The Federal Reserve Bank of Kansas City and Community Development

ECON 336: The Kansas City Economy
University of Missouri – Kansas City
April 11, 2012

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Outline

• The Federal Reserve System
• The Community Affairs Function
• Recent Research Projects
The Federal Reserve System

- The Federal Reserve Banks are twelve independent non-profit corporations
- Oversight is provided by the Federal Reserve Board of Governors
12 Federal Reserve Districts
Objectives of the Fed

- Monetary Policy
- Facilitate the Payments System
  - Cash Operations
  - Check Clearing
  - Electronic Payments
- Ensure the Safety and Soundness of the U.S. Banking System
  - Bank Regulation
  - Examination
Monetary Policy

• Federal Open Market Committee
  – Governors (7) + 5 Bank Presidents (NY Fed and 4 others on rotating basis)
  – meets 8 times per year

• Policy Levers
  – set target federal funds rate
  – set discount rate
  – reserve requirements
  – rarely, other extraordinary efforts
“...the Committee will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month. The Committee also will purchase longer-term Treasury securities after its program to extend the average maturity of its holdings of Treasury securities is completed at the end of the year, initially at a pace of $45 billion per month.

-FOMC December Statement
COMMUNITY DEVELOPMENT AT
THE KANSAS CITY FED
Mission of Community Affairs

• Community Affairs supports the Federal Reserve System’s economic growth objectives by promoting:
  – Community development
  – Fair and impartial access to credit, and
  – Access to mainstream banking services by the historically underserved.

• Key focus is on low- and moderate-income individuals, neighborhoods and communities.

• Traces origins to Community Reinvestment Act of 1977
LMI Profile in 10th District

Households that earn under 50% of an area’s median income are considered low income. Households that earn between 50% and 80% of an area’s median income are considered moderate income.

- **Wyoming = $50,009**
  - % LMI = 40.3%
  - Cheyenne, WY = $49,748
  - % LMI = 38.4%

- **Nebraska = $46,954**
  - % LMI = 39.8%
  - Omaha, NE = $44,143
  - % LMI = 41.5%

- **Colorado = $54,262**
  - % LMI = 40.3%
  - Denver, CO = $58,039
  - % LMI = 39.7%

- **Missouri = $44,545**
  - % LMI = 41.1%
  - Kansas City, MO-KS = $53,564
  - % LMI = 39.5%

- **Kansas = $46,669**
  - % LMI = 40.3%
  - Topeka, KS = $45,781
  - % LMI = 40.9%

- **New Mexico = $41,042**
  - % LMI = 41.1%
  - Albuquerque, NM = $45,634
  - % LMI = 40.7%

- **Oklahoma = $40,371**
  - % LMI = 42.0%
  - Oklahoma City, OK = $43,652
  - % LMI = 40.1%

- **Oklahoma City, OK = $43,652**
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- **Topeka, KS = $45,781**
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- **Omaha, NE = $44,143**
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- **Denver, CO = $58,039**
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- **Albuquerque, NM = $45,634**
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- **Tulsa, OK = $43,749**
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- **Kansas City, MO-KS = $53,564**
  - % LMI = 39.5%

- **Omaha, NE = $44,143**
  - % LMI = 41.5%

*Metropolitan area

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Community Development Key Areas of Focus

- Community Development Investments (CRA)
- Healthy Neighborhoods
- Financial Stability for the Underserved
- Small Business Development and Sustainability
- Workforce Development
Program Highlights

• Investment Connection
• CRA Training
• Forums / Conferences
• Deal brokering / Convenings
• Publications / pamphlets / webinars
• Community Intelligence
• Research
Community Development Resources

Published Reports

Research and Analysis

Map Your Community
Consumer Credit Reports

Four-quarter moving average

Total Consumer Debt (excludes first mortgage)

Revolving Debt

U.S.

MO
Consumer Delinquencies

Four-quarter moving average

- Auto Delinquency (percent of outstanding loans)
- Student Loan Delinquency (percent of outstanding loans)
- Bank Card Delinquency (percent of outstanding accounts)
- Delinquency on Any Account (percent of outstanding accounts)
- Bankruptcy Filings per 10,000 Households (annual rate)

U.S.  MO

- 3.1%  3.4%
- 9.7%  10.9%
- 1.8%  1.7%
- 5.7%  4.3%
- 102.4  110.2
Dynamic Trend in Mortgage Delinquencies
(Special Theme – 4th Quarter, 2012)
Serious Delinquency Maps

Serious Mortgage Delinquency, January 2012

Legend:
- <1%
- 1%-3%
- 2%-4%
- 4%-6%
- 6%-8%
- >8%
- Insufficient Information

Source: Lender Processing Services
Recent Research Projects

• Student Loans: Is There a Crisis?
• The LMI Community in Recession and Recovery: Results from a New Survey
STUDENT LOANS: IS THERE A CRISIS?
Student Loans: Is There a Crisis?

• Student loan debt has been increasing at a rapid pace in the last decade, climbing from about $364 billion in the first quarter of 2005 to $904 billion in the first quarter of 2012, a rate of 13.9 percent annually (compounded).

• High debt levels, coupled with high default rates, present a number of challenges for individual student loan borrowers, but do not necessarily pose a substantial burden on society at large.
Student Loans
Overview and Issues

• Growth in Student Loan Lending
• Student Burden, the Capacity to Repay, and Delinquency
• Fiscal Impact

Paper is available at
http://www.kansascityfed.org/publications/research/cap/index.cfm

Presentation is available at
http://www.kansascityfed.org/speeches/
Growth in Student Loan Lending

Source: The College Board, *Trends in Student Aid*

Unsubsidized Stafford
Subsidized Stafford
Other Federal
Nonfederal

$2010 Billions

$0 $10 $20 $30 $40 $50


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Outstanding Student Loan Debt

- Most of increase coming from increased number of borrowers – increases in average debt is moderate
  - Largely driven by enrollments
  - Moderate increase in share who borrow
  - Some increase in average debt in past year (Equifax)
  - Likely a function of economy and tuition/assistance

- What is the issue?
  - Borrower capacity to repay / burden
  - Fiscal burden
Capacity to Repay / Burden

Individual Student Loan Debt Statistics (First Qtr, 2012)

• Median $13,662; Average $24,218
  – 25% under $5,977
  – 25% over $29,155
  • > 3% with debt over $100,000
  • 0.5% over $200,000

• Payments (in repayment): $190 median; < $95 for 25%; >$382 for 25%

• 40% of borrowers under 30 (1/3 over 40)

Sources: Authors’ calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel; Federal Reserve Bank of New York
Student Loan Delinquency
(share of outstanding loans)

NY Fed: 47% in school/deferment or forbearance 27% delinquency for those in repayment (past due balance)

Sources: Authors’ calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel
Cohort Default Rates

Share of cohort in default
Issues Driving Delinquency

• Recession and Recovery
  – Most over-due balances for those over 30
  – Unemployment (real rate?), esp. for young
  – Underemployment
  – Slower wage and salary growth, esp. for young
  – AP: 50% of young unemployed/underemployed

• Noncompletion
  – Better prospects for completers (buying an asset; lifetime income)
  – Especially high for for-profit (28% completion for-profit, 56% public, 65% private not-for-profit)

• No credit consideration

• Poor borrower information
Fiscal Impact

• Accrual-based budgeting
  – NPV (incl disbursements, subsidies, payments)
  – Federal Credit Reform Act (FCRA, 1990) method
  – Federal Government Costs using FCRA
    • FY2011: -$47.3b
    • FY2012: -$34.3b (est.)
    • FY 2013: -$32.2b (proposed)
  – Updates
  – vs. fair-value
Fiscal Impact

• Accrual-based budgeting (cont)
  – Fair-value estimates
    • CBO: 11 percent of disbursements
    • Implies $13.3b (+$3b consolidation)

• Indirect
  – Greater income → tax revenues; lower costs
  – Interest deductions

• Outlook
  – Not expected to see much higher default rates
  – Could see continued rapid increases in borrowing
  – Reform options
Research Projects

THE LMI COMMUNITY IN RECESSION AND RECOVERY: RESULTS FROM A NEW SURVEY (FORTHCOMING, FEDERAL RESERVE BANK OF KANSAS CITY ECONOMIC REVIEW, Q1, 2013)
Purpose of the Paper

• Primary
  – How did the LMI community fare during the recession and recovery?

• Secondary
  – Validation of the survey with other Fed Bank surveys and external data
The LMI Community in Recession and Recovery: Results from a New Survey

• There is a dearth of data available on the LMI population, and the lack of data presents a considerable problem to those who would like to analyze economic conditions of this cohort.

• Lacking information to maintain a reliable gauge on economic conditions for the LMI population, the Federal Reserve Bank of Kansas City stepped in to provide a new source for such information – a quarterly survey of organizations that provide services directly to LMI individuals and families.
Historical Recessions

% Change from Peak Employment

Source: U.S. Bureau of Labor Statistics; Haver Analytics
Inflation-Adjusted Family Income, by Quintile

Index: 2001 = 100

Lowest Quintile
Second Quintile
Third Quintile
Fourth Quintile
Highest Quintile

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Survey Coverage

- Overall financial conditions (general assessment)
- Demand for services (general assessment)
- Job availability
- Availability of affordable housing
- Access to Credit
  - Funding for organizations
  - Organization non-financial capacity
Survey Design

• Rolling benchmark: better, worse, or the same
• Index: %better - %worse + 100
  – Index takes values between 0 and 200
  – 100 in neutral
  – < 100 indicates deterioration in conditions
    • Any number below 100 indicates deterioration, even if the index is rising
  – > 100 indicates improvement in conditions
Job Availability

Index (Neutral = 100)

Next Quarter Projection

Relative to Previous Quarter

Relative to Previous Year

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Job Availability

Index: Neutral = 50

Kansas City

Dallas

Boston

Philadelphia

Index: Neutral = 50
Employment Growth by Income Cohort

Source: Author’s calculations using data provided by the U.S. Bureau of Labor Statistics.
Note: Each point on the chart shows total employment by occupation group relative to its level in 2001.
U.S. Job Growth and the LMI Job Availability Index

Thousands of Jobs

U.S. Job Growth (left axis)

KC Fed LMI Job Availability Index (right axis)

Index: 100 = Neutral
Federal Reserve Bank LMI Affordable Housing Indexes

Index: Neutral = 50

Kansas City
Dallas
Philadelphia
Boston
Federal Reserve Bank LMI Credit Access Indexes

Source: Federal Reserve Banks of Boston, Philadelphia, Dallas, and Kansas City.
Note: The Kansas City LMI Affordable Housing Index was adjusted to be consistent with other reserve bank indexes (50 = neutral).

Kansas City

Dallas

Boston

Philadelphia
Federal Reserve Bank LMI Demand for Services Indexes

Index: Neutral = 50

Note: In this chart, higher numbers indicate a greater demand for services, so unlike the other charts from reserve bank surveys, higher numbers indicate deteriorating conditions. The Kansas City Fed’s LMI Survey results were adjusted to be consistent with this concept. A value of 100 would indicate that all respondents reported that the demand for their services had increased.
Participation in the SNAP (formerly food stamps) Program

Source: United States Department of Agriculture, Food and Nutrition Service
Lowest Quintile Nominal Income Growth and Growth in Consumer Prices

Index 2001=100

Lowest Quintile Nominal Income

CPI

Poverty CPI (IBEX)
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