

Record of Meeting
Community Advisory Council and the Board of Governors
May 18, 2023

Introduction

The May 2023 memo submitted by the Community Advisory Council of the Federal Reserve Board covers a range of topics, including an overview of the impact of current market conditions on access to credit, as well as the impact on low- and moderate-income consumers, families, and small businesses. The memo explores current housing conditions that remain particularly challenging for low-income and first-time homebuyers. The housing section is followed by a discussion of labor market dynamics, which continue to be very tight and are exacerbated, perhaps, by multiple persistent barriers to employment faced by many job seekers. Council members also call attention to some additional areas of concern, including early responses to changing banking conditions; the multitude of challenges faced by the nonprofit sector, including nonprofit health-care providers; and challenges unique to rural communities. The memo concludes with responses to an additional question focused on the condition of small businesses, which are particularly vulnerable as coronavirus (COVID-19) pandemic liquidity support ends and financial institutions tighten credit standards.

Council members call attention to the following points, in particular:

- The connection between housing and work is increasingly fraught, especially for workers in low-wage jobs. As housing costs—both to rent and to own—remain persistently high due to housing supply constraints, workers are forced to commute long distances, which exacerbates transportation and dependent care costs.
- Labor market conditions are particularly challenging in rural communities as the lack of workers affects the provision of fundamental services, such as the opening of schools.
- Community development financial institutions (CDFIs) are reporting increased demand for financial products and services as tightening credit standards and higher interest rates compel borrowers to seek alternative sources of capital. Efforts to keep capital costs affordable while operating costs are elevated is putting a strain on CDFI business models.
- Finally, several Council members call out the impact of the lack of data on subpopulations. Whether it is an accurate count of the number of people with disabilities or gaps in data on lending to people of color, the absence of complete and reliable data undermines the ability to confidently understand whether the economy is truly working for all.

1. Current market conditions: *What is the Council's view of the current condition of, and the outlook for, loan markets and financial markets generally? Has the Council observed any notable developments since its last meeting for loans in such categories as (a) small business, (b) home mortgage, (c) multifamily and affordable housing, and (d) consumers? Do Council members see economic developments in their regions that may not be apparent from the reported data or that may be early indications of trends that may not yet have become apparent in aggregated data?*

Key themes:

- Economic uncertainty is eroding consumer sentiment.
- Countercyclical lenders—CDFIs but also predatory lenders—are seeing increased demand for financial products and services.

- Low-income residents, including those in rural communities, face exacerbated challenges as COVID-19 benefits end.

High interest rates and rising prices continue to negatively affect low- and moderate-income (LMI) people, their communities, and efforts to help and support them. Overall, current market conditions feel very “unstable” and “uncertain” for residents of LMI communities, as fears around inflation and a potential recession persist. Whether navigating daily expenses such as groceries, gas, and rent in an uncertain economy or having to delay purchases on vehicles, homes, or higher education, current market conditions are having an impact on near- and longer-term financial decisions, according to Council members reports.

These conditions have eroded consumer confidence, as evidenced in local, regional, and national surveys. For example, in survey results from Lancaster County, PA, the consumer sentiment score dropped by 17 points between January and March 2023 to near 2008 levels from a 15-month high. Respondents specifically noted concern over increases in food costs. Of particular concern is that many residents have seen prices rise faster than wages in the last year. From February 2022 to February 2023, the average hourly wage in Lancaster County rose 3 percent, while inflation rose at a rate of 6 percent over the same period. Another indication of the erosion of consumer confidence is the decline in enrollment in homebuyer education courses, reflecting a “lack of hope that there’s something for them to purchase.” Council members further observed that among people living in poverty or those working directly with them, “inflation was not mentioned at all,” leading to concerns that high inflation has become “normalized.”

Higher prices also affect family budgets. In North Dakota, since the free lunch program expired in September, some school districts are seeing household debt begin to accumulate at rates faster than before the pandemic. One in thirteen children in North Dakota face hunger and food insecurity.¹ For perspective, a family of four with a household income above \$36,075 does not qualify for free school lunches.

From a different perspective, a Council member reports that venture capital activity for early stage fintech firms has decreased significantly since the last meeting. However, those companies who offer pay-day alternatives, or early wage access, continue to grow rapidly, as consumers seek access to short-term credit, reflecting the day-to-day financial challenges of many consumers.

This sense of unease among consumers is also evident among small businesses and entrepreneurs who are facing the combined challenges of inflation and the current high cost of credit. Traditional banks are tightening up credit, report Council members. For example, small business loan rates have increased from 5 to 7 percent (or more) over the past year. Reports also indicate that banks are tightening their credit box. As a result, CDFIs are seeing demand increase by 10 to 20 percent, in some places.

The full effects of this may not be felt for a month or two, but credit decisions are taking longer, reflecting a sentiment of increased caution among banks. This longer decision period is a trend that began prior to the recent bank crisis but some Council members believe will likely continue. So far, Council members reported most CDFIs are not passing on rate increases to their borrowers as their capital was secured before or during the pandemic; however, as terms come up for renewal CDFI leaders are anticipating higher rates and/or shorter terms. CDFIs also expressed concern about how regional and national bank mergers will affect the availability of capital, especially as they face higher

¹ See <https://www.feedingamerica.org/hunger-in-america/north-dakota>.

demand. When asked, CDFIs in Memphis voiced their concern about the number of regional and national bank mergers and how that will affect local access to decision makers.

However, despite macroeconomic challenges, overall CDFIs report that defaults and delinquencies remain low. Loan requests to CDFIs are diverse and include uses such as new equipment, working capital, the purchase of a key business asset such as a van or truck, and speculative real estate projects.

Council members shared that CDFIs can provide an alternative to business loans from banks by offering programs such as the State Small Business Credit Initiative (SSBCI) and the Equitable Recovery Program (ERP), which is funded by the CDFI Fund of the U.S. Department of Treasury. This memo summarizes responses to an additional question focused on small business challenges and offsetting resources (see [Small business](#)).

As is increasingly appreciated, CDFIs remain a small, yet essential, component of the capital ecosystem. In some communities, CDFIs are very small. For example, the largest CDFI in Hawaii, including six credit unions, has \$15 million in assets. Small size is a defining characteristic of CDFIs in Memphis as well. As a result, deal size is constricting broader impact and scale. Larger CDFIs, with greater capacity, do not have a consistent presence in the community. While there is strong microenterprise loan activity—loans between \$30,000 and \$50,000—there are capacity constraints that limit the ability of CDFIs to have larger impacts. These include a lack of attorneys, auditors, and other business model supports familiar with CDFIs.

Comments from Council members reveal that no market is spared from the magnitude of current housing challenges. A confluence of high interest rates and elevated prices leads to oversubscribed subsidy and credit programs. Persistent labor shortages and sporadic supply chain disruptions further confound efforts to rebalance housing supply and demand. These conditions are discussed in detail in the housing section (see [Housing markets](#)).

Equally complex is parsing out the barriers to creating a labor market that works for all. In San Antonio, Texas, for example, wages are not keeping up with housing costs. Further, an underfunded public transportation system disrupts access to employment opportunities in a city where the cost of owning a car is out of reach for many. A 45-minute bus ride from the two poorest zip codes in San Antonio will reach 10 percent of the available jobs in San Antonio. Additionally, the bus system does not provide service after 11 p.m., which does not accommodate shift workers. These conditions are not unique to San Antonio, as transportation is the “biggest barrier to work” for residents in other areas, such as Charlotte, SC. These conditions and innovative solutions are discussed in the labor section (see [Labor markets](#)).

2. *Housing markets:* *How have house prices and rental rates changed since the October 2022 meeting? Have there been any new developments in housing activity for low- and moderate-income communities in Council members’ regions?*

Key themes:

- Housing costs must be evaluated within a local context. Lower rents and payments are often correlated with higher transportation costs and/or lower wages. Even nominally, small amounts can have a significant impact on family budgets.
- Housing advocates must work on three fronts: (1) increase the production of affordable housing, (2) preserve what is already there, and (3) accommodate family size and type.

- Appreciating the scope of the problem is important. The gap in affordable housing at the local level is often in the tens of thousands of units.
- Although the concept of “affordable housing” covers a broad range of needs and incomes, those at or below 50 percent of area median income (AMI), as well as those homeless or at risk of being homeless, are most affected by lack of supply.
- Many markets are confronting the challenges of outside investors and buyers disrupting the local housing dynamics. Population migrations are also disrupting resource allocations.

Local Conditions

Local statistics show that in 2022, Louisville’s housing expenses were 21 percent lower than the national average.² Utility prices and transportation expenses were, respectively, 5 percent and 13 percent higher than the national average. Louisville’s grocery prices were 6 percent lower than the national average. At the end of 2022, rents increased 7 percent. Additionally, data from the Bureau of Labor Statistics show that wages were about 10 percent below the national average.³ When looking at the overall picture, Louisville’s LMI residents are struggling to keep pace with overall shelter costs with lower-than-average wages. The average rent for a two-bedroom, one-bath apartment in Louisville is nearly \$1,200 a month. However, the Department of Housing and Urban Development’s (HUD) 2023 fair market rent for this same apartment for those with incomes up to 80 percent of AMI should be no more than \$1,052. This \$200 difference has affected Louisville families greatly.

The Louisville Coalition for the Homeless reported in 2022 that homelessness increased 41 percent between 2018 and 2021.⁴ Because Louisville already had a shortage of more than 30,000 units for extremely low-income persons, agencies like the Louisville Affordable Housing Trust Fund have been working to increase the production of affordable housing. Over the past seven years, more than 5,000 units of affordable housing have been created. But due to rent increases, almost as many have been lost.

Last year, the Metro Council in Louisville passed an ordinance making it illegal for landlords to deny an applicant solely on the fact that they were using a housing voucher to pay rent. However, landlords raised rents above the allowable rent amount to avoid taking a voucher. Consequently, Louisville has a glut of higher-priced housing and, because of the lack of affordable housing, families are severely cost-burdened, paying 50 percent or more of their incomes on housing and related costs.

In terms of homeownership, Louisville is still a sellers’ market. Zillow reports that the average home price is \$232,788 (up 4.4 percent over the past year).⁵ However, homes in LMI areas are often more than 50 years old and need substantial renovations and rehab. In December 2022, the Louisville Metro Council allocated funds to create a Redlining Mitigation program.⁶ By realigning available American Rescue Plan Act funds and general funds, the program will target 200 potential homeowners in previously redlined areas with incomes no more than 300 percent of the federal poverty rate. Upon HUD approved counseling and purchase, these homeowners will receive a \$50,000 forgivable loan to use for renovations and rehabs for their property. The program will be a win for the community with a

² See <https://www.payscale.com/cost-of-living-calculator/Kentucky-Louisville>.

³ See https://www.bls.gov/regions/southeast/news-release/occupationalemploymentandwages_louisville.htm.

⁴ See <https://louhomeless.org/wp-content/uploads/2022/04/Addressing-Urgent-Needs-2022-Analysis-of-Homelessness-in-Louisville.pdf>.

⁵ See <https://www.zillow.com/home-values/12455/louisville-ky>.

⁶ See <https://loutrustfund.org/revert>.

reduction of vacant and abandoned houses sold to homebuyers, and a win for potential homeowners who thought affordable homeownership was out of reach.

In Hawaii, there is a very low inventory of housing for purchase or rental. Similar to Native lands, 99-year leases confound ownership financing structures as banks cannot foreclose in the event of default. The cost of building in Hawaii is particularly high. Recent advocacy efforts have compelled local governments to assume some of the infrastructure costs (e.g., laying sewer lines) to expand the supply of housing without passing costs through the developer to the buyer.

Memphis usually has a six-to-eight-month housing supply. However, developers report a current two-to-three-month supply even though supply chain issues have dissipated and there is a demand for quality units at market-rate prices. The issue is that for affordable housing purchasers, there's a requirement to take a homebuying education class, which requires a \$99 registration fee and takes a minimum of six hours to complete.⁷ Because there's a short supply, East and West Coast investors are buying up a significant number of properties and turning them into rental properties. Local elected officials are exploring legislation to curtail this.

Ohio's affordable housing shortage has worsened. There is a deficit of about 270,399 rental units that are affordable and available to the 447,717 extremely low-income households in Ohio.⁸ The shortage of affordable housing has grown 6 percent worse since the same time last year. Extremely low-income renters will continue to face barriers as housing costs, namely rent and utilities, consume over 50 percent of their income. The economic disruptions caused by the pandemic and a shrinking housing supply have left only 40 units available for every 100 Ohioans seeking affordable housing. As the number of affordable rental units plummet, more families are experiencing longer bouts of homelessness.

Market rate rents in downtown Toledo's newest development range from \$1,275 for a one-bedroom, one-bath 649 square foot unit to \$2,200 for a two-bedroom, two-bath 1,258 square foot unit.⁹ Keeping with a rule to spend no more than 30 percent of income on housing costs, a \$1,275 apartment requires a monthly salary of \$4,250 or \$51,000 a year, and we have yet to account for utilities or extras such as parking. Toledo's AMI is around \$52,000, putting these units out of reach for most residents.

Rental rates have softened in Northern California as new market units come online while the state's population continues to decline. While this is beneficial for moderate-income households, the acute shortage of low and very low-income units exacerbates the supply issues, as the affordable housing industry continues to tackle the shortage of permanent supportive housing.

Financing Solutions: Opportunities and Constraints

High interest rates and higher costs have forced housing financiers to respond to current economic conditions. Workforce housing is housing affordable to households with income levels of 80 to 120 percent of AMI. Such housing is essential for working professionals like nurses, police officers, and schoolteachers to obtain affordable housing options and live in the neighborhoods where they are employed. Without affordable options, working families are either unable to purchase their homes or they buy market rate options and spend as much as 65 percent of their income on housing.

⁷ See <https://thda.org/homebuyers/homebuyer-education/choosing-a-homebuyer-education-class>.

⁸ See <https://nlihc.org/housing-needs-by-state/ohio>.

⁹ See <https://www.zumper.com/rent-research/toledo-oh/downtown-toledo>.

In Pennsylvania, developers are not incentivized to build midrange priced homes with few subsidies or concessionary rate financial options. Programs such as HUD's HOME Investment Partnerships Program (HOME) or the Pennsylvania Housing Finance Agency's Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund (PHARE), require all for-sale housing to be affordable for families earning less than 80 percent of the AMI.¹⁰ And while there may be other local options, such as Philadelphia's "Turn the Key" program, which offers a \$75,000 subsidy for workforce housing, these programs have a limited scope.¹¹ Without subsidy or interest rate concessions, workforce housing projects are not feasible. As a result, such housing is not being built and workforce households are either purchasing homes they cannot afford or choosing to remain in rental properties. Both options prevent families from building sustainable wealth and achieving economic mobility. In today's market, workforce housing is further challenged, with inflation increasing the cost of materials and the rising interest rate market increasing the cost of financing options.

In Philadelphia, banks are tightening their credit, and CDFIs are not able to fill the gap. The requirements around accessing low-income housing tax credits (LIHTC) in Pennsylvania is exclusionary. For example, developers must present five years of experience and \$5 million net worth. These are insurmountable barriers for new developers and especially developers of color, who generally have the experience managing the development and construction of the projects but cannot meet the financial strength test. Their only alternative is to collaborate with a guarantor who routinely charges 50 to 70 percent of the fees developers earn on these projects and are rarely called upon to pay the loan in the event of default. In eastern north Philadelphia, these problems are further compounded by land banking as for-profit developers and investors purchase properties and vacant lots and hold them until the market conditions change in their favor, further constricting the supply of workforce housing and decreasing the housing inventory overall. According to one local CDC, these conditions and lack of additional subsidies have essentially shut them out of developing workforce housing. Without multifaceted and creative solutions to make workforce housing feasible, the American dream remains out of reach for many working professionals.

A new initiative will leverage a \$10 million guarantee earmark from Pennsylvania's Housing Finance Agency to support developers of color, which would leverage up to \$200 million in affordable housing. This new venture has the potential to provide guaranties for up to 20 developers who are waiting for their projects to be approved for tax credits. They are seeking final approval from Pennsylvania to implement the program. There is strong interest from banks and investors to participate. This is envisioned to be a solution that can be employed in most states.

In Lancaster, PA, the financing for affordable, for-sale housing does not "pencil out" without subsidies. To be affordable for working families earning \$69,900 per year, a home must cost less than \$250,000. However, the average cost of construction is \$345,000 per home. To make smaller scale projects feasible, the local community development corporation (CDC) utilizes creative models including mixed-use properties with commercial units on lower floors and for-sale condominiums on upper floors. In a recent development, 9 of 45 homes in a for-sale housing development project were set aside as workforce housing (utilizing PHARE monies and the income generated from a commercial unit to cover the gap).

¹⁰ See https://www.hud.gov/program_offices/comm_planning/home and <https://www.phfa.org/legislation/act105.aspx>.

¹¹ See <https://phdcphila.org/residents-and-landlords/homebuyers-and-renters/turn-the-key>.

In Virginia, intermediaries are requesting lines of credit rather than direct investment (in the form of a carefully constructed capital stack) in order to be competitive with private developers who are paying cash for properties and thus disrupting the already delicate balance of affordable housing stock. Local CDFIs have stepped up to be the intermediaries willing to assume this risk at an affordable price. Local hospitals are also key players in the financing of affordable housing, as quality housing is an important component of positive health outcomes.

In Hawaii, a local bank has just been approved to offer Federal Housing Administration and HUD loans, which will improve access to capital for homeownership.

These conditions are especially pronounced in “hot” markets feeling the impact of population migration or other factors that drive up the cost of living. A better understanding of migration patterns and drivers would help to improve resource allocation and alignment. However, in the Bay Area, market rate development has stalled, with a tightening credit market and increased construction costs. Affordable housing in California continues to be in high demand and continues to be very costly to build. Financing through private-activity bonds and 4 percent LIHTC credits, and 9 percent LIHTC credits also continues to be oversubscribed, causing many projects to have to apply multiply times for allocation, which then escalates costs and widens gaps, affecting feasibility.

Complex Homeownership Dynamics

A CDC in Memphis, TN—a somewhat competitive housing market—reported a decline in participants in their homebuyer education classes, which they attribute to prospective borrowers being priced out of the market due to higher interest rates. This organization has also observed out-of-state investors buying large numbers of affordable homes and turning them into rental properties. These cash buyers are shutting out local entrepreneurs such as a Black-owned developer that is rehabbing multiple single-family units simultaneously for the first time in a transitioning community that neighbors downtown Memphis. The firm expressed frustration as it was unable to secure traditional bank financing and ultimately obtained support from a national social enterprise real estate investment firm that made an equity investment in the project.

In Hawaii, residents are competing with people who visit Hawaii, love it, and realize taxes are low. As a result, Hawaii is seeing an outmigration of local families; there are more native Hawaiians living on the continent than at home. Homes are selling well above appraised value.

In Philadelphia, the disruptions are extending across generations. The impact of investors and limited supply has reduced mobility among those who might sell and open up inventory for first-time buyers. This is disrupting a natural pathway to homeownership and wealth building.

Meeting the Housing Needs of Persons with Disabilities

People with disabilities live in poverty at more than twice the rate of people without disabilities and the lack of affordable accessible housing is a significant barrier.¹² Additionally, the Urban Institute reports that 18 million people living with disabilities are eligible for federal housing assistance but are not receiving it.¹³ The Toledo region has a new permanent supportive housing (PSH) development underway that will help communities address the mental and behavioral health needs of their residents, including the formerly incarcerated and the chronically homeless.¹⁴ While these issues are not new, they can

¹² See <https://ncd.gov/newsroom/2017/disability-poverty-connection-2017-progress-report-release>.

¹³ See <https://www.urban.org/urban-wire/disability-justice-isnt-possible-without-housing-justice>.

¹⁴ See <https://www.lfhtoledo.org/steps-to-home>.

overwhelm already limited resources. While senior housing, workforce housing, and other popular product types continue to be important and in high demand, PSH will need to be a reprioritized part of the conversation and be constructed in parallel in order to create housing stability across communities.

3. Labor markets: *How have the labor markets in which Council members operate changed since the October 2022 meeting? Are there impediments to returning to or finding work, such as lack of child or elder care, that impact low- and moderate-income households disproportionately?*

Key themes:

- LMI residents continue to face barriers to steady employment including transportation, childcare, and elder/family care.
- Challenges persist in recruiting and retaining workers, causing employers to rethink hiring by implementing innovative strategies or in some cases doubling or tripling pay.
- People with disabilities face major barriers. Better data is needed to understand the challenges faced by this population.
- Rural areas experience these same challenges along with their own unique set of issues.
- The relationship between available housing and available workforce is becoming more pronounced.

Regional Variations in Current Labor Conditions

Stagnant or decreasing wages are still affecting communities and keeping residents financially unstable. In Cleveland, people need to work 98 hours a week to afford the average rent at Ohio's minimum wage, \$10.10 per hour, and 60 percent of the region's jobs pay below family sustaining wages. In San Antonio, wages decreased an annualized 3.4 percent in February.¹⁵ Fifty-two percent of all people in Bexar County are experiencing a financial hardship.¹⁶ Additionally, many jobs do not provide workers with other benefits. In Cleveland, 60 percent of workers in low-wage jobs do not receive paid time off, and 60 percent of uninsured individuals are employed.

Unemployment rates are staying low, but this is partly due in some places to low labor force participation rates. South Carolina is experiencing record low employment numbers. A 2022 statewide survey by the Department of Employment and Workforce found that 28 percent of respondents were not working but available to work.¹⁷ In San Antonio, the February 2023 unadjusted unemployment rate reached 4.3 percent.¹⁸ The Colorado unemployment rate was 2.8 percent in March.

Colorado has the second-highest labor force participation rate in the country, but employers are keeping their workers, perpetuating the semblance of a worker shortage. Despite the labor issues, Colorado's economy continued to outperform most other states in 2022 with faster gross domestic product, employment, and wage growth. The state's labor force grew 2.3 percent year-over-year. Despite employment surpassing the December 2019 total, from May 2022 to March 2023, there were five months with employment declines, indicating a weaker job market. Industries have varied in the extent of their recoveries with some having exceeded pre-pandemic levels and others staying well below.

¹⁵ See <https://www.dallasfed.org/research/indicators/sa/2023/sa2304>.

¹⁶ See <https://www.uwsatx.org/alice>.

¹⁷ See

https://dew.sc.gov/sites/dew/files/Documents/Data%20Trends%20Newsletter_October%202022%20Issue_PAGES.pdf.

¹⁸ See https://www.workforcesolutionsalamosa.org/wp-content/uploads/WSA_MSA_Report.pdf.

Barriers to Employment and Impacts of These Barriers

Of the individuals participating in Goodwill San Antonio's workforce program, who disclosed specific barriers, 50 percent had barriers with transportation, 25 percent had barriers with housing, and 10 percent had barriers with childcare. Not having access to reliable transportation is an issue across the country. In Cleveland, 22.4 percent of Cleveland households do not have access to a vehicle.

In South Carolina's less rural nonmetropolitan areas around 28 percent of respondents were not working but were available to work while in their most rural counties, the percentage of those not working but available to work was 37 percent.¹⁹ Respondents in less rural counties stated that their greatest barrier to getting a job was too many low-paying jobs while more rural counties said it was a lack of transportation and that having a work location closer to home would be a top factor in returning to work. Lack of childcare, gaps in employment history, low paying jobs, optimal work hours not available, and disabilities were barriers present across all counties.

The lack of broadband access also prevents people from accessing work, as much of work and interviewing has become virtual. In Cleveland, 40 percent of families with incomes less than \$20,000 do not have internet access.

In many places, an expensive housing market is keeping communities from having the necessary workforce. There are now more Hawaiians living in the continental U.S. than on the islands. As a result, the islands face a shortage of medical professionals, childcare workers, and teachers. In San Antonio, even at 200 percent of poverty level, people cannot afford housing at the 30 percent threshold.²⁰ More than 60,000 families are waiting to get an affordable housing unit from Opportunity Home San Antonio, the local housing authority.²¹ People cannot afford to live and work in these places.

The cost and availability of childcare remains a significant barrier. In Colorado, there are about 75,000 more children under the age of six whose parents are working than there are licensed day care spots. Colorado is in the top five least affordable states with the average family spending between 16 and 27 percent of their household income on childcare, compared with the national average of 13 percent and the recommended average of 7 percent.²² Productivity is likely lower because of a lack of social supports.

Strategies to Address Workforce Challenges

To address childcare challenges, local governments in Colorado are partnering with nonprofits and businesses to innovate around childcare options, such as a local hospital and a ski resort working with their employees to locate a childcare center in their facility, with the help of funding from congressional earmarks, grants, and community support to subsidize the cost to make it more affordable.

There have been several strategies to address transportation barriers. In 2022, Goodwill San Antonio provided 317 monthly bus passes and many day passes totaling over \$12,000 in direct assistance to

¹⁹ See

https://dew.sc.gov/sites/dew/files/Documents/Data%20Trends%20Newsletter_October%202022%20Issue_PAGES.pdf.

²⁰ See <https://livingwage.mit.edu/metros/41700>.

²¹ See <https://www.sacurrent.com/news/out-of-reach-why-san-antonio-cant-get-a-grip-on-its-affordable-housing-crisis-30448545>.

²² Judith Kohler, "Colorado's Child Care Gaps Laid Bare by Pandemic with Never-Ending Wait Lists, Exorbitant Costs," *Denver Post*, May 24, 2023, <https://www.denverpost.com/2023/04/30/colorado-child-day-care-cost-pandemic>.

clients. North Carolina has started implementing micro-transit service in their more rural areas. One of the most successful examples is Wilson RIDE in Wilson, NC, a town of 49,000 people, 23 percent of whom are living in poverty. In 2020, RIDE replaced all of the city's fixed routes. Utilization of public transportation by the community has quadrupled since the switch, with 54.3 percent of residents saying RIDE helped them gain or maintain employment.

There are an estimated 40,000 job openings in North Dakota, and at least 4,300 of those are health-care positions.²³ Many health-care systems have turned to obtaining work visas for foreign nurses, but the process is cumbersome and lengthy. Two-year waits or longer are common. One hospital in North Dakota has offered sign-on bonuses of \$5,000 for certified nursing assistants (CNAs) and up to \$20,000 for registered nurses (RNs), but it has not made much of a dent in the shortage.

North Dakota's rural communities have been seeking opportunities to recruit incoming immigrants. Aging populations are a concern for many rural towns. They need carpenters, plumbers, electricians, retail workers, and health-care workers. They hope that recruiting immigrants will be a possible solution, although with an increase in population, there will also be increased need for housing in places that already have a low inventory. The North Dakota Petroleum Council has created a program to recruit Ukrainian workers through the "Uniting for Ukraine" immigration process.

Four-Day Work Week to Increase Productivity

To combat burnout, recruit employees, and retain employees, leaders within the nonprofit sector have been experimenting with the four-day work week. The four-day work week has taken flight with several arts and cultural organizations, like Arts Midwest (Minneapolis, MN) and National Arts Strategies (Washington, DC).

Arts Midwest in Minneapolis has been piloting the four-day work week for nearly a year. Staff have reported increased quality of life and ability to focus while they are working, which is driving productivity. While both Arts Midwest and National Arts Strategies are leading the early adoption of the four-day work week, their path has likely been easier because of their smaller staff sizes of 23 and 9, respectively.

Unemployment Rate for Black Workers

Council members mentioned concern that the low unemployment rate for Black workers may be masking other problems. This number may be artificially low because it does not show how many people are underemployed, how many of the jobs are low-wage, low quality jobs, or how many Black adults have dropped out of the labor force entirely.

Labor Challenges Faced by People with Disabilities

In 2022, 21.3 percent of persons with a disability were employed and 7.6 percent were unemployed.²⁴ The financial well-being of people with disabilities continues to decrease, primarily due to inflation, greater difficulty in accessing income supports, and rising costs of food, utilities, and basic needs. Although there have been some gains for people with disabilities due to increased opportunities for remote work, people with disabilities live in poverty at more than twice the rate of people without disabilities and often do not have access to broadband, computers, or the training to develop their

²³ See <https://www.jobsnd.com>.

²⁴ See <https://www.bls.gov/news.release/pdf/disabl.pdf>.

computer skills.²⁵ Getting data on people with disabilities is challenging. Many data sources, including the American Community Survey, are released on a lag and the information on disability is self-reported.

Rural-Specific Challenges

For the 2021–2022 school year, North Dakota had about 167 teaching vacancies.²⁶ About 25 percent of schools in South Dakota have moved to a 4-day school week as a cost-saving measure.²⁷ Twelve schools in North Dakota have made the switch. Schools are also struggling to recruit bus drivers with commercial driver’s licenses.

For some rural residents, mail can be late for days, weeks, or even months, causing issues of late bill payments, checks being lost, and critical communications not received. Mail service is also important for Native Nations as many of them rely on mail for essential services, including access to medications, goods, communications, census forms, and mail-in ballots.²⁸

In one North Dakota nursing home, a CNA position that paid \$33 an hour before the pandemic has risen to as much as \$85, and an RN went from \$55 an hour to \$130. In 2022, eldercare facilities had to rely heavily on contracted workers, with one nursing home contracting over 14,000 hours of labor at a cost of over \$827,000.²⁹ An average of three long-term care facilities in North Dakota have closed or downsized annually since 2020.³⁰ Without permanent staff, more facilities will close, most often in rural areas. The loss of facilities and jobs will then continue to affect rural communities as other associated businesses, like local pharmacies and drug stores, will suffer.

4. *Small business:* *The Federal Reserve’s 2022 Small Business Credit Survey collected responses from close to 11,000 small employer firms (defined as firms with fewer than 1,499 full- or part-time employees) and found, overall, that revenue and employment improved since 2020, but performance largely lags pre-pandemic levels. Are Council members observing or hearing about any challenges and disruptions for small-business owners in their regions? If yes, are there actions the Council recommends the Federal Reserve consider that could help bring additional relief to small businesses? Are there other innovative solutions being implemented at the regional or local level that have shown promise?*

Key themes:

- COVID-19 supports have been exhausted, removing liquidity for many small businesses and leading to increases in business failures.
- Credit availability at banks is tightening, leading to increased demand at CDFIs.

²⁵ See <https://ncd.gov/newsroom/2017/disability-poverty-connection-2017-progress-report-release>.

²⁶ Joe Bowen, “Demand for K-12 Teachers in North Dakota Outstrips Supply,” *Grand Forks Herald*, March 4, 2022, <https://www.grandforksherald.com/news/local/demand-for-k-12-teachers-in-north-dakota-outstrips-supply>.

²⁷ Dave Roberts, “A Surprising Number of South Dakota Schools Only Have 4-Day Weeks,” *ESPN Sioux Falls*, February 24, 2022, <https://espnsiouxfalls.com/a-surprising-number-of-south-dakota-schools-only-have-4-day-weeks>.

²⁸ See <https://collegefund.org/advocacy/save-the-u-s-post-office-vital-to-voting-goods-and-services-in-indian-country>.

²⁹ North Dakota News Cooperative, “Elderly Care Facilities Face Downsizing, Closure If Workforce Challenges Unmet,” February 7, 2023, <https://www.newscoopnd.org/news/elderly-care-facilities-face-downsizing-closure-if-workforce-challenges-unmet>.

³⁰ See <https://ndltca.org/wp-content/uploads/2023/02/NDLTCA-Facts-and-Figures-2023.pdf>.

- Supply chain issues have been improving, but for small businesses with tight margins hiring remains a challenge.

One Council Member’s CDFI Experience of Small Business Conditions from October 2022 through April 2023

Smaller businesses (50 or fewer employees) are still struggling regain their footing following the pandemic due to workforce shortages, supply chain issues, inflation pressures, higher interest rates, and generalized uncertainty about the economy, including worry about the impact of debt ceiling default, fallout from the banking crisis, and fear of a recession.

Government supports available during the pandemic have sunset and the proceeds have largely been spent, and small businesses are now turning to borrowing from personal sources or high-rate debt like credit card debt and fintech loans. For many of these products, the repayment terms are debilitating, leading small businesses to search for cheaper, more flexible capital to smooth out their cash flow. They have turned to banks—where, if banks are unable to fund their needs, the banks refer these businesses to CDFIs like Colorado Enterprise Fund (CEF).

In CEF’s existing portfolio, there has been an increase in delinquencies and charge-offs. On a portfolio of \$31 million, 3 percent (\$1.1 million) has been charged off since October, or an annual rate of 6 percent, compared to an average charge-off rate of 1.5 percent for the last five years. Of those charged off in the last six months, half are startups that were opened during the pandemic. Others that are struggling have exhausted all COVID-19 supports and can’t generate the revenues to make ends meet. Expenses have increased with higher material and labor costs, and many have business models that are no longer relevant or that did not pivot to meet a changed market landscape. In addition, consumers are being more cautious about spending due to increased credit card debt and interest rates along with uncertainty about the future.

Inquiries for business loans have increased at CEF. CEF leadership reports a “barbell effect” of the type, size, and quality of the businesses seeking financing from CEF. Customers are either businesses that are struggling and searching for any financing they can find, or they are skewing toward what would previously have been more bankable loan requests. With banks tightening their credit criteria, they are sending CDFIs requests that they otherwise would have considered, such as larger loans in the low six-figure amounts, loans that are collateralized, and applications from businesses with good track records. These businesses are now not bankable because banks are lending only to their best business customers and are requiring the highest level of credit quality in small business loans.

Other Regional Small Business Perspectives

In Pennsylvania, declining consumer sentiment is also reflected in entrepreneurial sentiment, resulting in increased risk aversion. Restrictive factors for business owners may be inflation itself coupled with the current high cost of credit. Traditional banks are tightening credit; for example, a small business loan that might have received a rate of 5 percent one year ago is currently garnering a rate of 7 percent for the same loan. CDFIs can provide an alternative to business loans from banks by offering programs such as the SSBCI and the ERP, which is funded by the CDFI Fund of the U.S. Department of Treasury.

In Hawaii, high interest rates and a tightening credit box is having an impact on small business outlook, especially when combined with the expiration of COVID-19 support. Hawaii rebounded quickly from pandemic travel restrictions which buoyed many small businesses but exposed the state’s dependence on tourism.

5. *Additional matters:* *Have any other matters affecting consumers and communities emerged from the work of the Council members that they want to present at this time?*

Impact of Some Regulatory Efforts on Lending to People of Color

The Consumer Financial Protection Bureau's (CFPB) new rule to increase transparency in small business lending seems to lay the groundwork to combat unlawful discrimination in lending by requiring financial institutions to collect and report information about the small business credit applications they receive, including geographic and demographic data, lending decisions, as well as the price of credit that is extended to small businesses.³¹

Council members encourage the Federal Reserve Board of Governors to require clear guidelines on how the agencies will collaborate on the collection, dissemination, and analysis of the data, as it has the potential to provide key insights into how financial institutions are, or are not, meeting the needs of small businesses owned by people of color. Some Council members continue to suggest that banks receive poor Community Reinvestment Act (CRA) exam ratings if they are not lending to people of color or serving the needs of the community.

Loans made to people of color continue to lag behind loans to White business owners. For example, the most recent Small Business Credit Survey, issued by the Federal Reserve in March 2023, reveals that Black-owned businesses were less likely to be fully approved for the credit they requested.³² The report reveals that between 2019 and 2022, the percentage of Black-owned businesses obtaining the full amount of credit requested dropped from 34 to 20 percent, compared to the percentage for White-owned businesses that dropped from 66 to 58 percent.

Health-Care Concerns

Health care continues to be of great concern to consumers and communities. There continue to be barriers to accessing care in many rural and urban communities and consumers continue to express concerns over price transparency and medication cost. Hospitals are still experiencing staffing shortages and the impacts of inflation on operating costs. By the beginning of 2023, all nonprofit hospitals will be following Centers for Medicare and Medicaid Services mandates for screening of admitted patients for food, housing, utilities/financial stability, and transportation. While there is a mandate to screen for these drivers of health, there is no mandate or additionally available financial resources to create or manage solutions.

Impact of High Interest Rates on Philanthropy and the Nonprofit Sector

The number of donors to nonprofits declined 7 percent in the fourth quarter of 2022.³³ Without intervention, many working in the nonprofit sector may see increased demand for their services (rental help, heating assistance, food, and nutrition assistance, etc.) while also experiencing a decrease in available discretionary funds which are so critically provided by individual donors. Catalyzing charitable giving incentives for all taxpayers may provide enough momentum to support nonprofits across the nation as they continue to extend and expand their offerings to support Americans in need.

³¹ Consumer Financial Protection Bureau, "CFPB Finalizes Rule to Create a New Data Set on Small Business Lending in America," news release, March 30, 2023, <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finalizes-rule-to-create-a-new-data-set-on-small-business-lending-in-america>.

³² See <https://www.fedsmallbusiness.org/survey/2023/report-on-employer-firms>.

³³ See <https://independentsector.org/resource/health-of-the-u-s-nonprofit-sector>.

Accessibility of Available Federal Funding by Rural Communities

There are more than 400 federal programs designed for rural communities. On February 16, 2023, President Biden issued an Executive Order that the federal government will “invest in communities where Federal policies have historically impeded equal opportunity—both rural and urban—in ways that mitigate economic displacement, expand access to capital, preserve housing and neighborhood affordability, root out discrimination in the housing market, and build community wealth.”³⁴

These programs that are designed to help rural and underserved communities most in need have the potential of not being fully accessed because of a lack of capacity and resources to identify, evaluate, apply for, and report on federal funding. Of North Dakota’s 356 municipalities, only 13 have populations more than 5,000. Very few municipalities have a full-time city auditor. None have full-time—or even part-time—grant writers. Nor do they have access to sufficient discretionary funding required to meet federal matching funds rules or to begin architecture or engineering services needed to assemble a shovel-ready project for federal funding consideration. Future efforts to create equitable economic opportunity and advance projects that build community wealth in rural and remote states need long-term (10+ year commitments) and boots-on-the-ground partners able to build the capacity of rural communities. Without this deep level of sustainability, changes in rural and remote spaces may not be realized over time.

Income Supports

LMI families receive income support from a wide range of programs. Yet, there are long-standing engrained problems with the system of income support for U.S. workers and their families, which was starkly brought to light during the pandemic. The systems were woefully insufficient to provide relief for those in need.³⁵ The lack of adequate income supports continues to impact families who are looking for adequate housing and/or are in the workforce.

There are three main barriers to sufficient income support programs: Eligibility rules are too strict, benefits are too difficult to access even when people are eligible, and benefit amounts are too low. One report estimates that the vast majority of people in the United States are at risk of a change in income that would lead them to experience poverty for one to two years.³⁶

Weaknesses in our nation’s income support system also impairs the overall strength and growth potential of the U.S. economy through lowered labor force participation, a weakened macroeconomy during economic recessions, and underinvestment in the human capital of the next generation of workers. During recessions, for example, income supports act as an “automatic stabilizer.”³⁷

Supplemental Nutrition Assistance Program (SNAP) recipients in Ohio have received extra SNAP benefits since April 2020 to help cover the cost of groceries. These extra SNAP benefits recently ended, resulting in \$126 million less in SNAP spending each month throughout Ohio. Community agencies are supporting

³⁴ See <https://www.whitehouse.gov/briefing-room/presidential-actions/2023/02/16/executive-order-on-further-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government>.

³⁵ See <https://equitablegrowth.org/the-only-thing-better-than-strengthening-federal-social-supports-now-to-prevent-a-coronavirus-recession-is-strengthening-them-forever>.

³⁶ See <https://onlinelibrary.wiley.com/doi/epdf/10.1002/pam.1026>.

³⁷ See <https://equitablegrowth.org/planning-for-the-next-recession-by-reforming-u-s-macroeconomic-policy-automatic-stabilizers> and <https://www.brookings.edu/research/unemployment-insurance-and-macroeconomic-stabilization>.

SNAP households in getting the correct benefit amount by verifying expenses like housing, childcare, and medical cost.

Bank Failures

Any successful “run” on a bank serves to erode consumer confidence in banks and banking, despite the fact that most people’s deposits are completely insured by the Federal Deposit Insurance Corporation (FDIC). One Council member has observed a flight from neobanks—fintechs that usually partner with a bank to provide federally insured bank accounts—by consumers, and a flight to neobanks for small business. Neobanks typically offer faster, more automated Know Your Business verification and technology to defray large deposit amounts across multiple accounts, automatically (to maintain FDIC insurance).

Dozens of smaller (many Fed regulated) banks offer “rent a charter” services to fintechs. These relationships are typically not well understood by regulators, and the Silicon Valley Bank failure should serve as an opportunity to better understand how these banks interact with technology partners.

Further, regional banks are an important source of credit and capital for CDFIs. Disruptions, including consolidations, among regional banks have the potential to further restrict capital for CDFI lending.

Conclusion

In summary, the Council would like to close with the following calls to action:

- CAC members call attention to the importance of CRA modernization and its role in ensuring equitable access to credit. We look forward to continuing discussions around effective implementation of the updated rule, including the collection of data to reflect the scope of bank activities.
- Sustain and grow resources for CDFIs by supporting the leveraging of both CDFI Fund resources as well as financial institution support. CDFIs are essential partners in economic downturns, ensuring a supply of capital and technical assistance to consumers and small businesses.
- Support and grow the supply of affordable housing. The supply of affordable housing at all levels is extremely constrained. While resources must be deployed to increase availability, it should not be at the expense of sustaining the existing stock of safe, accessible, quality housing.
- Work to align the supply and demand of labor. The constrained labor supply resonates across the regions represented by the Council, creating wage and benefit pressures. However, in some places, especially rural markets, the lack of labor supply is affecting the provision of the most basic, essential services.
- Consider the local context in policy creation, implementation, and evaluation. Impact, return on investment, and other outcome measurements will vary depending on whether a policy is deployed in a rural or urban context, for example.
- Collect disaggregated data that reflects the complexity of local conditions. The Council calls on the Federal Reserve to leverage its role as an objective economic research institution to collect, analyze, and disseminate data that lifts up the conditions of various populations to ensure effective policy development.