

# LMI

# Survey

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

FEDERAL RESERVE BANK *of* KANSAS CITY

2011

## SUMMARY

Economic and financial conditions in the Tenth District's low- and moderate-income (LMI) community continued to weaken in the second quarter of 2011, but some positive developments also were evident in the survey results. The broadest measures of the financial health of the LMI community remained well below neutral, despite a moderating LMI job outlook and some improvement in the affordable housing index. Lingering pessimism among some survey respondents may be reflected in their general assessments of the financial status of the LMI community, while they recognize that specific aspects of the economy are stabilizing for their clients. Expectations were near neutral for jobs and affordable housing, but they remained subdued for the broader measures of the financial condition of the LMI population. Several District contacts were concerned about the effects impending government budget cuts may have on the LMI community.

Increasing numbers of survey respondents have reported declines in funding in recent quarters, and that trend continued in the second quarter of 2011. Tighter donor budgets are largely to blame, but cuts in public funds also have stretched resources. Continued strength in volunteer efforts have mitigated capacity constraints in community organizations unable to afford paid employees.

## DETAILS

The LMI Financial Condition Index continued to reveal significant deterioration in the financial status of the Tenth District LMI community, despite a modest recovery in the larger economy. The index, which is the broadest measure of the financial health of the LMI population in the District, was flat in the second quarter of 2011, following a significant drop in the index in the fourth quarter.<sup>1</sup> The second quarter index value was 42.4, compared to 45.2 in the fourth quarter of 2010 and 60.4 in the third quarter of 2010.<sup>2</sup> Persistent unemployment, diminished credit standing, and rising costs for basic needs were noted as impediments to financial recovery in the LMI community. Looking forward, survey respondents feared that federal, state, and local government budget cuts would place additional stress on their LMI clients.

A second broad indicator of financial conditions in the LMI community is the LMI Service Needs Index, which reflects changes in the demand for services provided by organizations serving LMI constituents. The index remained well below its neutral value in the second quarter, which indicates that the demand for services continued to increase.<sup>3</sup> Survey respondents noted that natural disasters, particularly widespread flooding and tornados, significantly increased the demand for services in the quarter. Rising costs for rent, food, fuel, and healthcare sent a number of LMI consumers to community organizations for assistance with basic needs. An exhaustion of financial resources by the long-term unemployed

continued to bring first-timers to service providers. Little faith in the recovery and persistent budget cutting by the public sector heavily influenced expectations about the future demand for services, which were largely grim.

The LMI Job Availability Index maintained its steady march toward neutrality in the second quarter. Although the jobs index, at a value of 82.0, reveals moderate decline in the LMI job market, the large majority of survey respondents reported little or no change. Respondents expected the job market to remain stable in the near term. District contacts observed that employers in the LMI community have been relying heavily on part-time workers and that pay and hours have been reduced for many. The financing of basic expenses has become more challenging for these underemployed LMI workers. Others reported that those with less education and few skills struggled to find jobs in a highly competitive job market. Survey respondents expressed a need for short-term training for the unemployed.

The LMI Affordable Housing Index advanced modestly in the second quarter, but the index has not yet returned to neutral following its slide in the third quarter of 2010. Survey respondents suggested that the current stock of affordable housing remains inadequate for current needs, but few reported a significant decline in the availability of affordable housing during the second quarter. Several contacts lamented reductions in government funds available to assist LMI families to buy homes. Tighter mortgage lending standards and potentially higher down payment requirements were thought to be additional impediments to affordable homeownership for LMI families. While a number of community organizations are making substantial efforts to find affordable rental housing

for their clients, even the lowest rental rates are unaffordable for some. Shelter for the homeless was reported to be in short supply and contacts reported a significant number of clients who were “near homelessness.”

Survey evidence suggests that access to credit for LMI consumers tightened further in the second quarter. The LMI Credit Access Index, at 60.5, improved only modestly from the fourth quarter and remains well below the neutral value of 100. Survey respondents noted that poor credit histories, along with tighter lending standards and less favorable loan terms, have put borrowing out of reach for most LMI consumers. As in past surveys, District contacts noted considerable need for lower-cost alternatives to payday loans. Some contacts reported increased borrowing from payday lenders and suggested a greater need for financial counseling and community outreach on the part of financial institutions.

Indexes representing the financial and nonfinancial resources of organizations serving the LMI community continued their retreat in the second quarter. The LMI Organization Funding Index has fallen from a high of 90.4 in the first quarter of 2010 to a low of 68.4 in the most recent quarter. While many contributors made efforts to maintain their giving during the recession and early recovery, donations have waned as they have struggled to meet other financial obligations. Recent government budget cuts have exacerbated the funding situation. Nonfinancial resources, as measured by the LMI Organization Capacity Index, also have diminished for many groups providing services to the LMI community, but the index has not dropped as sharply as the funding index. Although funding for paid staff was tight, volunteerism remained strong.

## ENDNOTES

<sup>1</sup>Due to a low number of responses, no report was released for the first quarter of 2011.

<sup>2</sup>The index can range from 0 (most deterioration in conditions) to 200 (most improvement in conditions), where a value of 100 is neutral.

<sup>3</sup>An increase in the demand for services causes a decrease in the index.

### 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.

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

		Perception of current conditions relative to conditions in the previous quarter †		
LMI Index	Quarter Surveyed	2nd Qtr 2011	4th Qtr 2010	3rd Qtr 2010
LMI Financial Condition Index		42.4	45.2	60.4
LMI Service Needs Index		41.1	43.8	43.8
LMI Job Availability Index		82.0	80.6	77.4
LMI Affordable Housing Index		86.8	80.6	79.3
LMI Credit Access Index		60.5	55.9	51.9
LMI Organization Capacity Index		86.0	90.3	103.9
LMI Organization Funding Index		68.4	71.2	74.1
		Perception of current conditions relative to conditions one year ago		
LMI Index	Quarter Surveyed	2nd Qtr 2011	4th Qtr 2010	3rd Qtr 2010
LMI Financial Condition Index		38.5	27.4	26.9
LMI Service Needs Index		32.8	29.6	30.4
LMI Job Availability Index		79.4	69.0	69.2
LMI Affordable Housing Index		81.9	76.4	81.1
LMI Credit Access Index		49.3	47.1	37.0
LMI Organization Capacity Index		88.9	93.2	98.0
LMI Organization Funding Index		56.2	71.2	71.7
		Expectation in the current quarter for conditions in the next quarter		
LMI Index	Quarter Surveyed	2nd Qtr 2011	4th Qtr 2010	3rd Qtr 2010
LMI Financial Condition Index		68.1	71.0	76.8
LMI Service Needs Index		59.6	57.8	53.6
LMI Job Availability Index		96.6	95.4	106.9
LMI Affordable Housing Index		92.0	91.3	80.4
LMI Credit Access Index		73.8	67.2	71.4
LMI Organization Capacity Index		96.9	95.7	82.2
LMI Organization Funding Index		81.7	81.5	83.7
141 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. The 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.

† Due to a low number of responses, no report was released for the first quarter of 2011.

For questions or comments, or if you provide services to low- and moderate-income 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).