higher percentage of respondents reporting an increase in the availability of affordable housing than from the previous survey (15 percent versus 13 percent), those reporting a decrease climbed to 26 percent from 13 percent. This led to a fall in the diffusion index of affordable housing availability back to negative territory (44). There was also a much higher percentage of respondents feeling a decrease in financial well-being (38 percent versus 27 percent), and the diffusion index dropped from 43 to 38. The first-quarter survey suggested little improvement in credit access by LMI households.

The diffusion index for demand for services stayed very high (at 82), and only 3 percent of the respondents considered demand to have decreased from the fourth quarter. But more survey respondents reported an increase in their capacity to serve than those who reported a decrease. The diffusion index increased from 51 to 55. The respondents confirmed a trend of funding decreases for

	Current 2011:Q1 vs. 2010:Q4			Expectations for next quarter 2011:Q2 vs. 2011:Q1			Diffusion index 2011:Q1		Diffusion index 2010:Q4		Diffusion index 2010:Q3		Diffusion index 2010:Q2	
	% Increase	% No change	% Decrease	% Increase	% No change	% Decrease	2011:Q1 vs. 2010:Q4	2011:Q2 vs. 2011:Q1	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	34	46	21	49	43	8	56	70	54	72	42	66	38	54
Availability of affordable housing	15	60	26	22	58	21	44	50	50	59	47	56	47	53
Financial well-being	14	48	38	23	54	23	38	50	43	59	33	53	35	44
Access to credit	8	59	33	13	67	20	38	46	37	50	26	45	26	38
Demand for services	67	30	3	61	38	1	82	80	81	82	85	85	85	83
Capacity to serve clients	21	68	12	22	69	1	55	56	51	56	51	62	59	60
Funding for organization	10	52	38	22	59	18	36	52	40	51	41	51	37	47

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

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

their organizations. The funding diffusion index dropped further from the last survey, from 40 to 36.

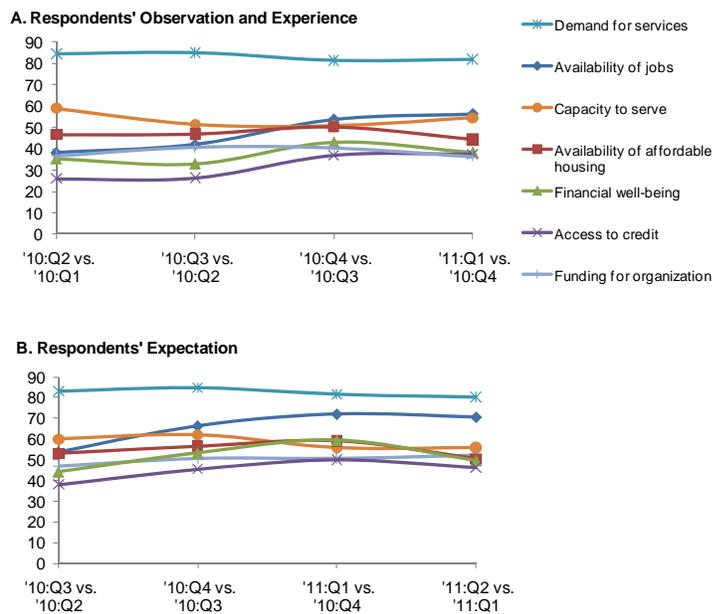
There are large gaps between respondents' expectations for this quarter from the last quarter's survey and the realities they observed or experienced, revealed in this quarter's survey).

Uncertainty About the Future

When we asked the survey respondents to tell us their expectations for second quarter 2011, we see they were again optimistic about job availability and their capacity to serve. However, they no longer expected improvement in the availability of affordable housing and in financial well-being. The diffusion indexes for these two areas, as well as for the available funding for organizations, were around 50, suggesting the service providers were uncertain about the future.

It has been one year since we did the first Community Outlook Survey, for second quarter 2010. Chart 1 plots the changes in the attitudes of service providers through the four surveys. The only diffusion index with steady increase is the availability of jobs. Respondents are consistently concerned about the access to credit and the financial well-being of LMI households. There is still no sign of an increase in the availability of affordable housing. The diffusion index for demand for services was very high in every quarter. Community organizations, in general, have not reduced their service capacity despite the dismal funding prospects. Every quarter, we observe more optimistic expectations of the service providers for the next quarter than they have observed or experienced.

Chart 1
Diffusion Indexes



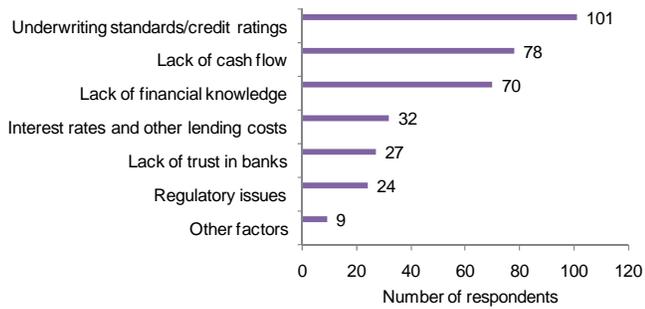
The following charts identify the factors affecting LMI households' access to credit and affordable housing and the factors impacting service providers' financial sustainability.²

Access to Credit

As in all the previous surveys, most service providers who responded to the first-quarter Community Outlook Survey said the factors that most affect their LMI clients' access to credit are still tightening/tightened underwriting standards, credit ratings, clients' lack of cash flow and clients' lack of

financial knowledge (*Chart 2*). There are also concerns about interest rates and other lending costs, lack of trust in banks and regulatory issues.

Chart 2
Factors That Affect Access to Credit



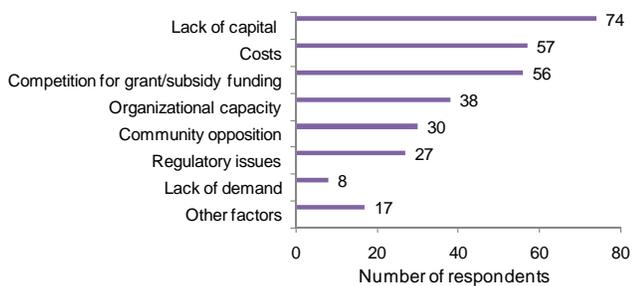
NOTE: Respondents could check more than one box.

Service providers cited other factors that affect LMI households' access to credit, such as fair lending issues, existence of predatory practices, lack of income, exclusion of nontraditional credit history in credit models and difficulty in recovery from blemished credit history for some clients.

Availability of Affordable Housing

The lack of capital, costs and the competition for grant/subsidy funding are still the most predominantly cited factors that affect the availability of affordable housing (*Chart 3*). A large number of respondents cited influential factors of organizational capacity, community opposition, regulatory issues and lack of demand.

Chart 3
Factors That Affect the Availability of Affordable Housing



NOTE: Respondents could check more than one box.

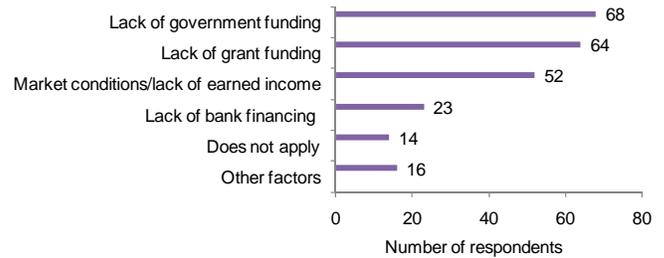
Service providers pointed to additional factors that affect the availability of affordable housing, including quality of housing, affordability in quality neighborhoods, housing demand associated with the influx of Mexican immigrants and military personnel and support from elected officials.

Financial Sustainability

In this survey of service providers, the lack of government funding was the No. 1 issue associated with the organizations' financial sustainability, surpassing the lack of grant funding and market conditions/lack of earned in-

come (*Chart 4*). The lack of bank financing is still an influential factor in the organizations' sustainability.

Chart 4
Factors That Affect Organizations' Financial Sustainability



NOTE: Respondents could check more than one box.

Service providers cited other factors that affect their financial sustainability, including the decline in donations, higher oil prices 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 for other comments that would help us better understand the issues faced by LMI households. This quarter, respondents stressed the income losses associated with unemployment and underemployment, and the challenges associated with budget cuts by local, state and federal governments. Increases in the price of gasoline and food have created some concerns regarding inflation. Respondents also reported a boom in the affordable rental market and demand for lease-to-own housing programs.

Comments from Survey Respondents

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

Local and Federal Funding

As budget cuts become more and more the way of life, we are seeing an increased need for our service. We will all have to learn to do more with less.

Funding is available in an inverse ratio to the need.

People who could afford to donate can't do as much. Everyone is going after the same grants.

We are very concerned about the federal budget zeroing out rural development.

Lack of Income and Skilled Jobs

Unemployment and industry closures in the northwest region of Louisiana have significantly impacted the economic stability of more families and homeowners than in the past 50 years.

The stressed economy has impacted many people who are no longer able to save due to inflation and reduced work

hours.

Clients have lost jobs, which results in us paying more of their rent.

Demand for health and human services will remain high as long as the unemployment rate is high.

Job market demand increased, but the skilled labor market remains stagnant.

Social Security has not had an increase in two years. The income level of the elderly has decreased and is not keeping up with inflation. More and more clients are coming to us for meals, both on-site and homebound.

Even people with adequate income are nervous about the future stability of their jobs.

Many, many degreed people—associates to PhDs—are falling from upper-middle income to lower-middle or will soon be low income and dependent on government support. Many people have lost all hope of ever obtaining employment.

The number of persons with criminal backgrounds, mostly due to drug use, has increased, with the number returning to the general community very high. However, they aren't eligible for housing subsidy, nor are there jobs for them to obtain.

Housing

The exceptionally high increase in oil drilling has brought a large number of families to Dimmit County [in southwestern Texas], raising the demand for housing.

Available housing in the community has declined, with families relocating as a result of Fort Bliss [Texas] growth and fleeing the violence in the neighboring community of Juarez, Mexico.

Low-income families do not want to get into homeownership right now due to the economic concerns. Our lease programs with option to purchase have never been better.

More elderly and disabled individuals are seeking assistance with their housing needs, such as repairs and weatherization to help lower their utility costs.

Rural areas are not experiencing the increase in unemployment and lack of affordable housing that many of the urban areas have been experiencing.

There is a domino effect as a result of the poor economy. More clients are asking for mortgage-payment and rental assistance.

Many families are not able to get mortgages to buy homes. In addition, large numbers of investors are being foreclosed, and their LMI tenants are having to relocate. The

quality of new or rehabilitated homes is at an all-time low, and the need for housing continues to increase in the Dallas–Fort Worth area due to migrations and immigrant workers.

The recent changes to the FHA [Federal Housing Administration] guidelines have greatly impacted our clients—the majority of whom use the FHA financing option. The monthly mortgage insurance has almost doubled in most cases, leading to the disqualification of clients' participation in down-payment assistance programs because the ratios are not in compliance with program guidelines.

Financial Education

Due to the credit crisis, demand has increased for our free financial education outreach and reverse-mortgage and foreclosure-intervention counseling services.

There is an increase in the demand for homebuyer education and housing counseling services, even as there are fewer housing counselors than there were one year ago.

We are seeing a lack of financial knowledge and the inability to save, either because people are meeting basic needs or are reluctant to defer gratification.

We need to work with families for long-term workouts based on their current incomes and credit rating; that is, to provide long-term credit counseling and long-term financial literacy training.

Most people are not familiar with financial responsibilities pertaining to homeownership, renting, credit card usage, unnecessary spending, etc.

Work skills and work ethics of high school graduates as well as college graduates are very poor. Financial knowledge is very lacking.

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. The number of respondents to the first quarter 2011 survey is 128. The previous three surveys had 114, 165 and 162 respondents, respectively.

Questions regarding the Community Outlook Survey can be addressed to Wenhua Di at wenhua.di@dal.frb.org.