July 2011

VANTAGE POINT

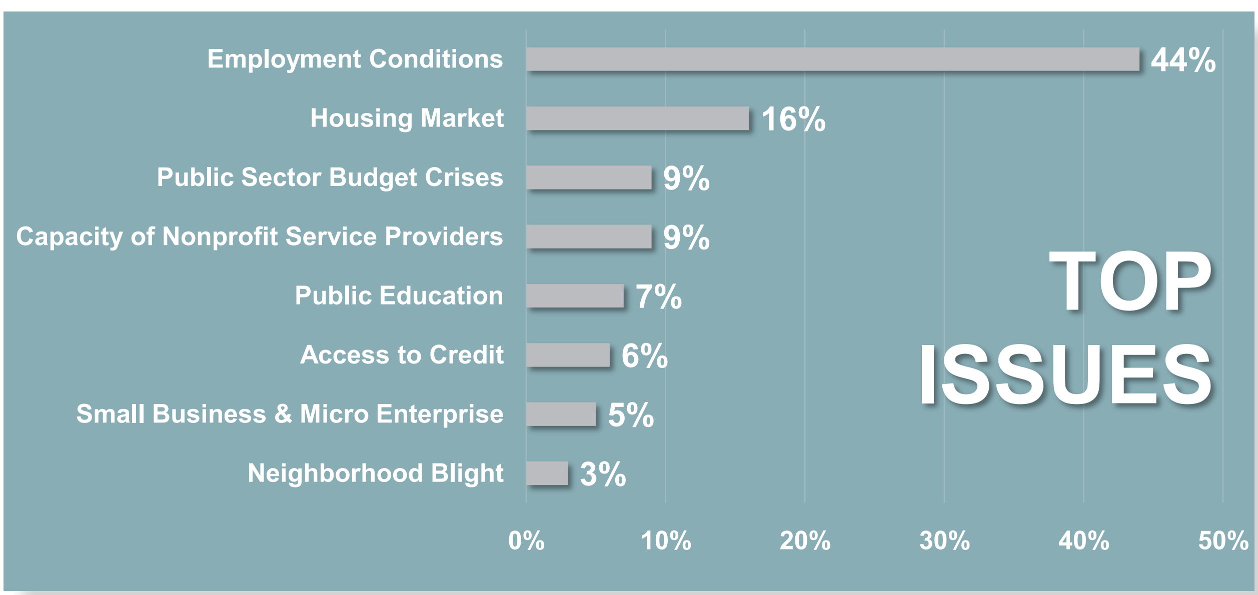
The 12th District Community Indicators Project

In 2010, the Community Development Department at the Federal Reserve Bank of San Francisco launched the Community Indicators Project, an initiative that seeks to collect input from community stakeholders about the issues and trends facing low- and moderate-income (LMI) communities in the 12th District. We hope that by systematically collecting local viewpoints, we will be able to inform community development policy and practice in a richer way than by relying on quantitative statistics alone. In the second wave of the survey, 562 community stakeholders from across the 12th District provided their assessment of economic conditions within LMI communities. Questions were open-ended, allowing respondents to raise the issues of most concern to them. This issue of Vantage Point synthesizes the key themes that emerged in the February 2011 survey.

Introduction

With 13.7 million Americans looking for work, it is not surprising that the February 2011 Community Indicators survey showed that unemployment remained at the top of the list of challenges facing LMI communities in the Federal Reserve's 12th District. Forty-four percent of respondents chose unemployment as the greatest challenge facing low-income communities, followed by conditions in the housing market, the public sector budget crises, and the capacity of nonprofit service providers to respond to the crises. (Figure 1) Overall, answers were not significantly different from responses to the September 2010 survey, with the exception of a small drop in the percent of respondents selecting housing market conditions as the key challenge, and a small increase in concerns over access to credit. Notably, as we discuss further below, the qualitative

Figure 1: Community Data Point: Most Pressing Challenge Facing LMI Communities in the 12th District



Source: FRBSF Community Development Indicators Survey, February 2011.

ABOUT THE INDICATORS PROJECT

The Community Indicators Project is a quarterly survey conducted by the Community Development Department of the Federal Reserve Bank of San Francisco. The goal is to collect insights from community leaders about the conditions and trends affecting low-income households and communities within the Federal Reserve's 12th District. Respondents include representatives from banks, nonprofits and community based organizations, foundations, local governments, and the private sector. The survey is administered online, and combines both multiple choice and short answer questions. All responses are kept confidential. If you would like to participate in future waves of the Community Indicators Project survey, please email matthew.soursourian@sf.frb.org.

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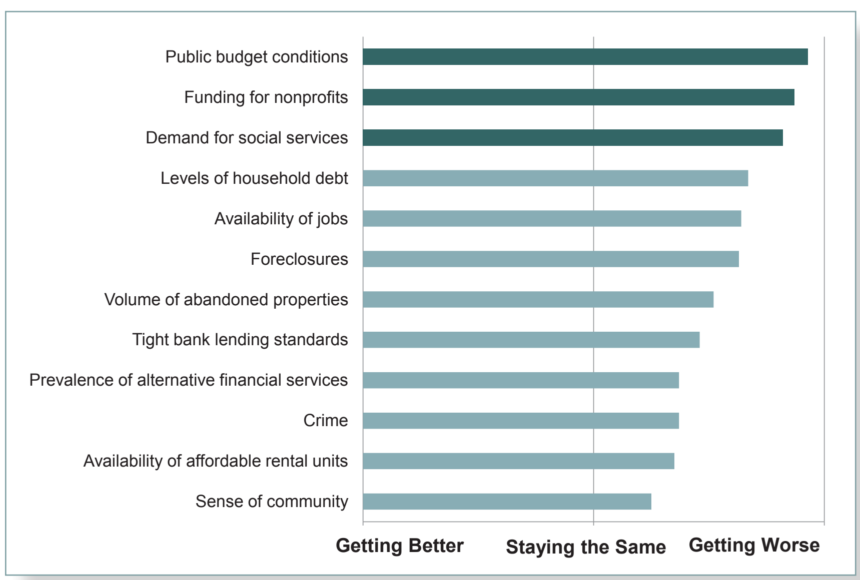
responses in our second survey emphasized the compound nature of the current challenges facing LMI communities, noting the interconnections between unemployment, foreclosures, and access to affordable housing.

Respondents also stressed that the economic environment for LMI communities doesn't seem to be improving. Indeed, across all the indicators, respondents reported that conditions in LMI communities are getting worse, not better. (Figure 2) This sentiment was expressed most strongly regarding public budgets and funding for nonprofits: the sustained cuts to funding for social services are having a clear impact on the community development field's ability to respond to greater demand for services such as foreclosure counseling, affordable housing and homeless shelters, and workforce training. Interestingly, although 2010 saw a consistent decline in mortgage delinquencies, respondents still perceived that foreclosures and the volume of abandoned and/or vandalized properties were getting worse. In part, this may be due to the fact that overall levels of delinquencies are still extremely high, and visible improvements at the local level may lag the actual numbers.

Survey responses pointed to another factor that may be influencing the perception that conditions continue to worsen: the length and depth of this recession has affected more families and more communities than ever before, and the effects may simply be "more visible." Respondents said that they encounter these effects on a daily basis, noting "the increase in the scavenging of the recycling bins in neighborhoods on trash pick-up days and selling of items from vehicles or from street corners," and indicating that "neighborhoods continue to decline, the garbage piles up and the yards continue to worsen."

Figure 2: Community Data Point: Conditions Worsening Across LMI Communities in the 12th District



Source: FRBSF Community Development Indicators Survey, February 2011.

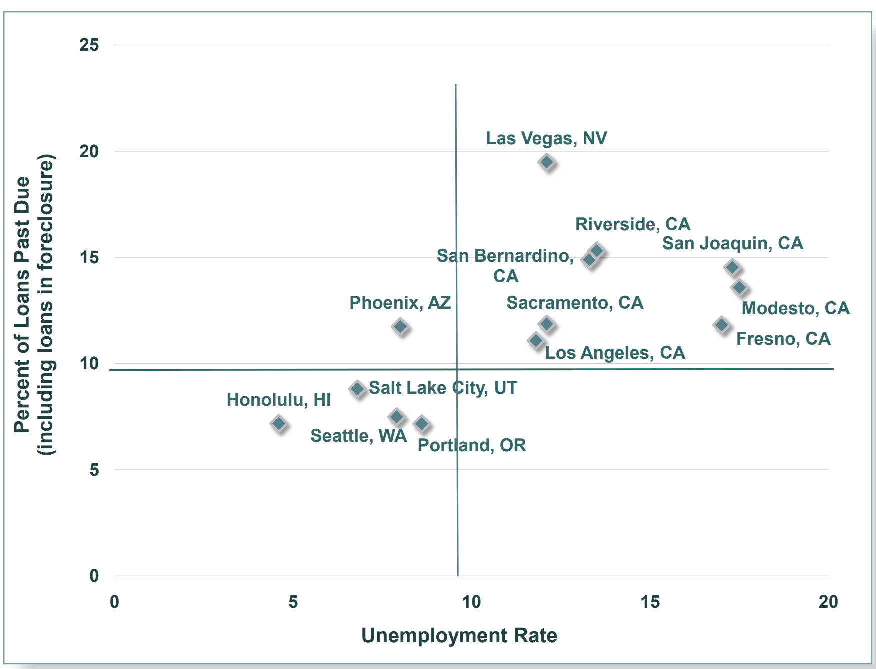
More positively, many of the surveys highlighted local innovations, including programs focused on neighborhood stabilization, technical assistance for small businesses, and efforts to improve educational outcomes among non-English speaking youth. To help communities more fully recover going forward, respondents called attention to the need for more extensive institutional collaboration and improved targeting of interventions to specifically address the needs of different LMI communities.

The Links between Housing and Labor Market Challenges

While the twin challenges of unemployment and foreclosure are nothing new, one of the key themes in the February 2011 Community Indicators Survey was a deep concern over unemployment as a driver of new foreclosures, which in turn is dampening recovery in the housing market. As Figure 3 shows, MSAs in the 12th District with high rates of mortgage delinquencies – including Las Vegas and cities in California's Central Valley and Inland Empire – are also struggling with unemployment rates well over the national average.

Respondents in Utah, Washington, Arizona and California all noted an increase in families seeking foreclosure and housing counseling help, with many of them unable to make their mortgage payments due to a job loss and an inability to find work. They also reported that these issues are not confined to low-income or subprime borrowers. As one respondent from

Figure 3: The Link Between Unemployment and Foreclosures in the 12th District



Source: FRBSF Calculations of foreclosure data from Lender Processing Services Applied Analytics and unemployment data from the Bureau of Labor Statistics, March 2011. Blue lines represent the national average.

COMMUNITY VIEWPOINTS

The unemployment rate, the undervaluation in the housing market, the blighted and abandoned properties and the inconsistencies of the mortgage lenders and servicers comprise the bulk of the problems that plague Nevada.
—Nevada

Both unemployment and underemployment are causing our foreclosure rates to increase. [Laid off workers] need job training and an extended modification of their loan, or our area will see rising numbers of foreclosures, vacant homes, and blight occur.
—Utah

We're seeing greater numbers of individuals and families come in to our offices for financial and housing counseling. These families are unable to find work after layoffs and therefore can't service their mortgages and consumer debt.
—Washington

It's my opinion that regulator leadership at the top has not demonstrated enough boldness, or a sense of urgency, as it displayed in assisting the financial services industry in crisis ("too big to fail"). Our communities are "too important to fail."
—Arizona

Foreclosures continue at record pace, and the federal government has failed to enforce the HAMP program.
—California

The NSP program was promising but too limited in scope and impact.
—California

Strategic defaults are taking away from community cohesion.
—Arizona

COMMUNITY VIEWPOINTS

Many LMI households cannot take advantage of lower housing prices because they cannot get credit.
—Arizona

Access to credit for small business is critical as this is where employment will come from.
—California

Tightening of the credit markets and changes to underwriting FHA loans are making it increasingly difficult for LMI families to buy homes.
—California

Under the current conditions the credit standards have increased with more strict conditions for minority applicants whose access to credit have been already curtailed prior to the financial crisis.
—Oregon

There has been an over-correction in terms of underwriting standards. What we see are banks declining to make community development loans and investments, citing "we have increased our credit standards."
—Idaho

California reported, "We are noting an increase in prime as well as ARM (adjustable rate mortgage) borrowers facing foreclosure in our region." In Utah, another respondent raised concern over the structural nature of this unemployment cycle, writing that laid off workers are unable to find similar jobs and therefore face much longer spells of unemployment. "They need new job training and an extended modification of their loan, or our area will see rising numbers of foreclosures, vacant homes, and blight."

Respondents also emphasized their frustration with existing efforts to prevent foreclosures, citing the failure of voluntary loan modification programs, the limited capacity and willingness of servicers to assist distressed borrowers, and the lack of political will to enforce HAMP (Home Affordable Modification Program) and ensure its effectiveness. The limited scope of funding for interventions such as the Neighborhood Stabilization Program—and the cuts to funding for housing counseling—were frequently cited in the survey as barriers to helping LMI communities recover from the crisis.

The February 2011 survey results also highlighted a growing concern about strategic defaults, especially in Arizona, California, and Nevada. In many markets in these states, over half of borrowers are underwater on their mortgages, and there was little optimism that prices will rebound any time soon. Respondents raised questions about how strategic defaults might further push down house prices in these areas and the implications for neighborhood stabilization and community cohesion over the long-term.

Access to Credit

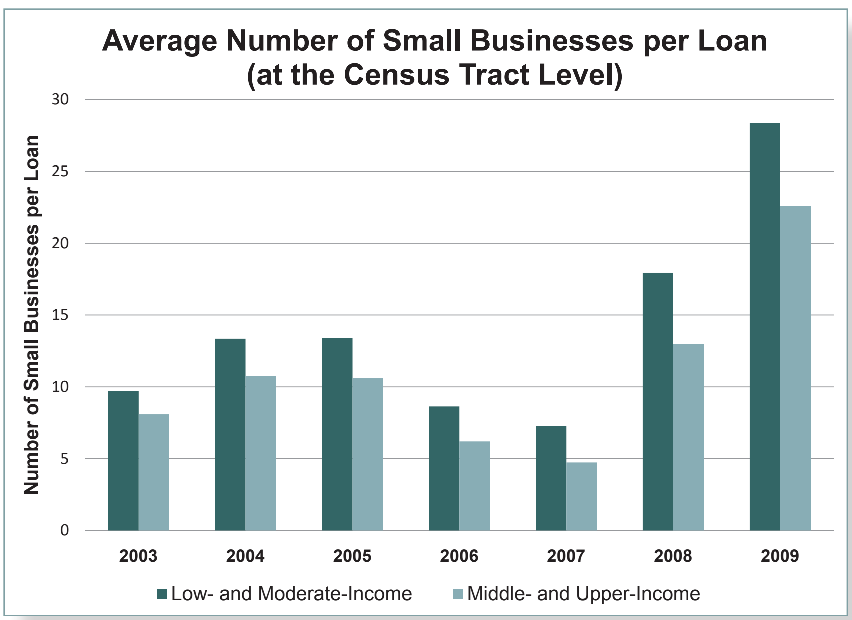
Compared with the September 2010 survey, the second wave of our Community Indicators project highlighted concerns over diminished access to credit and banking services, both for households and for small businesses. Within the qualitative responses, three themes surfaced.

First, many respondents noted that the contraction of mortgage credit is hitting LMI and minority communities the hardest, restricting their ability to purchase homes despite the lower prices and the availability of affordable homeownership opportunities through the Neighborhood Stabilization Program. While FHA is playing an important role in keeping credit available, especially for first-time homebuyers, policies that raise credit score or downpayment requirements were seen as further limiting access to credit for LMI families, and compromising their ability to build assets over the long-term.

The second theme to emerge in the qualitative responses reflected respondent concerns over the growing proliferation of alternative financial service providers in LMI communities, and the effect that their products will have on the long-term financial stability of LMI households. Respondents expressed worries that as mainstream financial institutions restrict access to credit in LMI communities, predatory services will fill the gap, making it even more difficult for LMI families to recover from the recession and subprime crisis.

The third theme related to small businesses and their difficulties in accessing credit. Research conducted by the Federal Reserve Bank of San Francisco has documented large drops in small business lending, especially in LMI neighborhoods. (Figure 4) In 2009, on average, only one loan was made for every 28 small businesses in LMI neighborhoods, compared with one loan for every 10 small businesses in 2003. While the weak economy has dampened demand for small business loans and likely explains part of this drop, a respondent in California reported that tightened lending standards are making it difficult for small businesses to access credit from traditional lenders, and that mission driven lenders such as Community Development Financial Institutions (CDFIs) are seeing a resulting increase in small businesses coming through their doors for loans and technical assistance. Questions around the capacity of CDFIs to serve this growing clientele are of particular concern given the importance of small business development for job creation and economic recovery in LMI communities.

Figure 4: Credit for Small Businesses Decreases, Especially in Low- and Moderate-Income Neighborhoods



Source: Elizabeth Laderman and Carolina Reid, "The Community Reinvestment Act and Small Business Lending in Low- and Moderate-Income Neighborhoods during the Financial Crisis," FRBSF Community Development Working Paper 2010-05.

COMMUNITY VIEWPOINTS

Banks are not lending and the mission-driven lenders cannot keep up with the demand.
—California

Banking institutions have reduced their presence in Indian Country, preferring to finance loans in urban areas. Of all HUD guaranteed loans (i.e. Section 184) funded to date, only 16% are on tribal lands. In short, the areas where Native Americans need access to capital most are where it is least available.
—Arizona

Every time a business closes, a payday lender appears in its place. Targeting low-income households, these lenders can cripple what little resources these families have left.
—Idaho

With no savings or access to bank services, both check cashing and access to credit are relegated to non-mainstream sources - usually, toward predatory lending/check cashing services that do NOT promote either credit building or sustainability.
—Arizona

People need more access to low cost alternatives to payday lenders, check cashing outlets, and Refund Anticipation Loans (RALs) such as provided by H&R Block, Jackson-Hewitt, etc.
—Washington

COMMUNITY VIEWPOINTS

Parents are often not supportive of higher education simply because they can't afford it.
—California

The cost of higher education is prohibitive for low/moderate income families at a time when well-trained replacements for retiring baby-boom managers and professionals will be needed more.
—Washington

Educational debt is the next big economic bubble that is about to burst and when it does, the crisis in the United States will ripple across the world.
—California

Our students are closer to a state prison than to a state university.
—California

The lack of educational opportunities, drop-out rates, and lack of career technical education perpetuates conditions for low-wage earners.
—California

Many new students attending community colleges have to take costly remedial classes prior to qualifying for college credit classes.
—Washington

I'm concerned about the growing costs of state colleges, which will reduce the number of college graduates who can fill jobs requiring critical thinking and innovation.
—Washington

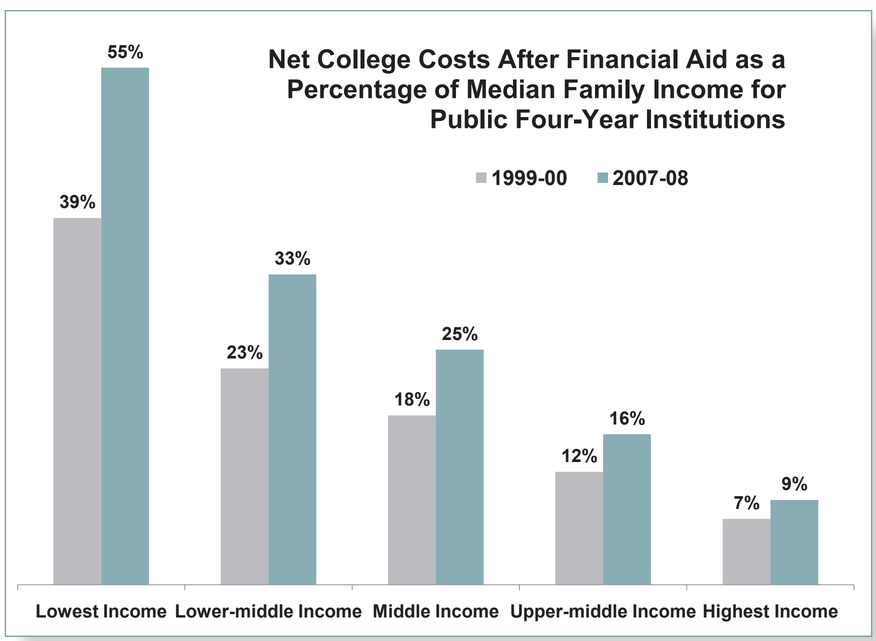
Without access to quality education, LMI youth are disproportionately unable to access and graduate from college and, therefore, do not have access to livable wage jobs with growth potential. This contributes to the cycle of poverty that exists for LMI families.
—California

The Costs of Higher Education

Another new theme that emerged in the February 2011 survey was concern over the costs of higher education. While both the first and second wave of responses relating to education focused on the achievement gap and the implication of public budget shortfalls on K-12 schools in LMI communities, this wave also highlighted the gap in access to college funding. Across the board, respondents noted that existing and emerging employment sectors increasingly demand higher-skilled workers with a college education, and that the cost of higher education will create barriers for youth in LMI communities to access job opportunities in the future. Respondents also raised concerns about rising educational debt.

Figure 5 shows the growing challenge of paying for college for LMI families. Even after financial aid, annual tuition for a four-year college represented 55 percent of their income in 2007-8, compared with only 9 percent for high-income families. In addition, the increase over the past decade has been much larger for low-income families. This disparate cost burden has significant implications not only for who can attend college, but also for who can complete their degree. Research has shown that students with significant college cost burdens – especially when those costs entail having to work more than 20 hours a week - are less likely to graduate.

Figure 5: Rising Cost of Higher Education



Source: Measuring Up 2008, The National Report Card on Higher Education. The National Center for Public Policy and Higher Education.

Nonprofit Capacity and Collaboration

As with the first wave of the survey, respondents expressed concerns about cuts in funding for social services coupled with increased demand from clients. Respondents noted that nonprofits are spending more time and energy pursuing funding options, and are cutting back programs as a result of limited resources. However, on a more positive note, respondents also pointed out that organizations are responding to funding cutbacks by seeking out strategic partnerships. Collaboration was highlighted as a response not only to limited funding, but also to the interconnected nature of the problems facing LMI communities. For example, several surveys highlighted local "one-stop" centers as key community assets, where LMI residents can access everything from early childhood education to mental health services to workforce development training.

In addition, several responses highlighted the important role that government programs play in leveraging private funding and promoting community development activities. For example, respondents recognized SBA's small business loan guarantees, USDA's Rural Development Business Programs, and HUD's HOME, CDBG, and NSP programs as critical resources that have helped to jumpstart new local economic and community development activities.

COMMUNITY VIEWPOINTS

Service providers have not been immune to economic conditions and their struggle is two-fold because it impacts both their organizations and the families they are trying to serve.
— California

In all nonprofit sectors, need is increasing exponentially while funding from all sources is decreasing exponentially. The safety net has developed a giant hole right in the middle and more and more consumers are falling through that hole.
—Nevada

Funding is consuming the energy and time of service providers. With so many agencies chasing so few dollars, the burden falls on the community. We must find ways to meet needs, eliminate duplication of services, and achieve efficiency to better utilize available resources.
—Alaska

Our organization is creating collaborations with other nonprofits to build capacity and share resources. We are in the process of launching a Prosperity Center which will serve as a hub to connect residents with career development opportunities and financial resources. Our goal is to bring economic supports in a convenient "one-stop" location to help families build self-sufficiency, stabilize their finances, and move ahead.
—Utah

Just as mergers have been widespread in the for-profit world, perhaps it is time for nonprofits to do the same.
—Nevada

I am noticing nonprofits collaborating more and pooling resources in order to continue to provide services to their targeted communities.
—Idaho

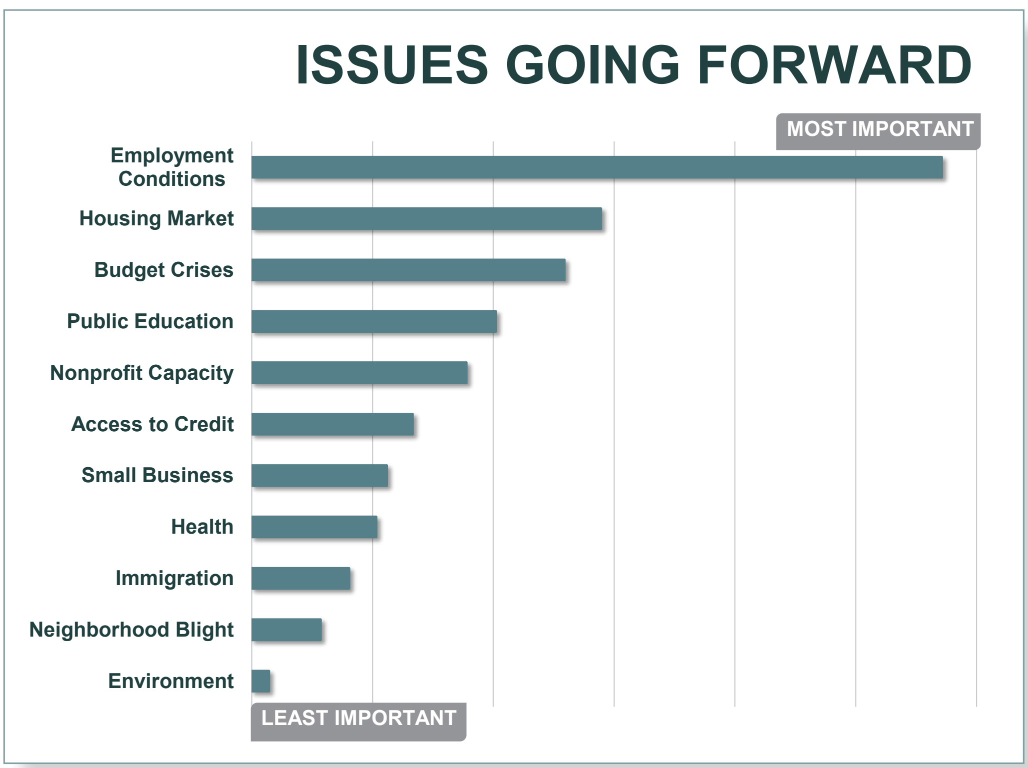
Collaborations are positively impacting our community. Although funding is tight, working together we can still accomplish positive impact in our community.
—Alaska

Conclusion

When asked to rank the issues of most concern going forward, respondents remained squarely focused on conditions in the labor and housing markets, followed by the public sector budget crises and the capacity of nonprofits and other social service agencies to respond to local needs. (Figure 6) In several surveys, respondents focused on the long-term consequences of the recession, and wondered how long it will be before the economic recovery takes hold in LMI communities. However, survey responses also pointed to some new issues confronting the community development field, including shifting demographics and the changing geography of neighborhood poverty. One respondent in California noted the emerging challenge of poverty in the suburbs, and emphasized the need to build community development capacity in areas that have not historically had as dense a network of CDFIs and CDCs.

Overall, the February 2011 survey raises a critical question. How can the community development field make strategic use of scarce resources to address the panoply of challenges currently facing LMI communities? By shedding light on the existing and emerging needs in LMI communities in the 12th District, we hope that this community indicators survey can help to inform policy-makers about community development priorities and identify possible points of intervention and leverage.

Figure 6: Community Data Point: Emerging Issues in the 12th District



Source: FRBSF Community Development Indicators Survey, February 2011. Respondents were asked to rank the top three challenges going forward. Responses were weighted and overall score calculated based on both the frequency of selection and rank order.