THE 12TH DISTRICT

VANTAGE POINT

COMMUNITY INDICATORS PROJECT

FEBRUARY 2014

The Community Development Department of the Federal Reserve Bank of San Francisco (FRBSF) launched the Community Indicators Project 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 help our constituents gain a deeper understanding of the challenges facing LMI communities. This issue of Vantage Point synthesizes the key themes that emerged in the 2013 community indicators survey based on the responses of 289 expert stakeholders from the 12th District. Questions were open-ended, allowing respondents to raise the issues of greatest concern to them.

OVERVIEW

As the United States continues to emerge from the recent recession, economic recovery has proven to be slowest and most elusive for lower-income Americans. Respondents to the 2013 Vantage Point survey pointed to three interwoven factors they saw as inhibiting economic recovery in the LMI communities they serve: unemployment, instability in household finances, and rising housing costs. In addition to offering detailed information about these three issues, respondents described the ideal policy or program solutions they would suggest to address the challenges in their communities.

The following emerged as key points among responses across the District:

Inadequate employment and income levels lie at the core of virtually all other issues facing LMI residents. Respondents consistently mentioned the difficulties many LMI residents face securing and retaining full-time, living-wage employment as the central factor behind subsequent struggles with household budgets, financial stability, housing cost burdens, health concerns, and disruption of household dynamics.

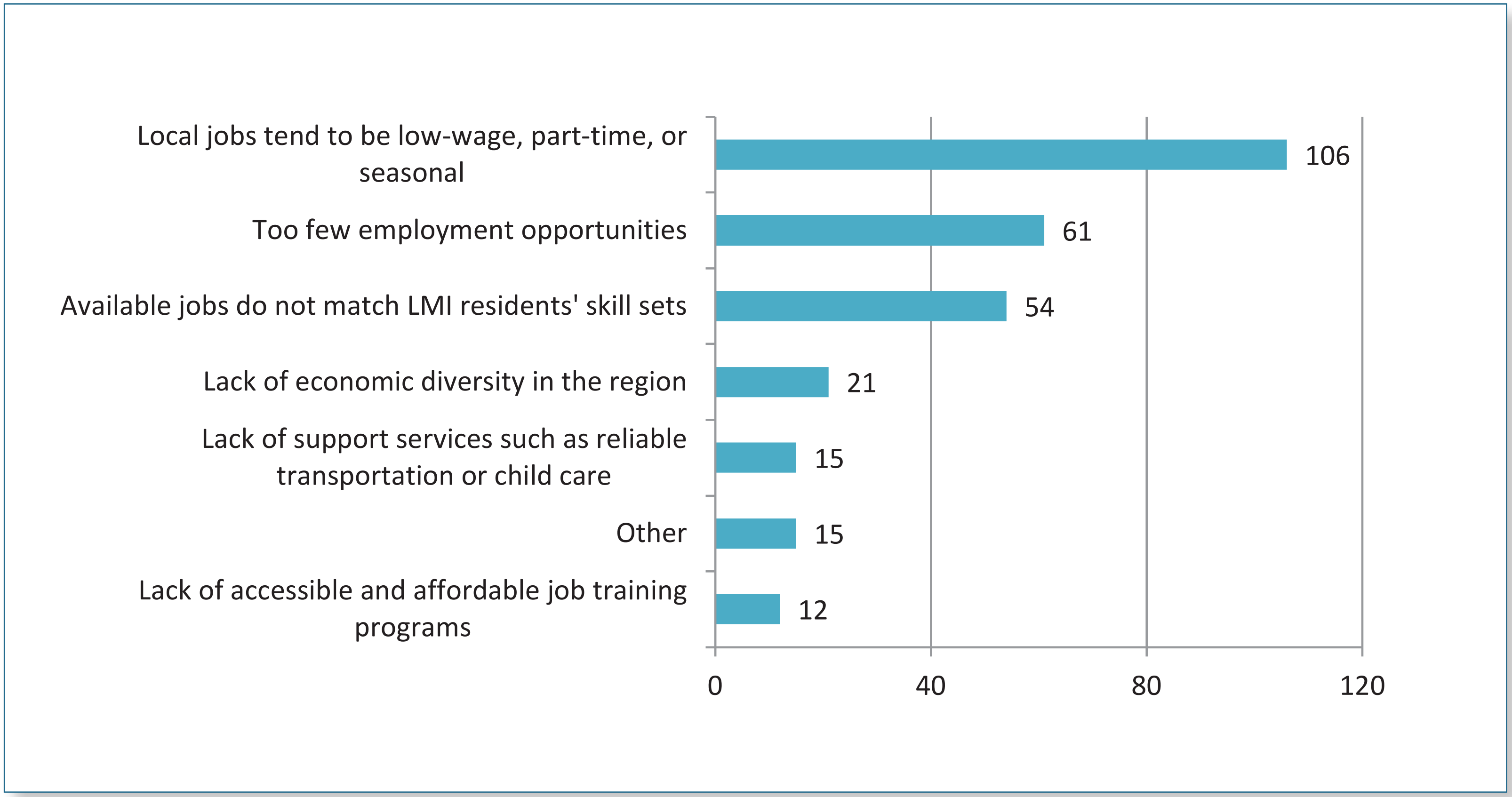
The need for asset building and long-term savings strategies for LMI households is clearer than ever. Respondents emphasized that financially many LMI households live day-to-day by necessity, and are unable to save for the future, leaving them vulnerable to – and trapped in cycles of – financial crisis. Respondents pointed to the need for asset alternatives to homeownership, which is out of reach for many LMI households. They also suggested that LMI residents could benefit from improved access to the financial mainstream and the introduction of banking products and services geared toward lower-income earners, along with access to regular financial education at multiple stages of the saving and asset-building processes.

Housing cost increases have significantly outpaced the capacity of LMI budgets, and LMI households are finding it increasingly hard to compete for housing, particularly that which is convenient to job locations. Consistently high rents and home prices, respondents noted, are a particular burden for LMI households in many metropolitan areas across the District. Even within housing markets that showed some promise for potential first-time homebuyers as prices fell over the past year, respondents indicated that other factors such as investor activity and ongoing tight mortgage lending conditions continued to prevent many LMI households from entering the homeownership market.

PART ONE: CONDITIONS

Employment: Working More Jobs but Earning Lower Wages

Figure 1 – What is the most significant concern you have around employment opportunities for LMI individuals?



Source: FRBSF Community Development Indicators Survey, 2013.

Respondents noted that unemployment, underemployment, and low wages in their communities trigger a cascade of household challenges: financial instability and lack of savings, an inability to cover housing and transportation costs, as well as difficulties in managing the health and wellbeing of all household members. Many respondents said that because of the type of employment available to LMI residents – largely low-wage, part-time or seasonal employment, with household heads often holding more than one of these jobs at a time – households are “surviving” or “subsisting” rather than living stably or thriving, and are often unable to advance in their jobs or develop new career skills to improve their situation.

Many respondents report LMI households' paychecks are shrinking and that adults in the household must work more than one job each to cover daily household needs and expenses:

> *"We operate the only free-standing nonprofit check cashing store in the country to our knowledge that is not connected to a credit union or other organization. We can see the impact of the economy on our customers from the number of checks, the size of the checks, the type of checks and the average fee that we earn. The number of checks we are receiving is increasing rapidly, about 50% year over year. But the size of the checks is falling dramatically as is the average fee that we earn. This indicates to us that our customers are suffering. …This trend has been in place for at least two years if not more. … We also had immigrant customers who normally wired money home, but who started to receive funds at our store from their home countries. …The [debt] levels [of our customers] sometimes exceed their annual incomes." –* ***California***

> *"The new moderate-income family was formerly a middle-plus-income family that lost their job and cannot obtain a new one at similar pay levels. …This creates pressure on families to work multiple low-paying jobs and impacts social development as parents have little time for their kids." –* ***Washington***

Some areas within the District face limited job expansion opportunities due to a lack of economic diversity or recent shifts away from longstanding main industries, respondents observed. The industries now present in these areas mainly offer low-wage or seasonal positions. Even where jobs are becoming more readily available, for many LMI residents' skill sets and education levels, these jobs are almost exclusively low-wage, part-time, or temporary:

> *"Once an industrious agricultural community, farmers have been displaced within the last five years leaving thousands in financial jeopardy. Our LMI employment opportunities currently focus around two primary industries, tourism and construction. Each presenting their own respective disadvantages, the primary disadvantage remains the industries' seasonal nature." –* ***Hawaii***

> *"Most local area jobs have shifted from wood products to more service industry jobs, such as food services or retail, and those tend to have low wages and be part-time. There is no longer much industry in the outer county area and to stay local it is either local government or service industry… When government is on the reduction phase, it makes the job market worse." –* ***Oregon***

> *"[Our] major industry is gaming. [There are] many lower-paying jobs, [with] few middle- to higher-paying jobs relative to the overall employment." –* ***Nevada***

> *"We have experienced good job recovery with [an] unemployment rate near 6%, down from near 10% in the depth of the recession. Job growth has come in the service sector which results in people employed at lower wages and perhaps on a part-time or temporary basis. We have seen good call center [job] growth as an example but again at lower wage rates." –* ***Idaho***

Finally, respondents say that available job training and educational opportunities often are misaligned in terms of schedule or content with what LMI individuals can manage, what will be useful to them in securing employment, and what the community industries' needs are. Such training also tends to be prohibitively expensive, even relative to any increased employment potential students may gain:

"Young men and women graduating with bachelor's degrees can only secure a low-wage job with either irregular or part-time hours. The typical grad is earning about $10 per hour. If someone gets a good-paying job of $35,000 or more, it is like a miracle has occurred." – ***Arizona***

"[We have] plenty of jobs but high unemployment. Training programs do not tailor to actual industry needs, [and there is] diversity [in the] types of jobs, but not the types of employees." – ***California***

"LMI residents can rarely afford to further their education – either the cost of the education or the cost of missed work to get the education, leading to a lack of higher-wage job opportunities." – ***Washington***

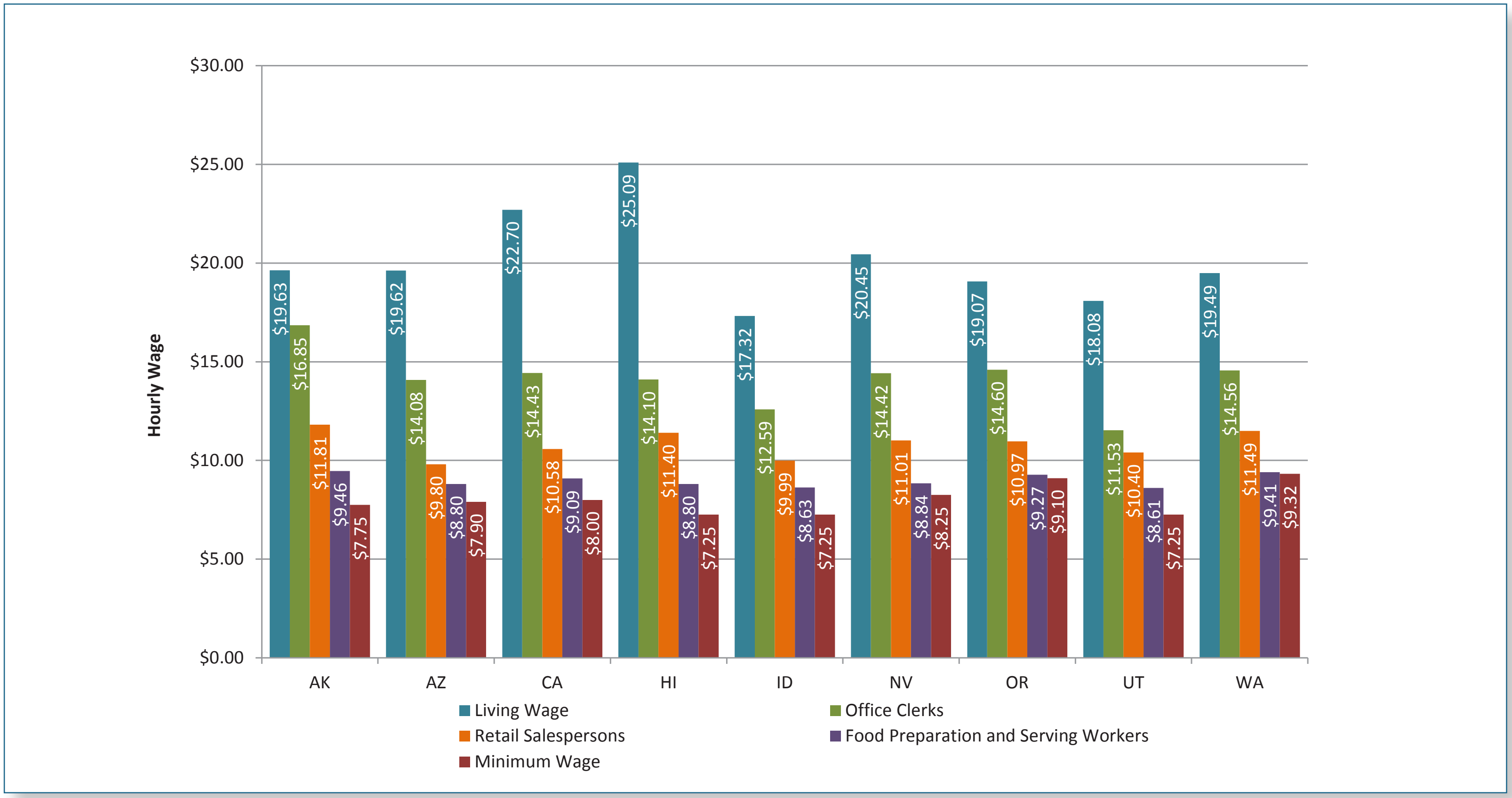
These observations about LMI employment trends from survey respondents reflect overall patterns seen in the West and across the country in recent data analysis and research. Though the number of jobs added to the economy in recent months is increasing, a more detailed look at changes in the type of employment and accompanying wage rates reveals a different trend, pointing to an uneven recovery from the recent recession that has not favored LMI workers.

A recent economic analysis by Emmanuel Saez of the University of California – Berkeley indicates that nationally, average incomes rose six percent during the recovery (2009-2012). Broken down by income category, however, that growth shows that the top one percent of incomes rose 31.4 percent, while the other 99 percent of U.S. incomes rose just 0.4 percent. Saez notes that the top one percent of income earners therefore gained 95 percent of total income growth between 2009 and 2012, and that "top 1% incomes are close to full recovery while bottom 99% incomes have hardly started to recover."[1] Similarly, a Wall Street Journal analysis of U.S. Department of Labor data shows that between 2009 and 2013, the wages of the highest-paid quarter of American workers increased over 12 percent, while the wages of the lowest-paid quarter increased just 6 percent.[2]

At the same time, a significant portion of job growth during the recovery has been concentrated in lower-wage service occupations. As of November 2013, 35 percent of the 2.3 million jobs added to the economy in the previous year were in typically low-paying employment sectors, including retail sales, food preparation and service, and temporary positions.[3] Many of these positions pay above the minimum wage, yet these workers' earnings still typically do not fully cover basic household costs. As shown in Figure 2 below, there is a notable gap across 12th District states between the median wages of the top three occupations by volume in the United States and a "living wage" that would allow a worker supporting one child to adequately afford the cost of household needs.

1 Emmanuel Saez, "The Evolution of Top Incomes in the United States," University of California – Berkeley, Department of Economics, September 3, 2013.
2 Ben Casselman, "Job Gap Widens in Uneven Recovery," The Wall Street Journal, November 11, 2013.
3 U.S. Department of Labor, Bureau of Labor Statistics (BLS), Employment Situation – November 2013; Casselman 2013.

Figure 2 – Living Wage, Median Wage, and Minimum Wage: 12th District

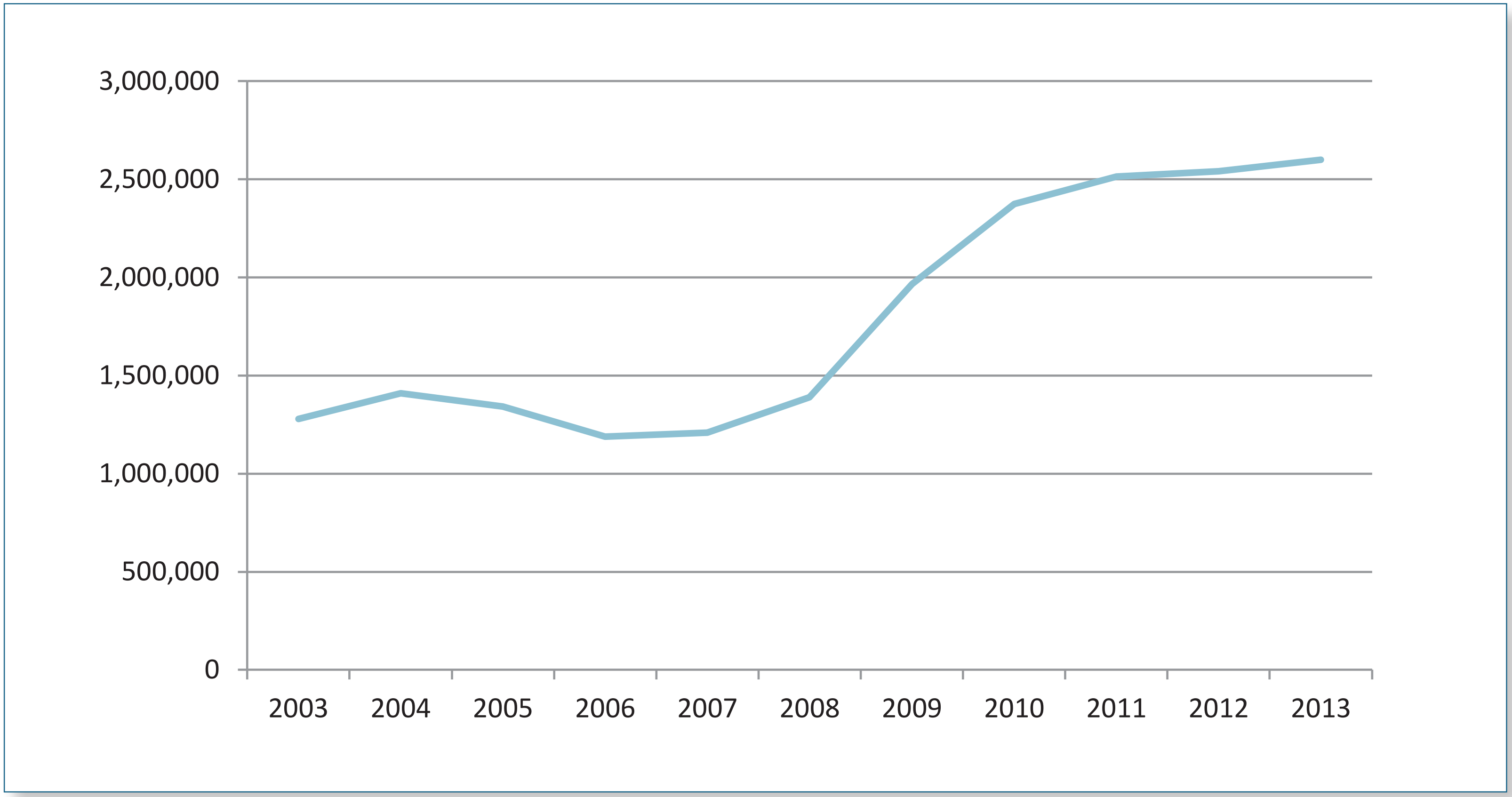


Note: Living wage is for one adult with one child, and is based on combined costs of food, child care, medical, housing, and transportation (MIT Living Wage Calculator). Sources: Amy K. Glasmeier and Eric Schultheis, Living Wage Calculator, Massachusetts Institute of Technology, 2012; U.S. Department of Labor, Bureau of Labor Statistics, State Occupational and Wage Estimates (median hourly wage), 2012; U.S. Department of Labor, State Minimum Wages, 2014.

Part-time employment is also on the rise among workers who are available for and seeking full-time work, but could only find part-time employment (see Figure 3). Nearly 7.8 million American workers are now "involuntary part-time workers" employed in part-time positions either because only part-time work was available or because their hours have been reduced.[4] On average, these part-time workers earn considerably less per week ($241) than those in full-time positions ($771),[5] a reality reflected in Vantage Point survey respondents' observations that many LMI adults in their service areas now hold multiple part-time jobs to make ends meet. Nationally, 6.9 million Americans now hold multiple jobs.[6]

4 BLS, Employment Situation – December 2013.
5 BLS, Usual Weekly Earnings of Wage and Salary Workers, Third Quarter 2013.
6 BLS, Employment Situation – December 2013.

Figure 3 – Individuals Who Wish to Work Full-Time but Could Only Find Part-Time Employment



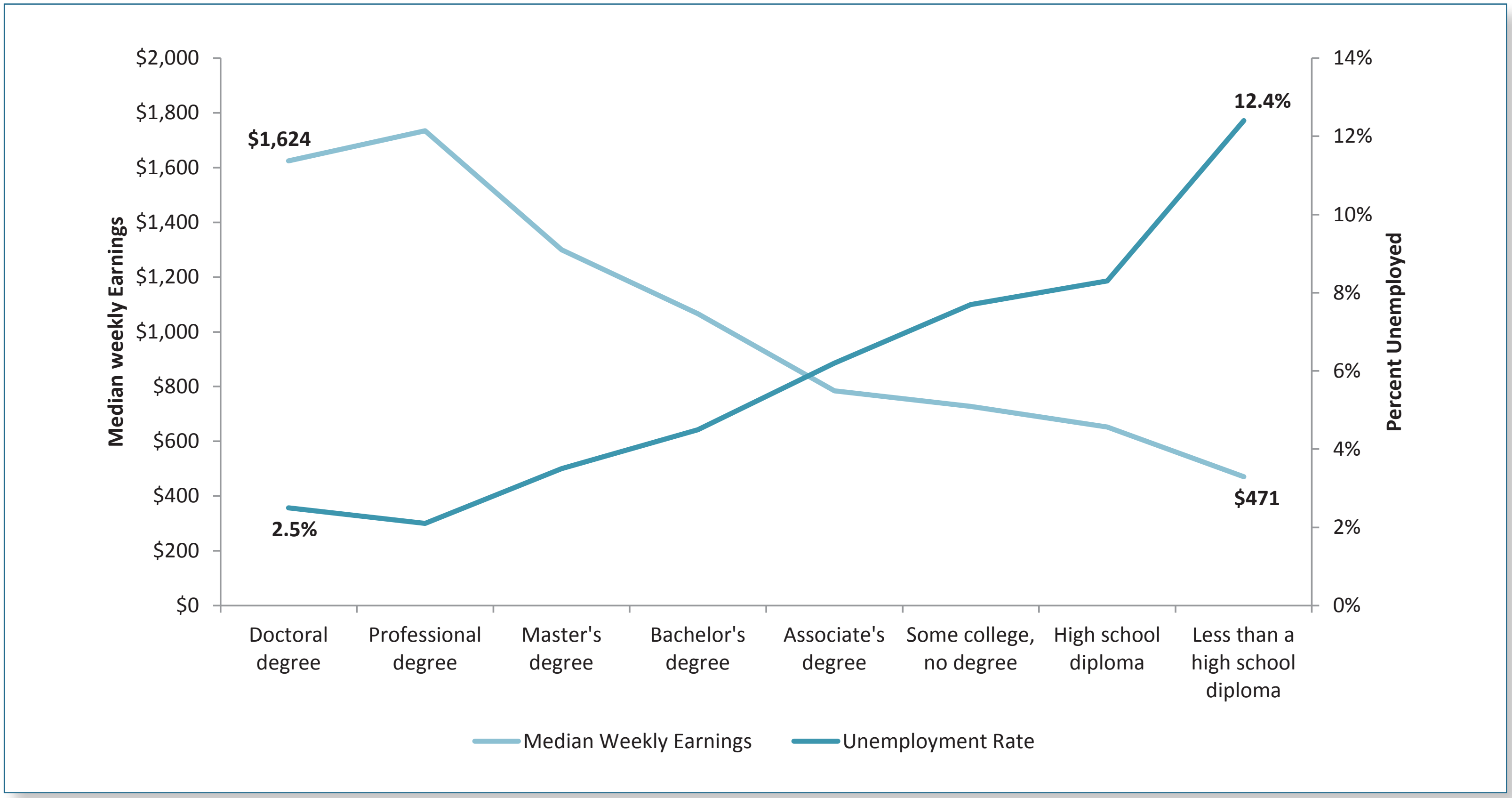
Source: BLS, Employment Situation – December 2013

Additionally, significant unemployment persists in certain parts of the 12th District. Nine of the ten highest metropolitan unemployment rates nationally in November 2013 were in Arizona and California: Yuma, AZ, at 28.2 percent, had the highest rate measured; El Centro, CA trailed with a rate of 23.8 percent; and multiple cities in California's Central Valley had rates between 12 and 13 percent.[7] Traditional measures of unemployment also overlook a consistent segment of the population dubbed "missing workers"– those who are neither currently working nor actively looking for employment. If these potential workers were included in the national unemployment rate, researchers estimate that the rate would rise from its reported December 2013 level of 6.7 percent to 10.2 percent.[8]

7 BLS, Unemployment Rates for Metropolitan Areas, November 2013.
8 Economic Policy Institute, "Missing Workers," January 10, 2014; BLS.

Finally, LMI households' lack of education and training holds them back from full participation in the labor force. Just 44.6 percent of Americans with less than a high school diploma are employed, compared to over three-quarters of Americans holding bachelor's degrees.[9] Earnings and unemployment rates also vary significantly by educational attainment level, as shown in Figure 4 below.

Figure 4 - Earnings and Unemployment Rates by Educational Attainment, 2012

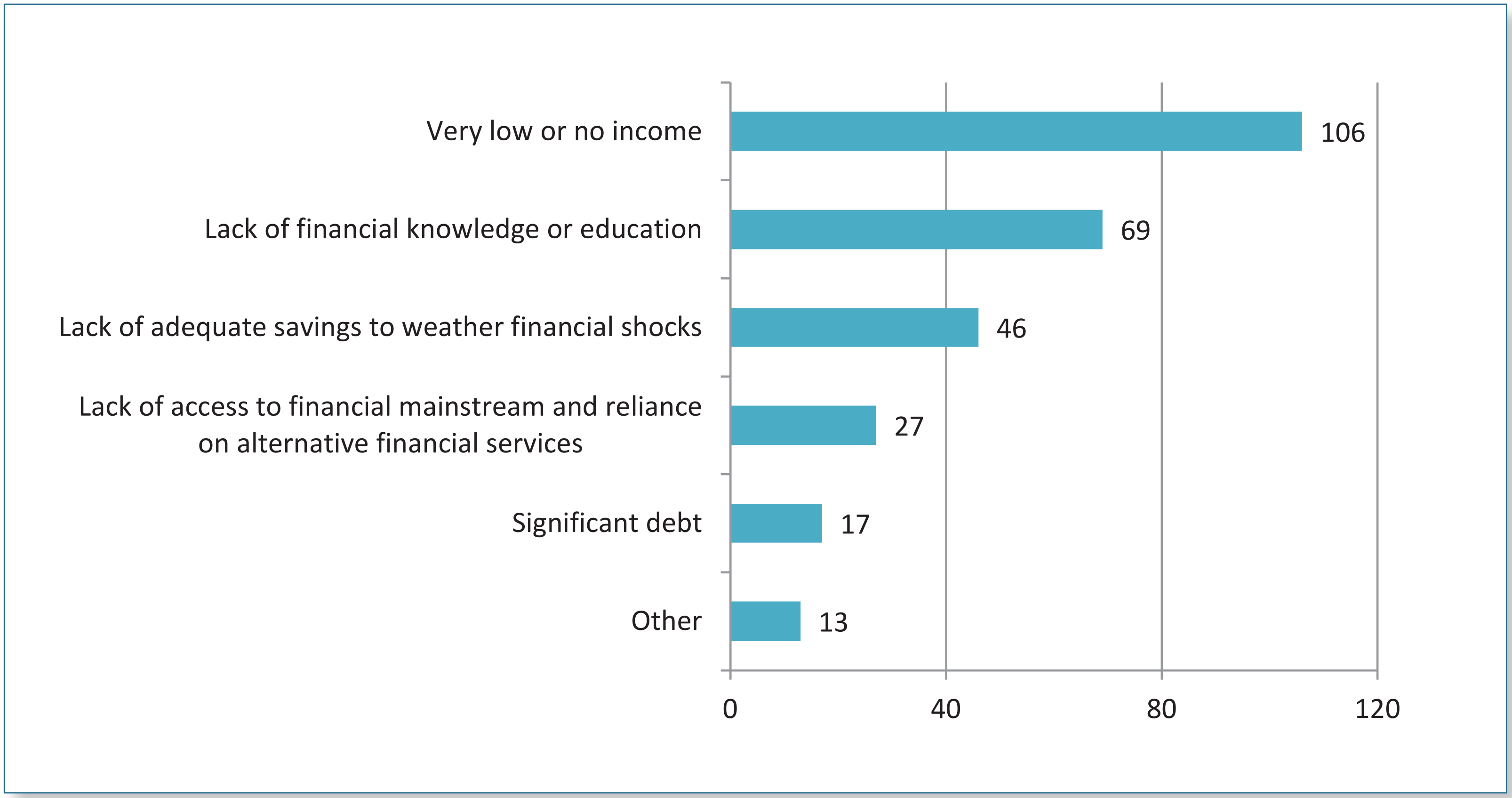


Source: BLS Employment Projections, 2012.

9 BLS, Employment Situation – December 2013.

Household Financial Stability: Left Vulnerable with Minimal Assets and Savings

Figure 5 – What is the most significant concern you have around household financial stability for LMI individuals?



Source: FRBSF Community Development Indicators Survey, 2013.

Uneven recovery is also resulting in deepening financial instability for LMI households. Respondents indicated that beyond simply lacking sufficient household income, households are struggling to stay afloat due to limited financial education and knowledge and a lack of emergency savings. But many respondents emphasized the circular nature of these factors; that without sufficient income, building financial savings was impossible for LMI households, and observed that financial education would be of little help if families did not have any income or assets to manage. Respondents also noted gaps in the safety net, saying that working families and those who have timed out of unemployment benefits frequently do not qualify for any assistance programs despite their low incomes.

Most prominently, respondents stressed that limited and decreasing incomes tend to cause or exacerbate most of the other financial stability issues LMI residents face, leading to persistent debt, little savings, and few to no resources to cover basics including housing and transportation, let alone financial shocks:

> *"We [at the housing authority] track average household incomes for the LMI people in our housing programs and the local area average household income for these families dropped significantly in 2009 and [has] stayed lower since then. The waiting lists for our programs have more than doubled in size since 2008." –* ***Oregon***
>
> *"Many people need to borrow to get through the month, sometimes for food and medicines. It is not the emergency issues that are often associated with payday and installment loans. It is more a matter of inadequate income to be able to cover basic costs in this region." –* ***California***
>
> *"Without sufficient income, LMI [households] cannot address their debt issues, which then affect their credit issues, which also impacts their ability to build assets." –* ***California***
>
> *"The vast majority of applicants to Rural Development's low-income housing program have no savings at all. They live paycheck to paycheck and have no way to ride out unexpected expenses. Even something predictable, such as car repairs, can throw their household budget into a tailspin. Anything outside of basic living expenses gets put on charge cards that they can only manage to make minimum monthly payments on. Even LMI people who appear to be good managers of their finances are drowning in debt."* ***– Oregon***

Respondents noted that some LMI households seem to have difficulty managing their finances either because they do not have sufficient financial education to know the pitfalls to avoid, or may never have learned how to develop and adhere to a household budget, leading to ingrained poor spending habits and money management:

> *"The majority of the LMI clients we serve are reactive with finances instead of proactive dealing with them in advance. They contact us once the home is in the foreclosure process, debt collectors call, paystubs [have been] garnished, rental evictions [are underway], etc." –* ***Utah***
>
> *"There are some families with sufficient income; however, they have very old spending habits. Many cash basis households don't really save but spend as they earn. [They fail] to plan for big purchases and incur high fees and costs without shopping for interest rates. Many families don't realize they can negotiate price and interest – they just accept what they are told." –* ***Idaho***
>
> *"Lack of financial and banking knowledge and services in rural communities maintains the status quo. Also, some of the existing banking services are too confusing… When clients are issued a credit card without clearly understanding how and when to use it… the result is credit misuse and clients 'hating' banks for 'taking' their money (even though it is a legitimate charge of fees)." –* ***California***

Working LMI households and those who had been collecting unemployment while looking for work may not qualify for safety net program assistance. Though their incomes tend to be very low, they are still just high enough to make them ineligible for such programs. At the same time, the limitations of existing safety net program resources, which have decreased or been cut back in many areas, make it difficult for social service providers to assist those who do qualify for and need these subsidies:

"Income is so low [and there is a lack] of employment opportunities to stabilize families within the area. [They] time out of unemployment, [and are] not eligible for other benefits." – ***Nevada***

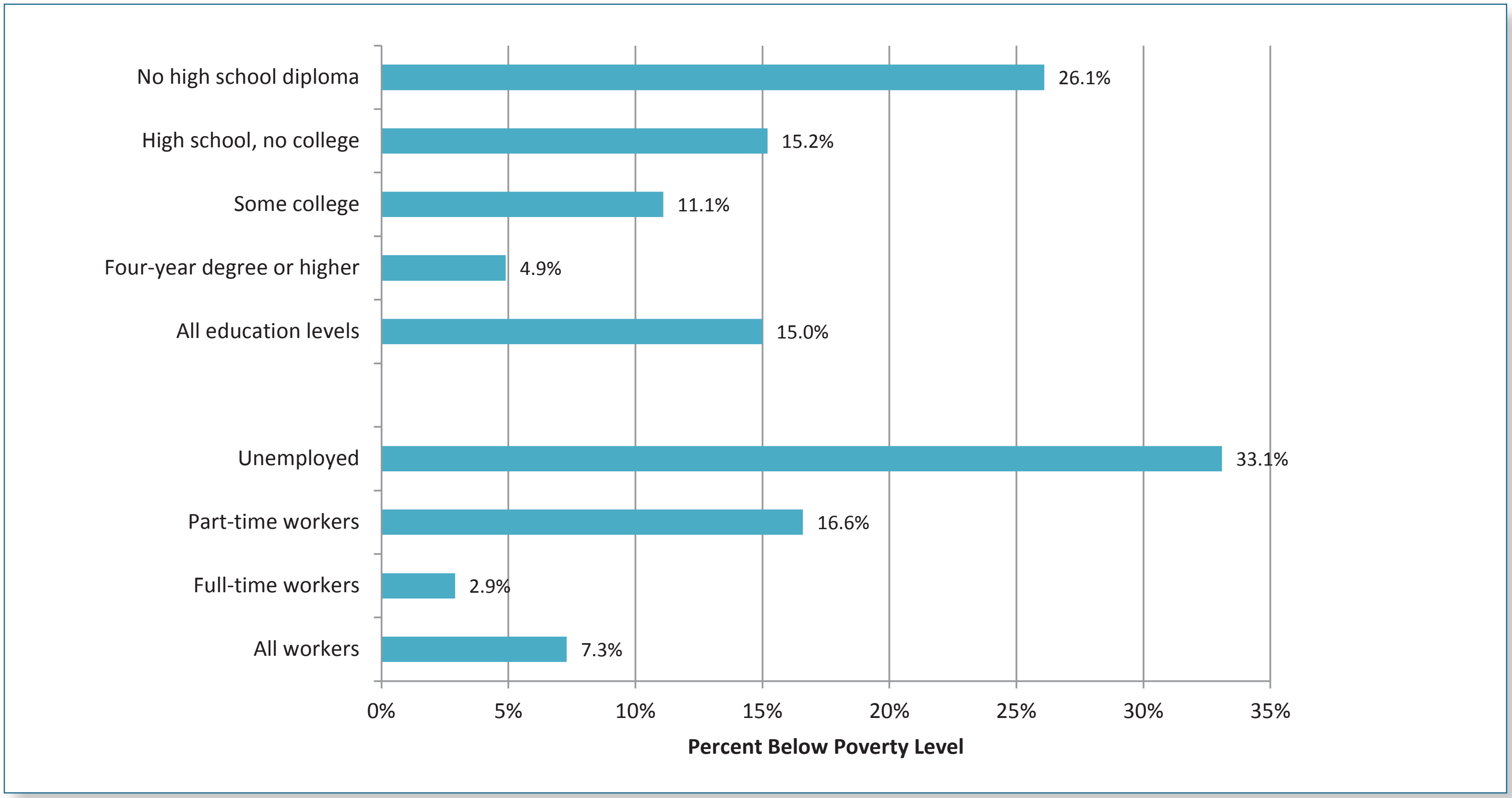
"The loss of tax revenue leads to reduction in services to the very households needing them most. These reductions have been across the board in education, housing assistance, mental and physical health programs, local and state assistance programs, etc. When there is a three-year-plus wait for housing assistance, families seek alternate solutions to increase income and/or decrease expenses including working for cash, part-time jobs, combining families, living in vehicles, or living in sub-standard housing." – ***Oregon***

"In the winter, vineyard workers are laid off. They usually don't qualify for unemployment benefits." – ***California***

"We have people willing to work, but there is no work. Sometimes it is a case of too much reliance on alternate financial services for housing, utilities, and food, but that seems to have become a necessary evil in our area when families cannot make ends meet. And there are many more families that haven't the appropriate level of employment and wage but also do not qualify for those same assistance programs. They are really struggling and we have no means to assist." – ***Oregon***

Current data reflects the sharp contraction of LMI household finances that respondents expressed in the Vantage Point survey. Poverty rates remain high and are strongly correlated with educational attainment level and employment status, as shown in Figure 6 below.

Figure 6 – Percent of People in Poverty by Employment Status and Educational Attainment, 2012

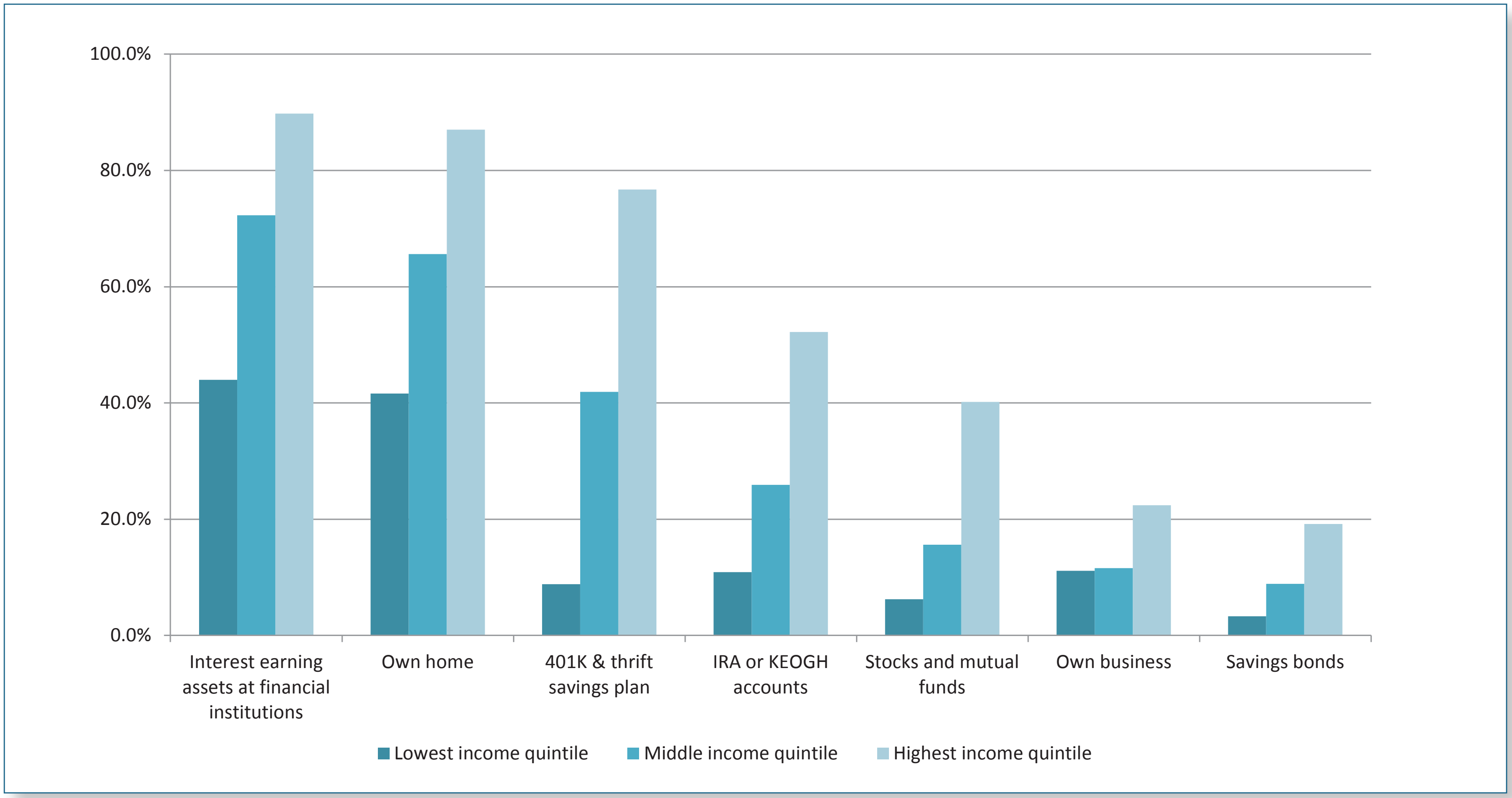


Source: U.S. Census Bureau, Current Population Survey, 2013 Annual Social and Economic Supplement.

Households living just above the poverty level but still earning relatively low to moderate incomes, however, fall into the category of Americans who do not qualify for many safety net programs throughout the year but are struggling to get by due to unmanageable living costs. In a recent study the Hamilton Project calls these Americans, who earn between $15,000 and $60,000 per year (100-250 percent of the federal poverty level) the "lower-middle class" – a similar income range as for LMI households – and notes that they constitute over half of American working families. These households again reveal the impact of higher education attainment on income; though a third of them attended some college, only six percent obtained a bachelor's or higher-level degree, in contrast to those earning more than $60,000, half of whom have bachelor's or advanced degrees. The authors of the study emphasize that many of these lower-middle class families experience inconsistent employment, either because their jobs are seasonal or due to periodic unemployment. As a result, 40 percent of children in these households face food insecurity, and 21 percent of these families rely on the Supplemental Nutrition Assistance Program (SNAP) for food purchases at some point during the year – typically during unemployment spells.[10] The situation of these households demonstrates that even for working LMI households, the threat of financial instability is a regular concern.

In terms of financial stability over the life-course, LMI households are also at a disadvantage, lacking the diverse assets and retirement planning resources used by higher-income earners. As shown below, in addition to income, educational attainment and employment status heavily influence net worth as well.

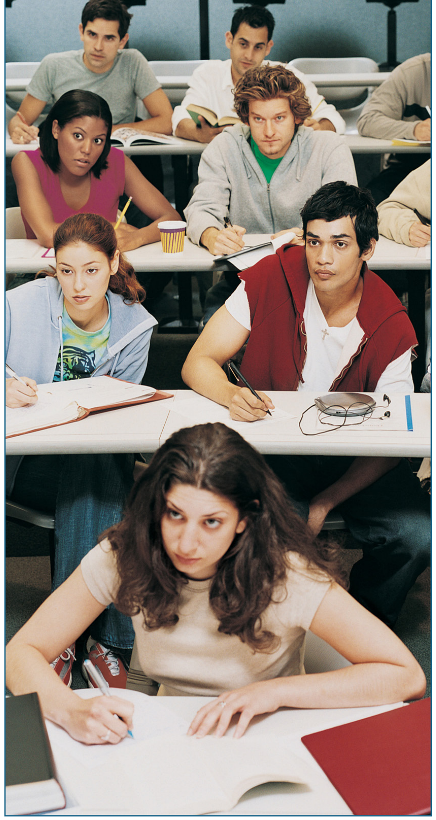
Figure 7 – Percent Holding Assets by Type



Source: U.S. Census Bureau, Survey of Income and Program Participation 2008 Panel (2011)

10 Melissa Kearney, Benjamin Harris, Elisa Jacome, and Lucie Parker, "A Dozen Facts about America's Struggling Lower-Middle Class," The Hamilton Project, December 2013.

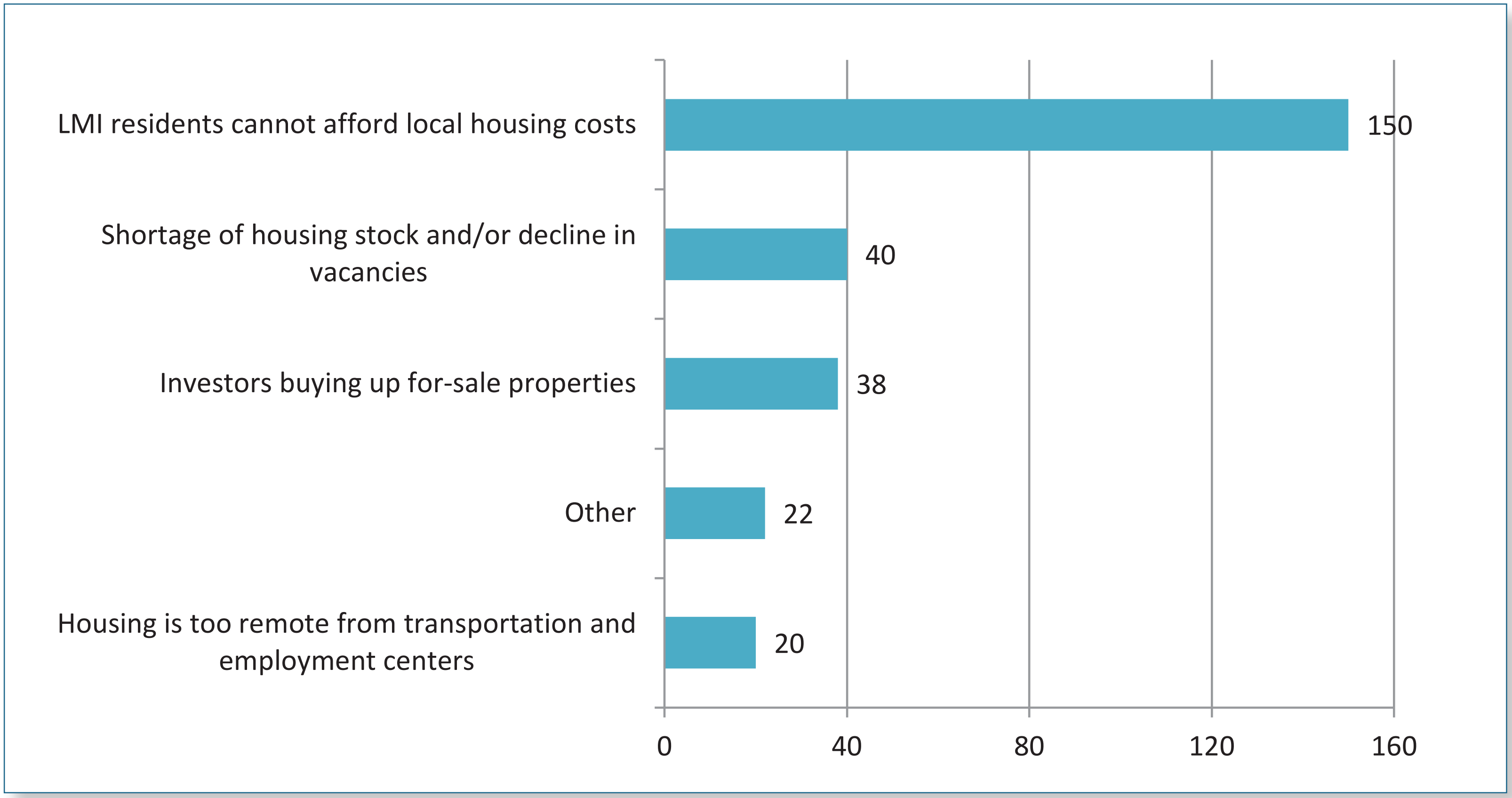
As noted in relation to several of the employment and household financial stability measures above, higher educational attainment is an important factor helping to lift households out of poverty and increase income. A recent Federal Reserve Bank of San Francisco study of student loan debt, however, indicates that LMI students are "more likely to borrow larger amounts relative to family income and less likely to complete school once they've started than their higher-income peers." Students in poverty are also much more likely to attend for-profit colleges, where the education loan default rate is significantly higher than that of private nonprofit and public colleges.[11] In these respects, LMI students who hope to improve their chances in the job market by obtaining additional skills and a higher-level degree may end up deeper in debt than when they began school but may drop out before they have earned their degree, only adding to their household debt burden without the improved job prospects to show for it.



11 Laura Choi, "Student Debt and Default in the 12th District," Federal Reserve Bank of San Francisco, December 2011.

Housing: Higher Rents and Few Homeownership Opportunities

Figure 8 – What is the most significant concern you have around housing conditions for LMI individuals?



Source: FRBSF Community Development Indicators Survey, 2013.

Affordability was the key concern around the housing market among Vantage Point survey respondents, and many also mentioned the lack of opportunities for LMI households to obtain certain types of housing or move to certain locations. Transportation has become another significant cost for many LMI workers, respondents note, as housing in many 12th District areas is too expensive near employment centers and workers must commute long distances. Respondents observed that investor activity impacted the market and diminished opportunities for would-be LMI buyers to purchase lower-cost homes in some areas.

Respondents indicate that there have been drastic increases in housing cost and declines in vacancies in many areas across the District and the cost of housing is consuming much of LMI households' earnings, threatening their ability to cover other essential costs:

> *"The local housing costs have exceeded the affordability [level] for folks working at minimum wage jobs. …As an indication of affordability being the top concern: the local nonprofit that developed a couple of tax credit housing developments has seen the percent of residents who are using a Section 8 voucher to rent in those complexes increase over the past three years from about 30% to about 60%. This means that fewer families can afford even the tax credit rent and now need deeper subsidy to obtain housing." – **Oregon***
>
> *"The rental market is as tight as it has been for several years. Rent increases actually reach close to (or exceed) double digits. Incomes are not keeping pace with such rent increases." – **Oregon***
>
> *"[There is] little to no affordable housing present in [our] housing market, [and] no workforce housing presently. [The] current rental market has LMI households paying monthly housing obligations in excess of 50 percent of gross wages. This can lead to additional challenges as well, such as the household having to utilize food banks in order to live, aside from the household living paycheck to paycheck without savings and at high risk of homelessness." – **Alaska***
>
> *"When 50 percent or more of household income is going to cover housing costs it is difficult to have savings or be prepared to face any financial crisis." – **Arizona***

Investor activity and a substantial share of cash purchases constricted opportunities for potential LMI homebuyers in several markets across the District when homes were priced more affordably earlier in 2013:

> *"Investors have driven up cost so that we already have a huge affordability gap. Rental vacancies are below one percent now. (They were 12 percent three years ago.)" – **Utah***
>
> *"We operate a program that helps low and moderate income households to buy homes. We can attest to the fact that many are desperate and unable to buy because investors are buying up everything with cash. If you need to get a loan you cannot compete. We have sold about 85 homes in the last year and we frequently get letters from prospective buyers telling us why they should be chosen to buy the home because they know we are going to get multiple offers. Needless to say we have a fixed selection criteria and the letters do not help, but they do cast a bright light on what is happening in the core markets." – **Arizona***
>
> *"Here in the Inland Empire, I've heard a lot of news about investors buying up properties in cash which is reducing the amount of inventory available and driving up prices once again." – **California***
>
> *"Most of the LMI population that we work with is trying to get into a home. When they find a home they can qualify for, a cash offer will come in. Or because of foreclosure or short sale, they can no longer qualify." – **Nevada***

Additionally, mortgage lending standards are still tight, making it difficult for LMI households to secure a loan. Even for the LMI households able to qualify for and secure a mortgage loan, associated housing costs pose a major threat to keeping their new home.

> *"There are a lot of people who could afford a mortgage but don't have the credit or the ability to pass an underwriter's scrutiny."* ***– California***

> *"Housing prices are moderate and interest rates are low, but the cost of transportation to and from work, and car and homeowner's insurance, are at all-time highs. LMI households can have little or no other debt such as a car payment to allow repayment ability for even very modestly priced homes. If a LMI household is successful in obtaining a loan and purchases a home, the cost of utilities and repairs and maintenance can derail their ability to continue making their payments if they are not adequately prepared to afford an unexpected expense."* ***– Idaho***

A number of respondents from across the District noted that housing affordable to LMI households is often located far from their places of employment, and affordable transportation is missing or unreliable in many areas.

> *"A more immediate issue is the appalling lack of adequate public transportation in our location. Most of our housing is on the edge of town, and we really do not have suburbia as we are almost entirely urban. The housing farther out is almost inaccessible by public transportation. Most of the employment centers are focused on the downtown/Strip areas."* ***– Nevada***

> *"Many of the tourist areas are higher-valued real estate markets forcing LMI individuals to incur increased transportation costs to get to work."* ***– Utah***

> *"If you have to live 30+ miles from work, the chances you can take mass transit to work are slim, so you have to finance personal transportation, insurance, fuel, etc. Rent prices are much higher in town, where the jobs are, and housing opportunities are smaller, so it's more difficult financially to live in town with a family."* ***– Washington***

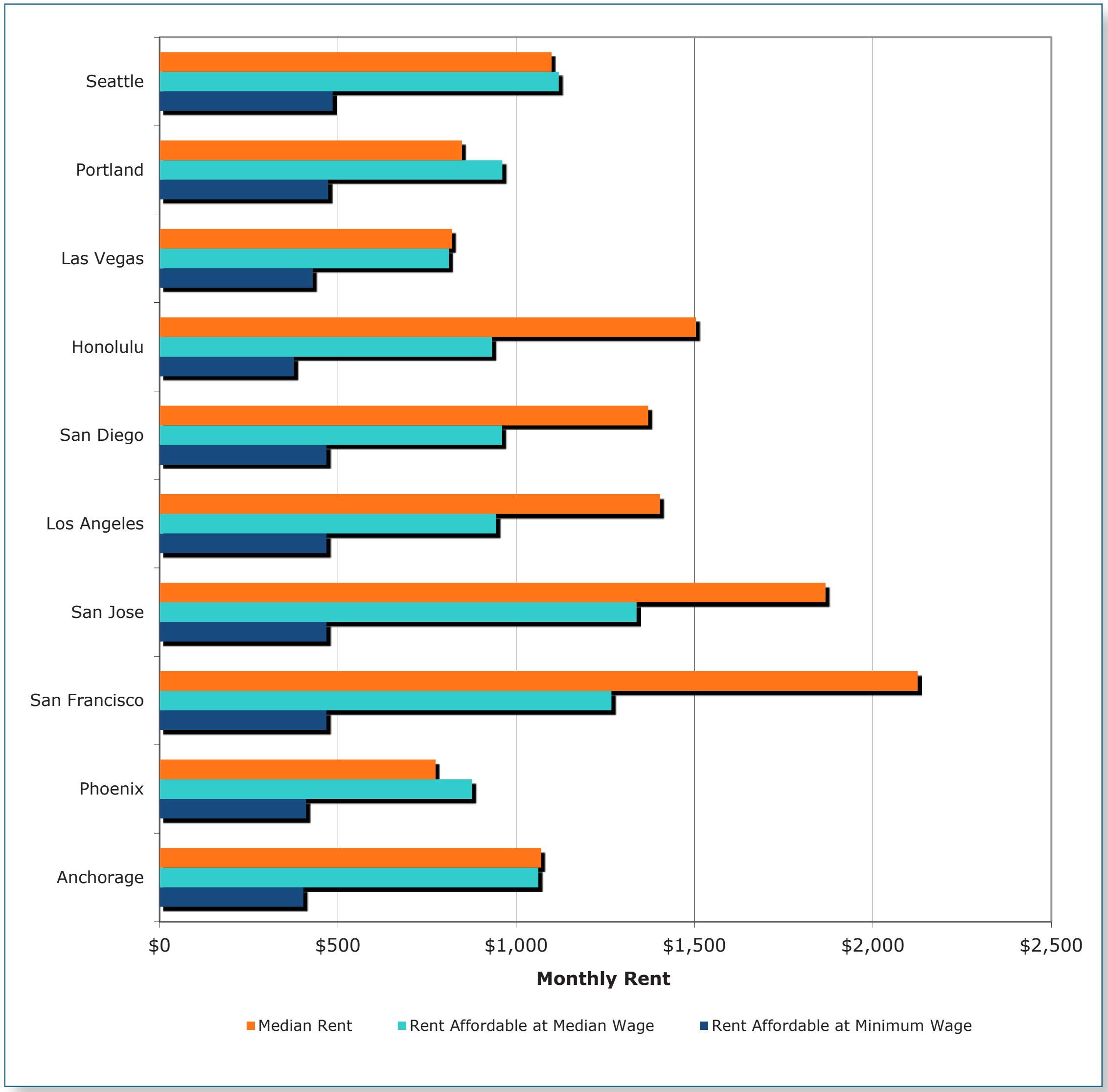
The housing market's ongoing overall stabilization following the foreclosure crisis does bring some good news, as the share of mortgage loans in foreclosure or 90 days or more delinquent fell steadily from a high of nearly ten percent in the first quarter of 2010 to 5.7 percent of loans in the third quarter of 2013.[12] Indeed, Vantage Point survey respondents' comments accordingly suggest a shift in the main LMI housing concern away from foreclosure and toward the increasing unaffordability of rents and home prices.

12 Urban Institute, "Housing Finance at a Glance," December 2013.

National data show that across the board, rents have increased at a steady pace over the past decade, but the real measure of concern is the concurrence of a six percent increase in rent with a thirteen percent decrease in renter incomes between 2000 and 2012. As noted in a recent report from the Joint Center for Housing Studies of Harvard University, one of the most telling indicators of renter strain therefore is the proportion of renters who are housing cost burdened – those who spend more than 30 percent of their incomes on housing. Over 52 percent of American renters – 21.1 million households – were cost burdened in 2012, and the figures are even higher in more expensive western states such as California and Hawaii, where 56.5 percent of all renters were housing cost burdened. Incidence of housing cost burden is highest among the lowest income renters – 83 percent of all renters with annual incomes below $15,000 were cost burdened in 2012 – but the share of renters in every income bracket facing unaffordable housing costs has increased since 2001.[13]

The prevalence of low-wage, part-time employment in LMI communities is once again a significant factor behind these rising renter cost burdens. In several metropolitan areas across the 12th District, median rents are beyond the affordable level for those earning the median wage level; median rents are much farther out of reach for lower and minimum wage earners in many of the District's major cities, as shown in Figure 9.

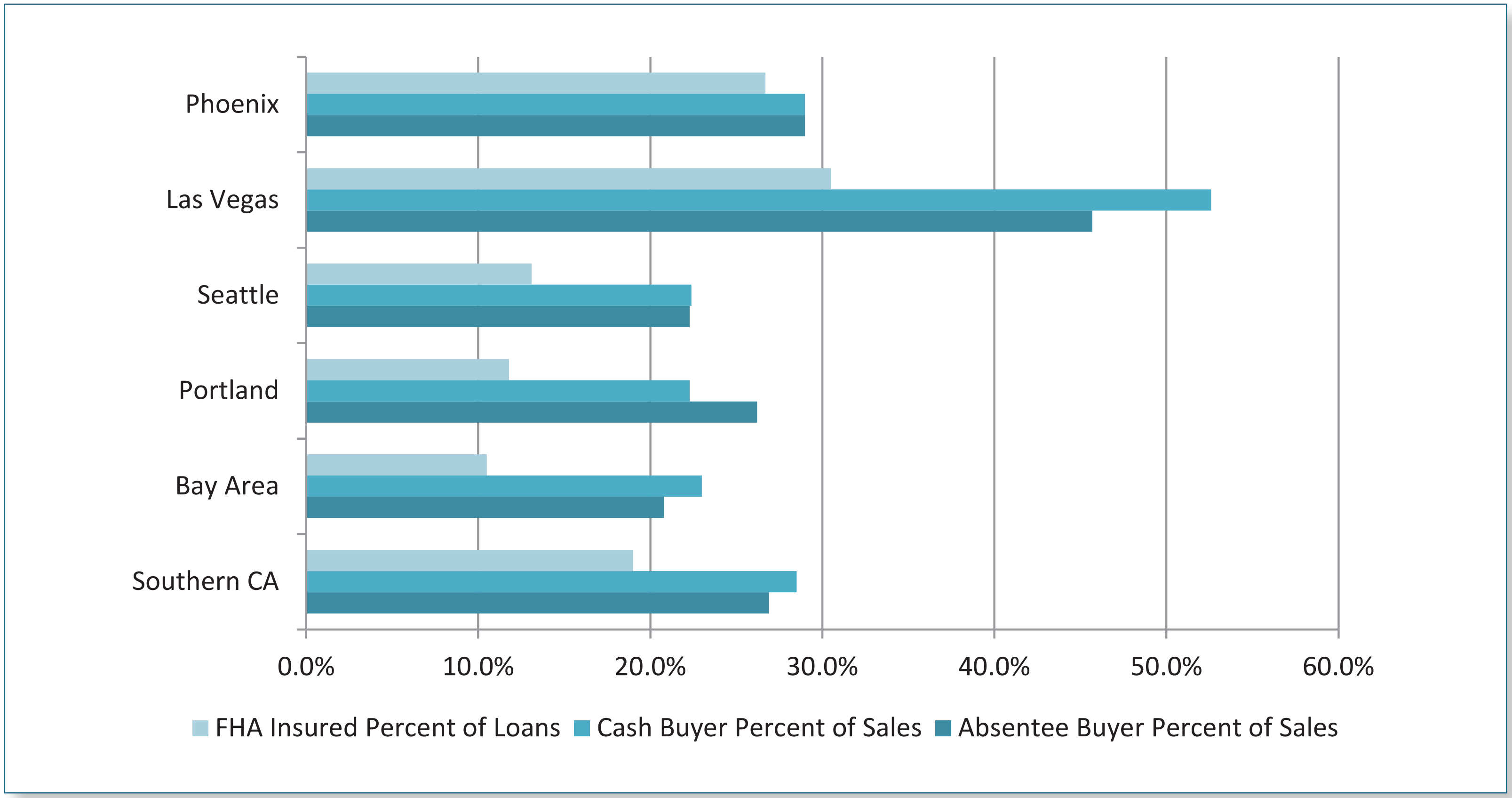
Figure 9 – Affordable Rents by Wage Level



Source: FRBSF Community Development Indicators Survey, 2013.

13 Joint Center for Housing Studies of Harvard University, "America's Rental Housing: Evolving Markets and Needs," 2013; U.S. Census, American Community Survey 2008-2012 five-year estimates.

Figure 10 – Share of Total Home Sales by Buyer Type



Source: REIS 2013; BLS 2012.

On the homeownership side, as respondents noted, many potential LMI first-time homebuyers in the 12th District were kept out of the purchase market by two significant factors in 2013: investor activity and consistently tight credit standards for mortgage lending. Though the share of purchases made by absentee buyers began to decline toward the end of 2013 after a rapid rise earlier in the year, these investors are still buying a notable share of available properties in some western markets, especially real-estate owned (REO) and other lower-priced homes available for purchase.

Many lower-income and first-time homebuyers rely on downpayment assistance, FHA-backed loans, or other program financing to purchase a home. Heavy competition for lower-priced homes from cash buyers, therefore, has frustrated many potential LMI buyers, since sellers are more likely to opt for easier cash transactions to avoid dealing with assistance program financing complications. Nationally, 37.4 percent of all home sales – and fully 57.9 percent of REO sales – were cash purchases in September 2013.[14] In the same month in several major 12th District markets, most notably in Las Vegas, cash buyers (most of whom are investor or absentee buyers) accounted for a much larger share of home sales than those securing homes with FHA-backed loans.

Additionally, it is still difficult for potential LMI homebuyers to obtain a mortgage loan, especially for first-time buyers and those with lower credit scores due to a lack of assets, missed payments, or significant debt. In December 2013, the average borrower successfully obtaining a conventional home purchase loan had a credit score of 756. FHA-backed loans made up just one-fifth of all closed loans in December 2013, and the average credit score for these closed FHA loans was 690.[15] Just 0.3 percent of total purchase loans were granted to borrowers with credit scores below 620 in October 2013.[16] Credit score standards for home purchase loans are particularly high across parts of the West. In several 12th District metropolitan areas – including San Francisco, San Jose, Oakland, Los Angeles, San Diego, Portland, and Seattle – average FICO scores for purchase loan borrowers were all above 750 in October 2013; even in cities with lower average scores, such as Las Vegas, Riverside, and Phoenix, the mean scores were still around 700.[17]

14 CoreLogic, "The Market Pulse," January 17, 2014.
15 Ellie Mae, "Origination Insight Report," December 2013.
16 CoreLogic, 2014.
17 Urban Institute, 2013.

PART TWO: PROPOSED POLICY AND PROGRAM APPROACHES

The employment, household financial stability, and housing conditions and concerns addressed above indicate that LMI Americans are still struggling, despite the turn toward recovery in the larger U.S. economy. As Vantage Point survey respondents noted, persistent unemployment and underemployment, low wages, few assets, and a rapidly rising cost of living relative to income have left LMI households stuck in subsistence living situations, unable to weather emergencies and build longer-term savings. These issues resist easy solutions.

Still, in the same way that community development practitioners such as those who participate in the Vantage Point survey are keenly aware of the challenges facing the LMI households with whom they work, these professionals are also in an ideal position to identify ways in which policy and program solutions may be introduced to start tackling these larger problems. In this round of the survey, therefore, we asked respondents a new question for each of the three issue areas: in your opinion, what would be the ideal policy or program solution or adjustment to address this issue in your region? The following section presents some of their thoughts on how the community development sector might begin to positively impact the challenges and conditions facing LMI Americans.

Employment

By far one of the most frequent recommendations for resolving conditions for LMI workers on the larger policy scale was a call to raise the minimum wage, and to increase wages for lower-income workers in general. Many respondents emphasized that easing the strain on household budgets through increased income would be the most direct way to pull LMI families out of poverty and help them build savings. Respondents also emphasized the need for job creation and more accessible and affordable job training toward higher-paying positions.

Bring job and skill training programs into LMI communities to make them more accessible and increase participation:

> *"Job search and readiness training brought to [affordable housing] residents. High density properties allow for an economy of scale."*
> ***– California***

> *"Tap into existing resources and collaborate. For instance, offer employment training at local high schools for parents – you know parents can get there because they live in the neighborhood. Those who provide financial and/or employment training need to work in stronger collaboration with those who are currently serving the families such as social service providers."* ***– Washington***

Identify creative opportunities to attract new industry or create new jobs in needed community services and infrastructure:

> *"Our Boise Valley Partnership for Economic Prosperity has seen a high level of interest from national companies who are seeking to expand or move into new markets. …Idaho has not provided the monetary and tax incentives that made us fully competitive so we have relied more on lifestyle and lower cost as elements to attract new business."* ***– Idaho***

> *"Educational/industry partnerships collaborating with regional business/economic support organizations to attract more businesses that provide living wage jobs, while holding the tuition expense down so students can afford to attend."* ***– Oregon***

*"Develop jobs by investing in public infrastructure needs that would also facilitate transportation and trade, such as [building] roads, replacing obsolete bridges, growing transit communities, etc." – **Washington***

Develop and offer to LMI job seekers some kind of financial or educational credit for work alternatives in times of unemployment:

*"A solution would be to offer some type of credit toward taxes, financed education debt, or child support for individuals that engage in legitimate structured volunteerism." – **California***

*"[Implement] policies that would create and support stipend internships and skills upgrading training for LMI residents to be trained for higher skill, higher wage [jobs]." – **California***

*"A cost-share apprentice/mentorship program (tax dollar supported) where individuals can learn trade skills on the job and make a fair wage. …Tax dollars are earned back through income taxes on their higher earnings potential." – **Washington***

*"More schools need to examine the potential for converting work/life experience to college credit – there are plenty of Washington residents who can DO a job, but don't have the degree for the job and who can't afford to miss work to get the degree." – **Washington***

Household Financial Stability

Respondents suggested a combination of better-targeted financial programs with more stringent requirements for participation. They also encouraged inviting banks to work hands-on with the LMI community to improve understanding of existing financial products, and working collaboratively among agencies and organizations in the community to develop comprehensive programs tailored to the needs of the area.

Start with clients where they are – in their lives, in their finances, and geographically:

*"We have some homebuyer education in place and some post-homebuying education, but it may be more important for us to try to educate tenants with the steps to progress toward homeownership and asset building. Why not begin preparing them a year or two [before they consider a home purchase] by educating them about the impacts that can set them back financially?" – **California***

*"[We need to do] more outreach and education, but with incentives for people to learn. Simply put, families do not turn out for these workshops. The big question is, how do we get people to these classes? How can we make this attractive?" – **California***

*"[Existing] financial education doesn't work. It is a cold call at best. People don't know or trust the providers. The trainings must occur in collaboration with trusted providers (schools/social service providers), and [offer] support such as childcare, food, and incentives that would support employment (bus pass, clothing, etc)." – **Washington***

Make a consistent track record of responsible budgeting and spending an incentive or requirement for continued participation in and completion of financial education and social service programs:

> *"Tie benefits [and] entitlements to successful completion of financial education programs and adherence to reasonable budget management. Restrict entitlement spending to approved classes of goods and services." –* ***Arizona***

> *"Require financial literacy tied to any entitlement programs and enhance the financial education in schools to avoid having people fall into the LMI category in the first place. Many individuals [do not seem to be aware of] why they should resist borrowing from predatory lending companies, or why putting money in a slot machine is not going to get them out of debt. [Financial education could improve] understanding [of] how to save for a rainy day or saving for a home." –* ***Utah***

Involve bank representatives in classes and community efforts, and encourage development of LMI-specific bank products:

> *"[We should teach] financial literacy at the high school level, in addition to classes for adults in their native languages. Many LMI persons are intimidated by banks in general. Volunteers from the banking industry who can go into the schools and participate in adult education classes can help to break down the barriers." –* ***California***

> *"[We need a] banking program that clients can understand and learn how to use easily - perhaps a 'graduating' credit program where first-time users are coached as they begin use of credit tools." –* ***California***

> *"[We need] more public investment in programs that help people save, including matches and incentives for saving. In addition, financial institutions should provide quality and affordable banking accounts that have no minimum balance requirement, no fees, and have innovations that help people save such as rewards or incentive programs." –* ***California***

Develop service programs and classes through collaborative efforts across community service providers and banks:

> *"Have banks work with community groups to provide affordable financial services, without high fees, along with financial education and literacy." –* ***California***

> *"[Create a program that provides] emergency funds available for situations that can be improved by the funding of the emergency. Think: repairing a car so someone can get to their job or day care provider, as opposed to a food box. The repair will improve the ability of someone to earn an income." –* ***Oregon***

> *"[It would be ideal] if funding were given toward collaborative partnerships between workfirst/community service organizations/social service providers/financial education providers to develop partnerships to best serve the community." –* ***Washington***

Housing

Respondents stressed that approaches to LMI housing issues should focus on increasing the supply of affordable and reasonably priced housing, and new construction should be directed toward job-rich locations, where affordable housing could be integrated with market rate housing to avoid concentrated low-income clusters. They also suggested that banks and others still holding REO and flipped properties should release them and offer priority to LMI and first-time homebuyers rather than investors.

Ensure that new construction of affordable housing is concentrated in areas of employment and opportunity, and rethink how the best locations can be determined based on the level of data available:

> *"It is time to challenge the census tract paradigm that prioritizes federal funds investment. In fact, we may be once again concentrating low-income housing into communities and neighborhoods again. Generally, these are the neighborhoods that business has abandoned. Can we consider matching affordable housing to areas of job creation?" –* ***Arizona***

> *"Use more neighborhood [level] data in determining affordability. Regional AMIs and median sales prices are misleading when a local neighborhood has a concentration of high poverty and low median sales price." –* ***California***

Encourage mixed-income developments and other models that integrate affordable homes with market rate homes:

> *"Because we have a very limited supply of land for development in our area, we need to focus now on acquiring resources for the future – land banking, land trusts, deed restrictions of units for affordable rentals. We also have to work with private-sector developers to ensure a percentage of their units are affordable. Because inclusionary zoning is illegal in Arizona, this has to be done through extractions when a developer wants a rezoning, etc." –* ***Arizona***

> *"Better financial incentives for mixed income developments would be great over the long run. The spatial segregation between wealthier, high-rent areas and poor, jobless areas amplifies the challenges of helping residents find reliable work and make financial progress."-* ***California***

Release REO and other off-market homes and offer priority or equal bid access to prospective LMI and first-time homebuyers:

> *"Require bank assets to be foreclosed expeditiously and do not allow banks to carry real estate on their books so it can enter the markets quickly and in full supply. Banks should be penalized for carrying real estate." –* ***California***

> *"[We should create] more programs that allow primary residence homebuyers and those with down-payment assistance equal opportunity to bid successfully on a home." –* ***Nevada***

> *"Get shadow inventory of foreclosed homes released into the market while pent-up demand exists to absorb it. Combine that with programs to give incentive to the servicers to move toward resolution and/or foreclosure on their severely delinquent mortgages so this backlog can be dealt with." –* ***Oregon***

Offer new asset options for non-homeowners and assist new homeowners long-term:

> *“We need to develop new investment alternatives for those where owning a home makes no economic sense.” –* ***California***
>
> *“[We should provide] consistent long-term support for lower income families in home purchasing to not only get them into homeownership but also be a support as they encounter the expenses that come with homeownership and the instability of the types of employment they are often engaged in.” –* ***California***
>
> *“We should be requiring as part of CRA commitments for banks to encourage savings and to develop other ways that people can build assets without necessarily owning a home. Stop trying to sell houses to everyone – for many who do not benefit from tax exemptions, owning a home may be a disaster. …Banks have already started to promote buying houses again and we still have many people to help get out of the muddle left over from the foreclosure crisis.” –* ***California***

Conclusion

Despite the entrenched nature of the employment, financial stability, and housing concerns respondents expressed in the 2013 survey, community development professionals across the country are tackling these issues with new comprehensive and cross-sector approaches. This year’s National Interagency Community Reinvestment Conference, taking place from March 30th to April 2nd in Chicago, will highlight a wide range of solutions currently in practice or on the horizon in American communities, reflecting many of the ideas respondents shared for program and policy approaches to complex community development challenges in the Vantage Point survey. Among other topics, panel sessions will include discussions of innovative efforts incorporating economic development, housing, health, financial education, job training, pay for success and other public-private funding models, and new uses of data and measurement. The Federal Reserve Bank of San Francisco invites those interested in these forward-looking initiatives to join the conversation at the conference and discover how new service delivery models and catalytic investments can have a positive and lasting impact on LMI communities.

Learn more and register for the 2014 National Interagency Community Reinvestment Conference here:

http://www.frbsf.org/community-development/events/2014/march/national-interagency-community-reinvestment-conference-chicago/

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VANTAGE POINT
The 12th District
Community Indicators Project

ABOUT THE INDICATORS PROJECT

The Community Indicators Project is a semiannual 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

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