The low- and moderate-income conditions survey: A summary of Seventh Fed District community development practitioner responses

by Emily Engel

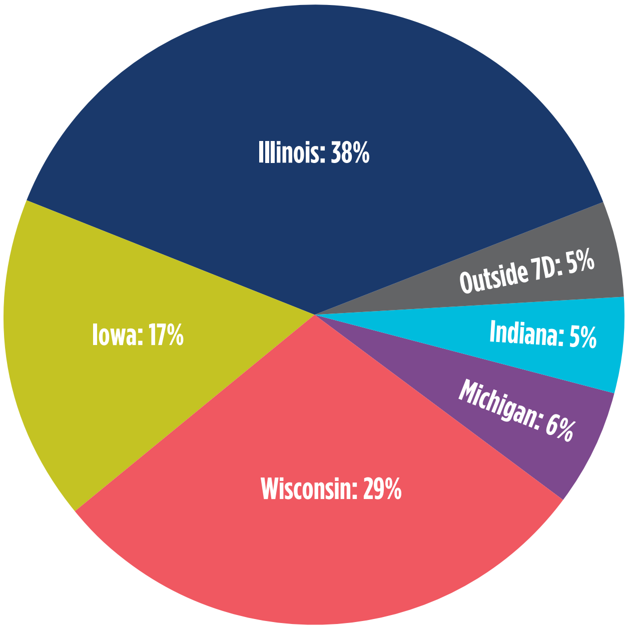
For the first time, the Federal Reserve Bank of Chicago participated in administering the Kansas City Fed's low- and moderate-income survey to respondents in the Seventh District. The survey is administered on line twice a year to measure "economic conditions of low- and moderate-income (LMI) populations and the organizations that serve them."[1] A key motivation for the survey is that compliance with the Community Reinvestment Act (CRA) entails banking institutions subject to CRA to provide credit, investment, and services, consistent with safe and sound banking practices, to LMI populations in their service areas. As a point of reference, LMI is the incomes of individuals below 80 percent of "median income" of an area, as defined by HUD. Median income, which varies by household size, is defined as "metropolitan median income for urban residents and state median income for rural residents."[2]

Rather than LMI households themselves, the survey is administered to community development organizations and people in related fields providing various services directly or indirectly to lower-income populations. Survey questions were emailed to approximately 1,500 contacts within the Chicago Fed District. Responses numbered 149, and accordingly there was sufficient participation to report the data as a non-scientific poll (approximately a 10 percent response rate). Respondents came from a wide variety of backgrounds, including real estate development, finance, financial counseling, economic development, banking, consumer advocacy, small business development, philanthropy, law, higher education, agriculture, manufacturing, and human services. Survey questions addressed (among other things) demand for services, jobs, affordable housing, financial well-being, and access to credit and capital. Additionally, in case respondents wanted to offer more nuance, the survey had an expository component where respondents could provide additional detail about their concerns.

As chart 1 indicates, a majority of the respondents were from Wisconsin and Illinois, but there was representation from all five Seventh District states, which also include Michigan, Iowa, and Indiana.[3]

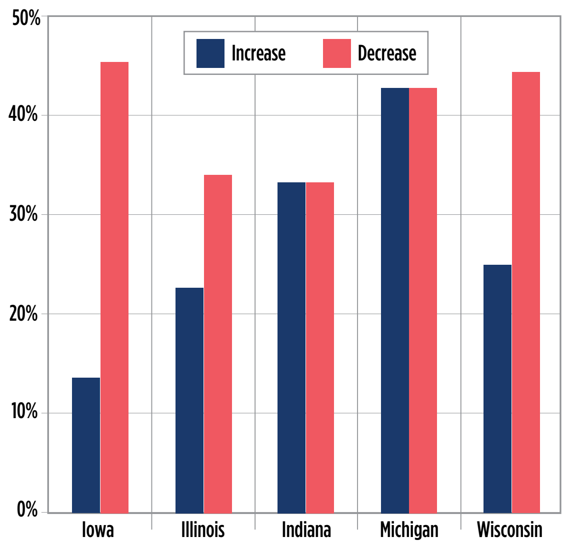
Two main themes from the responses stood out: 1) the shortage of affordable housing in various parts of the District; and 2) the distinction between increased employment and financial well-being. Various reports and studies reveal that these two issues, affordable

Chart 1. Respondents location



Source: Seventh District responses from the LMI survey.

Chart 2. Availability of affordable housing for low- and moderate-income people changed during the past quarter compared to same time last year



Source: Seventh District responses from the LMI survey.

(rental) housing shortages and the proliferation of low-wage jobs, impact most of the nation. Respondents also noted – in written responses – cuts in funding for social programs placing more stress on LMI households.

Shortage of affordable housing

Forty percent of respondents reported a decrease in affordable housing relative to last year, while few (23 percent) reported an increase. Decreases in affordable housing availability appear to be particularly pronounced in Iowa (45 percent) and Wisconsin (44 percent), as shown in chart 2.

This finding is consistent with a RealtyTrac® study that found rents had increased faster than wages – a fact that underscores both the shortage of affordable housing and anxiety over financial well-being. Looking ahead this year, "Rents on three-bedroom properties will increase an average of 3.5 percent in 2016 compared to 2015 across all 504 counties analyzed, according to the HUD data. Meanwhile, average weekly wages in the second quarter of 2015 (the most recent wage data available) were up an average of 2.6 percent from a year ago and median home prices were up an average of 5.0 percent in the third quarter of 2015 compared to a year ago across all 504 counties."[4] The resulting increase in rents – combined with slow wage growth – may be straining the budgets of many Americans, and those of LMI populations in particular.

The State of the Nation's Housing 2015,[5] from the Joint Center for Housing Studies at Harvard, explores factors behind the affordable rental market shortage, which include (among other things) a drop in homeownership following the financial crisis, debt burdens (particularly among millennials who tend to have more student debt), and decreased household formation.

However, despite a continuing bleak picture for home sales and homeownership continuing to trend down, the Joint Center study provides some evidence that homeownership rates may *eventually* trend back toward pre-crisis levels. Immigration and headship rates – the number of households divided by the adult population – are "expected to be reasonably robust between 2010 and 2020 as the millennials form households."[6] Interestingly, these do not factor in current lower headship rates for young adults, which have generally trended lower since 1980. In fact the headship rate of people ages 20-24 has fallen to levels last seen in 1960, as shown in chart 3. This trend may be the result of many factors such as: student debt, increased housing cost, constrained credit access, and slow economic growth. "If rates of living independently among this age group do rebound, household growth will be even stronger in the decade ahead."[7] In theory, household growth underscores the need for more affordable housing.

In the meantime, however, nationally more than 80 percent of households with incomes under $15,000 were cost burdened (more than 30 percent of gross income spent on direct housing costs) in 2013. "Half of homeowners and three-quarters of renters with incomes between $15,000 and $29,999 were also housing cost burdened." Alarmingly, large cohorts of individuals who earn $30,000 to $44,990 a year are often housing cost burdened, regardless of whether they rent (45 percent) or own (37 percent).[8]

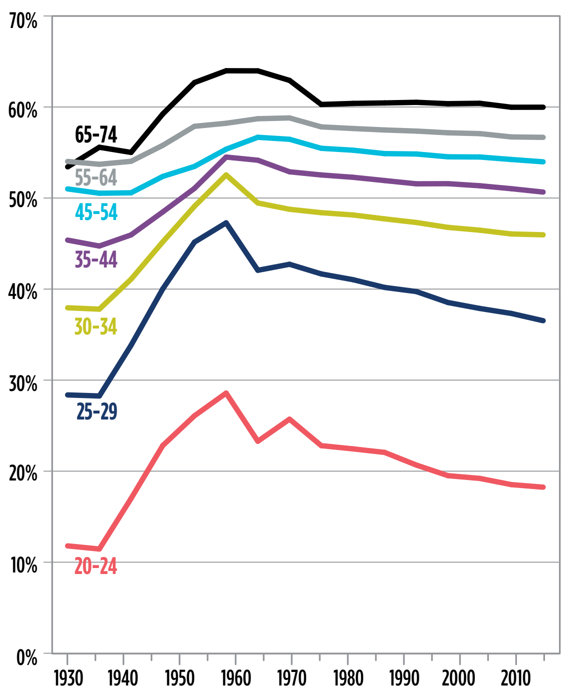
The Joint Center study notes that "an acute shortage of affordable housing for lowest-income renters is being felt everywhere."[9] This study further suggests that high quality affordable housing is a national priority in years to come.

In the Seventh District states, rent burden or median gross rent as a percentage of household income ranges from 27 percent in Iowa to 31.1 percent in Michigan. As indicated in chart 4 on the following page, rent burdens in all District states increased during the most recent recession (at the height, 33.3 percent in Michigan) and have since decreased.

One respondent explained their situation that highlights similar issues. "In the markets where we operate, rents are going up rapidly and vacancy rates are historically low. This is really pricing lower-income households out of the rental market, and yet they don't have access to homeownership. This is creating great instability for these households. Wages at the lower-income levels are not keeping up with rent increases."

Further, the Urban Institute's mapping tool, "Mapping America's Rental Housing Crisis," highlights populations of extremely low-income (ELI) renters, defined as households that earn 30 percent or less than the area median income or households whose income does not exceed the Federal Poverty Level. While this is not the same population as LMI, they also have lower incomes and face a severe shortage of rental housing. This population also experienced a trend with fewer and fewer affordable opportunities from 2000 to 2006 to 2012. For every 100 ELI renter households nationwide, there are only 29 vacant affordable rental units. As shown by the three maps on pages 8-9 (maps 1-3), the District states have also undergone the same trend toward greater shortage. Within our District, there are a few counties in Wisconsin that have the highest ratio of ELI housing for every ELI household, with 76 affordable units per 100 in 2012 and Hendricks county Iowa has the lowest ratio with only three affordable units per 100.

Chart 3. Headship rate among U.S. adults, Ages 20-74, 1930-2013



Sources: Decennial Censuses 1930-2000 and American Community Survey 2007 through 2013, extracted from Steven Ruggles, J. Trent Alexander, Katie Genadek, Ronald Goeken, Matthew B. Schroeder, and Mattew Sobek. 2010. Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database]. Minneapolis: University of Minnesota.

Disconnect between increased employment and financial well-being

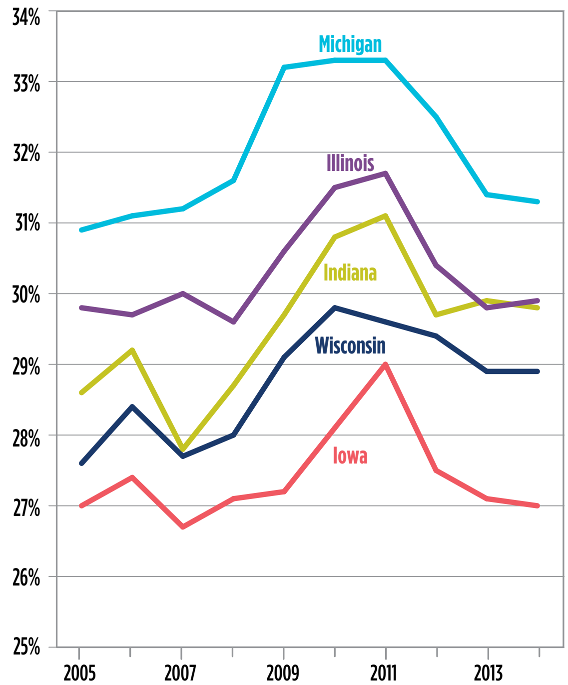
While most survey respondents (58 percent) indicated an improvement in the availability of jobs – and very few (10 percent) indicated a decrease – this trend has not resulted in an increase in financial well-being for LMI populations. In all, 41 percent of respondents indicated that financial well-being actually decreased since last year, supporting the assessment from various sources that job growth has been largely in low-wage work.

The following two comments from respondents seems to sum up the disconnect between increased employment and financial well-being: 1) "Even as the traditional unemployment rate recedes and the job market has made modest recovery, the financial needs of low and moderate households have increased while their access to services and resources has declined." 2) "In the last quarter, there may have been more jobs for LMI individuals, because of the University of Iowa students leaving for the summer. Of course, these do not tend to be jobs that pay much more than minimum wage, which is not a wage that keeps pace with expenses in Johnson Co."

To make matters worse, decreases in funding are likely negatively impacting funding capacity for programs geared towards serving LMI populations. Forty-two percent of respondents reported a decrease in funding since a year ago. Poll results and commentary suggest cuts appear to be occurring in the public sphere: "The politics in Wisconsin from our Governor and the legislature has made our efforts very difficult with budget cuts and lack of support of the lower middle and lower [economic] class populations." Private philanthropy has changed course with respect to housing: "Decisions by foundations such as MacArthur and Grand Victoria to stop funding affordable housing and community economic development will decrease nonprofit and community-based organizations' ability to serve the needs of LMI people in the Chicago region and Illinois."

Among those respondents who experienced a decrease in funding, 58 percent reported a decrease in their capacity to serve the needs of their clients (vs. 25 percent who noted increased capacity and 10 percent among those whose funding did not change). Interestingly, Michigan respondents reported no decreases in funding. However, almost half (48 percent) of the Illinois respondents reported negative effects stemming from decreased funding.

Chart 4. Median gross rent as a percentage of household income



Source: Census Bureau/Haver Analytics.

Conclusion/implications

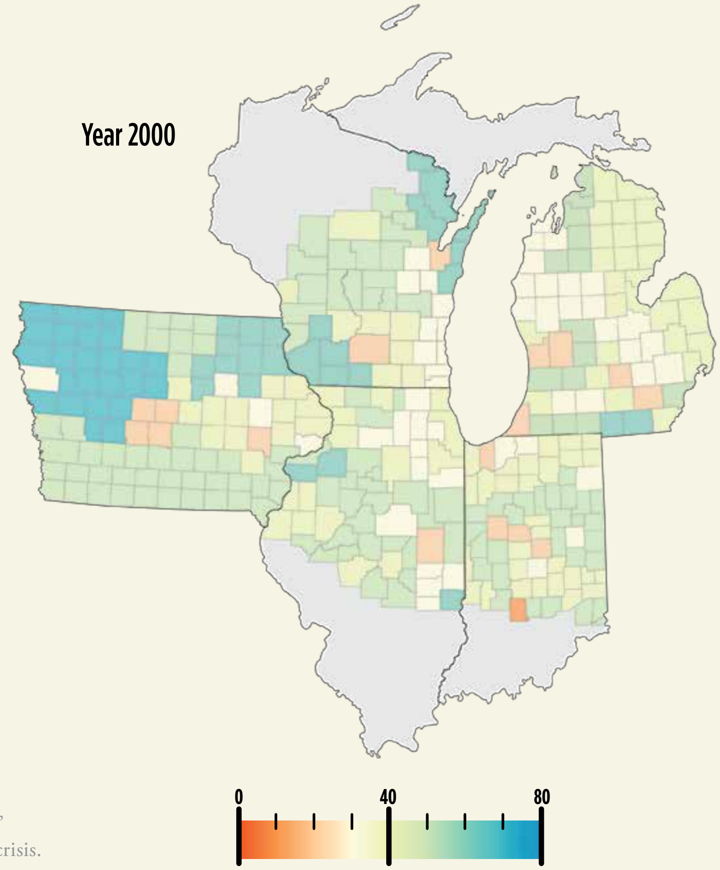
Increased employment, according to Seventh District survey respondents, hasn't translated into greater financial well-being among LMI populations. While surprising on its face, respondents offered three broad reasons for this seeming contradiction: a shortage of affordable housing has caused rent to increase faster than wages; job growth has hued to low-paying positions; and a decrease in funding for public and private programs targeted to LMI populations has further eroded the social safety net. The CDPS LMI poll reflected other reports sited, RealtyTrac's "Buying More Affordable Than Renting in 58 Percent of U.S. Markets According to 2016 Rental Affordability Analysis," and "The State of the Nation's Housing 2015," from the Joint Center for Housing Studies.

The Chicago Federal Reserve hopes to increase participation in this survey. If you work with LMI populations in the Seventh District and would be interested in participating in this survey, please reach out to Emily Engel at Emily.Engel@chi.frb.org.

Maps 1-3. Number of affordable and available units per 100 ELI renter households

Many Americans struggle to afford a decent, safe place to live in today's market. Over the past five years, rents have risen while the number of renters who need moderately priced housing has increased. These two pressures make finding affordable housing even tougher for very poor households in America. For every 100 extremely low-income (ELI) renter households in the country, there are only 29 affordable and available rental units.

As defined by the Department of Housing and Urban Development (HUD), extremely low-income households earn 30 percent or less of area median income.



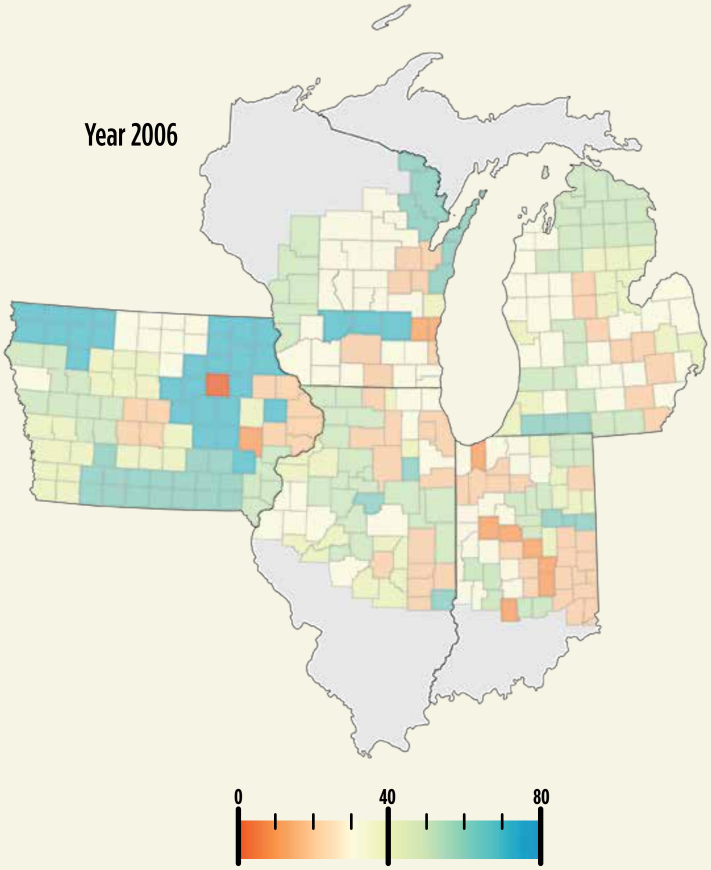
Source: Urban Institute, "Mapping America's Rental Housing Crisis," available at http://www.urban.org/mapping-americas-rental-housing-crisis.

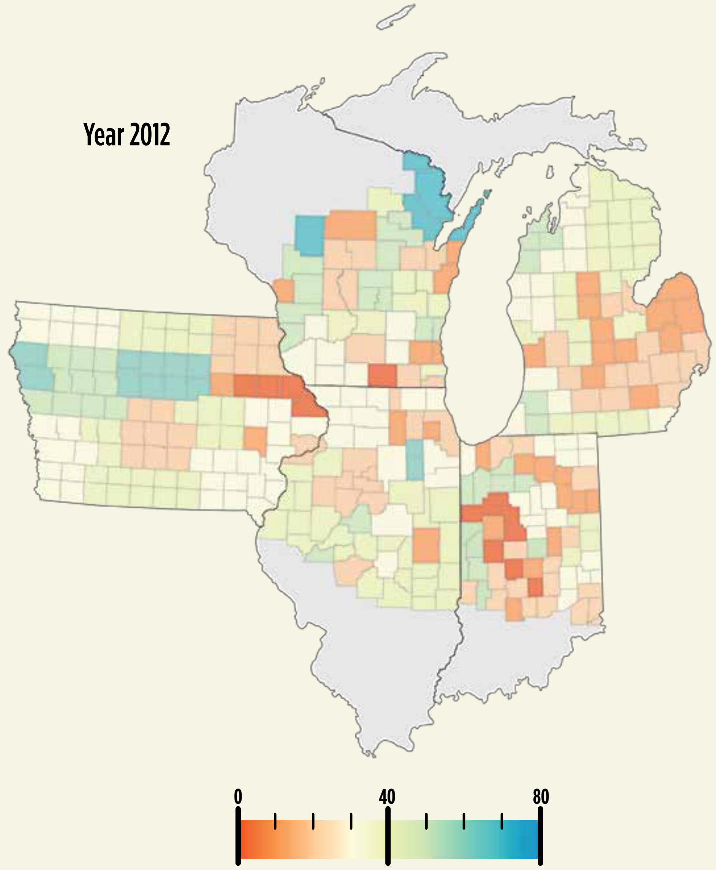
Notes

1. Federal Reserve Bank of Kansas City, Low- and Moderate-Income Survey, available at https://www.kansascityfed.org/research/indicatorsdata/lmi.
2. Ibid.
3. Since the exact location of respondents was not known, it's also possible that some participants may have technically been outside the District, but located in District states.
4. RealtyTrac, 2015, "Buying More Affordable than Renting in 58 Percent of U.S. Markets According to 2016 Rental Affordability Analysis," December 21, available at http://www.realtytrac.com/news/home-prices-and-sales/realtytrac-2016-rental-affordability-report.
5. Joint Center for Housing Studies of Harvard University, 2015, The State of the Nation's Housing, 2015, available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs-sonhr-2015-full.pdf.
6. Goodman, Laurie, Rolf Pendall, and Jun Zhu, 2015, "Headship and Homeownership, What Does the Future Hold?," Urban Institute, June, available at http://www.urban.org/sites/default/files/2000257-headship-and-homeownership-what-does-the-future-hold.pdf.
7. Joint Center for Housing Studies of Harvard University, 2015, The State of the Nation's Housing 2015, available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs-sonhr-2015-full.pdf.
8. Ibid.
9. Ibid.

Biography

Emily Engel is a business economist in the Community Development and Policy Studies Division at the Federal Reserve Bank of Chicago.


Year 2006
0
40
80


Year 2012
0
40
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