From Recession Through Recovery: The Changing Conditions of Low- to Moderate-Income America

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Organized by the Federal Reserve Bank of Kansas City

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The Connecting Communities® audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.
Thank you to everyone for joining this session.

For today:

- This call is being recorded.
- An archived recording of this session will be available on the Connecting Communities® web site shortly after the session has taken place: www.stlouisfed.org/connectingcommunities/
- We will be taking questions via email during this session. Please direct your questions to communities@stls.frb.org. These questions may be part of the recorded archive for this session.
- In connection with this session, several of our Reserve Bank offices have posted links to a variety of additional resources on this topic. We encourage you to browse through this list and to contact your regional office if you would like additional information on any of these items.
Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.
Community Affairs

Community affairs programs at the Federal Reserve Board and the 12 Federal Reserve Banks support economic growth by promoting community development and fair access to credit. Community affairs offices at the Board and Reserve Banks engage in a wide variety of activities to help financial institutions, community-based organizations, government entities, and the public understand and address financial services issues that affect low- and moderate-income (LMI) people and geographic regions.
Community Affairs (continued)

Each office responds to local needs in its district and establishes its own programs to:

- Foster depository institutions’ active engagement in providing credit and other banking services to their entire communities, particularly traditionally underserved markets
- Encourage mutually beneficial cooperation among community organizations, government agencies, financial institutions, and other community development practitioners
- Develop greater public awareness of the benefits and risks of financial products and of the rights and responsibilities that derive from community investment and fair lending regulations
- Promote among policy makers, community leaders, and private-sector decision makers a better understanding of the practices, processes, and resources that result in successful community development programs
The following will be discussed:

- How the LMI population has fared relative to other income segments
- Changes and challenges experienced relative to job availability, credit access, affordable housing and basic needs
- Perspectives on how the findings can inform service design and delivery
The LMI Community in Recession and Recovery

Kelly D. Edmiston
Senior Economist,
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http://www.kansascityfed.org/community
By historical standards, for employment, the 2007–2009 recession was especially deep and the recovery especially weak.

Source: U.S. Bureau of Labor Statistics; Haver Analytics
Inflation-Adjusted Family Income by Quintile

Index: 2001 = 100

Source: U.S. Bureau of Economic Analysis
The LMI Survey
The LMI Community in Recession and Recovery
Survey Design

• It gauges the perceptions of executive directors or other senior staff of organizations providing services directly to LMI individuals or families.

• Survey target is the population of such organizations in the Tenth District.
  – About 1,000 survey requests distributed quarterly
  – Generally about 150 completed

• Potential survey respondents are actively recruited and vetted to ensure they deliver services directly to LMI population.
Seven basic questions

Most inquire about the LMI population:

- Overall assessment of economic and financial conditions
- Demand for services
- Job availability
- Availability of affordable housing
- Access to credit

Others about responding organizations:

- Funding
- Nonfinancial capacities (e.g. volunteers)
Survey Design

• Respondents are asked about conditions relative to:
  – Previous quarter
  – Previous year
  – Expectations for following quarter

• Rolling benchmark: answers are
  – Better (more, higher)
  – Worse (less, lower)
  – About the same
Survey Design

• Index: \%better - \%worse + 100
  – Index takes values between 0 and 200
  – 100 in neutral
  – < 100 indicates deterioration in conditions
    • Any number below 100 indicates deterioration, even if the index is rising
  – > 100 indicates improvement in conditions
• Example: 10% say job conditions are better, 50% the same, and 40% worse
  – Index value is 10 – 40 + 100 = 70 (deterioration)
Results
The LMI Community in Recession and Recovery
Job Availability

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

Source: U.S. Bureau of Labor Statistics and Federal Reserve Bank of Kansas City
Other Issues Highlighted by LMI Survey Reports

- Relatively tighter labor market for low-skilled jobs
- Disconnect between growing sectors and job skills of the LMI
- Lower-skilled jobs filled by higher-skilled workers out of work
- Credit histories
- Criminal histories (especially drug charges)
- Transportation and childcare needs
- Change in residency
- Job readiness
- Significant turnover noted
Federal Reserve Bank LMI Demand for Services Indices

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.

Source: Federal Reserve Banks of Boston, Philadelphia, Dallas, and Kansas City.

Note: The Kansas City LMI Demand for Services Index was adjusted to be consistent with other reserve bank indices (50 = neutral).
Other Issues Highlighted by LMI Survey Reports

- Influx of previously middle class
- Post-recession increase
- Rising prices for basic necessities
- Natural disasters
- Cuts in public funds

Source: Federal Reserve Bank of Chicago
Federal Reserve Bank LMI Affordable Housing Indices

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 indices (50 = neutral).
Other Issues Highlighted by LMI Survey Reports

- “Doubling up”
- Declining vacancies / rising rents
- More selective landlords (credit, criminal and tenant histories; income)
- Homelessness
- Inability to take advantage of attractive (single-home) housing market
Federal Reserve Bank LMI
Credit Access Indices

Source: Federal Reserve Banks of Boston, Philadelphia, Dallas, and Kansas City.
Note: The Kansas City LMI Access to Credit Index was adjusted to be consistent with other Reserve Bank indices (50 = neutral).
Other Issues Highlighted by LMI Survey Reports

- Lower credit scores than average
- Little access to “traditional” consumer loans
- “Refugee effect” of self-employment
- Financial literacy
Do you have questions?
Email us at:

communities@stls.frb.org
A View From the Ground

Ona Porter
President and CEO,
Prosperity Works

http://prosperityworks.net
LMI Households: Unique Adverse Conditions

30 Million LMI Households
[ 40% of All Households ]

WORKERS
- Less Skilled
- Less Experienced
- Less Educated

WORK
- Part Time
- Temporary
- Volatile Growth
- Fewer Hours
- Stagnant Wages
- Wage Theft

Credit Histories

Drug Tests

Child Care

Immigration Status

Lack of Transportation

REAL FAMILY INCOME
↓ 12.3% for bottom quintile
↓ 9.6% for next lowest quintile

Long Periods of Unemployment
No Access to Mainstream Financial Products & Services

Increased Risk
- Payday Loans
- Title Loans
- Refund Anticipation
- Mortgage Loans
- Credit used as an Employment Screen

Increased Costs
- Check Cashing
- Consumer Loans
- Business Capital
- Insurance
- Utility Deposits
- Rental Deposits
- Mortgages

No or Marginal Credit Histories
LMI Exposure to Housing Risk

**BUBBLE**
- Priced out
- Foreclosure
- Sub-Prime Loans
- Loss of Asset / Stability / Future

**BUST**
- Purchase Opportunities
- Quality / Maintenance
- Rental Demand
- Cost
- Doubling Up
- Mobility
Poverty: A Framework

**Personal Behaviors**
- Why don't you ever?
- Surely you realize!
- If only you would...
- Bootstrap narrative

**Lack of Community & Social Resources**
- Effective safety net
- Health care
- Child care
- Excellent K-12, post-secondary training and education
- Public transportation
- Affordable housing
- Healthy food

**Exploitation of LMI Populations**
- Payday loans
- Title loans
- Check cashing
- Lease to own
- Sub-prime lending
- For-profit higher education
- Deposit requirements
- Higher cost of goods and services

**Political and Economic Systems**
- $500B tax benefits to the top earners
- Regressive taxes
- Asset tests
- Fiscal cliff
- Exclusion from financial products and services
<table>
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<tr>
<th>Personal Behaviors</th>
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<td>Whole people who have lacked knowledge, relationships and opportunities</td>
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<th>Generational Poverty</th>
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<td>Learned Behaviors</td>
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<th>Lack of Community &amp; Social Resources</th>
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<td><strong>Safety Net</strong> Stop erosion of Unemployment Insurance recipiency rate</td>
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<td><strong>Health Care</strong> Fully implement Affordable Care Act</td>
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<td><strong>Education</strong> Invest cradle to career</td>
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<td><strong>Jobs</strong> Increase minimum wage</td>
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<td><strong>Affordable Housing</strong> Housing trust funds</td>
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<td><strong>Usury law(s)</strong> Payday loans, title loans, check cashing, lease to own and sub-prime lending</td>
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<td><strong>For-profit higher education</strong> Limit loans and grants</td>
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<tr>
<td><strong>Consumer Protection</strong> Financial Bureau Student loans, bank fees and transparency</td>
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<td><strong>Credit Reports</strong> Credit for credit only</td>
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<th>Political &amp; Economic Systems</th>
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<td><strong>Tax reform</strong> Direct tax benefits to rebuild middle Earned Income Tax Credit and improve state initiatives Close loopholes for wealthy and corporations</td>
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<td><strong>Benefit programs</strong> Eliminate cliffs and asset tests</td>
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<td><strong>Access to credit and banking</strong> Community Reinvestment Act reform</td>
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<td><strong>Regulation enforcement</strong></td>
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There are more than **30 million** low- to moderate-income families in the U.S. Underlying this reality is a **legacy of discrimination** in education, employment, housing and credit markets.
Do you have questions?
Email us at:

communities@stls.frb.org
Thank you to today’s presenters and to all participants for joining this session.

Next steps:

• All session materials are available on our web site and in the next few days we will be posting an audio file of today’s session.

• Additional Federal Reserve System resources related to this topic can be found on our web site along with links to your local Federal Reserve Community Development office.

• If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org.

• Information about future sessions will be posted on our web site along with archived materials from past sessions: www.stlouisfed.org/connectingcommunities/.