



NINTH DISTRICT **Insight**

A Front-Line Perspective on the Economic Health
of Low- to Moderate-Income Communities

SECOND QUARTER 2014

Published by the Community Development Department of
the Federal Reserve Bank of Minneapolis



Our Mission

The Community Development Department supports the Federal Reserve System's economic growth objectives by promoting community development through fair, impartial, and efficient access to credit and related financial services. We support investment in low- to moderate-income communities through information, outreach, and technical assistance. We serve the Ninth Federal Reserve District, which includes Minnesota, Montana, North Dakota, South Dakota, northwestern Wisconsin, and the Upper Peninsula of Michigan.

Published in December 2014



Overview and Key Findings

In 2nd quarter 2014, the Minneapolis Fed's Community Development Department surveyed community development organizations, including developers, lenders, and service providers, to assess the economic well-being of low- to moderate-income (LMI) communities in the Ninth Federal Reserve District, which includes Minnesota, Montana, North Dakota, South Dakota, northwestern Wisconsin, and the Upper Peninsula of Michigan. Respondents were representative of the broad range of organizations that serve LMI communities in the Ninth District, and their responses reflect the economic conditions of more than 200 cities and towns across the District.

Ninth District Insight tracks 12 key indicators related to housing market conditions, employment conditions, consumer credit, business vitality, and the capacity of community organizations to serve LMI households. The 2nd quarter 2014 survey also contained a special topic section on recent government policy changes and budget cuts, including the Affordable Care Act and federal sequestration.

For 2nd quarter 2014, four of the indicators showed continued overall improvement across the Ninth District: business openings, access to credit for agricultural business owners, access to credit for non-agricultural business owners, and employment and job training opportunities for disadvantaged and dislocated workers. Housing and consumer credit conditions continued to remain unimproved. Among all indicators, lack of affordable rental housing for LMI households showed the greatest Districtwide deterioration. When asked "What single issue or challenge related to the well-being of LMI communities would you say deserves the most attention in 2014," respondents most frequently mentioned affordable housing, job creation, income disparities, and access to broadband.

To view the performance of all 12 indicators over the past 24 months, please refer to the **Ninth District LMI Economic Index** on the following page.

Ninth District LMI Economic Index, Q2 2012 to Q2 2014

Indicator	Q2_2014	Q4_2013	Q2_2013	Q4_2012	Q2_2012
LMI households' ability to find affordable rental housing that meets their needs	69	58	58	72	73
LMI households' use of alternative financial service providers	72	61	NA	68	68
The ability of business owners in LMI communities to recruit and retain workers with the "right" skills	72	84	73	85	74
The number of "formerly middle-class" households seeking services from community organizations	76	71	59	65	55
The ability of creditworthy LMI households to obtain a mortgage	78	74	75	74	74
LMI community organizations' optimism about sustainability of future operations	82	--	--	--	--
Amount of consumer debt carried by LMI households	85	92	91	78	75
LMI community organizations' ability to meet the needs of clients seeking assistance	99	90	83	78	78
Access to credit for agricultural business owners in LMI communities	126	130	134	NA	NA
Business openings in LMI communities	127	116	134	111	107
Access to credit for non-agricultural business owners in LMI communities	128	118	114	86*	87*
Employment opportunities for disadvantaged and dislocated workers in LMI communities	138	138	135	116	111

* Surveys conducted prior to 2013 asked respondents to assess credit access for *all* business owners and did not separate out non-agricultural businesses from agricultural businesses. Qualitative information gathered from previous quarter surveys indicates that credit access for agricultural businesses, on average, has been looser than that for non-agricultural businesses, so it is still reasonable to assume that overall credit access has improved for non-agricultural businesses in comparison to six months ago.

The **LMI Economic Index** measures overall change in community conditions. The index ranges from 0 (most deterioration in conditions) to 200 (most improvement in conditions) where a value of 100 equals neutral. A number less than 100 indicates overall deterioration and a number greater than 100 indicates overall improvement. Indicators are ordered from greatest Districtwide deterioration to least Districtwide deterioration based on fourth quarter 2013 survey responses. Index values for previous quarter surveys are provided where comparisons are available.

How the LMI Economic Index Is Calculated

Respondents were asked to gauge changes in LMI community conditions by comparing current conditions with those that prevailed 12 months earlier using the response categories "decreased," "stayed the same," or "increased." For indicators where an increase is considered positive, the index numbers are calculated by subtracting the percent of respondents who answered "decreased" from the percent of respondents who answered "increased" and adding 100. For indicators where an increase is considered negative, the index numbers are calculated by subtracting the percent of respondents who answered "increased" from the percent of respondents who answered "decreased" and adding 100.



Housing Opportunities

Homeownership and rental opportunities for LMI households have either declined or remain unimproved. Affordable housing remains in short supply across the Ninth District. When asked about top priorities, respondents consistently mentioned affordable housing as the single most important challenge that must be addressed in order to improve economic well-being in LMI communities.

- 41 percent reported a decrease in LMI households' ability to find affordable rental housing that meets their needs.
- 36 percent said that the ability of creditworthy LMI households to obtain a mortgage has decreased.

“Ninth District Voices,”

SELECTED COMMENTS FROM
SURVEY RESPONDENTS

“Adequate rental housing is in high demand and [rental] prices are high. Low-income housing is difficult for many to obtain in a reasonable time frame. Recent regulations have forced some lenders to reduce or eliminate mortgages to those with limited income or resources.”

—Credit union, rural area, ND

“Federal sequester-related cuts have greatly reduced housing assistance resources in Montana. We have over 600 fewer Housing Choice Vouchers than we did 18 months ago. On the homeownership side, changes in mortgage qualifications, mortgage insurance costs, and a general sense that homeownership is not a high priority for low-income families is contributing to an environment where [ownership housing for LMI households] is difficult.”

—Nonprofit housing organization, mixed urban-rural area, MT

“The [overall] rental vacancy rate in our metro area is around 2 percent with affordable rentals being even more challenging to find. Along with this shortage, rental prices are escalating, making it more difficult for families to save a down payment for ownership.”

—Nonprofit housing organization, urban area, MN



Employment

Across the Ninth District, respondents reported overall improvement in employment and job opportunities for disadvantaged and dislocated workers in LMI communities. However, anecdotal comments indicate that the quality of these jobs (in terms of wages) is often low. More than one-third of respondents reported a decrease in business owners' ability to find qualified workers. Reasons included lack of technical skills, lack of soft skills, and lack of workforce housing.

- 48 percent reported increased employment opportunities for disadvantaged and dislocated workers in LMI communities.
- 37 percent reported a decrease in the ability of business owners in LMI communities to recruit and retain workers with the “right” skills.

“Ninth District Voices,”

SELECTED COMMENTS FROM
SURVEY RESPONDENTS

“The local state employment offices have hundreds of job postings; however, getting people to apply for the positions or placing the persons with the right skill levels is difficult.”

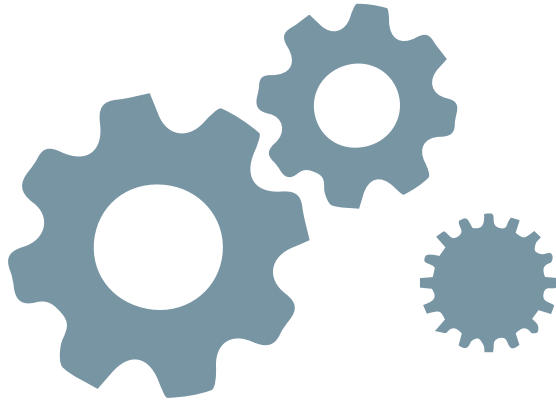
—Community development corporation, urban area, MT

“Unemployment is very low. Unfortunately, wages are also low. It appears that many individuals are working one or more low-wage jobs because they do not possess the skills and/or training necessary to fill higher-paying jobs.”

—Philanthropic foundation, mixed urban-rural area, ND

“Incomes and salaries are inflated in this area, making smaller communities struggle to keep a quality workforce because they can’t compete with the wages. Companies are needing to hire underqualified workers to fill all their openings.”

—Community development corporation, rural area, SD



Business Vitality

Respondents reported overall increases in business openings and access to credit in LMI communities. In some parts of the Ninth District, community development financial institution and bank partnerships appear to be playing an important role in helping small business owners gain access to credit. Still, some less established business owners are having difficulty obtaining the financing needed for start-up or expansion.

- 36 percent reported an increase in the number of new businesses opening in LMI communities.
- 34 percent reported that the ability of agricultural businesses in LMI communities to obtain the amount of credit they need has increased.
- 34 percent said that the ability of *non-agricultural* businesses in LMI communities to obtain the amount of credit they need has increased.

“Ninth District Voices,”

SELECTED COMMENTS FROM
SURVEY RESPONDENTS

“Banks appear to be loosening lending restrictions. With a surplus of cash, they are working with a number of businesses that would typically be part of our lending scope.”

—Community development corporation, mixed urban-rural area, MT

“Non-agricultural business lending has been gradually increasing for about two years, but still is mainly for existing businesses or those with strong guarantors. Start-ups and low-net-worth businesses still have difficulty finding adequate credit.”

—Community development corporation, rural area, MN

“Partnerships are key to meeting the needs of rural South Dakota businesses. Banks partnering with local development corporations or regional economic development loan funds to keep the businesses and services in the smaller communities.”

—Nonprofit economic development organization, rural area, SD

“Business vitality is getting stronger, but it is at a slow rate. Job training seems to be the biggest issue. Businesses are expanding, but need qualified workers to handle the new machinery.”

—Chamber of commerce, mixed urban-rural area, WI



Consumer Credit Conditions

According to comments from respondents, LMI households across the Ninth District continue to be challenged by high consumer debt and low credit scores. The use of payday lenders remains a concern among both financial service and financial education providers.

- 36 percent said that the amount of consumer debt LMI households are carrying has increased.
- 38 percent reported an increase in the use of alternative financial service providers among LMI households.

“Ninth District Voices,”

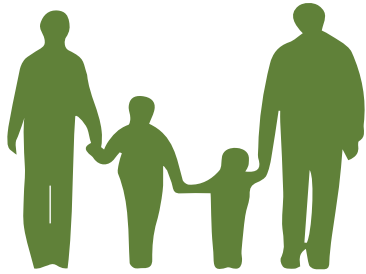
SELECTED COMMENTS FROM
SURVEY RESPONDENTS

“Low-income households continue to struggle with credit issues and turn to alternative, expensive financial services and products.”

—Nonprofit service organization, urban area, MN

“We continue to see the use of payday lenders in our service areas.”

—Bank, mixed urban-rural area, ND



Community Organizations' Capacity to Meet Service Needs

Across the Ninth District, the number of “formerly middle-class” households seeking services has increased. Federal housing program cuts, new mortgage regulations, and the Affordable Care Act continue to create uncertainty for many organizations that serve LMI households. On a positive note, a few respondents reported increased optimism about the sustainability of their operations.

- 35 percent reported that the number of “formerly middle-class” households seeking assistance has increased.
- 35 percent reported that optimism about the future sustainability of their operations has increased.
- 20 percent said their ability to meet the needs of clients seeking services has declined

“Ninth District Voices,”

SELECTED COMMENTS FROM
SURVEY RESPONDENTS

“Planning has been difficult in these economic times with the changes in federal programs that can assist LMI families.”

—Nonprofit economic development organization, rural area, SD

“U.S. Department of Housing and Urban Development funding cuts have caused us to question the future sustainability of our operations and our ability to provide needed assistance and services.”

—Housing authority, mixed urban-rural area, WI

“Funding for services has increased somewhat in the past 12 months.”

—Community Action Program, rural area, WI

Data Notes/Methodology

A total of 302 organizations responded to the Minneapolis Fed's online survey, yielding a 20 percent response rate and 89 percent cooperation rate.¹ The survey sample was constructed using a list of organizations from multiple sectors known to have front-line expertise on LMI household and/or community conditions. The respondent pool included 102 community banks, 69 economic developers, 68 housing developers and housing services providers, 34 health and human service providers, 33 financial education providers, 27 employment and job service training providers, 25 small business technical assistance providers, 18 certified CDFIs, 13 university extension service providers, 10 foundations, 5 tribal organizations, and 4 trade associations. Additionally, 35 organizations indicated involvement in some other unspecified community development role in the community.²

Respondents were encouraged to respond only to topic areas that pertain to their organization's work and the customers they serve. The survey contained 12 closed-ended questions that asked respondents to compare current conditions to those prevailing six months ago by indicating whether conditions had "decreased," "stayed the same," or "increased." The survey also included 12 open-ended questions that asked respondents to share additional observations regarding challenges and effective solutions. All numbers and percentages reported are for valid cases only. Numbers for the Upper Peninsula of Michigan are suppressed because there are fewer than ten cases.

¹ The response rate includes the total number of completed surveys divided by the total number of participants who received the e-mail survey, excluding bad addresses (1,535). The cooperation rate includes the total number of completed surveys divided by the total number of participants who started the e-mail survey (338).

² Respondents were allowed to select multiple roles.

