The Low- and Moderate-Income Population in Recession and Recovery: Results From a New Survey

By Kelly D. Edmiston

The worst recession in U.S. postwar history, starting in late 2007, hit low- and moderate-income (LMI) individuals and families especially hard. Since the country's anemic recovery began in mid-2009, the LMI population has continued to fare worse than higher-income groups. Significant numbers of formerly middle- and higher-income families have newly entered the ranks of the LMI population, and a growing number of those seeking public aid for food or housing are requesting it for the first time. It is not just that the LMI population has been hit harder than the population as a whole, but they have also faced unique, adverse conditions on several fronts. This article evaluates the economic circumstances of the LMI population over the course of the recession and recovery, making use of a specialized survey.

A dearth of economic data available on the LMI population presents a considerable problem for those who would like to analyze this group's economic conditions. Data specific to the LMI population are sparse despite broad interest at the Federal Reserve, at numerous agencies of the federal government, among nonprofit organizations, and among the public at large. The most commonly published measures used to track U.S. macroeconomic conditions rarely, if ever, offer information specific to the LMI category.

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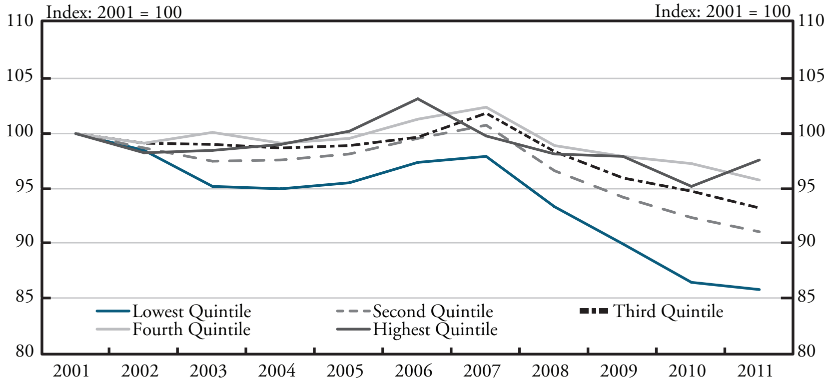
Lacking a reliable gauge of economic conditions for the LMI population, the Federal Reserve Bank of Kansas City in 2009 launched a new source of such information: a quarterly survey of organizations that provide services directly to LMI individuals and families. Subsequently, other regional Federal Reserve banks followed suit with their own surveys, providing more key data on LMI conditions across the nation.

This article summarizes both the statistical data and the qualitative commentary collected by the Kansas City Fed's LMI Survey. Section I outlines how the LMI cohort has fared relative to other income cohorts during the recent recession and recovery, drawing on traditional data sources. Section II introduces the LMI Survey and describes how it is conducted. Each of the next four sections corresponds to a specific set of questions on the survey and describes a different aspect of the LMI population's financial conditions. Section III covers job availability for LMI workers, Section IV covers trends in affordable housing, Section V covers access to credit, and Section VI covers shifts in demand for services related to basic needs, such as food, utility and housing assistance. In each section, other Federal Reserve bank surveys and additional data sources are used to corroborate the LMI Survey findings and to extend the discussion.

I. THE RECENT RECESSION AND RECOVERY

The 2007-2009 recession was the most severe in the United States in the post-war period, with consequences for all segments of the population, including the LMI cohort. Moreover, the recovery has been especially anemic. Low-income groups have been hit especially hard compared with other income groups. According to data on changes in real household income from 2001 to 2011, disaggregated by income quintile (Chart 1), by 2011, real family income for the lowest income quintile had fallen 14.2 percent from its level in 2001. The bulk of that decline occurred over the course of the recession and recovery. From 2007 to 2011, real family income for the lowest income quintile fell 12.3 percent. For the second-lowest quintile, real income was down 9.6 percent from 2007 to 2011. Other income quintiles also faced declines in real family income over the course of the recession and recovery, but the declines were much less dramatic.

Chart 1
INFLATION-ADJUSTED FAMILY INCOME, BY QUINTILE



Source: U.S. Census Bureau.
Note: Each observation shows inflation-adjusted family income relative to its 2001 level, in percentage terms. Income for the lowest income quintile in 2011, for example, is 85.8 percent of what it was for that quintile in 2001.

LMI families are defined as those with income below 80 percent of an area's median income, where the area of reference is either the metropolitan area in which a given family lives or, for non-metropolitan areas, the state as a whole.[1] The LMI category roughly corresponds to individuals and families in the bottom two quintiles of the nation's income distribution (the lowest 40 percent). In 2011, families in the bottom two quintiles were those earning $48,000 or less. More than 30 million of the 78.6 million families nationwide in 2011 were classified as LMI under this definition.[2] The family income threshold for LMI status varies significantly across the United States, from $32,181 in Mississippi to $54,041 in Maryland.

The sharper decline in real family income for the lowest quintiles of the population, compared with the population at large, raises questions about how this cohort fared during the recession and recovery and what circumstances caused the steeper loss of income. The Kansas City Fed's LMI Survey offers insights into these questions.

II. THE KANSAS CITY FED'S LMI SURVEY

The LMI Survey gauges the perceptions of directors or other senior staff at organizations that provide services directly to the LMI population. The survey focuses on respondents' impressions of the economic and financial conditions faced by the LMI population and covers the seven states of the Tenth Federal Reserve District, including Colorado, Kansas, the western one-third of Missouri, Nebraska, the northern half of New Mexico, Oklahoma, and Wyoming. In each quarter, the survey is conducted over a period of two weeks beginning on the first business day of the quarter. The resulting LMI Survey report is released on the last Friday of that month (available at *www.kansascityfed.org/community*).

Because the survey does not cover the entire United States, its results may not fully reflect conditions outside of the midsection of the country. However, the Tenth District is varied in its geography and culture and it includes both urban and rural areas. The results from the survey may therefore be suggestive of patterns in the United States as a whole. The Federal Reserve Banks of Boston, Dallas, and Philadelphia offer similar surveys, and their results are highlighted here in an effort to corroborate the Kansas City survey and broaden the analysis.

The target survey pool is the entire population of organizations providing services to the LMI population in the Tenth District, and thus sampling is not part of the process. Potential survey participants include all such organizations in the large contact database of the Kansas City Fed. Additional participants are solicited through Kansas City Fed events, marketing efforts, web invitations, and word-of-mouth from existing survey participants. All potential participants are thoroughly vetted to ensure they represent organizations that interact directly with the LMI population. The community development team at the Kansas City Fed actively manages the LMI Survey database and seeks new participants.

The survey is sent to the organizations' executive directors, and generally, they are the actual respondents. Of about 750 organizations in the target survey pool, typically about 150 organizations respond to the survey. The response rate of 20 percent is typical for comparable electronic surveys and is similar to the response rates of surveys by other Federal Reserve banks.[3]

The survey questions explore five issues related to the financial conditions of the LMI population: the availability of jobs for LMI workers, the availability of affordable housing, access to credit for LMI borrowers, the overall financial status of LMI individuals and families, and the level of LMI demand for the services provided by respondent organizations. For each question, survey respondents are asked to assess whether conditions have improved, worsened, or stayed the same relative to the previous quarter and relative to the previous year. They are also asked whether they expect conditions to improve, worsen, or stay the same in the coming quarter.

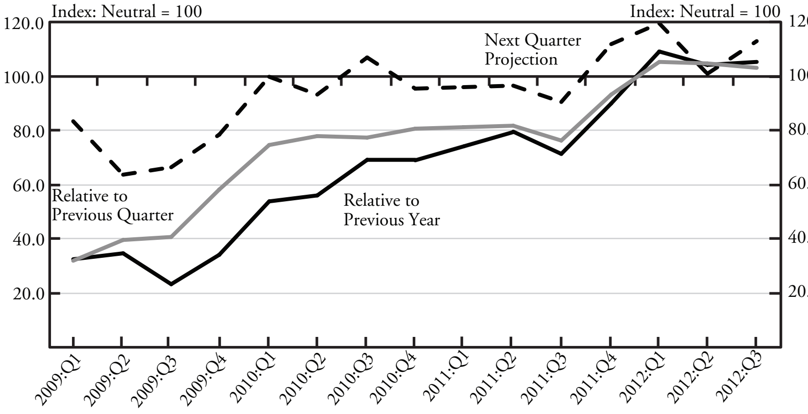
The responses to the survey's questions are used to construct diffusion indexes, which are measures of change from one period to the next, as opposed to static assessments of current conditions. The diffusion index for each question is calculated by taking the percentage of respondents who report a given condition has improved, subtracting the percentage who report that condition has worsened, and adding 100 to create an index that ranges from 0 to 200. Any index value below 100 indicates there are more respondents who believe conditions are deteriorating than there are respondents who consider conditions improving. Any number above 100 indicates that more believe conditions are improving.[4]

Although the Kansas City Fed's LMI indexes range along scales of 0 to 200 on which a value of 100 is neutral, most of the other regional Federal Reserve Banks use 100-point scales on which a value of 50 is neutral. For this article, in instances where comparisons are made with other Federal Reserve banks' indexes, the Kansas City Fed's LMI index values are adjusted so that they range from 0 to 100.

III. THE LABOR MARKET

When the LMI Survey began in the first quarter of 2009, the U.S. economy was at the bottom of the business cycle and respondents' impressions of the job outlook for LMI workers were overwhelmingly negative. These perceptions were fully reflected in the responses to the Kansas City Fed's LMI Survey and in the performance of the Survey's LMI Job Availability Index. Both quarter-over-quarter and year-over-year index values were below 40, indicating that a significant majority of survey respondents were reporting a decline in job availability for their LMI constituents (Chart 2). Although the index climbed steadily throughout the rest of the recession and the beginning of the recovery, the increase was largely because more respondents were reporting that job availability was "about the same," rather than worse. Still well below 100, the index reflected ongoing deterioration in the labor mar-

Chart 2
KANSAS CITY FED LMI JOB AVAILABILITY INDEX



Source: Federal Reserve Bank of Kansas City, *LMI Survey*, various issues.
Note: The first quarter 2011 report was not released due to a lack of sufficient survey responses. The number in this chart for that quarter are trend averages. For information on how the indexes are calculated, see section 2.

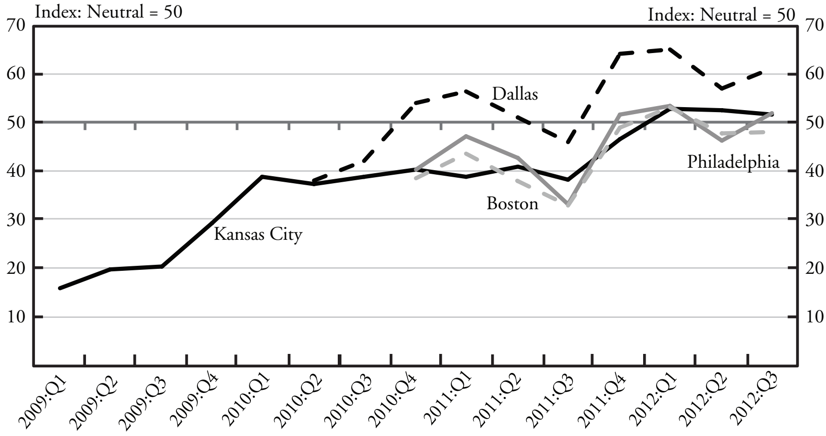
ket through the fourth quarter of 2011, at which point job availability seems at least to have stabilized for LMI workers. Moreover, the quarter-ahead index values were well above neutral in 2012, suggesting that a jobs recovery was on the horizon.

The job availability indexes across the Federal Reserve System are largely consistent with one another (Chart 3). The Kansas City, Boston, and Philadelphia Fed job availability indexes all followed similar paths. Although the Dallas Fed's index tended to be higher—reflecting the Texas economy's relatively strong performance over the course of the recovery—its pattern was similar to the others. All of the indexes were above neutral by the first quarter of 2012. All had reported declining job availability throughout most of the early recovery, indicated by index values below neutral, suggesting—as discussed in below—that the LMI labor market may have been recovering at a slower pace than the economy at large.

Survey commentary: unique factors affecting LMI workers and job-seekers

Some of the most valuable insights on economic conditions for the LMI cohort come from qualitative commentary offered by respondents to the survey. Their comments lend context to the statistics conveyed

Chart 3
LMI JOB AVAILABILITY INDEX



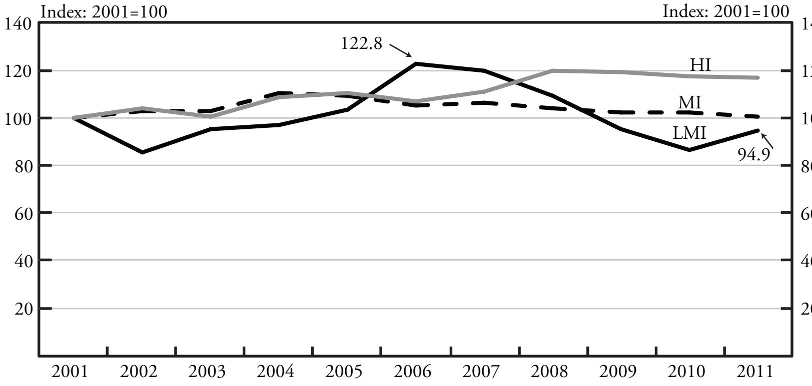
Source: Federal Reserve Banks of Boston, Philadelphia, Dallas, and Kansas City.
The Kansas City LMI Job Availability Index was adjusted to be consistent with other reserve bank indexes (50 = neutral).

by the diffusion indexes. Perhaps more importantly, the comments highlight issues facing the LMI population that are not revealed by the quantitative data.

To a great extent, the results from the Kansas City Fed's LMI Survey and the surveys of other Reserve Banks reflect general trends in the national economy. When the survey started at the beginning of 2009, with the recent recession at its deepest point, most survey respondents reported decreasing job availability. In the second quarter of that year, two-thirds of survey respondents reported that jobs were less available than in the previous year. Comments from that period revealed that many unemployed LMI workers who had wanted full-time jobs were instead accepting part-time employment, and many were accepting temporary work, for lower wages and few if any benefits. Moreover, many of those who had retained their jobs were working fewer hours than before. All these conditions were consistent with overall economic trends at the time.

But the survey commentary also revealed that, compared with the population at large, LMI individuals and families often faced additional hurdles. In particular, because LMI workers tend to be relatively less skilled and less experienced, they were disproportionately affected by the pattern over the preceding ten years of very little employment

Chart 4
EMPLOYMENT GROWTH BY INCOME COHORT



Source: Author's calculations using data provided by the U.S. Bureau of Labor Statistics.
Note: Each observation shows total employment by occupation group relative to its level in 2001.

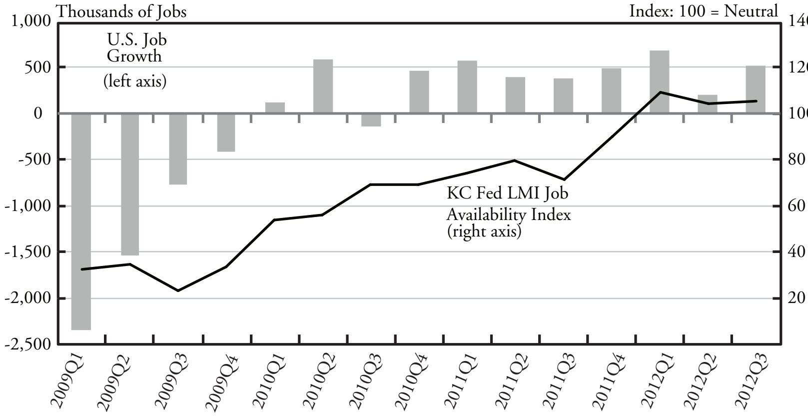
growth in low-paid, low-skill occupations, relative to higher-paid, higher-skill occupations.

This pattern can be corroborated using Occupational Employment Statistics (OES) data, published by the U.S. Bureau of Labor Statistics, to track job growth trends in the occupations that most LMI workers hold. The Bureau produces employment and wage estimates for over 800 occupations. For this article, these occupations were classified as LMI, middle-income, or high-income.[5] The employment growth for each occupational income category was tracked from 2001 to 2011, the latest year for which data are available.

The data reveal much more of a decline in employment during the recession for LMI occupations relative to the middle- and high-income occupational categories (Chart 4). The data also show greater volatility in employment growth for LMI occupations throughout the business cycle.

As shown in Chart 4, approximately 5.1 percent fewer LMI workers were employed at the end of 2011 than at the end of 2001. More strikingly, by 2011, LMI employment had fallen 22.7 percent from its 2006 peak (equivalent to a decline of 3.6 percent per year).[6] Consistent with the analysis of the OES data, the Kansas City Fed's LMI Survey has revealed an emerging and substantial disconnect between the jobs that become available and the qualifications of LMI workers. This dis-

Chart 5
U.S. JOB GROWTH AND THE LMI JOB AVAILABILITY INDEX



Sources: U.S. Bureau of Labor Statistics; Kansas City Fed LMI Survey.
Note: For calculation of the Kansas City Fed's LMI Job Availability Index, see Section 2.

connect has extended the duration of unemployment for many LMI workers beyond that of most other income cohorts.

According to survey commentary, job openings may have been growing generally but were often in positions for which few LMI workers could qualify. In many cases, even when lower-skill jobs were available, they were filled by higher-skilled workers who likely would have taken higher-skill positions in better economic times.

This pattern forced many low-skilled LMI workers out of jobs for which they would normally qualify. It also left many LMI workers unemployed for longer periods than workers in higher income categories. The phenomenon is reflected in the LMI Job Availability Index by the continuing assessment of deterioration in the LMI labor market until very recent quarters, even while job growth was positive (albeit slow) for the population as a whole (Chart 5).

Other factors that may have affected the LMI workforce disproportionately include workers' credit histories and criminal histories. In general, credit scores tend to correlate with income (Fellowes).[7] Accordingly, many LMI consumers tend to have poor credit histories. LMI credit histories deteriorated further following the subprime crisis in the housing industry and in the context of stagnating wages and extended unemployment among LMI workers. At the same time, credit histories for the population at large have remained fairly steady over the course of the recession and recovery and have begun to improve to some degree in recent quarters.[8]

A special question in the fourth-quarter 2011 LMI Survey asked contacts about the role that poor credit histories might play in making it hard for LMI workers to secure jobs. While survey respondents confirmed that many of their LMI constituents suffer poor credit histories, the respondents also said that the jobs for which LMI workers generally apply do not usually require credit checks, thus poor credit histories did not present much of a problem.

However, survey respondents reported in large numbers that criminal histories had prevented many of their LMI constituents from securing employment, given that most employers are unwilling to hire former criminal offenders. Failure to pass drug tests also was deemed to be a significant problem for a number of LMI job applicants.

Respondents also noted other difficulties facing LMI workers who seek to secure and retain jobs. Factors cited ranged from immigrant status to transportation and childcare needs. A significant share of LMI workers are recent immigrants, and survey respondents have reported that assimilating immigrants in a way that can prepare them for employment is a significant challenge. LMI workers also often lack reliable transportation (Murakami and Young). Many of those with their own vehicles cannot rely on them to perform consistently and, in some areas—especially in more rural areas but also in some urban areas—access to public transportation is quite limited and undependable. Finally, the LMI population includes a disproportionate share of large families, making access to affordable childcare a particularly important issue.[9] Many LMI individuals would like to work but find that their low wages are insufficient to cover childcare in addition to other basic expenses. Childcare concerns prevent some from retaining jobs.

Another potential problem facing unemployed LMI workers, to a greater extent than higher-income workers, is what might be termed "involuntary mobility." In general, when labor market conditions are poor, the ability to move allows for much greater opportunity for the unemployed to find work: they can move to where the jobs are or undertake an extensive geographic search of employment opportunities.

However, mobility can also be involuntary, in any income category, and none more so than the LMI population. The causes may be eviction, or job loss, compelling a move across town to live with family members due to an inability to pay rent. Foreclosures have also lead to involuntary moves. Foreclosures can affect not only homeowners, but also renters, should their landlord face foreclosure.

These involuntary moves are particularly problematic in the LMI community because interpersonal networks formed in neighborhoods and communities tend to be especially critical for finding and securing work. Moreover, LMI workers often rely on members of their local communities to meet unexpected childcare and transportation needs, so these interpersonal networks are often critical for retaining employment as well.

Recent Census data show that LMI individuals and families were much more likely to have changed residency in 2010–2011 than were members of higher income groups.

Fortunately for LMI families, as the economic recovery continued in 2012, many of the new job openings were in the retail and service industries. These industries tend to have the kinds of jobs for which LMI workers may readily qualify, in such positions as clerk, maid, or laborer. At the same time, survey respondents have lamented the low wages in these industries and the lack of opportunities for advancement. Seasonal job opportunities have also offered LMI workers some employment opportunities, but wages for these jobs likewise tend to be low, and non-wage benefits tend to be minimal. Moreover, by definition, seasonal jobs offer little or no job security. On a more positive note, some positions in construction began to open in 2012, potentially offering some LMI workers opportunities to qualify for jobs at relatively higher levels of pay.

Even with a loose job market and few employment opportunities, The LMI workforce has faced significant turnover. Thus, even when jobs have been secured, job retention can be a tough battle for LMI workers. Survey contacts suggest a strong need among LMI workers for the most basic job training. Contacts believe such training could mitigate some of these problems.

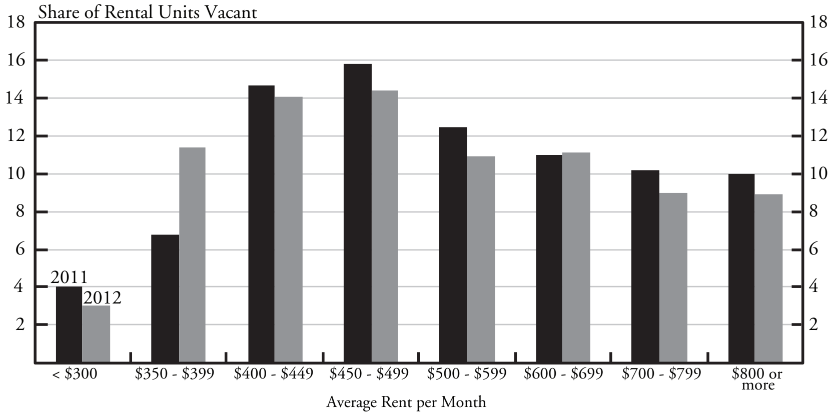
IV. AFFORDABLE HOUSING

The performance of the U.S. housing market from 2007 to 2012 was unprecedented in the postwar era in two ways. First, the rise in home values that ran through the second quarter of 2007 was unprecedented in its magnitude. Second, the steep downswing that followed constituted the first period of general decline in home prices in the United States since the 1930's. Both the bubble and the bust affected the LMI population dramatically. The initial, rapid increase in housing values priced many LMI families out of the market. But at the same time, household lending was remarkably flexible, enabling some LMI families to take advantage of new lending products for people with low credit scores (such as subprime loans). Lending standards on down payments and income were looser than ever before.

Eventually, many LMI families lost their homes when their mortgages became untenable. Families across the income spectrum, hit by the recession and in some cases by rising mortgage costs, were unable to sell their homes because falling prices had brought their home values below what was owed on their mortgages. The nation's home ownership rate dropped from 68.4 percent to 65.5 percent (U.S. Census Bureau), causing an increase in demand for rental properties, which in turn gave rise to more problems as rental vacancy rates fell and rents climbed. For LMI families, the need for affordable housing expanded considerably.

Housing is generally considered "affordable" if it takes up less than 30 percent of household income, and for most LMI families, little housing is "affordable" under this definition (National Low-Income Housing Coalition). For housing to be affordable for LMI families, it must be available for relatively low rent or for low mortgage payments. But according to consistent reports from LMI Survey respondents, the available stock of such affordable housing is insufficient to meet current needs. According to survey respondents, some LMI individuals and families reported finding that the only housing available in their price range was virtually uninhabitable. A number of respondents reported vacancy rates of less than five percent for affordable housing, and some suggested that affordable homes were becoming available only upon turnover in some locations, indicating vacancy rates near zero. Data from the Census Bureau's Current Population Survey support this

Chart 6
VACANCY RATES BY RENTAL RATE



Source: U.S. Census Bureau, Current Population Survey.

assessment, indicating especially low vacancy rates at the lowest rental rates as shown in Chart 6.

The LMI affordable housing index

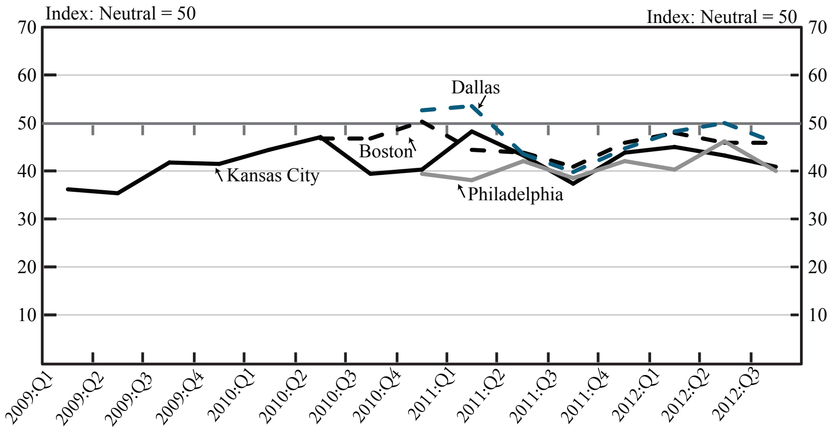
The quarter-over-quarter Kansas City Fed LMI Affordable Housing Index is presented along with similar indexes from the Federal Reserve Banks of Boston, Dallas, and Philadelphia in Chart 7. The degree of consistency among the indexes over time suggests that patterns of affordable housing availability have been similar across regions, despite the variation in housing market conditions in different parts of the country.

For the most part, the indexes hovered just below neutral. But these indexes, like the LMI Job Availability Index described above, are diffusion indexes that reflect only the direction of change over time and not the actual level of conditions at a given time. In fact, the commentary from most survey respondents made clear that they considered the stock of affordable housing in their area to be inadequate. Even an index value well above neutral can be associated with an insufficient stock of affordable housing, suggesting only that conditions seem to have improved from the previous quarter or year.

A review of all the Federal Reserve Bank surveys reveals that the nearly neutral values of their affordable housing indexes arose from a pattern in which many respondents reported no change in conditions

Chart 7

FEDERAL RESERVE BANK LMI AFFORDABLE HOUSING INDEXES



Source: Federal Reserve Banks of Boston, Philadelphia, Dallas, and Kansas City.
Note: The Kansas City LMI Affordable Housing Index was adjusted to be consistent with other reserve bank indexes (50 = neutral).

from one quarter to the next. A few reported worsening conditions, but even fewer reported improvement.

The fact that so many reported little change over time may be surprising to some, given the nature of the country's foreclosure crisis, which disproportionately affected subprime borrowers, many of them LMI families and individuals. There is also evidence of declining vacancy rates and rising costs for rental housing. But a combination of public and private efforts to meet these challenges likely mitigated the problems to some extent.

In particular, the indexes' relative steadiness may stem in part from some remedial actions taken by the federal government to promote affordable housing supply. Some survey respondents reported that funding from the federal government's package of fiscal stimulus projects helped meet some of the rising demand for affordable housing, at least for some time. The affordable housing indexes tended to be at their highest—that is, closest to neutral—in late 2010, corresponding to the rollout of stimulus projects. The indexes generally declined soon afterwards, however. The federal stimulus funds had mostly dissipated by mid-2011, which could partially explain those declines. Other survey respondents reported that the government's

Neighborhood Stabilization Act, which provided funds to rehabilitate foreclosed or abandoned properties for use by LMI families, also had some effect in mitigating affordable housing problems. Still, although the Act may have helped make more affordable housing available in some areas, the program was not large enough to have broad impact.

In general, the relative steadiness of the affordable housing indexes throughout the recession and recovery suggests that the responses of both public and private actors, taken together, may have succeeded in meeting some of the period's rising demand for affordable housing. Although government efforts were largely insufficient in scope to meet the swelling need, many nonprofit community development organizations took steps, using nongovernmental sources of funding, to rehabilitate housing for LMI families and individuals. Both nonprofit and for-profit developers were also able to develop new multi-family units, in some cases by using tax credits such as the Low-Income Housing Tax Credit. At the same time, the "doubling up" of families in single-family dwellings became much more common (Mykyta and Macartney), serving to absorb some of the increased demand.

Survey commentary: unique housing challenges affecting LMI families

Commentary on affordable housing from the LMI Survey of the Kansas City Fed and from the surveys of the other Federal Reserve Banks again reveals unique issues facing the LMI population. Although low credit scores were found to have had little impact on employment prospects for the LMI population, such scores made finding housing more difficult. As rental vacancies have declined, landlords have not only raised rates but also have become more selective in choosing tenants. Many LMI families with poor credit histories have been unable to secure housing as a result. Some survey respondents reported that even "small blemishes" in credit histories have prevented LMI families from securing rental housing.

Several other factors have also posed difficulties for LMI families in search of housing. Criminal records, particularly drug offenses, have prevented many LMI families from securing homes. Rental histories also have come under increased scrutiny. And income standards have reportedly become more stringent.

The tightness of the rental market has reportedly led landlords to pay less attention to the quality of rental housing in some cases. A number of survey respondents reported increasing calls from constituents seeking help with landlord-tenant issues, though the rise in incidence did not appear substantial until the latter half of 2010.

As for home ownership, survey respondents have reported that many LMI families and individuals, facing much tighter lending standards following the housing bust, have been unable to take advantage of favorable home prices and interest rates. Key reasons include LMI families' having relatively poorer credit scores, as well as lower savings, which reduces their capacity to make significant down payments. Survey respondents have also reported that many of their constituents are saddled with nonmortgage debt, having faced stagnant incomes at the same time as rising prices for many necessities such as food and fuel, as described further in Section VI. Thus for many LMI families seeking affordable shelter, homeownership has not been an option.

Data from Home Mortgage Disclosure Act (HMDA) reports on mortgage denial rates highlight the challenges that the LMI population faces in pursuing homeownership, including adverse credit histories, down payment requirements, and lending standards on debt-to-income ratios. According to the latest available data, 33.8 percent of conventional home-purchase mortgage applications were denied for low- and moderate-income borrowers in 2011, whereas only 21.0 percent of such mortgage applications were denied for middle-income borrowers and 10.7 percent for high-income borrowers. A similar pattern is evident from the HMDA data for mortgages from the Federal Housing Administration and the Veterans Affairs Department, although the denial rates for the lowest-income groups were lower than those for conventional mortgage applications. For home refinancing, 35.7 percent of mortgage applications were denied for low- and moderate-income applicants, compared with 25.7 percent for middle-income applicants and 17.0 percent for high-income applicants.

According to survey respondents, homelessness has become an increasing problem for the LMI population over the course of the recession and recovery, according to survey respondents, due largely to the combination of extended unemployment and low vacancies for affordable housing. But other data suggest that many who have lost their homes were able to "double up" with other families rather than enter homeless shelters or live on the streets. The National Alliance to End Homelessness states in its 2012 report that, although "the risk of homelessness persists for many American families," homelessness increased little during the 2007-2009 recession and actually decreased by one percent from 2009 to 2011. Mykyta and Macartney report that from 2007 to 2010, the number of "shared households" in the United States increased by 11.4 percent, while the number of "all households" increased by only 1.3 percent.

Federal funds supporting programs to address homelessness were part of the economic stimulus associated with the 2009 *American Reinvestment and Recovery Act,* and some survey respondents, as well as the National Alliance to End Homelessness, have reported that the funds were helpful. Beginning in late 2010, however, survey respondents began to describe reports from their LMI clients of fatigue on the part of friends and family members who were offering temporary shelter to homeless individuals. If such temporary arrangements become untenable in growing numbers, homelessness may rise in the near term.

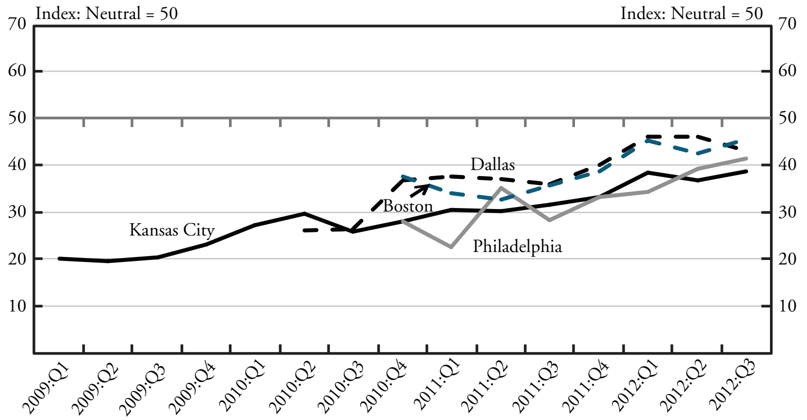
V. ACCESS TO CREDIT

Many LMI families and individuals lack access to traditional forms of credit, such as bank loans and credit cards. According to LMI Survey respondents, the LMI population has had even greater difficulty accessing credit, as credit standards have tightened considerably since the financial crisis.

Chart 8 shows the quarter-over-quarter Kansas City Fed LMI Credit Access Index along with similar indexes from the Federal Reserve Banks of Boston, Dallas, and Philadelphia. Again, the indexes are remarkably similar over time, suggesting that access to credit has been limited for the LMI population throughout the nation. These indexes are among the lowest of all of the LMI indexes and suggest significant deterioration in LMI access to credit even as credit standards have begun to loosen modestly in more recent quarters. Few if any survey respondents have reported improving conditions, while a significant number continue to report deteriorating conditions.

Chart 8

FEDERAL RESERVE BANK LMI CREDIT ACCESS INDEXES



Source: Federal Reserve Banks of Boston, Philadelphia, Dallas, and Kansas City.
The Kansas City LMI Affordable Housing Index was adjusted to be consistent with other reserve bank indexes (50 = neutral).

Survey commentary: unique credit challenges affecting LMI families

Many survey respondents note that the LMI population tends to have lower credit scores than average and that this hampers their ability to attain financial stability and self-sufficiency. Unfortunately little if any hard data are available to confirm these assertions directly because income does not appear on credit reports. However, personal income per capita by county is readily available. Using data from the Federal Reserve Bank of New York Consumer Credit Panel, which is a five percent sample of all Equifax credit reports in the United States, the correlation between Equifax risk scores (equivalent to credit scores) and income by county can be calculated.[10] The analysis shows that individuals with the lowest credit scores tend to live in counties with the lowest per-capita incomes.[11]

In addition to difficulties described above in obtaining mortgages, the LMI population contends with limited access to other forms of credit as well. This is particularly true for small consumer loans, which typically are not available from traditional banks and for which many LMI borrowers would not qualify in any case. Most Americans use credit cards for access to consumer credit, but many among the LMI population engage more in cash-based transactions and may not qualify for credit cards due to poor credit histories. Respondents note that some LMI consumers have had more success securing traditional loans at small local banks than at national institutions. But throughout the nearly four-year history of the Kansas City Fed's LMI Survey, respondents have lamented the prevalence of payday lenders and other nontraditional lenders that are much more costly than traditional forms of credit, such as credit cards (Edmiston).

Through what has been called the "refugee effect," self-employment sometimes offers opportunity for the unemployed to earn income as a last resort when they have few other options (Thunk and others). But survey respondents have reported that tighter credit standards have often prevented LMI small-business owners from securing funding, especially for startups. The inability to secure startup financing may shut off one potential avenue of escape from the financial instability that arises with extended unemployment.

Finally, alongside the many other obstacles to financial stability, many LMI families and individuals lack adequate understanding of the basics of personal financial management. Survey respondents continually cite this problem and stress the need for improved financial literacy among their constituents.

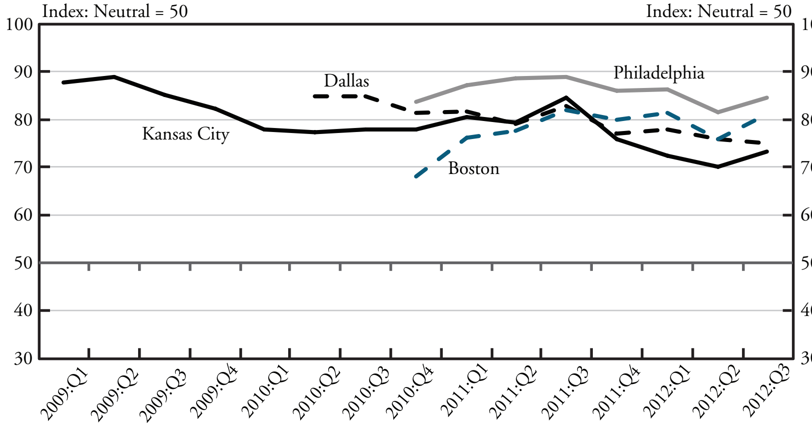
VI. BASIC NEEDS AND THE DEMAND FOR SERVICES

Much of the demand for services from organizations responding to the Kansas City Fed's LMI Survey focuses on basic needs such as utilities, food and housing. The LMI Service Needs Index has consistently shown increases in demand for services, throughout the recession and well into the recovery (Chart 9). Equivalent indexes from the Federal Reserve Banks of Boston, Dallas, and Philadelphia show a similar phenomenon. Data on Supplemental Nutrition Assistance Program (SNAP) benefits, formerly known as "Food Stamps," support the assertion by survey correspondents that heightened demand for basic services has extended well beyond the end of the recession (Chart 10).

One of the unique and perhaps most striking characteristics of the recent recession and recovery has been the influx of formerly higher-income individuals and families into the LMI category. This influx partially explains the continued rise in demand for basic services. Although the composition of the LMI population changed little along

Chart 9

FEDERAL RESERVE BANK LMI DEMAND FOR SERVICES INDEXES



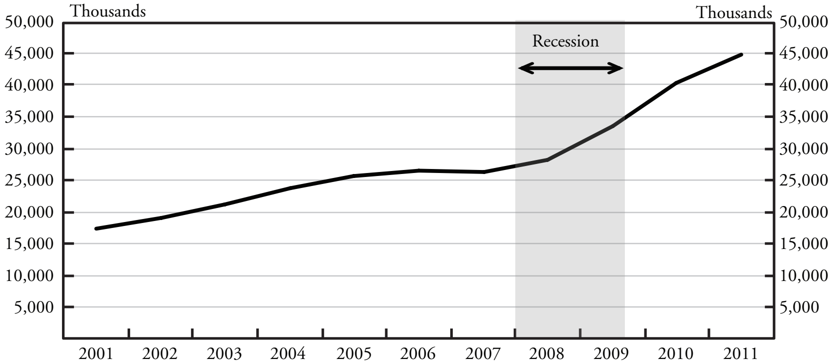
Source: Federal Reserve Banks of Boston, Philadelphia, Dallas, and Kansas City.
Note: In this chart, higher numbers indicate a greater demand for services, so unlike the other charts from Reserve Bank surveys, higher numbers indicate deteriorating conditions. The Kansas City Fed's LMI Survey results were adjusted to be consistent with this concept. A value of 100 would indicate that all respondents reported that the demand for their services had increased.

racial, ethnic or educational lines throughout the recession and recovery—that is, average educational attainment remained low and minorities remained disproportionately represented—the influx of formerly higher-income people into LMI status did lead to a compositional change of another kind. According to LMI Survey responses, significant numbers of traditionally middle class families have entered the ranks of the LMI population and, in many cases, a growing number of the clients seeking assistance from respondent organizations are requesting such assistance for the first time in their lives.

Survey commentary: explaining the demand for services

The pattern of LMI Survey responses over the years reveals that the influx of traditionally middle class clients occurred, in large part, *after* the recession had officially ended in mid-2009. The primary cause was the exhaustion of financial resources that had initially supported their living expenses immediately after the loss of employment that many experienced. Once unemployed workers had exhausted their personal savings, 401(k) savings, and any sources of credit, they turned to public assistance and the services of social organizations. Food aid, util-

Chart 10
PARTICIPATION IN THE SNAP (FORMERLY FOOD STAMPS) PROGRAM



Source: United States Department of Agriculture, Food and Nutrition Service.

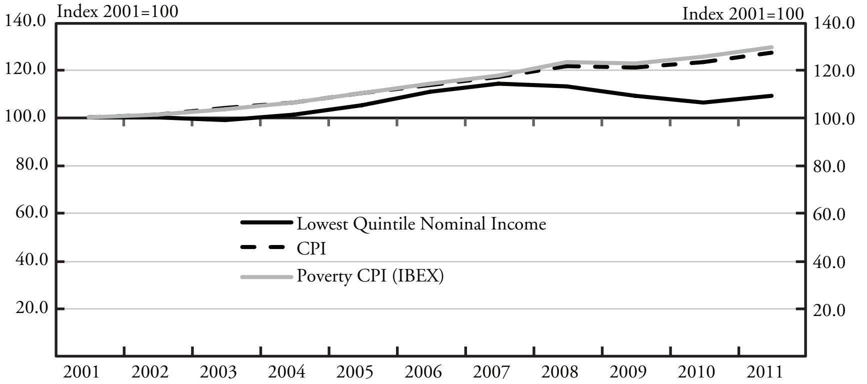
ity assistance, and housing assistance are among the various types of assistance requested. These formerly middle class clients were less likely to be minorities and were relatively more educated than the more traditional LMI population. (The influx of middle class clients was not large enough to cause significant change in the overall demographic composition of the LMI population, however.)

Rising prices for many basic necessities such as fuel and food in the face of stagnant incomes are another factor cited as a cause of the increased demand for services. Data on income for the lowest income quintile, along with data on consumer prices, support this assessment. Nominal income growth for the lowest income quintile has failed to keep pace with rising consumer prices (Chart 11). Moreover, LMI consumers tend to spend more of their income on food and fuel, both of which have risen in price at greater rates than general consumer prices in recent years, as indicated by the Chicago Fed's IBEX inflation index for those in poverty (Chart 11).[12]

Other circumstances related to the weather and to natural disasters have also put a burden on organizations serving the LMI population. Survey respondents cited severe weather patterns in some parts of the Tenth District—unusually cold winters in 2010 and 2011 and a particularly hot summer in 2012—as factors driving additional demands for utility assistance and donated items such as heaters and fans. Natural

Chart 11

LOWEST QUINTILE NOMINAL INCOME GROWTH AND GROWTH IN CONSUMER PRICES



Sources: U.S. Census Bureau; U.S. Bureau of Labor Statistics; Federal Reserve Bank of Chicago.
Note: The values in the index show income (not adjusted for inflation) for the lowest income quintile, the general price level for consumer goods for the typical consumer, and the general price level for consumer goods for the typical consumer in poverty all relative to their values in 2001, in percentage terms.

disasters have also caused swelling demand for services in some places. For example, in the Federal Reserve's Tenth District, the tornado in Joplin, Missouri, increased the demand for services not only in southwestern Missouri but also in other areas where support services were provided.

Finally, cuts in public funds have been cited by many survey respondents as having boosted the demand for their own organizations' services. In particular, the drying up of stimulus funds from the *American Recovery and Reinvestment Act* was cited by many respondents. In contrast to these assertions, however, is the fact that federal spending has actually increased for SNAP, Temporary Assistance for Needy Families (TANF), Social Security disability income, and Medicaid, albeit by small amounts in some cases (U.S. Office of Management and Budget). The federal government's total direct payments to individuals increased from $1.2 trillion in 2005 to $1.7 trillion in 2009 and $2.0 trillion in 2011.[13] States do have some leeway on how funds are distributed, and changes in the way some states have distributed their funding may account for the survey respondents' assertions that funding has declined. Moreover, a substantial part of the rise in federal direct payments went to Social Security and Medicare payments for retirees.

Although spending on many forms of public assistance has increased, many LMI individuals have exceeded their allotment of unemployment compensation funds, significantly increasing the demand for social services. Unemployment assistance outlays from the federal government dropped from $158.3 billion in 2010 to an estimated $132.7 billion in 2011 (U.S. Office of Management and Budget).

CONCLUSION

The recent recession and the particularly anemic recovery that followed have had harsh consequences for many people across the nation, at all income levels—but the LMI population has faced especially high hurdles. The Kansas City Fed's LMI Survey documents these hurdles. Its findings are corroborated by similar surveys from other Federal Reserve Banks, as well as data from independent sources, suggesting that the issues highlighted by the LMI Survey are national in scope.

Extended relief for the LMI population, as for the rest of the nation, will likely depend to a large degree on significant growth in economic activity and an associated acceleration in employment gains. But there may be many more options available for policymakers intent on increasing the financial success of the LMI population. Perhaps chief among these options are programs aimed at increasing the development of the LMI workforce through additional education and training. Efforts to raise financial literacy will also be important, along with initiatives aimed at expanding the availability of affordable housing and access to credit at reasonable rates. Many interested parties, not only in government and in the nonprofit sector but also in the private sector, work intensely to make such efforts come to fruition.

ENDNOTES

[1]The low- and moderate-income threshold is officially defined under Title 24 of the U.S. Code of Federal Regulations. Families are defined by the U.S. Census Bureau as a householder and one or more other people in the same household related to the householder by birth, marriage, or adoption. Income includes income from all sources, including public assistance.

[2]Author's estimate based on data from the Current Population Survey produced jointly by the U.S. Census Bureau and the U.S. Bureau of Labor Statistics.

[3]Average survey response rates vary dramatically. Rates tend to depend on several factors, including the mode of the survey (for example, whether it is conducted by mail, telephone or online) and the surveyor's personal acquaintance with respondents or lack thereof (acquaintanceship increases response rates). Response rates also depend on whether the recipient of a survey is an organization or an individual (organizations are less likely to respond) (Watson, 1998).

[4]As an example, consider a hypothetical case where 10 percent of respondents report that job availability has increased, 40 percent report it has not changed, and 50 percent report it has decreased. The diffusion index would be 10 – 50 + 100 = 60. Because the index value falls below 100, it indicates labor market conditions deteriorated.

[5]Low–and–moderate–, middle–, and high–income are defined, respectively, as incomes below 80 percent of the median, between 80 percent and 120 percent of the median, and above 120 percent of the median.

[6]The index for LMI employment shown in Chart 4 fell 22.7 percent from 122.8 in 2006 to 94.9 in 2011.

[7]Frame and Woosley dispute this claim for small business credit. The relationship between credit scores and income is investigated further in section 5.

[8]The first quarter 2012 edition of the Kansas City Fed's *Consumer Credit Reports* discuss trends in credit scores in significant detail. The report is available online at http://www.kansascityfed.org/publications/community/ccr/index.cfm.

[9]Of all families with five or more children, 45.2 percent live in poverty, compared with 14.7 percent of families with only one or two children, according to three-year estimates from the 2011 American Community Survey.

[10]Consumer Credit Panel data excludes all personally identifiable information.

[11]The correlation coefficient, 0.35, indicates a signifigant association between the two variables. The value was statistically significant at the 99 percent confidence level.

[12]The IBEX 12-Month Inflation Rates provide a monthly, chain-weighted inflation measure for more than thirty socioeconomic and demographic groups, including those in poverty. For more details see *http://www.chicagofed.org/webpages/research/data/ibex/.*

[13]Author's calculations, based on data from the U.S. Departments of Agriculture, Health and Human Services, Housing and Urban Development and the U.S. Social Security Administration.

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