

# LMI

# Survey

LOW- AND MODERATE-INCOME POPULATIONS AND  
SERVICE ORGANIZATIONS IN THE TENTH DISTRICT

FEDERAL RESERVE BANK *of* KANSAS CITY

2014

## SUMMARY

Indicators of economic conditions in the low- and moderate-income (LMI) community in the second quarter of 2014 were mixed but showed little movement. Exceptions were a significant increase in the job availability index and a drop in the affordable housing index.

The job availability index moved solidly into positive territory, indicating that many survey respondents believe jobs were more available in the second quarter than in the first quarter. Although a few contacts reported less job availability, the majority reported no change. Job availability relative to one year ago was reported to be even stronger, and forward-looking expectations were well into positive territory. Although employment for LMI workers appears poised for future growth, many contacts lamented the low wages generally paid to LMI workers.

The LMI Affordable Housing Index has been slipping, but not significantly. While there were some concerns about a lack of units in some locations, contacts more often cited higher rents and more stringent tenant qualifications. The LMI Credit Access Index was steady, but the usual grievances were expressed about high-cost lending and a need for financial literacy.

Survey respondents reported that although funding continues to tighten they mostly have been able to maintain their level of services.

*Note: Beginning with the current quarter, the LMI Survey will transition to a biannual publication and will be released in the month following the second and fourth quarters. This change will likely result in more variation in index values and comments between reporting periods. In addition, as we seek to produce additional reports in our efforts to inform our stakeholders and the public, the transition to a biannual publication will allow us to disseminate the same information, but without inundating our stakeholders with numerous reports. Finally, the new schedule for releasing the LMI Survey will lighten the burden on survey respondents. The Federal Reserve Bank of Kansas City appreciates any feedback readers of this publication have about our new production schedule.*

## DETAILS

The LMI Financial Condition Index, which is the broadest assessment of economic conditions in the LMI community, rose modestly in the second quarter after falling significantly in the fourth quarter. Many factors affect an overall assessment of economic conditions in LMI communities. Of these factors, labor market conditions are likely the most important. Fortunately, the LMI labor market has performed well over the last year, with all indexes at or above neutral. Although the labor market's performance can work to increase the LMI Financial Condition Index, and it likely has, other economic conditions in the LMI community have put downward pressure on the index. Most significant, perhaps, is that demand for services from survey respondents has persistently increased, including in the second quarter. Further, the availability of housing in most LMI communities is insufficient. Credit and criminal

histories have played a significant role in keeping some LMI consumers out of affordable housing and away from traditional banking institutions.

Another broad measure of economic conditions in LMI communities is the LMI Service Needs Index. After receiving a large boost in the fourth quarter, the index has declined and remains well below neutral at 53.7.<sup>1</sup> The assessment of the demand for services relative to one year ago was 46.3. Consistent with survey results, participation in the U.S. Department of Agriculture-administered Supplemental Nutrition Assistance Program (SNAP, formerly “food stamps”) has continued to increase nationally along with increased demand for Section 8 housing.<sup>2</sup>

As cited in most past surveys, an ongoing problem is the plight of the long-term unemployed.<sup>3</sup> Many long-term unemployed workers have exhausted personal resources, and increasingly, lost government benefits such as unemployment compensation. In turn, they have sought assistance from social services organizations to help meet their daily needs. In addition, some workers who have transitioned to low-wage jobs from higher-paying jobs prior to the recession have found the low wages to be insufficient to support themselves or their families. Thus, many survey respondents related the increased demand for their services to underperformance in the LMI labor market.

Some contacts noted that fewer public funds are available to support those who are struggling financially. One contact suggested the Affordable Care Act has increased the demand for their services. A special question in the next survey will seek to better understand how the Affordable Care Act affects organizations providing services in the LMI community.

A significant number of contacts reported utility costs had driven households to seek their services, which is a common concern expressed in LMI surveys. Although this survey was designed to elicit assessments of the second quarter, many contacts indicated the cold winter had increased demand for their services. It is possible some clients have not been able to address utility costs from the first quarter. Although the current summer has been historically cool, many contacts also have reported that clients still were having difficulties with typically higher summer electric bills.

Finally, many contacts reported they have solicited additional clients, ostensibly so they may provide services

to as many of those in need as possible. The result has been increased demand for their services. A large number of survey respondents has used social media to make potential uninformed clients aware of the services they offer. Another respondent reported using paper flyers. Aggressive marketing by survey respondents could potentially increase the demand index for reasons other than existing economic conditions; however, the overall tone of survey responses has been that economic conditions have largely driven LMI individuals and families to providers.

The LMI Job Availability Index surged in the second quarter to a value significantly above neutral. The index value of 115.4 is a record high for the index and followed a healthy value of 105.7 in the fourth quarter. The assessment of job availability relative to one year ago advanced to 122.1. The comparisons of job availability to the previous year have been well above neutral for several quarters. Projections for the next quarter also were favorable. One exception was New Mexico, where several survey respondents noted that state’s labor market has not recovered relative to other District states.

Despite improving conditions in the LMI labor market, many survey respondents stated LMI workers are the “last hired and first fired.” This assessment is consistent with employment trends in the recovery. The LMI Job Availability Index first reached neutral in early 2012, while a similar diffusion index for all U.S. employment advanced to neutral in 2010.<sup>4</sup> To the extent that LMI workers are the “last hired and first fired,” LMI workers face a significantly greater level of uncertainty in their jobs and incomes than workers from other cohorts.

The most common lament about the labor market in LMI communities is about jobs with low wages and few if any benefits. Indeed, most respondents reported that while job opportunities were increasing in their communities, wages in some cases are so low that the jobs are unpalatable. In many LMI communities, most jobs for which most LMI workers are qualified pay wages at or slightly above minimum wage.<sup>5</sup> Contacts reported that much of the occupational training for disadvantaged people is focused on low-paying careers, such as certified nursing assistants or security guards. Many contacts are concerned about the lack of a “living wage,” often defined as a wage sufficient to provide the necessities and comforts essential to an acceptable standard of living. In line with concerns about

low wages were concerns about insufficient hours, as many LMI workers earn hourly wages.

About equally concerning to survey respondents were the LMI population's lack of job skills, insufficient avenues for attaining those skills, and the willingness of unemployed LMI workers to aggressively seek paid employment. Some contacts reported many prospective LMI workers lack the most basic job skills, such as showing up on time and being responsible workers, dressing and acting appropriately at work, and acquiring basic skills in reading and arithmetic. Beyond these skills, general education is commonly lacking, and any jobs paying higher wages are likely to require some technical skills that many of the LMI do not have. Many survey respondents stressed the importance of getting GEDs in the hands of LMI workers. Contacts suggested the GED exam lately has become more challenging following a recent overhaul. Especially lacking—and critical—are computer skills. Some argued there is a need for more affordable educational opportunities.

A somewhat controversial issue voiced by a significant number of survey respondents was a perceived lack of ambition or initiative on the part of many LMI people of working age. While some of those assessments may be accurate, there are many reasons why an LMI individual may not seek education, training and/or employment. For example, an LMI worker may have become discouraged after previous failures to secure employment or may find that the benefits of becoming employed may not offset the resulting cuts in public assistance. Other observed obstacles affecting willingness to seek employment include a criminal history, inadequate transportation and childcare costs.

Criminal histories, especially drug charges, significantly hamper LMI workers, according to many contacts. In most cases, a criminal record, especially a record that includes a felony conviction, will prevent prospective employees from getting most jobs. As noted above, many LMI workers lack reliable transportation, which can prevent them from acquiring a job or lead to a job loss should transportation be unavailable. Many survey respondents mentioned childcare and its cost as impediments to work. In many cases, earnings from a low-wage job would likely be spent largely on childcare. However, many LMI communities have tight networks of families, neighbors and friends that can help reduce the burdens of childcare and transportation.

The LMI Affordable Housing Index fell in the second

quarter to 78.7 from 85.7 in the fourth quarter. The LMI Affordable Housing Index has remained below neutral with relatively little movement since the first survey in the first quarter of 2009. As with other indexes, the LMI Affordable Housing Index reflects changes in conditions rather than the stock of affordable housing. Thus, survey respondents generally agreed that affordable housing is becoming less available over time. One exception was a response by a housing authority that noted it had been so successful in providing affordable housing that it had been asked to consider constructing moderate and high-end homes (which it declined). Although that situation was far from the norm, it shows there are some communities in the District where affordable housing limitations are minimal. Some types of housing are in especially high demand, most critically, one-bedroom apartments.

One important housing problem identified in the survey is the role of criminal histories and credit histories in the ability of LMI families to acquire housing, especially affordable housing. Amid escalating demand for rental units during the economic recovery, more landlords are checking credit histories. A disproportionate share of the LMI has poor credit histories, in part due to foreclosures, and is more likely to have criminal records, including felony and drug convictions.

A number of contacts expressed concerns about the cost of housing, pointing out that increases in market rental rates are exceeding wage growth. Neighborhood gentrification also was noted as putting an additional cost burden on LMI families seeking homes. Some contacts reported that fewer property owners are accepting Section 8 vouchers. At the same time, Section 8 vouchers are becoming harder to obtain, they noted.

The LMI Credit Access Index dropped modestly to 76.5 in the second quarter and was down relative to the past few quarters. However, the assessment of credit access relative to the previous year has advanced solidly over the history of the survey. Expectations have continued to regain ground following a significant drop in the third quarter of 2013.

The most pressing credit issue facing the LMI, as expressed in this and past surveys, is access to affordable short-term credit. Many contacts are concerned about the proliferation of payday lenders and other high-cost financial institutions, but some also recognize many LMI consumers have few other options. They seek to establish

“safe financial products and services that will help [the LMI] better function.”

Many survey respondents said there is significant need for financial education, especially credit education. Some noted that segments of LMI consumers were reluctant to participate in these programs, due mainly to a feeling of “hopelessness.”

As in many other areas of the survey, respondents expressed concerns about poor credit histories and how they would likely prevent LMI consumers from securing affordable credit. Looking forward, several contacts suggested that student loan debt may bar access to affordable credit, securing a job and purchasing a home.

The LMI Organization Funding Index was little changed in the second quarter at 83.1. Funding relative to a year ago rose moderately in the second quarter, while the quarter-ahead projection was neutral. Overall, comments reflected a tight funding environment. Contacts indicated declines in state and federal funding increased the demand for services and reduced funding to community development associations.

Despite a consensus that funding is tightening, respondents indicated their organizations have maintained their capacity to meet their clients’ needs. Organization capacity, the measure of an organization’s ability to provide

services—including factors other than funding—declined moderately in the second quarter but remained near neutral at 93.4. Organizational capacity relative to one year ago was neutral, while the quarter-ahead projection was solidly in positive territory.

Analysis of LMI Surveys in recent years finds a common theme of insufficient and declining resources. Many survey respondents have reported a need to “do more with less.” An effective way to serve more with fewer resources is to advance the technology used in delivering services, though innovation does not solely involve technology. Any type of innovative approach to serving clients is likely to allow organizations to “do more with less.” Understanding that innovation is a critical factor in enhancing the performance of community development organizations and those providing social services, the Federal Reserve Bank of Kansas City is hosting a conference, “Shift Innovation,” to discuss the role of innovation in community development. The conference will be Sept. 22-23 at the Federal Reserve Bank of Kansas City in Kansas City, Mo. For details, please see the conference website (<http://shiftinnovation.kcfed.org>) or contact Nicole Cole at 816-881-2756 or [Nicole.Cole@kc.frb.org](mailto:Nicole.Cole@kc.frb.org).

## ENDNOTES

<sup>1</sup>Computing the LMI Services Needs Index is different from this report's other indexes. Specifically, a rise in the share of survey respondents reporting increased demand for their services is associated with a lower value for the index. This construction was designed for consistency across the indexes, where a value below neutral reflects deterioration in economic conditions in LMI communities and a value above neutral reflects improvement in economic conditions in LMI communities.

<sup>2</sup>The SNAP data are available from the USDA, Food and Nutrition Service, Program Data. Data on the demand for housing assistance reflect accumulated evidence from randomly chosen departments of housing across the United States.

<sup>3</sup>Unemployment is considered to be long term if the jobless worker has been unemployed for six months or longer. The long-term unemployed currently make up just under one-third of all unemployed workers. U.S. Bureau of Labor Statistics, Household Data, Table A-12.

<sup>4</sup>For the U.S. Diffusion Index, see U.S. Bureau of Labor Statistics, Establishment Data, Diffusion Indexes, Seasonally Adjusted (Table B.6.). For long-term diffusion indexes from the LMI Survey, see, Edmiston, Kelly D. 2013. "The Low- and Moderate-Income Community in Recession and Recovery: Results from a New Survey," Federal Reserve Bank of Kansas City, *Economic Review*, vol. 98, no. 1.

<sup>5</sup>Tenth District LMI Labor Force Report. Accessible at <http://kansascityfed.org/research/>.

For questions or comments, or if you provide services to LMI people and would like to participate in the survey, please contact Kelly Edmiston at [Kelly.Edmiston@kc.frb.org](mailto:Kelly.Edmiston@kc.frb.org).

### About the Survey

The quarterly LMI Survey measures the economic conditions of low- and moderate-income populations in the Tenth Federal Reserve District and the organizations that serve them. LMI individuals have incomes below 80 percent of the area median income, which is defined as the metropolitan median income for urban residents and state median income for rural residents. Survey results are used to construct five indicators of economic conditions in LMI communities and two indicators of the condition of organizations that serve them. The goal is to provide service providers, policymakers and others a gauge to assess changes in the economic conditions of the District's LMI population over time.

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## DIFFUSION INDEXES FOR LOW- AND MODERATE-INCOME INDICATORS\*

| Perception of current conditions relative to conditions in the previous quarter |                |                |               |                |
|---|----------------|----------------|---------------|----------------|
| LMI Index   | Second Quarter | Fourth Quarter | Third Quarter | Second Quarter |
| Quarter Surveyed  | 2014†          | 2013           | 2013          | 2013           |
| LMI Financial Condition Index   | 72.8           | 69.2           | 81.1          | 87.5           |
| LMI Service Needs Index   | 53.7           | 59.7           | 44.7          | 47.3           |
| LMI Job Availability Index  | 115.4          | 105.7          | 98.9          | 110.4          |
| LMI Affordable Housing Index  | 78.7           | 85.7           | 87.9          | 83.3           |
| LMI Credit Access Index   | 76.5           | 79.7           | 88.0          | 82.9           |
| LMI Organization Capacity Index   | 93.4           | 99.2           | 105.3         | 98.1           |
| LMI Organization Funding Index  | 83.1           | 84.3           | 88.2          | 77.6           |
| Perception of current conditions relative to conditions one year ago            |                |                |               |                |
| LMI Index   | Second Quarter | Fourth Quarter | Third Quarter | Second Quarter |
| Quarter Surveyed  | 2014†          | 2013           | 2013          | 2013           |
| LMI Financial Condition Index   | 77.9           | 69.1           | 82.8          | 82.5           |
| LMI Service Needs Index   | 46.3           | 48.0           | 46.1          | 41.7           |
| LMI Job Availability Index  | 122.1          | 109.9          | 122.7         | 124.0          |
| LMI Affordable Housing Index  | 85.3           | 81.6           | 81.3          | 90.1           |
| LMI Credit Access Index   | 83.8           | 73.2           | 87.8          | 80.0           |
| LMI Organization Capacity Index   | 100.0          | 98.4           | 96.8          | 100.0          |
| LMI Organization Funding Index  | 85.3           | 76.7           | 74.5          | 72.0           |
| Expectation in the current quarter for conditions in the next quarter           |                |                |               |                |
| LMI Index   | Second Quarter | Fourth Quarter | Third Quarter | Second Quarter |
| Quarter Surveyed  | 2014†          | 2013           | 2013          | 2013           |
| LMI Financial Condition Index   | 79.4           | 80.6           | 73.7          | 96.2           |
| LMI Service Needs Index   | 45.6           | 53.0           | 57.1          | 46.7           |
| LMI Job Availability Index  | 115.4          | 112.4          | 97.3          | 110.0          |
| LMI Affordable Housing Index  | 85.3           | 88.7           | 103.8         | 85.5           |
| LMI Credit Access Index   | 85.3           | 79.5           | 82.2          | 101.3          |
| LMI Organization Capacity Index   | 106.6          | 107.6          | 92.1          | 103.4          |
| LMI Organization Funding Index  | 97.8           | 97.6           | 76.6          | 92.6           |
| 255 responses   |                |                |               |                |

\* Providers of services for the low- and moderate-income population responded to each item by indicating whether conditions during the current quarter were “higher” (or “better”) than, “lower” (or “worse”) than, or the same as in the previous quarter or year. Index numbers are computed by subtracting the percent of service providers that responded “lower” (or “worse”) from the percent of service providers that responded “higher” (or “better”) and adding 100. The exception is the LMI Service Needs Index, which is computed by subtracting the percent of service providers that responded “higher” (or “better”) from the percent of service providers that responded “lower” (or “worse”) and adding 100 to show that higher needs translate into lower numbers for the index.

A value of 100 is neutral in the indexes. Any number below 100 indicates the overall assessment of survey respondents is that conditions are worsening. For example, an increase in the index from 70 to 85 would indicate conditions are still deteriorating, by consensus, but that fewer respondents are reporting worsening conditions. Any value above 100 indicates improving conditions, even if the index has fallen from the previous quarter.

† Beginning with this quarter, the LMI Survey report will be published biannually.