

Record of Meeting
Community Advisory Council and the Board of Governors
October 20, 2022

Introduction

Despite efforts to slow inflation, the continued rise in interest rates is strongly affecting small business's access to affordable capital, individuals' access to mortgages, and plans to increase the supply of affordable housing. While narratives of softening in both the labor and housing markets emerge, overall, employers are challenged to find workers—especially for lower-wage, in-person positions—and first-time, low-income, and low-equity borrowers remain shut out of the housing market, placing pressure on rental markets. The impact of inflation on families remains significant; while gas prices have abated, the rising cost of day-to-day expenses challenge household budgets. Reports from Community Advisory Council members reveal regional nuances and feature localized examples. This memo also highlights other areas of concern for members regarding the significant economic impact of climate change, using the case of the summer flooding from eastern Kentucky; the workforce challenges of people with disabilities and the growing number of working people struggling with long COVID; the strains faced by the nonprofit sector in the face of continuing high demand; and, finally, the mental health toll of the pandemic followed by ongoing economic challenges.

With these significant challenges in mind, however, the CAC members also bring forward a section of "[Things That Work](#)." This is a non-exhaustive list of policies and programs that have proven effective and that should be reinstated, continued, or expanded.

Current Market Conditions

Small business owners are facing cautious loan markets, as banks monitor their portfolios for narrowing profit margins, although so far revenues seem to be holding up. Council members report that while there still seem to be opportunities for small businesses, things are slowing down. Established small businesses report being more confident in passing price increases to their customers, while newer businesses face greater uncertainty.

Some small business owners are applying for credit "just in case" or to offset price increases, relying on working capital loans not to fuel growth, but for sustainability. This is increasingly challenging in a higher interest rate environment, as "they can't afford to make mistakes." Small business loan demand for a community development financial institution (CDFI) in Colorado is "flat," despite their ability to offer lower, fixed rates. A CDFI serving metro Memphis reports that borrowers have a lot of questions about the potential impact of further increases. Despite early evidence of some increases in slow payments emerging, overall, small businesses and those that serve them report near pre-pandemic levels of activity.

Housing market conditions are particularly challenging for low-income, first-time, or low-equity borrowers. Further, the current interest rate environment and ongoing cost pressures thwart efforts to increase the supply of affordable housing, putting pressure on rents. In Iowa, typically somewhat immune to market fluctuations, mortgage applications have gone flat. Again, this is attributed to general uncertainty.

Across the nation, affordable housing or anything serving the lower end of the income spectrum "isn't getting built." The Bay Area, and to a larger extent California generally, exemplifies conditions faced in

other regions of the country: new construction has come to a halt as supply chain issues and increased interest rates have increased the cost of development. This has constrained supply of new units and increased competition among those looking for rental units. Lower income households are challenged to find units at their income levels, creating an unsustainable rent burden for those households. Supply chain costs and increased interest rates have also affected affordable housing starts, as more projects result in larger, unfilled funding gaps. The bond/low-income housing tax credit (LIHTC) allocations are oversubscribed by 4 to 1, thus, projects lose their soft funding. Other public sources of funds are oversubscribed elsewhere as well. In Pennsylvania, three funds were created at the state level to help close the gap in LIHTC projects.

In Louisville, Kentucky, for example, affordable housing deals can't close with higher interest rates. Despite efforts to use American Rescue Plan Act (ARPA) funds to generate new projects to meet rising demand, developers submitted requests to fill gaps in existing projects. The city received requests totaling \$98 million, three times greater than available funds. Money has been diverted to save projects rather than create new projects.

As a result of affordability challenges, several Council members reported seeing the re-emergence of adjustable-rate mortgages, products that increase vulnerability for low-income, low-equity borrowers in a volatile market. For many, a preapproval is meaningless, as households are shut out of the market.

These conditions are, in turn, having an impact on construction jobs. A developer of housing on Native American land in New Mexico has laid off 16 of 20 people, reporting that "clients who were qualified three months ago are no longer qualified. Rising interest rates have eliminated 80 percent of their pipeline."

Consumers have been getting a break with lower gasoline prices, but that has been offset by higher electricity and other prices. People are being forced to make tough choices regarding how incomes are spent. Social service organizations, hospitals, and others who often employ low-wage workers are sending both staff and clients to food banks and other sources of support. Social determinants of health screenings reveal that patients can't afford food in the face of rising rent costs. These experiences may seem discordant with reports of a robust tourism and entertainment rebound. There seems to be a bifurcation between those who have enough of a buffer to weather price/rate increases and those for whom there is no capacity to absorb the effects of inflation.

Housing Markets

Key Themes

- Broad reports of softening in the housing market are largely not resonating through communities served by Council members. Although there are a couple mentions of houses sitting longer on the market leading to increased inventory, supply of affordable housing is so constrained that low- and moderate-income (LMI), first-time, and low-equity borrowers are effectively shut out of the market.
- This in turn places strong pressure on rental housing as evidenced by reports of double digit rent increases and landlords with no incentives to accept housing vouchers or make any other concessions.
- Efforts to increase the supply of affordable housing are thwarted by increased costs (of capital, labor, and building materials) leading to oversubscribed tax credit programs and insurmountable funding gaps. As a result, affordable housing development projects are being scaled back in terms of number of units/quality of product or cancelled altogether.

- Certain areas and populations are disproportionately affected: these include areas affected by climate change (see comments from eastern Kentucky) and those with almost endemic housing challenges, such as Native populations living on tribal lands.

The **Louisville** Metro Affordable Housing Trust Fund was awarded \$40 million in ARPA funds for affordable housing projects in Louisville, Kentucky. During a 30-day application window opened in June 2022, 17 applications were received requesting more than \$98 million in funding for projects. Of these applications, four were from projects previously awarded with other funding now facing collapse due to the shortfall in the capital stack. Further, units on the market are not selling because preapproval letters are no longer valid due to the effect of rising interest rates on affordability.

This in turn impacts rents. Average rent for a two-bedroom apartment in Louisville is between \$1,200 to \$1,400 a month, while the Department of Housing and Urban Development's (HUD) 2022 Fair Market Rent is \$958 for a two-bedroom unit, creating a substantial affordability gap in the community. To illustrate further, a 1,200 square foot, three-bedroom/two-bath home previously cost less than \$200,000 in 2020. Today, this same home costs \$230,000. In 2018, Louisville, Jefferson County, Kentucky had a shortage of more than 31,000 units of housing for those making less than 30 percent of the area median income (AMI). Even those with vouchers are having a difficult time locating a landlord that will accept the voucher due to the rents being out of reach. Finally, one of the most troubling occurrences to hit the area is corporate purchases of "bundled" homes that take units out of inventory for those who need affordable rents or even affordable homeownership.

In **Pennsylvania**, 70 percent of extremely low-income renter households have a severe housing cost burden, paying more than 50 percent of monthly income on rent. The National Low Income Housing Coalition further notes that the state has a shortage of 266,618 rental units that are affordable to low- and extremely low-income households, and 27 percent of those households are home to persons with disabilities.

Iowa has seen its housing market slow since May 2022. As mortgage/interest rates have increased, the number of homes sold has slowed as people have been priced out of the market. Nevertheless, home prices continue to increase and are expected to hold steady over the next year. According to the Iowa Association of Realtors, overall, the housing market has cooled due to a combination of rising interest rates, inflation, and increasing home prices.¹ Despite the slowing market, the inventory of homes for sale has increased since the spring and turnover remains a relatively quick 24 days on the market. As a result, rents are increasing: rate hikes as high as 30 percent have been reported. Throughout Central Iowa, median rent has increased approximately 1 percent a month over the past 4-6 months (so approximately 5 percent since May). Rent increases have been a major driver of evictions. Evictions are expected to near record levels in Iowa (with over 17,000 evictions) in 2022 as emergency COVID-19 aid has ended.² According to the National Low Income Housing Coalition, Iowa has a deficit of 57,057 affordable rental homes available for extremely low-income renters, whose incomes are at or below the poverty guideline or 30 percent of the AMI.³ A study conducted by the Housing Assistance Council has identified that rural America is losing its affordable rental housing at an "alarming" rate. An important source of rural housing are rental homes financed by the U.S. Department of Agriculture (USDA).

¹ See <https://www.iowarealtors.com>.

² Linh Ta, "Iowa Evictions Predicted to Break Records in 2022," *Axios Des Moines*, April 18, 2022, <https://www.axios.com/local/des-moines/2022/04/18/iowa-evictions-near-record-2022-legal-aid>.

³ See <https://nlihc.org/housing-needs-by-state/iowa>.

However, no new USDA direct-financed rental housing has been developed in years and the existing properties are increasingly losing their affordability provisions. The Midwest and South may be disproportionately affected since they have the largest concentration of Section 515 properties. The majority of Section 515 rentals are occupied by seniors and people with disabilities.⁴

In **Utah**, ARPA funds have been deployed for many of the most vulnerable to help families and individuals remain in their homes during the COVID crisis through rental relief programs that have been well coordinated through various community organizations. There are ARPA funds earmarked for mortgage payment relief, but most of the funds have not been deployed. During the 2022 Utah State legislative session, Governor Spencer Cox requested \$128 million in ARPA funds for deeply affordable housing; the legislature only approved \$55 million. Prior to the pandemic, Utah had an affordable housing shortage of about 60,000 units, primarily in urban areas. The pandemic exacerbated the need for deeply affordable workforce housing in Utah's rural areas that are popular tourist destinations. Seventeen affordable housing projects were approved to create 1,078 affordable units and some homeless shelters over the coming years. In the past six months, approximately 71 percent of Utah households were priced out of the median-priced home market, increasing demand for rental housing. Rents in urban areas in northern Utah have increased as much in the past 2 years as in the prior 10 years (between 2010 and 2020). In western Salt Lake County, a diverse, LMI community with traditionally affordable homes and rents, residents have seen rent increases as high as 42 percent.

In the **Memphis** metro area, investor acquisitions have had a positive impact on housing supply, which had at one point an inventory as low as two months. Now, those conditions are easing, with several multifamily developments seeking financing. Single-family construction is slowing, but multifamily development still has a healthy pipeline, at varying price points. Nonprofit developers doing single-family construction are seeing financing gaps (due to increased materials costs) resulting in larger requests for philanthropic dollars.

A Council member who finances housing across a **variety of markets** is also observing greater financing gaps and a slowdown of timelines. Previously, loans carried 3-5-year terms, but they are now seeing requests asking for a 10-year commitment or more, rendering the projects not financially feasible. Projects in tertiary markets are struggling, although they often offer affordable housing options. The current environment makes it impossible to fund projects in some of the most in need markets for some of the most in need populations.

In other regions, the effects of climate change have turned a challenging housing situation into a disastrous one. In **eastern Kentucky**, thousands of homes were destroyed during summer flooding. There is an estimated need for 16,000 new homes (not inclusive of the need for repairs) across a six-county area. A recent investment of \$1.2 million will pay for 16 homes. These communities find themselves at the intersection of housing policy/investment and climate change where there is a great need for climate adaptable and climate resilient housing.

Native Americans live in overcrowded housing at a rate higher than any other racial group.⁵ Multigenerational living, remote learning and work, and COVID have put additional strains on already severely strained housing conditions. Native Americans in tribal areas also have some of the greatest

⁴ See https://ruralhome.org/wp-content/uploads/storage/documents/publications/rrreports/A_Platform_For_Preservation_EXECUTIVE%20SUMMARY.pdf.

⁵ See <https://www.commonwealthfund.org/blog/2020/challenge-covid-19-and-american-indian-health>.

housing needs in the United States. They face high poverty rates and low incomes, overcrowding, lack of plumbing and heat, and unique development issues. Despite the growing need for safe, decent homes, federal investments in affordable housing on tribal lands have been chronically underfunded for decades, particularly in more rural and remote areas. Recent changes to federal Native housing programs have led to an even greater reduction in resources for communities most in need.

In the Mountain West, more than a fifth of homeowners with a mortgage spend at least 35 percent of their monthly income on housing, according to data released last week by the U.S. Census Bureau.⁶ Nearly 40 percent of renters region-wide spend more than a third of their income on rent, and vacancy rates are declining as supply chains, labor shortages, and inflation make it challenging to build more units.⁷

It should be noted that addressing the housing supply issue is also a workforce concern, as skilled tradespeople are needed to complete the work. Shifts in the demographics of the trades are already being observed. For example, in the Boston area, electricians have shifted from being 95 percent male, to being 43 percent female and people of color. However, diversifying trades require apprentices to be on the job. In many areas with the greatest need, the lack of skilled tradespeople and the pipelines to augment the workforce are a primary obstacle to the creation of affordable housing. The experience of the Cheyenne River Reservation illustrates this challenge: “Inflation has made it all but impossible for affordable housing. The cost of materials is declining a bit but we have voids in our markets for specific services (house moving, plumbers, trenchers, etc.). Our homeowners are competing with ag producers for water and infrastructure improvements and often times, the ag business will be able to secure the contractors but a homeowner can’t. It’s the same for electricians; many of them don’t want the hassle of the \$1,800 residential connection and have enough workload to work on bigger projects. The only way middle-income community members can afford to get a house into our community is a manufactured home. We have one contractor who is starting to build them from the ground up. But, because material costs are so high, the cost to build a two-bedroom home is about \$80,000 more than a manufactured home.”

Corporate and private equity investors are buying up mobile home parks and raising the rent for the pad site, impacting the owners and renters of these homes. In Colorado, a law was enacted in 2022 to require a 120 day “cooling off” period before the sale of a mobile home park to enable residents or a nonprofit that would benefit the residents to purchase the park. In Colorado, a park was for sale for \$7 million in a rural persistent poverty county, but the residents are having a hard time finding financing for the purchase. In the mountain town of Edwards, many of the workers for the Vail resort area live in the largest mobile home park in the state of Colorado, which has 1,000 homes. In this park, the monthly pad rent is \$1,000, plus an additional \$4,500 per month, for a total of \$5,550. This is a predatory situation that is only getting worse as investors learn that mobile home parks are a lucrative investment. The Colorado Mobile Home Act seeks to mitigate the situation, but these communities are still vulnerable.

Labor Markets

Key Themes

- Women are being excluded from the labor market because they cannot afford childcare. This is *the* major barrier to women reentering the workforce.

⁶ See <https://www.census.gov/programs-surveys/ahs.html>.

⁷ See <https://www.kunc.org/regional-news/2022-09-20/insurance-coverage-expanded-housing-supply-contracted-in-the-region-during-the-pandemic>.

- There is a labor shortage, especially for skilled labor. Workers are finding other jobs, dropping out of the labor force early, or retiring.
- The health-care sector has been particularly affected by the pandemic. Hospitals have laid off anyone who isn't critically necessary, and they are struggling to find workers, often nurses, to fill the positions they do have.
- There is a need for increased training to help employees address the wage gap and to increase diversity in quality, union jobs.
- People with disabilities have struggled to enter the labor force. When considering the labor market, there should be more of a focus on inclusion and ensuring that everyone can participate without fear of losing benefits.

Regional Observations

The Council continues to see the pandemic's effects on the labor market. There has been some cooling off as companies begin laying off workers, but others are still unable to find the labor they need.

Council members have observed layoffs at all levels, including salaried employees. There is a belief that large companies are going to start doing these layoffs purposefully to try to bring up unemployment and slow down inflation.

The effect of the pandemic on labor force participation has affected Americans unevenly. In Iowa, women have been leaving the labor force since the beginning of the pandemic. More recently, the governor implemented stricter guidelines for unemployment insurance, creating a much higher incentive for people to return to work. Labor force participation rates have increased, but they're still not back to pre-pandemic levels. There isn't enough childcare, especially affordable childcare. This has kept women out of the labor market, as they often have no option other than staying home with their children. In August, when kids started going back to school, there was a spike in women going back to work. Even with this rise, many companies are not fully staffed. This is partially because they can't find people, but it is also because of rising labor costs.

COVID has created similarly inequitable effects in Kentucky's economy. The gains from increased wages and opportunities have not been equally distributed. Women have been excluded from the labor force here as well. In the fourth quarter of 2021, employment levels for men were higher than they had been pre-pandemic while women's employment levels were 1.4 percent below the baseline. Black Kentuckians were also harder hit. They make up 9.9 percent of Kentucky's workforce but accounted for 17.3 percent of unemployment insurance claims at the end of 2021.⁸ Kentucky has also been heavily affected by the labor shortage. In August of 2021, the state had one of the highest quit rates in the nation and one of the highest job-opening rates.⁹

San Francisco has also been heavily affected by the labor shortage, particularly in education, childcare, and health care. While these sectors have been impacted in many other areas of the nation, the high cost of living is an additional barrier to employment.

Utah has also been affected by the labor shortage. With only a 2 percent unemployment rate, they are still struggling.

⁸ Joseph Zeballos-Roig, "A Kentucky Democrat Says Solving the Labor Shortage Is 'Cultural' Because Young People Now 'Can Make as Much Money Being a Barista as They Can Being an Assembly-Line Worker,'" *Yahoo! News*, December 21, 2021, <https://news.yahoo.com/kentucky-democrat-says-solving-labor-152357431.html>.

⁹ Zeballos-Roig, "A Kentucky Democrat Says Solving the Labor Shortage Is 'Cultural.'"

In Houston, as in the other areas, their main concerns include access to childcare, and hiring and retaining workers. There is a fear that the economy will soon be entering a recession.

The labor market has recovered more slowly in rural areas. There is a concern that people may move to urban places. Before COVID, rural areas were unable to compete with urban areas on labor, capital, or salaries, and the pandemic has not improved their conditions. Rather than remote work compelling moves to rural areas, people have been moving to the suburbs and the urban fringe. In Iowa, supply chain issues have caused a manufacturing facility to close. It may be the first of many.

Employment Challenges

Employers are still struggling to find enough workers, especially skilled workers. People are considering if they want to continue doing the kind of work they were doing before the pandemic. Additionally, low-income families struggle to work and pay for childcare. With schools reopening, people will be able to return to work. However, workers also struggle to pay transportation costs to get to work. People want to work, but if their entire paycheck is taken up by childcare and transportation costs, it becomes pointless. Inflation further exacerbates the impact of these costs.

The economy is hemorrhaging jobs, especially in certain sectors. Schools are unable to fill positions because of mental health issues and early retirement. Teachers are no longer willing to tolerate the stress and low pay. People who do want to return to work, often women, cannot afford childcare. Home childcare providers are also experiencing challenges making ends meet. Seasoned, experienced construction companies may still have a good supply of skilled laborers, but smaller, less established places are having challenges. The public transportation sector has had large numbers of people retire without enough new workers to replace them. Nonprofits are struggling to offer competitive salaries to attract employees, so some foundations are shifting funding toward general operating grants to help with salaries. Tennessee (and many other states) has hundreds of millions of infrastructure and State Small Business Credit Initiative (SSBCI) dollars that have not been used yet, and nonprofits have been trying to access this money to help address this issue.

Workforce Development

There should be a focus on increasing the number of training programs that will prepare workers, especially women and people of color, for available union jobs. People are trying to improve their working conditions on their own, through unionizing. There is an opportunity to address the infrastructure needs of the country with a unionized workforce.

One program helped people attend CNA (certified nursing assistant) training where they are almost guaranteed secure employment after 16 weeks of training. If programs have good relationships with rural hospitals, whole classes of CNA students can get hired.

Another policy allowed unionized home childcare providers to provide subsidized childcare to workers entering the trades in an effort to attract mothers, although fathers are also eligible. Participants receive cash assistance for childcare for 12 months. Working in the trades often requires flexible options, with children needing to be dropped off as early as 5 a.m. Policies like this one can improve diversity in unionized jobs.

Workforce development is typically focused on training people to address the skills gaps rather than the wage gap, which shifts responsibility for the solution to the individual rather than recognizing systemic barriers. There should be an increase in unionization in the childcare sector, and in the care sector as a whole. There are often structural barriers to unionizing these jobs.

Nonprofits

Nonprofit organizations and community development organizations make up 30 percent of the workforce in the U.S. In northeastern Ohio alone, over the last two years 408,313 nonprofit employees quit their jobs, 481,559 need training to get ahead, and more than 76,000 retired early. As employers face a labor shortage, they do not necessarily have the internal resources to recruit and train those from LMI populations into open jobs, yet they are not willing to spend the money or resources to hire nonprofit organizations that might tap into the nontraditional labor force to find workers.

Throughout the pandemic, local governments received significant infusions of funding to address the multitude of problems emerging with COVID. Much of that funding and the resulting services were deployed through community organizations. The increased demand on services that resulted from COVID has not abated, even as donations declined. In many places, much of the funding has not been distributed due to a cumbersome grant process.

Nonprofits and community development organizations are significant economic actors in many parts of the country. In Cuyahoga County, Ohio, which has a population of 1.3 million people, there are 5,871 nonprofit community organizations that make up 24 percent of the county's workforce and put more than \$24 billion back into the economy. Eighty percent of nonprofit organizations have revenues less than \$200,000 yet account for 33 percent of the county's \$87 billion GDP (gross domestic product). A significant amount, if not most, of their revenue, especially for health and human services organizations, comes from government sources, which do not fully cover the cost of doing business.

Twenty-eight percent of nonprofits do not have any reserves at all, making it extremely challenging to navigate economic downturns, shifts in government reimbursement rates, and public health crises. Nonprofits are discouraged from maintaining large reserves that would help them weather an economic downturn.

Nonprofit median salary in Cuyahoga County is \$21,600, which is not a livable wage; many staff qualify for the same public benefits that the clients they serve qualify for. Staff working at nonprofit organizations that provide workforce support and training for individuals with disabilities make a median salary of \$14,400, 35 percent lower than the median earnings of other nonprofit staff across the sector.¹⁰

The shift to hybrid work is unlikely to help people with disabilities as they often work in service-oriented jobs without a remote option. Even if they are hired in a hybrid workplace, they may not have the necessary technology or internet access. Many people with disabilities fear that they will lose more from reduced benefits than they will be paid. And, once benefits are reduced, it can take three to six months to reinstate original benefits. Having a disability is expensive, and families cannot afford to go months without support.

Health Care

Recently, organizations have been adding mental health services through their health-care plan or hiring mental health staff. It's not uncommon for schools to have a therapist and one or two social workers to address issues coming out of the pandemic. This started out as an effort to support students, but it's

¹⁰ See "Nonprofit Landscape Assessment: Cuyahoga County," https://datastudio.google.com/reporting/21e17590-86e5-41bb-b32a-e7b4de91eaa7/page/p_5tfcx1e3sc.

now also being used by teachers. There is a worry that the nation will run out of mental health care providers now that the need is so high across the country.

Hospital staff have experienced pandemic burnout. A travel nurse phenomenon, where nurses were paid more to travel than to stay in one hospital, has accelerated staffing issues. One hospital system has created a “Flex Team” where nurses can work at any of the system’s five hospitals, four emergency rooms, or other specialty offices. The historical struggles of being a health-care worker—being overworked, burnout, and underpaid—is no longer acceptable to health-care professionals. Organizations are having to change their practices to attract and retain the workers they need.

However, other health jobs are also in high demand. Home health and personal health aides are projected to have the highest number of new jobs created in the next 10 years.¹¹ They are the backbone of the workforce, but they are not well paid, and there is often no opportunity for them to move beyond an hourly position.

Not all sectors of health care have been looking to attract workers. There have been unprecedented layoffs in hospitals. Typically, layoffs mainly affect entry-level workers, but hospitals have laid off many who aren’t “clinically a necessity.”

Challenges for People with Disabilities

People with disabilities, both long COVID and preexisting disabilities, have a higher unemployment rate, and many of them have dropped out of the labor force. There need to be efforts to strategically target people with disabilities. This can be challenging as this population of workers may not always know what accommodations they’ll need before they start. Now that companies are struggling to find employees, there have been more requests for diversity, equity, and inclusion training and for workers that may not have been considered before.

Unless an individual has access to short-term and long-term disability insurance (which will likely become more expensive in the coming years), there will be an overreliance on the U.S. disability system that was never designed to support employers and employees or to reintegrate individuals back into the labor force. This challenge is particularly acute in the face of long COVID.

To encourage people with disabilities to work, the benefits cliff and other disincentives must be addressed. The assumption about people with disabilities is flawed. For example, when people apply for Social Security disability benefits, the application requires that they indicate they are disabled enough that they cannot work. People with disabilities can work; they just require the right accommodations.

The Outlook for People with Long COVID

The Centers for Disease Control and Prevention currently estimates that 1 in 4 individuals in the U.S. has a disability, a significant revision upward based on categorizing mental health issues as a disability.¹² As data emerge about the health consequences of COVID, these statistics could easily skew to 1 in 3 individuals with a disability in the general population, many of whom are working age adults. As many as 24 million people in the U.S. may be impacted by long COVID, sidelining them temporarily and perhaps episodically for decades. Unless an individual has access to short-term and long-term disability insurance (whose costs will likely rise significantly in the coming years), there will be an overreliance on the U.S. disability system.

¹¹ See <https://www.bls.gov/ooh/most-new-jobs.htm>.

¹² See <https://www.cdc.gov/ncbddd/disabilityandhealth/infographic-disability-impacts-all.html>.

Inflationary Pressures

Key Themes

- The increased cost of basic goods is hurting households across the country, including people who have never needed assistance before.
- Rising insurance prices are disproportionately going to hurt small businesses and low-income homeowners.
- Philanthropic organizations have seen significant impacts on their endowments and fee income due to stock volatility in the face of rising interest rates. This, in turn, impacts funds available for grantmaking as well as supporting operations.
- Native Americans, already facing financial challenges, are being further impacted by inflation.

Cost of Necessities (Food, Housing, Utilities)

Households across the country are being negatively impacted by inflation. With rising food prices, people are having to decide between purchasing food and other necessities. Recently, there has been increased demand on food banks. People are trying to pay for their rent, gas, car payment, and other needs. They know the one place they can get some help is with food. The Food Bank of Iowa has seen the highest demand in its 40-year history, and this is happening largely because of inflation. The demand is even higher than it was during the pandemic. The rising prices of necessities is particularly affecting households living on fixed incomes. Cost-of-living adjustments have not been keeping up with inflation. Utility costs are going to be a problem this winter. There are going to be households that won't be able to afford the higher rates; some utilities are 40 percent or more expensive than previous years.

Inflation is affecting many households, even people who have never needed assistance before. One member's organization has an employee hardship fund that's been heavily relied on lately. Even nurses making \$80,000 a year need assistance and have been using the fund.

Insurance

Insurance prices are rising across the board. Disability insurance, disaster insurance, health insurance, farm insurance, and others are getting more expensive. Nonprofits and small businesses (including nursing homes) are challenged to keep up with these rising costs, which will impact their ability to offer competitive benefits necessary to retain their staff.

Insurance costs have especially increased in areas affected by natural disasters. As a result, residents are faced with higher premiums or are unable to secure insurance after making a claim. As events and costs continue to increase, LMI households, who typically don't have insurance or are at risk of predatory products (as described in prior memos), may be even less likely to have adequate insurance coverage. This may have serious impacts on recoveries going forward.

Impacts on Businesses—Small, Nonprofit, Etc.

Inflation is affecting organizations' capacities to meet their goals and missions. For example, Mercy Health, a Catholic health-care system, considers care to those in need and community investment top priorities. Their ability to provide these services is vulnerable to economic circumstances. There is a concern that inflation may challenge the ability of nonprofit hospitals to meet the commitments of nonprofit hospitals.

For philanthropic organizations that rely on endowment or fee income, the volatility in the stock market is having a negative impact on revenues for operations as well as grantmaking. A Council member's

organization that manages funds for other organizations has seen revenue fall, even as needs continue to increase across the communities they serve. A falling stock market, as the result of rising interest rates, has a ripple effect through the economy. Another member reported that due to changes in the stock market in the last month, his organization lost roughly a quarter of their endowment over the last two months. This requires rethinking grantmaking and other expenditures, as they must adhere to a 5 percent maximum disbursement schedule. Demand has remained high as overall budgets fall.

Farming/Rural Challenges

Farmers aren't seeing the profits from rising food prices. Instead, their input costs have gone up. Many cattle producers have sold their herds because they are facing water supply issues or because they can no longer afford feed or veterinary care costs. There is widespread fear that the price of beef, eggs, and chicken could go up a lot further.

Challenges for Native Americans

Native Americans are reporting the highest levels of financial challenges due to inflation. A recent poll from National Public Radio, the Robert Wood Johnson Foundation, and the Harvard T.H. Chan School of Public Health found inflation has caused significant financial problems for 69 percent of Native Americans, 55 percent of Black adults, 48 percent of Latino adults, 29 percent of Asian adults, and 38 percent of White adults.

Native American communities were struggling economically before the effects of inflation. According to census data, close to 27 percent of Native Americans live in poverty. This is significantly more than the rest of the country, which averages below 15 percent. The high cost of gas and soaring food prices make life on the reservation even more difficult than usual. This is particularly challenging in remote Native communities where tribal citizens have to travel long distances for essential goods and services, which themselves cost significantly more.

There really are no short-term fixes for this issue. Long-term solutions include eradicating the food deserts that exist across Indian Country by empowering and funding tribal food sovereignty and independence measures (i.e., locally grown, affordable foods). Further, the development of Native-owned small businesses will give Native consumers the opportunity to reduce transportation costs by buying locally. Native CDFIs are already doing work on both fronts and could do more if properly resourced.

Additional Matters

The following section details matters of concern to Community Advisory Council members that fall outside of the questions asked. These include the impact of climate change; the economic conditions of people with disabilities, including the challenge of long COVID; the condition of the nonprofit sector; and the evolving mental health crisis. In some cases, there are policy suggestions which, while beyond the scope of the Federal Reserve's mandate, nevertheless impact how various populations experience the economy, participate in the workforce, and build toward their financial goals. In other cases, such as the section on [Mental Health](#), the connection to fiscal (let alone, monetary) policy may be less clear, but remains a profound factor in the economic futures of individuals, families, and communities.

A final section describes some "[Things That Work.](#)" This is a special section devoted to policies and programs that are currently working and should continue (or be expanded) or have been eliminated despite having a positive impact, according to Council members. In some cases, these are innovations that emerged in response to the pandemic, in other cases, these are preexisting efforts that have the potential to do much more.

Climate Change

The effects of climate change continue to be raised by Council members as having detrimental impacts on the economic health of the communities they serve. For this session, the focus is on eastern Kentucky which suffered devastating floods in July. According to the National Weather Service:

“Between July 25th and July 30th, 2022, several complexes of thunderstorms developed south of I-64 and brought heavy rain, deadly flash flooding, and devastating river flooding to eastern Kentucky and central Appalachia. These thunderstorms, at times, caused rainfall rates in excess of 4"/hr across complex terrain that led to widespread devastating impacts. . . . (T)he overwhelming amounts of rain and resultant flooding led to 39 deaths and widespread catastrophic damage. . . .

“Radar-based rainfall estimates suggest that upwards of 14-16" of rain fell during this 5-day period in a narrow swath, with many more locations receiving 6-10" of rain.”¹³

According to Council members, “climate change is destroying LMI communities. We can build them back and make them more resilient with the right investment.” Leaders reflect, “there’s always major opportunity in crisis, but federal investment and the leaders to work in the favor of small, rural, poor places is needed.” To begin with, the flood plain maps need to be completely redrawn. People did not have access to flood insurance because they didn’t know they were in danger. As a result, people who had a house loss were receiving checks for \$140. People were denied because they couldn’t provide a clear title for their property or land—an issue for people in rural areas whose families have been living on land for generations.

Looking ahead, local leaders recognize that they can’t rebuild where the homes were and need to secure property at a higher elevation. Population centers in the region are small but require significant infrastructure investment to build flood walls to protect from the next storm.

Embedded in this challenging situation is an opportunity to move people into affordable mortgages, not through traditional banks, but in partnership with CDFIs. Local residents have low incomes and low credit scores. The current economic conditions make affording mortgages very challenging, but if a solution can be created then the asset-based wealth gain can completely change a family’s life. Housing issues reach into all parts of life—education, childcare, workforce, and jobs.

Impact of COVID-19 on the Nonprofit Sector: The Case of LEAP

LEAP (Linking Employment, Abilities and Potential) provides an example of the strain experienced during the pandemic. Like many community organizations, the Paycheck Protection Program (PPP) and the employee retention tax credit gave executive leadership the immediate financial and economic tools to make organizational and operational decisions to remain operational while continuing to provide services to the most vulnerable. LEAP’s \$250,000 PPP loan enabled the organization to retain staff and modify services and the \$135,000 employee retention tax credit in 2021 prevented a significant deficit, layoffs, and further program/service reductions. However, the hardships LEAP faced included losing 10 staff between 2019-2022, the inability to fill those positions, and a significant decrease in revenue over three years, leading to a shrinking footprint. LEAP is looking at 3-5 years to rebalance revenue, workforce, and services.

¹³ See <https://www.weather.gov/jkl/July2022Flooding>.

Mental Health

The current climate has made people unhopeful. People feel defeated as they can't afford to feed their family for the first time. People are hesitant to ask for help. People have given up on the system that is supposed to help them. Mental health is "definitely a cloud over the country."

The pandemic created a new segment of people seeking assistance for the first time and those needs have not abated. "They don't know how or where to ask for help. . . . (We) don't have the capacity to help all these people. People are feeling like things will never get better, and that's dangerous."

Things That Work

The following section details "things that work," a non-exhaustive list of programs and policies referenced by Council members. The initiatives are highlighted here because they are having the intended impact, had the intended impact but have ended, or need to be expanded in order to have the maximum impact. While all fall outside the purview of monetary policy, and therefore the Federal Reserve, they nonetheless effect how businesses, families, and individuals experience the economy and can often be mitigating forces in the face of other economic and financial headwinds.

Increasing liquidity to all CDFIs: Efforts should be made to expand and increase access to the CDFI bond program and the New Markets Tax Credit Program that are often challenging for any but the largest CDFIs to navigate but have the potential to have significant impact on communities. Overall, the CDFI Fund should continue to be funded at the \$1 billion level that was achieved during the pandemic. This brings stability for CDFIs and helps to meet the increased needs experienced by communities, families, and businesses. The Paycheck Protection Program Liquidity Facility acted as a demonstration project to leverage CDFIs as providers of capital to disadvantaged businesses nationwide. Expanding accessibility to this program, especially for Native CDFIs, is essential to providing resources to businesses that struggle to access mainstream capital.

- Among the Council members are two non-depository CDFIs that also have regulated credit unions, representing the innovations that occur in order to deploy resources and meet the credit needs of communities.

Funding a secondary market for CDFI-originated mortgage loans: As described in the housing section of this memo, access to affordable housing is a significant challenge for low-income borrowers. CDFIs are a primary—and sometimes only—source of financing for these prospective homeowners. However, CDFIs' capacity to meet the demand for mortgage products is limited due to a lack of a secondary market. The need is particularly acute on tribal lands. Native CDFIs are in the best position to originate mortgage loans on tribal land because they are most familiar with their local markets, land classifications, and borrower characteristics. In South Dakota, about 75 percent of mortgage loans on trust land are originated by Native CDFIs. To improve liquidity, these lenders need an outlet to sell mortgage loans that do not meet the loan standards established by government-sponsored enterprises. A potentially replicable solution is being developed in South Dakota. The South Dakota Native Homeownership Coalition is exploring the creation of a new loan product that could be purchased from Native CDFIs, pooled into collateralized debt obligations or asset-backed securities, and marketed to investors. The transactions could be structured to allow Native CDFIs to retain servicing rights and sell the loans with recourse. There could be multiple pools for different products and terms such as shorter terms for used manufactured mobile homes or another pool for federally guaranteed loans, such as HUD Section 184, USDA Section 502 Guaranteed, or VA Guaranteed. Potential investors include banks seeking positive Community Reinvestment Act (CRA) consideration that could result from this type of investment or national nonprofit intermediaries.

The State Small Business Credit Initiative (SSBCI). The SSBCI was funded under ARPA in March 2021. It provided \$10 billion to the states, the District of Columbia, territories, and tribal governments to “empower small businesses to access capital needed to invest in job-creating opportunities as the country emerges from the pandemic.”¹⁴ State governments submitted plans to the U.S. Department of the Treasury about how they would use their allocations, and the Treasury awarded funding based on the proposed uses.¹⁵

For example, SSBCI can be used as equity to offset capital costs. The state of Pennsylvania allocated some of their funds to a venture capital fund and some to CDFIs. These are all uses of funds that could help mitigate the current increased costs of capital.

The interest in leveraging SSBCI funds is high on tribal Lands. Over 180 tribes have applied individually or jointly for SSBCI, thus far. Treasury accepted 415 notices of intent and expects more of the 415 to submit applications by the deadline. No tribal applications have been approved yet. Tribes have been concerned about administrative costs and finding willing lenders, but some tribes are feeling good about the program. Some tribes are working with lenders, including Native CDFIs, to support small businesses owned by tribal members, others are planning to invest in tribal enterprises. Some are doing both.

Childcare to increase diversity in the trades: According to the U.S. Census Bureau, nearly 8 million families pay a provider to watch over their children every year. Annual childcare costs can reach tens of thousands of dollars, disproportionately harming low- and middle-income working families. Finding adequate care, given the hours and cycle of the construction industry, is very difficult. Many construction projects require workers to be on the job at 6 a.m., or off the job at 7 p.m., making it virtually impossible to access childcare without being late to work or leaving early.

Two childcare pilot programs are being tested in New York City and Milwaukee, Wisconsin. The goal of these pilots is to provide quality childcare, allowing parents to progress through apprenticeship programs by reducing the financial and emotional burden of finding quality childcare. Providing these supports can open careers in the trades to more parents, especially women, addressing the acute demand for skilled tradespeople.¹⁶

USDA 515: Section 515 provides low-interest loans for affordable multifamily rental housing for very low-, low-, and moderate-income families, elderly persons, and persons with disabilities in rural areas.¹⁷ As of March 2022, these loans have financed nearly 28,000 rental properties containing over 533,000 affordable apartments. The availability of these homes is declining as many of the mortgages are scheduled to mature in the next several years and no new construction has been undertaken in a decade.¹⁸

USDA free school lunch: During the pandemic, schools were able to serve all students free meals. This flexibility has expired, so schools are now taking applications and using family income to qualify kids for

¹⁴ See <https://home.treasury.gov/policy-issues/small-business-programs/state-small-business-credit-initiative-ssbcj>.

¹⁵ See <https://home.treasury.gov/news/press-releases/iy0795>.

¹⁶ See <https://tradesfutures.org/initiatives/child-care-pilot>.

¹⁷ See https://www.hud.gov/sites/documents/19565_515_RURALRENTAL.PDF.

¹⁸ See https://ruralhome.org/wp-content/uploads/2022/03/rural_research_brief_usda_rural_rental_housing.pdf.

free or reduced-price meals.¹⁹ The recently passed Keep Kids Fed Act is providing schools with extra resources for the 2022-2023 school year.²⁰ A more sustained solution is needed in order for children to continue to receive important nutrition at school.

Additional Comments on the CRA Notice of Proposed Rulemaking

Members of the Council agree that the modernization of CRA is important to tackle the long-term structural disparities in low-income communities. Council members agree that banks should be measured on a variety of development products. The proposed CRA regulations will provide clarity for banks regarding quantitative measures that will be used during their CRA review.

CRA provides CDFIs with investment capital and has created a partnership among banks and CDFIs to address community needs. In fact, CRA motivated banks to be key investors in CDFIs. We agree that banks should invest in CDFIs, minority depository institutions, and Native CDFIs regardless of their location to the bank's assessment area. Banks should be measured on their community development work in low-income communities regardless of the proximity to their branches. The Council believes CRA has been effective for years and should be strengthened.

¹⁹ See <https://www.fns.usda.gov/cn/2022-23-parent-fags>.

²⁰ See <https://www.usda.gov/media/press-releases/2022/06/30/biden-administration-takes-additional-steps-strengthen-child>.