

URGENT PROBLEMS FACING COMMUNITIES DURING COVID-19

Conversations with the Fed
Community Development and Engagement
September 30, 2020



FEDERAL RESERVE BANK
OF MINNEAPOLIS



DISCLAIMER

The views expressed here are the presenter's and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.





TODAY'S AGENDA

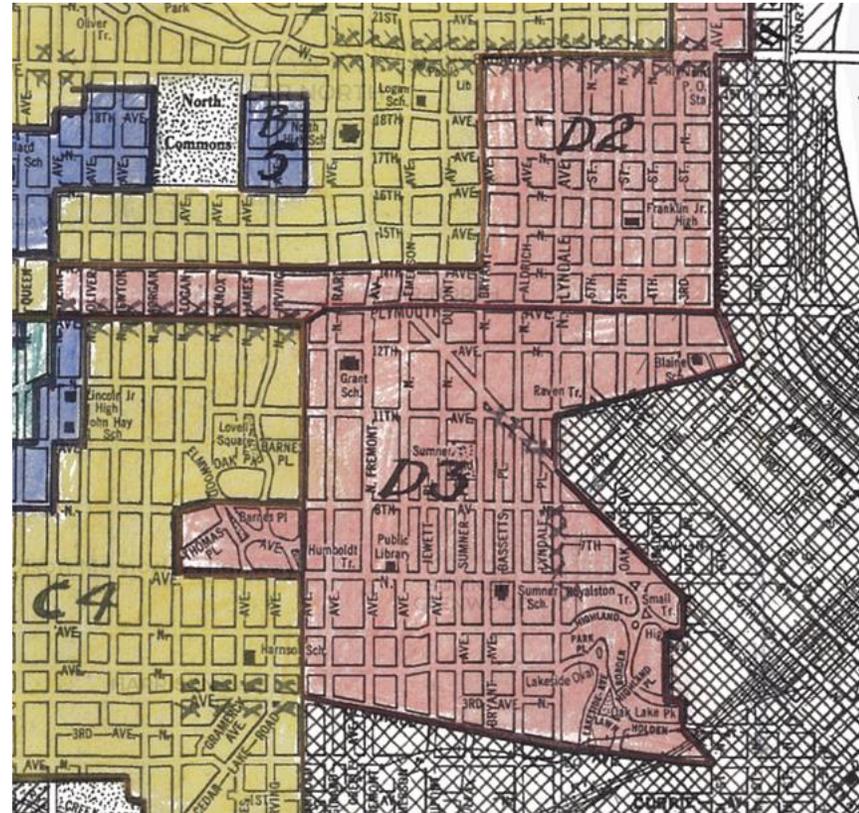
- Introduction and Overview of Community Development and the Center for Indian Country Development
- COVID-19: Child Care
- COVID-19: Credit Delinquency and Unemployment Insurance
- Responding to COVID-19 in Indian Country
- Q&A



COMMUNITY DEVELOPMENT AT THE FEDERAL RESERVE

In 1977, Congress passed the Community Reinvestment Act, intended to:

- Address the practice of redlining.
- Help ensure equitable access to credit for all individuals and neighborhoods by reaffirming that banks must serve the communities where they do business.



PROMOTING THE ECONOMIC VITALITY OF LOWER-INCOME COMMUNITIES

Our work with depository institutions and community organizations is still at the core of what we do, but our work now includes:

- Applied research and data collection and analysis
- Enhanced outreach and engagement with stakeholders beyond just banks and community organizations
- The study of a wide set of issues that affect lower-income communities and households
- The development of national centers of excellence at Reserve Banks
- More engagement with policymakers at all levels of government



CHILD CARE

- Resilience of sector may impact country's economic recovery—parents need it to work, and employers will need to (re-)hire parents
- Public safety requirements greatly impact providers' abilities to stay profitable

MORTGAGE DELINQUENCY

- Mortgage delinquencies in our district spiked in May 2020 to some of the highest levels since 2010
 - However, this increase was associated with substantial take-up of new mortgage forbearance programs
 - Neither mortgage forbearance nor eviction prohibitions eliminate the burden of (eventual) mortgage/rental payments



INDIAN COUNTRY & COVID-19

- Tribal communities experiencing disproportionately # of cases, hospitalizations, and deaths
- Tribal governments and their enterprises making difficult staffing decisions and facing persistent declines in revenues
- Private sector business in Indian Country running out of cash on hand and bracing for more economic disruptions
- Essential tribal government services for tribal communities and their members at stake



Racism and the Economy



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WEDNESDAY, OCTOBER 7
12:00 p.m.–2:30 p.m. CT

RACISM AND THE ECONOMY SERIES

- Understanding the implications of structural racism in America's economy and advancing actions to improve economic outcomes for all
- A virtual event series that brings together community, business, and academic leaders
- Examining the economic impact of racism and advancing bold ideas and concrete actions to address systemic racism
- Ensuing sessions over the next several months exploring systemic racism in employment, housing, education, criminal justice, and other topics
- Kickoff on Wednesday, October 7, from 12:00 p.m. to 2:30 p.m. CT



EDUCATION AMENDMENT

- Minnesota has some of the worst educational disparities in the nation
- Across the state, low-income white children, children of color, and American Indian children have worse educational outcomes than children from higher-income families
- Proposed constitutional amendment would give every child in Minnesota a fundamental right to a quality public education
 - Minnesota Constitution hasn't been updated since first enacted in 1857
 - Only provides students access to an adequate education system



A large, stylized outline of an eagle with its wings spread, set against a solid yellow background. The eagle's head is turned to the left, and its wings are spread wide. The outline is composed of thick, light-yellow lines. In the center of the eagle's chest, the words "CHILD CARE" are written in a bold, white, sans-serif font.

CHILD CARE

CHILDCARE IS CRITICAL WORKFORCE INFRASTRUCTURE

- **Minneapolis Fed has been working on early childhood education for almost 20 years**
- **Demand for childcare is strong**
- **Impacts local employment and business development**
 - Quality and consistency of childcare can affect the productivity of parents
 - Unstable childcare situations can potentially put parents at risk of losing their jobs



CHILDCARE PROGRAMS ARE COST EFFECTIVE

Research shows that investments in high-quality early childhood development programs have a high return on investment

Cost benefit ratios:

- Perry Preschool = \$16 to 1
- Abecedarian Educational Child Care = \$7 to 1
- Chicago-Child Parent = \$10 to 1
- Elmira Prenatal/Early Infancy Project = \$5 to 1



POTENTIAL BARRIERS TO CHILDCARE

Program quality

- Identifying and supporting high-quality programs

Cost

- Childcare is expensive
 - National average for infants is \$11,000 at a center and \$8,700 in family-care setting
- Public and private subsidies may fall short of meeting the total need and cost

Access

- Rural areas have fewer childcare slots per young child



CHILD CARE DURING THE COVID-19 PANDEMIC

- Demand dropped sharply last spring
- Providers needed to modify practices to address safety and health-related concerns
- Regulatory limits on child-care group size have large negative implications for provider revenue
- Creates unique problems for child-care sector
- Many childcare centers are operating without the revenue needed to sustain their business.





MORTGAGES & CREDIT DURING COVID-19

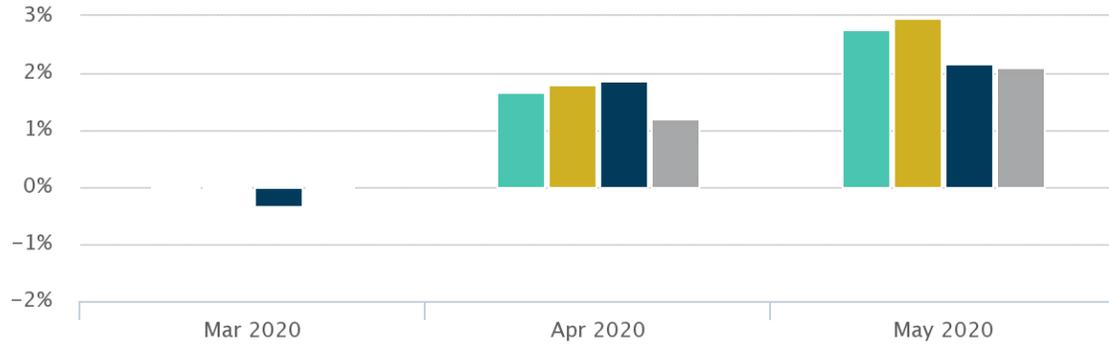
MORTGAGE DELINQUENCY RATES ARE UP

- Mortgage delinquency rates are up in the Ninth District
 - But our data count mortgages in forbearance as delinquent
 - Forbearance programs allow households to prioritize other debt repayment
- Auto loan and credit card delinquency stable or slightly falling
- We broke analysis out by urban/rural/Indian Country and found consistent trends across places
- U.S. as a whole looks somewhat worse than Ninth District, but trends are similar

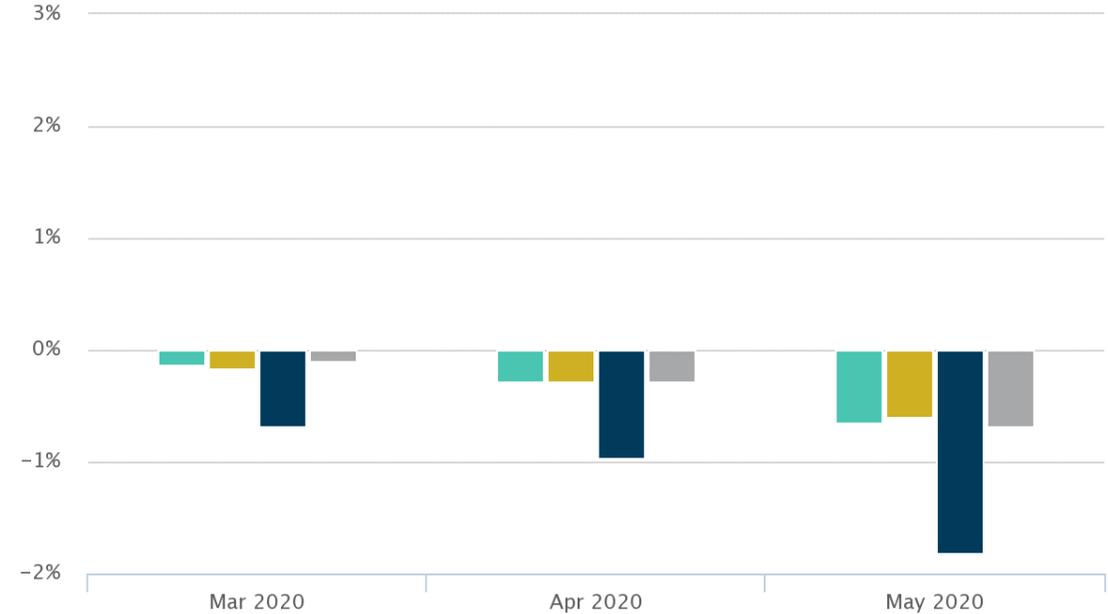


AUTO, CREDIT CARD DISTRESS NOT YET EVIDENT

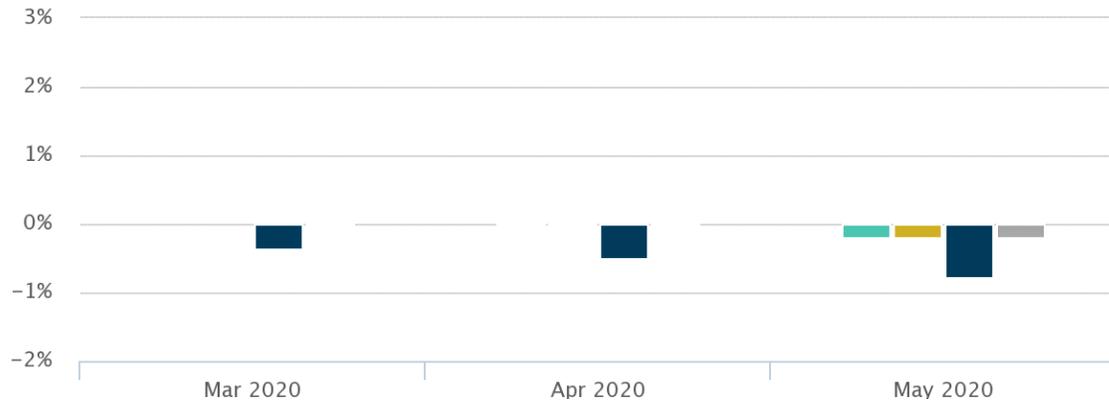
Mortgage delinquency



Auto loan delinquency



Credit card delinquency



Source: Ky and Horowitz (2020) using CCP data

Note: Figure shows p.p. change relative to February 2020. Delinquency is defined as 30 or more days past due. Delinquency rate is the number of delinquent lines of credit divided by the total number of lines of credit.

WHAT ACCOUNTS FOR DELINQUENCY TRENDS?

- Mortgage forbearance has increased
 - Borrowers with pandemic hardship can get up to one year of forbearance
 - Forbearance up from <1% in March to 12% in June to 9% in August nationally (Source: eMBS and CDE calculations)
 - Similar trends at lower levels for Ninth District
- We might see credit deterioration soon due to expiration of policies like Pandemic Unemployment Compensation
- But depends on:
 - Future policy actions
 - Speed of labor market recovery
- CDE will continue to monitor conditions





EXPIRATION OF PANDEMIC UNEMPLOYMENT COMPENSATION

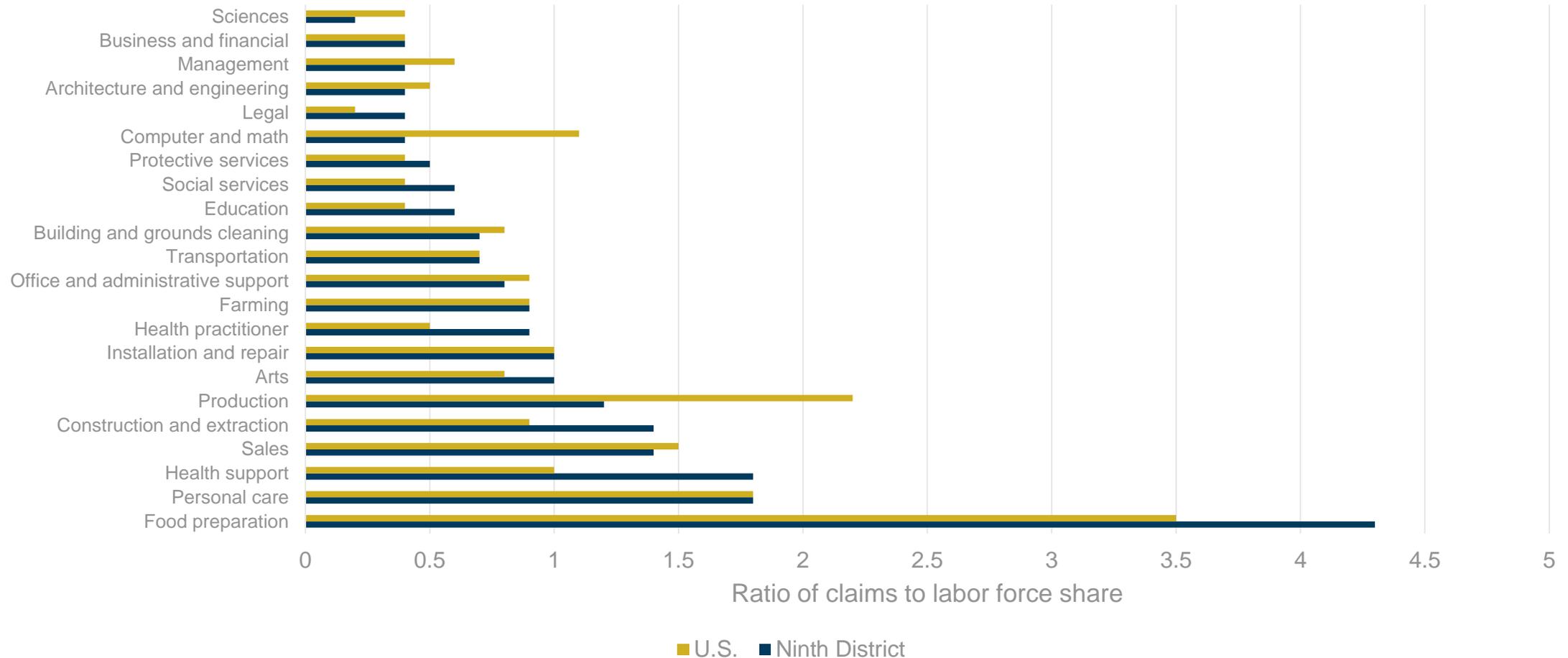
PUC EXPIRATION WAS A BIG DEAL FOR WORKERS

- Unemployment insurance (UI) is a critical support for both workers and the macroeconomy
- Pandemic Unemployment Compensation (PUC) was an added \$600 per week provided to UI recipients from late March through late July
- As of mid-July, our analysis suggested recipients would lose \$10.5b to \$19b/week when PUC expired
- UI reciprocity has been especially high recently for:
 - Young workers
 - Food prep, production & personal care workers
 - These groups especially exposed to PUC expiration
- In addition, we will soon see more recipients exhausting all their UI benefits



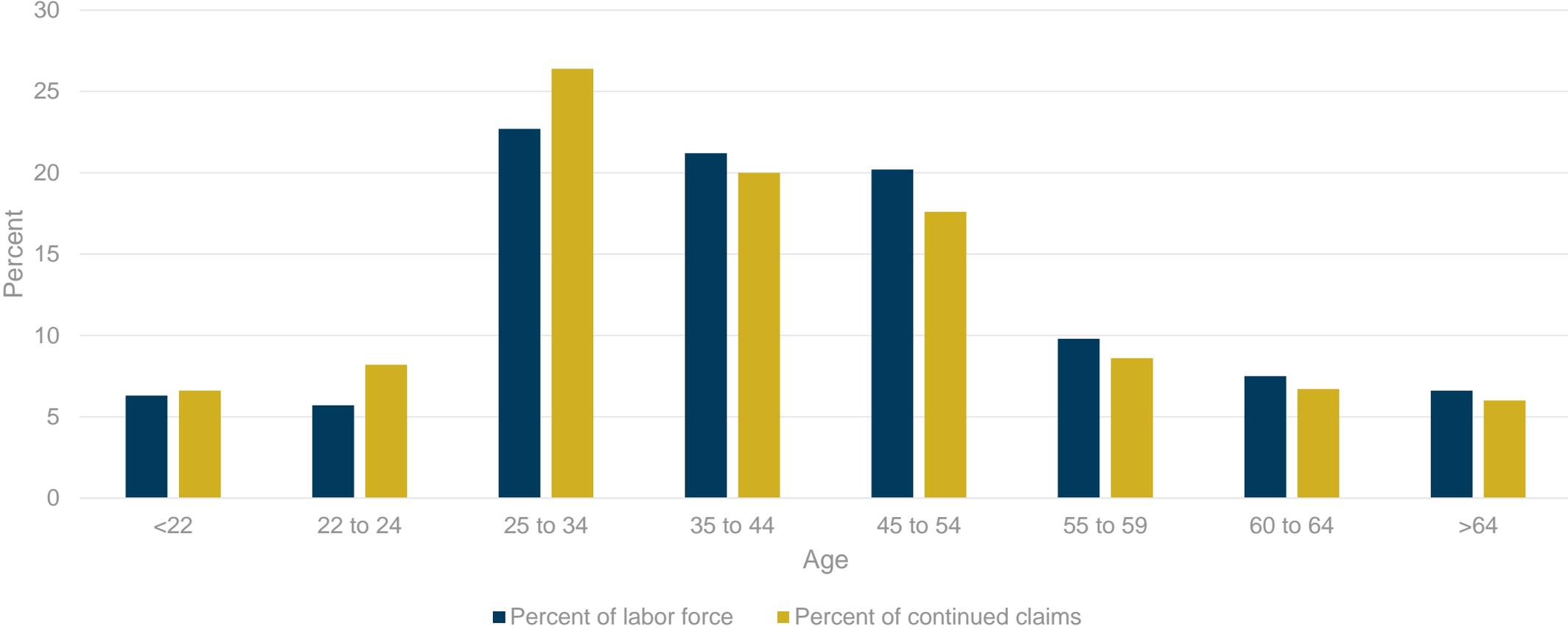
SOME WORKERS HAVE NEEDED UI MORE THAN OTHERS

Food preparation and personal care workers have been disproportionately likely to claim unemployment insurance



YOUNGER WORKERS HAVE BEEN ESPECIALLY HARD HIT

Young workers are disproportionately reliant on unemployment insurance





RESPONDING TO COVID-19 IN INDIAN COUNTRY

SPECIAL ECONOMIC CONCERNS IN INDIAN COUNTRY

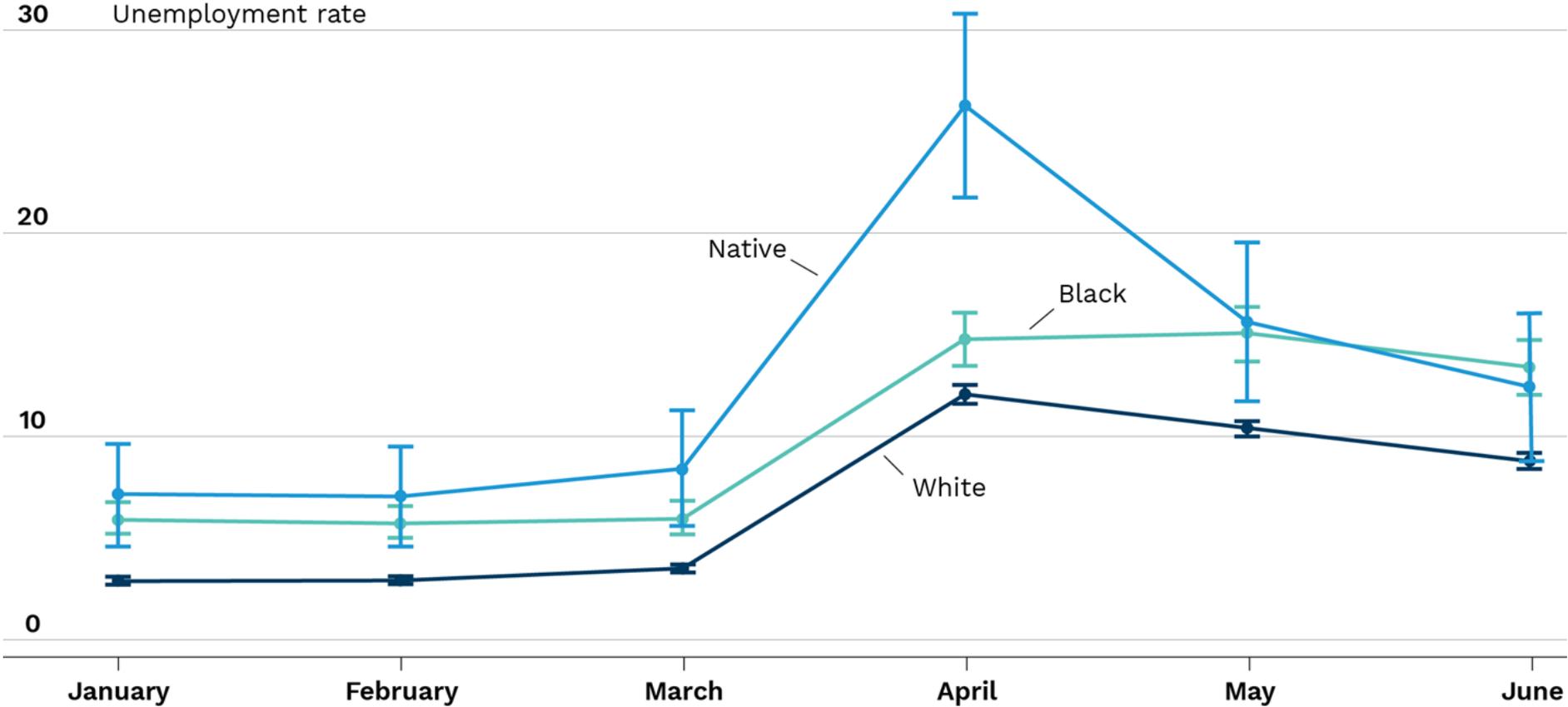
- Tribal governments are unique in their distinct (and limited) revenue sources
 - Have limited tax base
 - Limited access to tax-exempt financing
 - Reliance on tribally owned enterprises for government revenues
- Native American employment is especially concentrated by industry and in service sector occupations
- Unemployment high and employment-to-population ratios low
- Access to credit during pandemic—the role of Fed facilities
- Data deserts: CICD generating economic data in real time



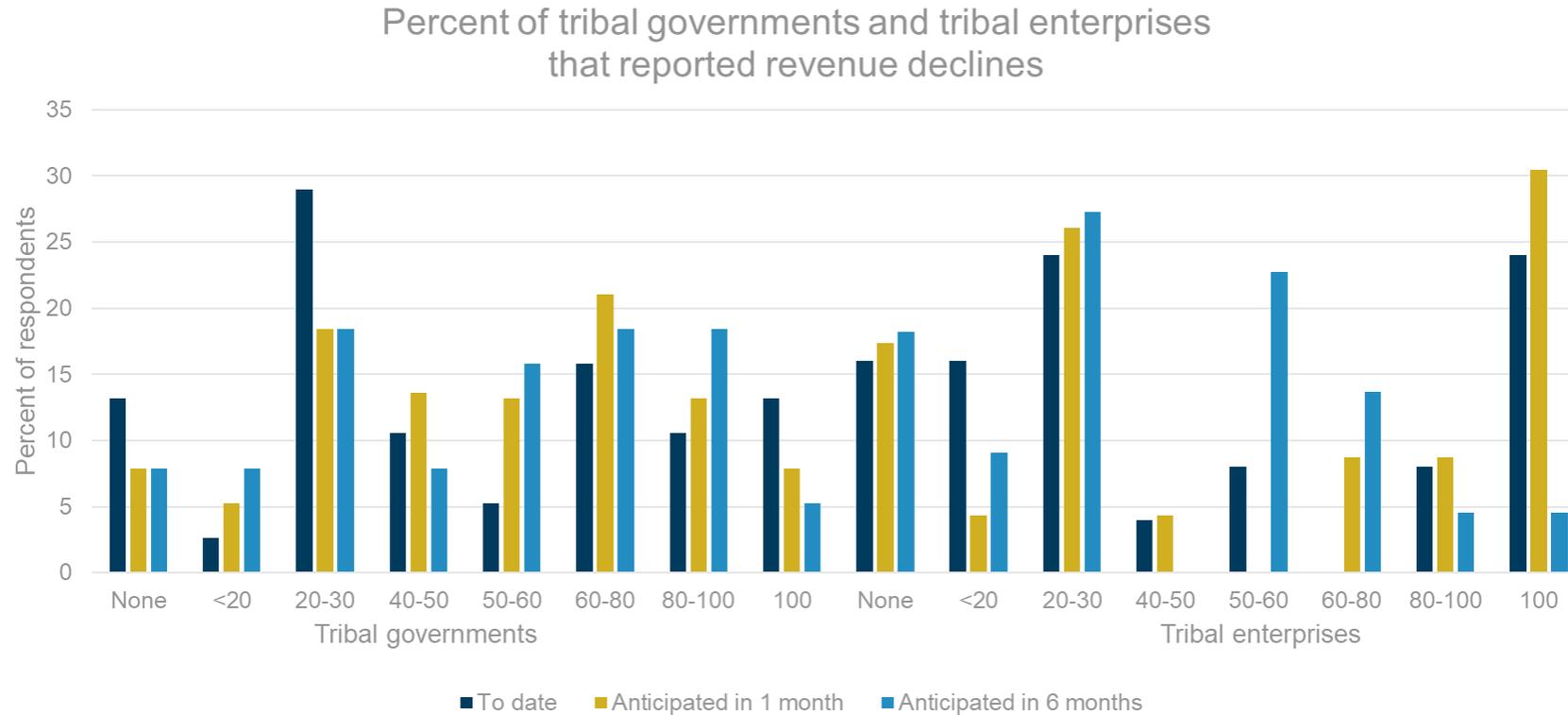
UNEVEN COVID EFFECTS IN EARLY MONTHS

Unemployment rates rose most sharply for Native workers

2



LARGE REVENUE LOSSES FOR TRIBAL GOVTS & ENTERPRISES



- Tribally owned enterprises are a primary revenue source for tribal governments
- Both tribal governments and enterprises are suffering substantial revenue losses

TRIBAL INCLUSION IN BUSINESS CREDIT FACILITIES

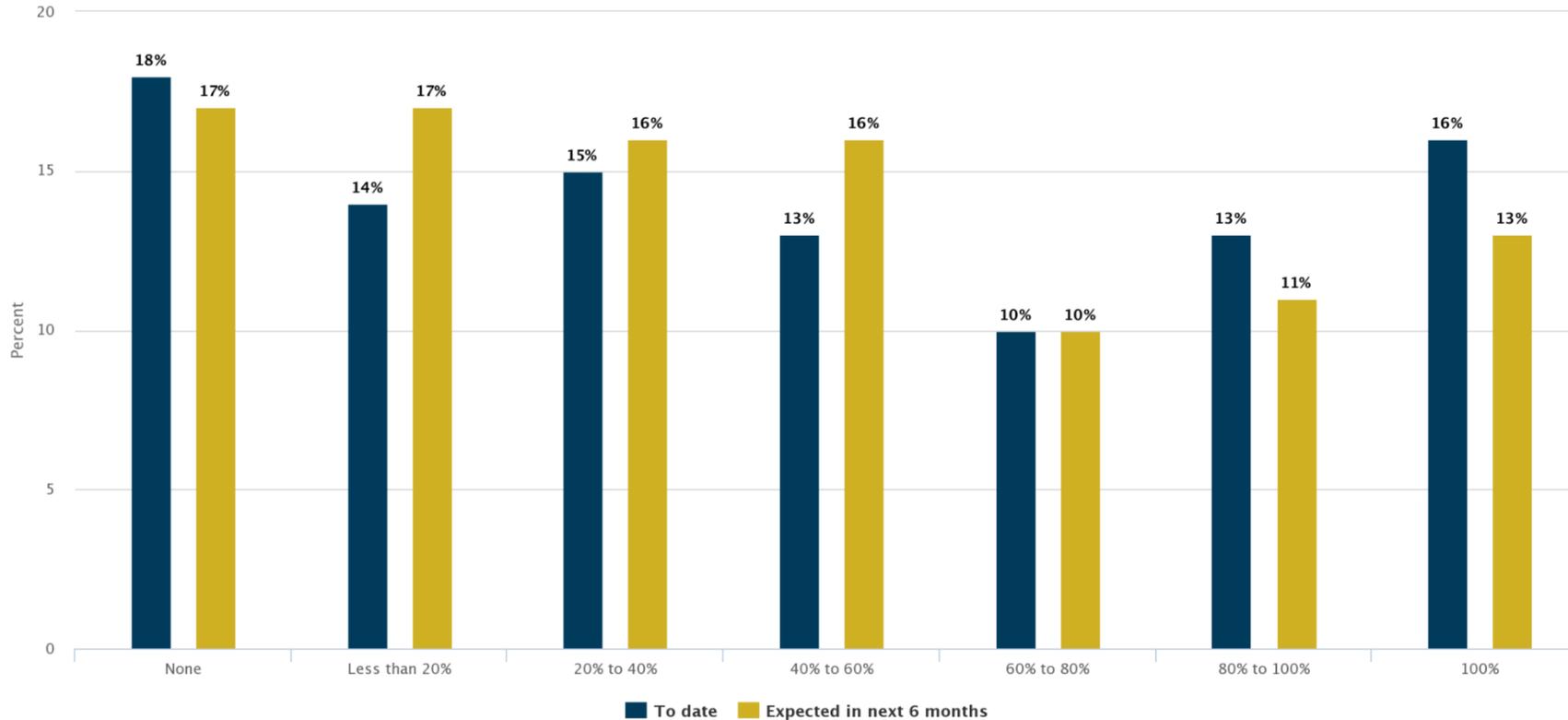
MAIN STREET LENDING PROGRAM

- Consistent outreach to tribal leaders and enterprises as well as banks with large tribal portfolios
- Reports from tribal leaders and national organizations underscore tribal enterprises' need for additional credit
- Federal Reserve adjusted MSLP suite of programs to accommodate the unique ownership interests of tribal enterprises and their role in providing essential government services to tribal governments



MOST BUSINESSES IN INDIAN COUNTRY REPORT LARGE REVENUE LOSSES

What is the decline in your business revenue due to COVID-19?



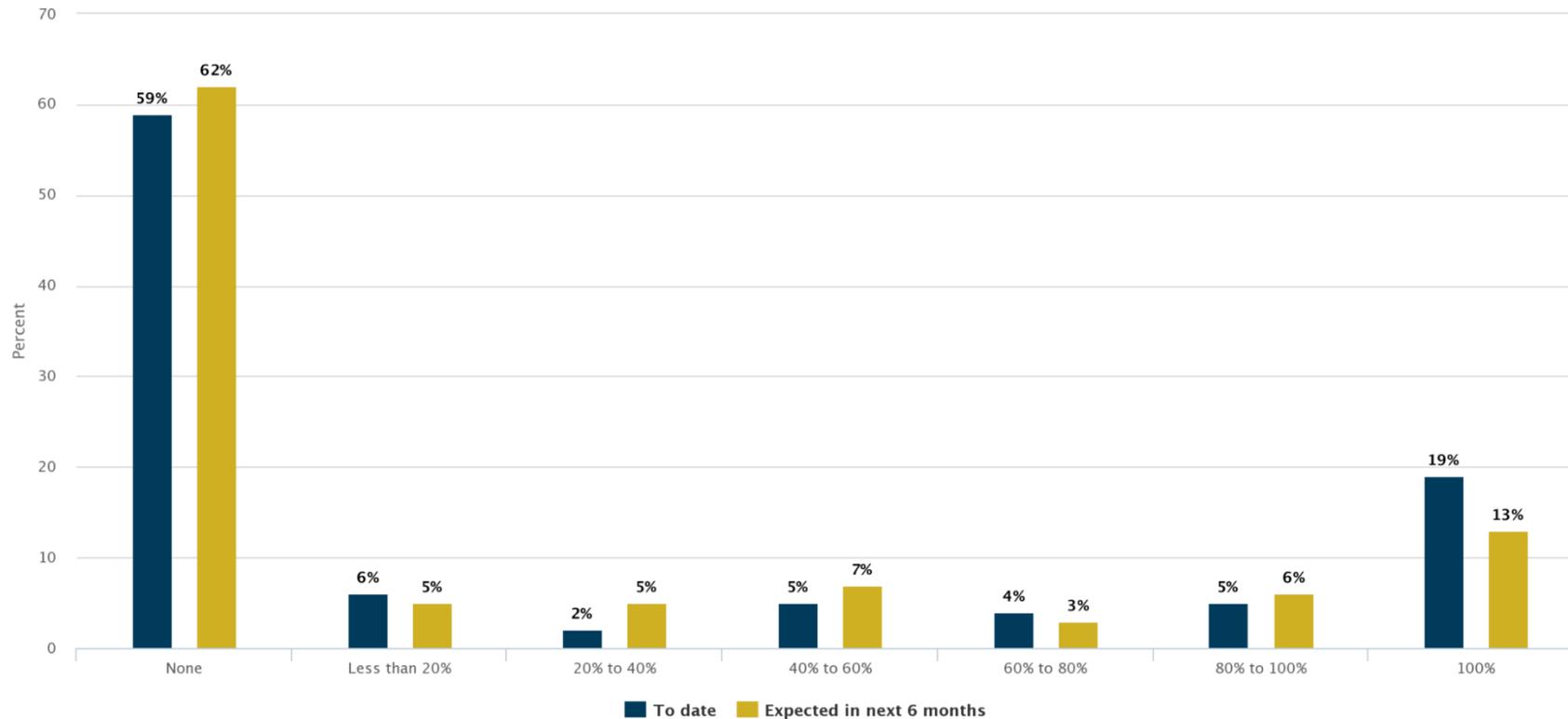
Source: CICD/NCAIED Small Business in Indian Country Survey, July 13-21, 2020.

- Private-sector businesses also report large revenue losses
- Little expectation of future improvement



MANY LAYOFFS BY SOME INDIAN COUNTRY BUSINESSES

What percentage of your employees have you had to lay off or furlough due to COVID-19?



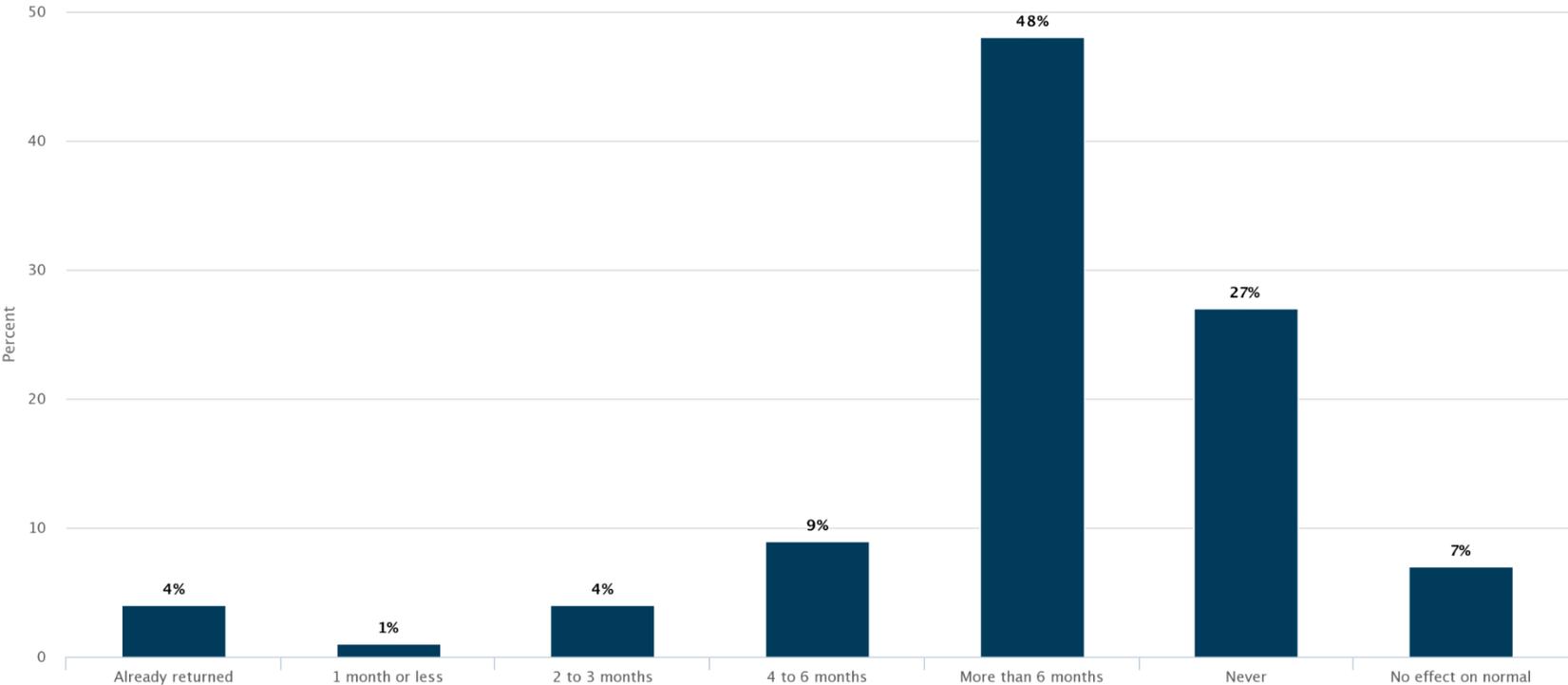
Source: CICD/NCAIED Small Business in Indian Country Survey, July 13-21, 2020.

- PPP and other supports have reached Indian Country, though not equitably
- Still, policy likely supported employment to a degree



INDIAN COUNTRY BUSINESSES HAVE A DISMAL OUTLOOK

How much time do you think will pass before this business returns to its normal level of operations relative to one year ago?



Source: CICD/NCAIED Small Business in Indian Country Survey, July 13-21, 2020.

Most Indian Country businesses expect a very long recovery period: at least 6 months with more than 1/4 expecting never to recover



Q&A