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. 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 second quarter 2012, growth in the regional economy slowed. Employment growth decelerated, driven largely by job losses in mining and manufacturing industries. Oil and natural gas prices fell, although activity was booming in the Eagle Ford Shale region. Housing indicators point to low levels of construction but increasing sales prices of single-family homes. Optimism and growth have also slowed in the region’s low- and moderate-income (LMI) communities. Fewer service providers see increases in the availability of jobs as well as in overall financial well-being for the LMI clients. Providers are also worried about affordable housing opportunities, as the supply of rental housing continues to tighten. Finally, organizational sustainability remains at the heart of looming concerns, as nonprofits must be increasingly adaptable in environments of decreasing financial support.

**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.

**Dwindling Resources and Growing Uncertainty Erode Progress for Communities in Eleventh District**

**SECOND QUARTER SURVEY RESULTS**

In July 2012, 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 first quarter 2012 to second 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 second quarter 2012 to third quarter 2012. Table 1 summarizes their feedback.

The optimism we had seen over the previous two quarters has declined in second quarter 2012. The share of respondents indicating an increase in job availability dropped to 30 percent from a high of 46 percent last quarter. In addition, the percentage of service providers reporting increases in LMI financial well-being fell a total of 14 percentage points, to just 13 percent. Although fewer providers reported seeing a positive increase in economic indicators for LMI households, the share of respondents pointing to decreases in conditions was largely unchanged. Many respondents shifted to the “no change” category, indicating that they saw no increase or decrease in the situations of LMI households in this quarter.

The diffusion indexes confirm that observations about the conditions of LMI households have indeed grown more negative (Chart 1). The indexes for job availability and financial well-being both showed the largest declines from last quarter, each dropping by 8 points. However, job availability still remained in positive territory (57 versus 65) while financial well-being fell below 50 (46 versus 54). The access to credit index, which remained stagnant at 46, is the only diffusion index for situations of LMI households that did not experience a decline.

Expectations about third quarter 2012 have continued to decline since last quarter or remain the same, except that of the affordable housing. The diffusion indexes for expectations about jobs and affordable housing are in positive territory (62 and 54, respectively), indicating that a larger share of respondents believe they may see opportunities in these two categories to grow.

The diffusion index for expectations about demand for services decreased by four points from first quarter 2012 (76 versus 80). Service providers’ expectations for their organization’s well-being remain positive, on average. The index for expectations for funding for organizations remains at 51, and expectations about capacity to serve clients fell just two points to 56. With indexes remaining above the baseline of 50, findings for second quarter 2012 show that service providers are still relatively optimistic about their organization’s sustainability and ability to serve the needs of LMI households.
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 accompanying 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. As reported in prior surveys, the top three reasons are underwriting standards/credit ratings, lack of financial knowledge and lack of cash flow. This time, however, lack of financial knowledge inched up to become the second most influential factor, up from the third position last quarter.

In addition, more providers selected “other factors” this quarter as compared with last. The other factors most often cited were job instability or unemployment and lack of credit history.

### Availability of Affordable Housing

Consistent with previous surveys, respondents pointed to lack of capital, development costs and competition for grant funding as the most important factors affecting the availability of affordable housing (Chart 3). Notable, though, is the fact that community opposition became a more influential factor in second quarter compared with first quarter. Indeed, comments from this section discuss a lack of community understanding or negative perceptions of affordable housing units. Further comments address relocation of Mexican and military families, forcing a tight supply of housing relative to demand.

### Financial Sustainability

We also asked service providers about factors affecting their organization’s financial sustainability. Chart 4 shows the respondents’ top selections, which include lack of governmental or grant funding and market conditions. Lack of government funding ranked as a higher concern this quarter compared with the last two quarters, where grant funding was the largest factor. Finally, lack of bank financing dropped in importance relative to other choices. The comments indicate concerns about reduced giving from individual donors and religious institutions and reduced revenue or rents due to unemployment of clients.

### 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. Some respondents wrote about financial education and access to credit, specifically the difficulties LMI families have in raising credit scores or qualifying for mortgages or other loans. The interplay between low access to traditional credit and the growth of alternative financial service providers in LMI neighborhoods remained a concern in the second quarter. One service provider explains:
There is a collective lack of capacity among all local providers of financial education to counter the well-funded and well-marketed subprime market lenders. The local nonprofits and governments that provide financial education cannot compete with the rate by which new payday lenders, title lenders, credit repair, rent-to-own and businesses like these pop up in LMI neighborhoods. The sheer speed by which these types of businesses have already marketed to LMI families makes getting alternative, correct information much more difficult.

Among all comments, the most frequently cited topic was housing, particularly its relation to transportation, affordability and job access. Many respondents pointed to an ever increasing demand for affordable rental properties, which is coupled with a tightening supply, due to an influx of new workers or military families in the region. As already discussed, the diffusion index for affordable housing availability has been consistently in negative territory, and the frequency of housing-related comments helps corroborate and further explain this narrative. The following comments have been edited for publication:

- The number of persons dependent on rental housing has increased substantially without a corresponding increase in available supply. The shortage is causing greater numbers of persons to be rent burdened.
- We need transportation-oriented development. Our families are paying out in utility and gasoline bills more than their house payments. Here in the Valley we lack public transportation, and we have sprawl development in the unincorporated areas of the county. That has to stop. We need authority given to the counties for planning and zoning.
- The need continues to increase; however, meeting the needs is getting more and more difficult. Homeownership is becoming completely extinct for LMI families due to underwriting standards beyond reality from lenders. Affordable housing is only being met through multifamily endeavors.
- Hotels are totally full due to blue collar workers being unable to find apartments or homes. Many hotels have fleets of oil field trucks parked there because that is where the workers stay. License plates of standard trucks in the parking lots of hotels show they are coming from nearby states. In addition, two weeks ago, affordable housing provider auditors had to stay the night in San Angelo (two-hour drive) because they were unable to find a hotel in Midland, Texas.

Challenges and Solutions for Nonprofit Organizations
For second quarter 2012, we posed an additional question to service providers, as we did the previous survey: 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.
Once again, the comments indicate the degree to which service providers are consumed by funding concerns. Cutbacks in government resources, in conjunction with drops in individual donations, have left nonprofits with scarce resources to provide for LMI communities that are increasingly in need. Many service providers indicate they are coming to terms with an uncertain political environment that continues to reduce funding; they are therefore increasingly reliant on other mechanisms to fund their work. Other nonprofits mention solutions to deliver services more efficiently. Examples of challenges and strategies for coping include:

- We create our own funding sources and are not reliant upon government funding for operations. Government funding sources are drying up.
- Reduced funding means we had to lower the income thresholds for eligibility for our services. This has driven up complaints, but it is the only way we can fulfill our mission as governmental programs are reduced.
- The waiting list for a government subsidy for our child care services (CCS) has increased from three to eight months. Because of this, we are seeing declining revenues in child care, as no new families are able to receive support. We switched our private funds that have traditionally been used to leverage CCS clients to targeting families just above the eligibility for CCS but who are not on a waiting list, to offer them a discounted service. This has received some support but is still not being taken advantage of fully because of declining family income.
- A major challenge has been to make financial services easier to access for LMI families, so the city of Austin added financial education sessions and moved them to the neighborhoods. By using neighborhood libraries, more people have more access to more information.

These comments highlight the frequent and diverse challenges nonprofit organizations face. They also show that service providers in the Eleventh District must continue to be flexible and adaptable to changes in policy, funding and client needs.

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/2012/1204.cfm.
3 The number of respondents to the second quarter 2012 survey is 95.

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