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A Renter Safety Net

A Call for Federal Emergency Rental Assistance

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ABSTRACT

For decades, escalating housing costs have outpaced income growth for middle- and lower-income earners. As a result, millions of American households have too little income leftover after paying rent to accumulate a savings buffer to cover other necessary expenses. When unexpected financial shocks occur, such as a drop in earnings or a surprise medical expense, many low-income households may not have sufficient savings and liquidity to pay their full rent at that time, leading many to the brink of eviction or a forced move. In this chapter, we document the costly externalities that such housing instability poses to renters and to society more broadly. To help low-income renters manage temporary shocks, we propose the creation of a Federal Emergency Rental Assistance Program to provide one-time, short-term financial help to low-income renters who face unexpected financial shocks. This short-term assistance would fill a critical gap in the current suite of federal housing programs which promote housing stability by subsidizing homeownership for middle- and higher-income households and providing long-term rental assistance to a small share of eligible, low-income households. Although we emphasize flexibility to allow states and localities to tailor the program to local conditions, we highlight key design features that would promote efficiency. Finally, while the proposed program is designed to address idiosyncratic financial shocks, it could be scaled up to address common shocks when such need arises.

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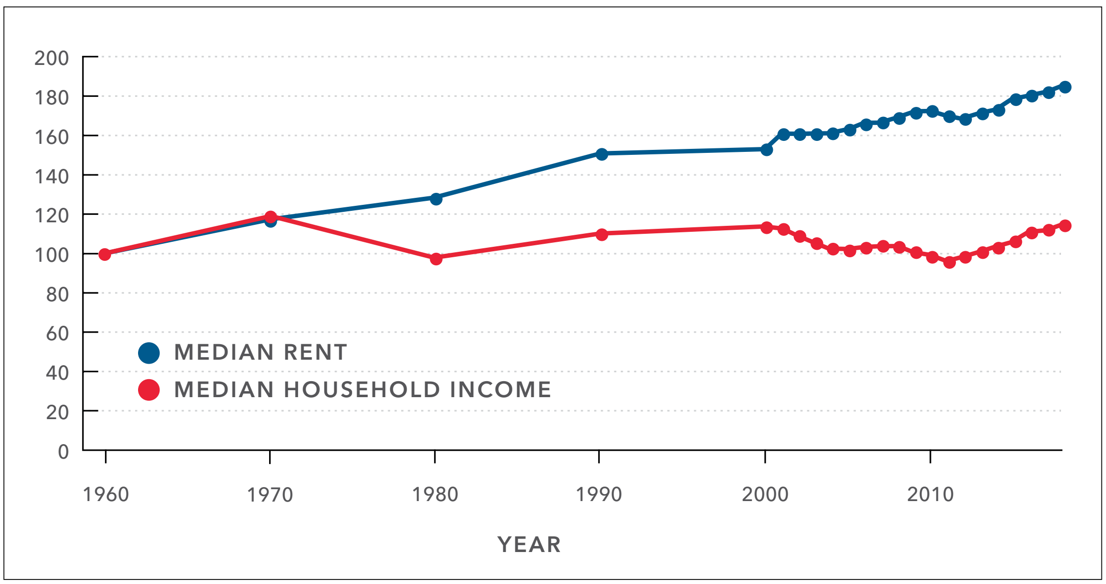
Introduction

Even before the COVID-19 pandemic, renters throughout the country, especially low-income renters, were paying large shares of their incomes on rent. For decades, escalating housing costs have outpaced income growth for middle- and lower-income earners, straining household budgets. Between 1960 and 2018, the real value of the median renter household's rent increased 85 percent, while the median renter's income increased by just 18 percent (Figure 1). And the gap between rent and income growth was even larger for lower-income renters.

Figure 1: Real Median Income versus Real Median Rents, 1960–2018 (Indexed to 100 for values in 1960)



Source: IPUMS USA, University of Minnesota, www.ipums.org.

Note: Values shown are the indexed measures (year 1960=100) of real median income and real median rent adjusted in 2018 dollars using CPI-UX.

While these statistics point to the need to address this long-term structural problem, rising rents also leave renters, especially low-income renters, with razor-thin margins to manage unexpected shocks to their budgets. Renters with incomes below the national median income for all households have seen a significant decline in residual real income (income after housing costs) since 2000. Specifically, our estimates suggest that the typical renter household in the lowest national income quintile had 18 percent (or $1,034) less income left over after paying for housing during 2016 than it did during 2000. (Note that one-third of renters had incomes in the lowest national income quintile in 2018.)

Faced with shrinking residual income, low-income renters have little ability to save and provide themselves with a buffer to weather unexpected income or expense shocks. Even small shocks to income and expenses will leave rent-burdened, low-income households unable to cover rent in certain months and vulnerable to eviction or other involuntary moves, unless landlords are flexible.

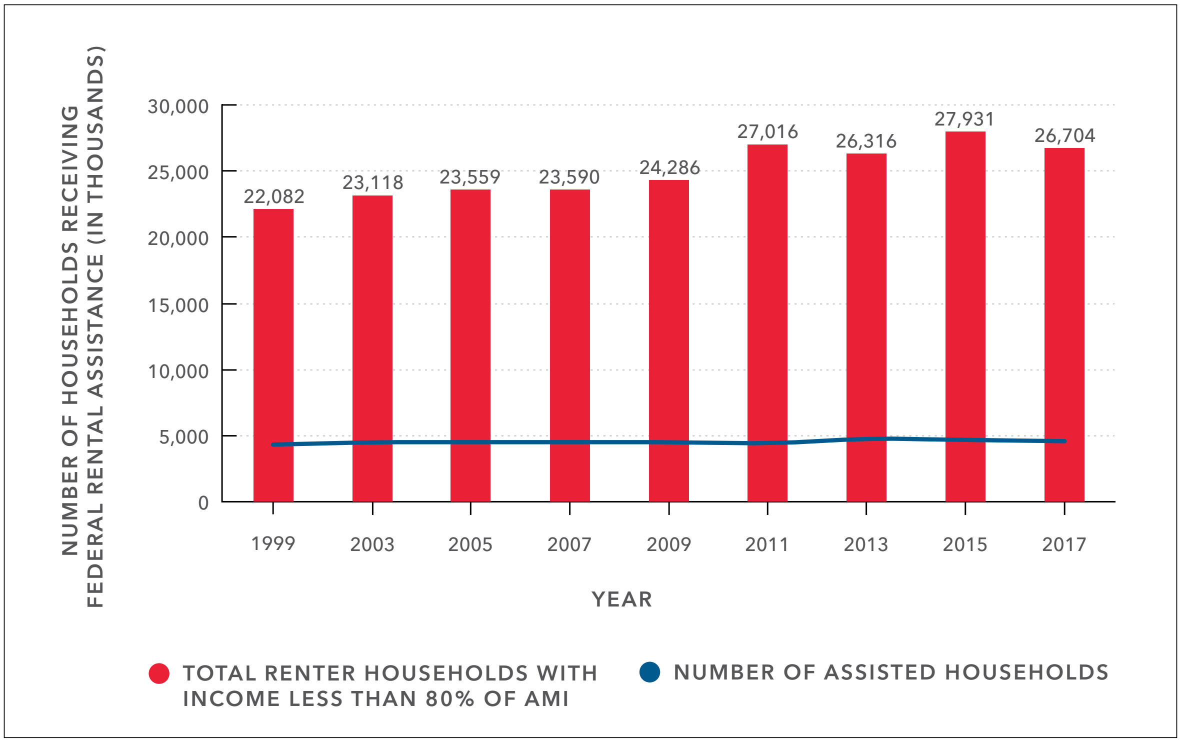
Such instability is costly, both to individuals and society. A large body of research shows that housing instability is associated with poor child outcomes (Galvez and Luna 2014). Importantly, recent causal research (exploiting random assignment to judges in housing court) shows that evictions increase the risk of becoming homeless, heighten residential instability, increase emergency room visits, decrease credit scores, and reduce durable consumption (Collinson and Reed 2019; Humphries et al. 2019).

Unfortunately, housing policies and programs in the United States provide little in the way of help. Our current suite of housing programs are designed to bolster stability through subsidizing homeownership on the one hand, and through providing help to households with incomes consistently too low to afford decent housing on the other.

Homeownership likely encourages stability, though unobserved differences between those who become homeowners and those who do not makes this difficult to prove. Either way, homeownership subsidies disproportionately help higher-income households, with 90 percent of benefits going to those earning more than $100,000 in 2018 (Tax Policy Center Briefing Book). The tax benefits are substantial. The total value of capital gains exclusions from home sales, property tax deductions, and the mortgage interest deduction, even after being reduced by the 2017 Tax Act, still amounted to over $75 billion per year in fiscal year 2019 (Tax Policy Center 2020). This far exceeds the total budget of the U.S. Department of Housing and Urban Development (HUD), which was $44 billion in FY 2019. Research suggests that these tax subsidies do little to raise aggregate homeownership rates, much less help lower income earners (Glaeser and Shapiro 2003; Hilber and Turner 2014). Instead, research both within the United States and elsewhere suggests that such subsidies encourage households to take on more debt and to purchase larger and more expensive homes, which in turn increase energy consumption (Gruber, Jensen and Kleven 2017; Hanson 2012; Poterba and Sinai 2011) and boost the overall cost of housing through heightened demand, at least in supply constrained areas (Hilber and Turner 2014).

As for low-income rental programs, they are clearly more targeted to low earners, and research shows that long-term rental subsidies encourage stability but they do a poor job at reaching those experiencing temporary setbacks. Instead, they provide large, long-term subsidies to a limited set of households. Research suggests these long-term rental subsidies reduce the risk of homelessness and encourage stability (Mills et al., 2006), but only about one in five income-eligible households receives some type of federal rental assistance (Figure 2), but the lucky few who actually receive subsidies get large ones. Consider that a housing choice voucher—the largest subsidy program administered by HUD—provides an effective subsidy of $8,900 per year on average for as long as a household remains income-eligible (HUD 2020).

Figure 2: Renters Eligible for Federal Rental Assistance versus Beneficiaries, 1999–2017



Source: Collinson, Ellen, and Ludwig (2016); Worst Case Housing Needs Report(s) (HUD.gov), 1999, 2003–2017.

Note: Estimates unavailable for year 2001. Beneficiary counts include Tenant-Based Section 8 (Housing Choice Vouchers), Project-based Section 8, and Public Housing Units.

Further, the current system, which provides large transfers to a few and nothing to most, leads to long waiting lists in most places. A 2012 survey of housing agencies suggested that more than 6.5 million households were on waitlists for either public housing or vouchers (Collinson, Ellen and Ludwig 2016). Many housing agencies have closed their waiting lists entirely. Renters facing temporary setbacks have almost no chance of receiving either of these federal rental subsidies in time to help them get through their crises, and there is currently no other alternative at the federal level. Housing programs in the United States are simply not nimble enough to address temporary shocks, and existing programs may provide more than what is needed, in terms of subsidy and duration if they are used for this purpose. To be clear, some households need longer-term assistance, but some may only need temporary help.

To help low-income renters manage temporary shocks, we propose the creation of an emergency rental assistance program that would offer one-time, short-term help to low-income renters who experience unexpected shocks to income or expenses. Households could use the assistance to cover back rent and other housing-related expenses to help them stay in their homes or to cover security deposits to move to new, affordable homes where needed. We estimate the cost would be roughly $4.5 billion per year, assuming an 8 percent take-up rate in a given year across households earning less than 80 percent of their local area median income.[1] We believe this is a small price to pay for the benefits of stabilizing low-income renters and avoiding the cascade of other social problems (and costs) that may follow from evictions and housing instability. By comparison, estimates from the Bipartisan Policy Center suggest that the cost of making the housing choice voucher program (which provides longer-term assistance) an entitlement for the far smaller set of households earning less than 30 percent of their local area median would be roughly $26 billion per year.[2] We discuss below why such temporary rental assistance may be preferable to, or at least more politically feasible than, direct cash payments.

The COVID-19 pandemic has heightened the need for such a short-term assistance program, though the income shock resulting from the pandemic is far more widespread than the normal market volatility and individual-idiosyncratic shocks that our proposal generally targets.

1. Background on Low-Income Renters' Financial Fragility and Forced Moves

We target our proposal on low-income renters, whose housing situations are more precarious due to high rent burdens, and for whom even small financial shocks can be destabilizing. This section reviews what we know about rent burdens, income volatility and forced moves among low-income renters.

1.a. Rent Burdens and Residual Income among Low-income Renters

Although renters across the income spectrum now pay far more in rent than they did in 1970, the rising cost of rent has been particularly challenging for the lowest-income

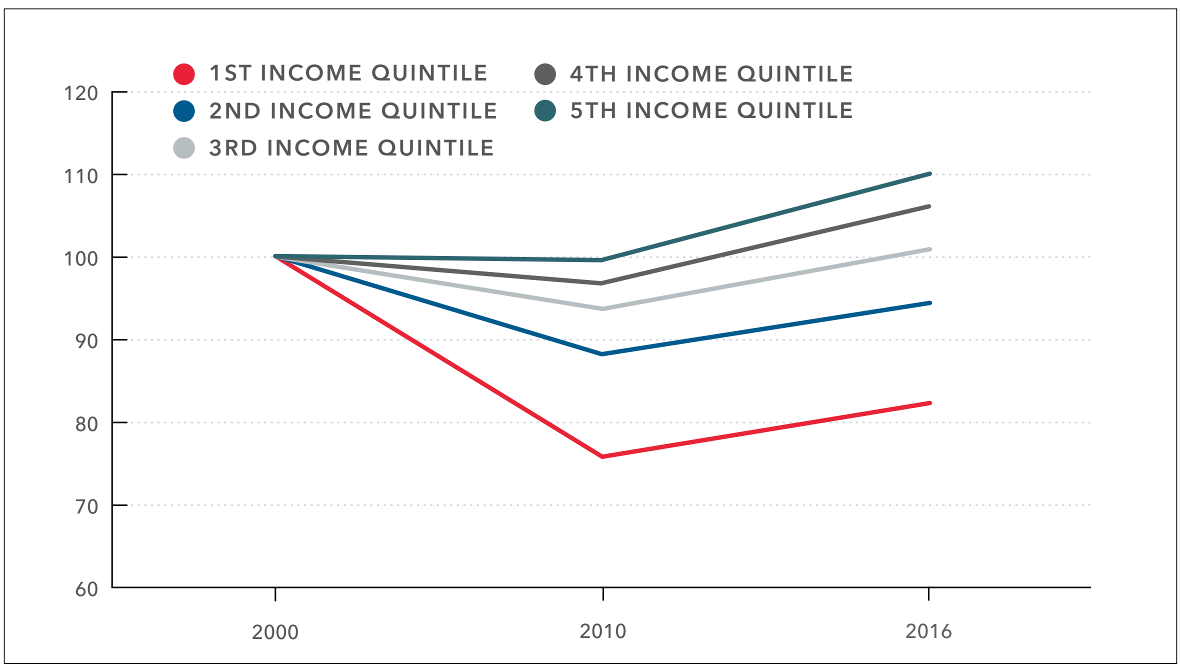
1 The American Community Survey indicates that there were 26.7 million renter households earning less than 80 percent of their local area median income in 2018. The 2017 American Housing Survey reported that 10 percent of renters with incomes below $40,000 could not pay their rent during at least one month in the past year. If we assume that 80 percent of those households would request help in a year, that would amount to 21.4 million households. As for amount of assistance, we assume $2,100 per household, which was the average amount of aid households received through HUD's Homelessness Prevention and Rapid Re-Housing Program, launched as a one-time emergency initiative in 2009 to help households during the Great Recession.

2 The Bipartisan Policy Center estimates that making rental assistance available to all households earning less than 30 percent of their local area median income would require an additional 2.9 million vouchers (assuming 80 percent apply and 70 percent are successful in using their voucher). (See https://bipartisanpolicy.org/report/housing-the-families-who-need-it-most-is-within-our-reach/.) We multiply this by average annual voucher cost of $8,900 to get to $26 billion.

renters, given that the increase compounded pre-existing high levels of rent burden.[3] By 2018, we estimate that nearly 82 percent of renters with incomes in the bottom fifth of households in the country paid more than 30 percent of their income on rent, and nearly two-thirds (61 percent) paid more than half of their income in rent.

Faced with such high rent burdens, households near the bottom of the income distribution have very little left for other expenditures after covering their rent and have little room to save to buffer unplanned reductions in income. Using Census data, we estimate that in 2016, the average renter in the bottom national income quintile had only $400 of income remaining after paying rent each month. In fact, we find that renters in the bottom national income quintile had *nearly 20 percent less* residual income in 2016 in real terms than they did in 2000. We also see a decline for renters in the second national income quintile, who were left with roughly $1,900 of average monthly residual income in 2016. (Together, the bottom two national income quintiles comprise nearly 60 percent of renters across the country.) Larrimore and Schuetz (2017) also report a significant decline in residual real income for renters between 2000 and 2015, and they attribute one-third of that decline to rising rents and two-thirds to declining real incomes.

Figure 3: Change in Residual Income for Renters by National Income Quintiles, 2000–2016 (Indexed to 100 for values in 2000)



Source: IPUMS USA, University of Minnesota, www.ipums.org and Author's calculations.

3 Because household incomes of renters are lower than those of homeowners, nearly two thirds of renters have incomes below 80 percent of their local area median, meeting HUD's definition of low-income.

1.b. Savings Buffers and Financial Shocks

Shrinking residual incomes mean that many renters may struggle to keep up with their monthly expenses and have limited ability to accumulate savings to buffer against a lost job or an unexpected expense. A 2018 Pew analysis of the Panel Survey of Income Dynamics found that nearly two-thirds of rent-burdened households had less than $400 in cash in the bank, and a full half of rent-burdened households had less than $10 in savings across various liquid accounts. Importantly, access to liquid savings also varied substantially by race among rent-burdened households: only half of rent-burdened African American households reported having access to any cash savings, while 84 percent of rent-burdened white households did.

The dual pressures of thin monthly margins and limited savings are reflected in the Federal Reserve's 2019 Survey of Household Economics and Decisionmaking (SHED), with nearly 30 percent of adults reporting that they were either unable to pay their monthly bills or were one modest financial setback away from not being able to fully pay off their monthly bills. Nearly one in six surveyed adults reported that they did not expect to pay all of their bills during the month of the survey. Among those who reported that they could not fully pay off their monthly bills, credit card balances were the bill that households most commonly expected to defer, and 45 percent said they would defer payment or only pay part of their credit card balance. But housing-related expenses were not far behind, with 32 percent expecting to defer a water, gas, or electric bill and 23 percent expecting to defer rent or mortgage payments.

Unexpected expenses or income losses are likely to be particularly difficult for rent-burdened households to absorb. Yet surveys indicate that financial shocks like unplanned expenses or lost income occur frequently. In a 2014 Pew survey, almost 60 percent of U.S. households reported experiencing at least one financial shock—such as job loss, medical expense due to illness or injury, or a major home or vehicle repair—that year and more than half of these households reported that they struggled to pay their bills after the most expensive event. Survey data suggest unexpected medical bills are particularly common. In 2019, more than one in five adults reported having a major, unexpected medical bill and the median bill totaled between $1,000 and $1,999. Nearly one in five adults also reported having unpaid medical debt from previous care that they or a family member received (SHED 2020).

Financial shocks can be particularly problematic for making rental payments, which are a fixed monthly obligation that take up a large share of a low-income household's budget. In contrast to mortgages however, which are typically long-term obligations that can be modified, there is far less leeway to restructure a rent contract, given that leases typically last a single year, and landlords usually do not have as deep pockets or as long time horizons as mortgage holders. Further, data from the Survey of Income and Program Participation suggest financial shocks may undermine a household's ability to pay their rent. Financially insecure households are three times more likely to miss a housing payment and 14 times more likely to be evicted after experiencing an unexpected income shock (McKernan et al. 2016).

Such financial shocks may be important drivers of evictions or other forced moves. Among tenants applying for emergency assistance from the Grand Rapids Eviction Prevention program, 39 percent of applicants applied because of lost employment, and another 25 percent of cases were due to an emergency expense or medical issue (Chartkoff and Rotondaro 2019). Similarly, among tenants who applied for assistance from Chicago's Homelessness Prevention Call Center, 40 percent reported they were applying due to job loss (Evans, Sullivan, Wallskog 2016).

Morduch and Schneider (2017) also argue that high levels of income volatility, combined with unexpected financial shocks and low levels of savings, exacerbate housing instability. In a detailed survey of 235 low- and middle-income households, the authors document the high levels of income and expense volatility that households experience, both month to month and over the course of a year. Large fluctuations in income and expenses, even when they are predictable, affect households' ability to consume due to liquidity constraints. Often, these fluctuations make it challenging for families to cover fixed obligations, including rent. The authors emphasize how high levels of within-job income volatility caused by just-in-time scheduling practices and alternative work arrangements make it especially difficult for working low-income households seeking to manage their bills from month-to-month.

1.c. Forced Moves

Narrow income margins combined with financial shocks may push many families to the precipice of eviction. There is mounting evidence that such forced moves are extremely costly, for households and for society as a whole.

Collinson and Reed (2019) provide some of the strongest causal estimates of the longer-term impact of evictions. They find large and persistent increases in the risk of homelessness and long-term residential instability caused by formal evictions. The likelihood of applying to homeless shelter increased by 14 percentage points following an eviction, while the number of days spent in a homeless shelter in the two years after an eviction increased by 36 days, on average. They also demonstrate a causal link between eviction and emergency room use: the probability of hospitalization for a mental health condition increased by 9 percentage points in the two years following an eviction filing. Their work adds to several descriptive studies (Desmond 2012; Desmond and Kimbro 2015; Desmond 2016) showing strong correlations between evictions and housing instability on employment, earnings, homelessness, and health outcomes.

In a similar study of eviction cases in Chicago, Humphries et al. (2019) find eviction exacerbates preexisting financial distress, by negatively affecting credit access and durable consumption for several years following a filing. However, the effects of eviction are small relative to the financial strain that households experience leading up to the eviction filing.

While forced moves are costly, they appear to be relatively cheap to prevent. Data from 22 states compiled by Princeton's Eviction Lab show that between 2014 and 2016, about one-third of money judgements in housing court were for an amount that was less than the local median rent. Housing court judgements typically include fees beyond rental arrears, suggesting a sizable share of evicted households owe less than one month of rent. Similarly, survey evidence finds that families that have even a small amount of non-retirement savings are less likely to face eviction or miss a housing or utility payment (McKernan et al. 2017).[4] Evans, Sullivan, and Wallskog (2016) show that relatively small infusions of emergency cash assistance provided by a program in Chicago reduced homeless shelter use by 76 percent.[5]

2. Why Housing Rather Than Cash Assistance? Why Prioritize Covering Rental Payments?

A key question is why the government should help at-risk families meet their short-term housing needs by providing housing assistance rather than simply cash transfers. There are several political arguments for providing in-kind support rather than cash, perhaps most notably donor preferences. In the case of housing, taxpayers may prefer to have their dollars spent on goods like housing rather than other types of consumption. There is some evidence for this preference: a 2003 national survey of adults in the United States found that less than 40 percent supported cash payments to poor households without barriers to employment, while 89 percent supported low-income housing assistance (Lennon et al. 2003). A related argument is that housing is a merit good and that people believe that everyone deserves a roof over their head.

4 There is a growing literature considering the potential for small shocks to have large effects on those with inadequate liquid savings (Lusardi 2011) and causal estimates examining responses to small positive shocks such as tax refunds (Parker 2017) and small negative shocks such as traffic fines (Mello 2018).

5 Pardue (2020) shows evidence that housing choice vouchers reduce evictions. While such long-term vouchers are far more expensive, his analysis suggests that about one fourth of the cost is recovered through reducing evictions.

A second set of justifications for in-kind rental assistance center on externalities. If housing instability and evictions impose external costs to society, then providing assistance that keeps renters in their homes may be socially optimal, even if individuals might not choose to spend all of a similarly sized cash grant on rent. As noted above, there is growing evidence that involuntary moves have damaging, collateral effects on individuals (Collinson and Reed 2019; Humphries et al. 2019), and these costs likely in turn impose costs on others. For example, research shows evictions elevate the risk of homelessness, and providing shelter and services to homeless individuals and families is extremely costly for local and state governments, and far more expensive than covering monthly rent. In New York City, the average nightly cost of providing emergency shelter was $190 for families and $120 for single adults in 2018 (Independent Budget Office 2019). The other public costs of homelessness may exceed the direct cost of shelter. Flaming, Toros, and Burns (2015) estimate that Santa Clara County spent an average of $83,000 per year on health and other non-housing public services for every person experiencing homelessness.

Beyond fiscal costs, the presence of people sleeping on the street may also impose social costs. The COVID-19 pandemic has highlighted the public health risks of having a population that cannot shelter in place (Ellen, O'Regan, and House 2020). More generally, people without shelter or homes typically use public spaces and public transit in ways that may reduce the availability or value of those services to others. These external costs are of course difficult to quantify.

Research also shows that evictions increase emergency room use (Collinson and Reed 2019), which is costly to health systems and ultimately taxpayers. In the case of families with children, the instability generated by involuntary moves might be disruptive to other students in their schools. Finally, though perhaps less significant, involuntary moves might also disrupt social networks not only for individuals but for their broader communities.

Some externalities may operate through landlords. Because they bear the cost of missed and late payments, landlords may adopt socially costly strategies to mitigate that risk. They might, for example, conduct more rigorous background checks, require high credit scores, and preclude anyone with even a minor criminal record, all of which might exclude a large set of individuals who would in fact be good tenants and would benefit from housing. Landlords might also demand higher security deposits, which again would restrict some otherwise good tenants who simply don't have the savings to afford the larger, up-front payment. Given many potential tenants will eventually lease-up somewhere, O'Flaherty (2011) argues a significant share of screening simply transfers risk (and costs) from one landlord to another, rather than reducing aggregate risk, and hence is socially wasteful. In addition to potential inefficiencies, such screening strategies are likely to have a racially disparate impact, excluding households of color who have lower credit scores on average (Federal Reserve Board 2007), are more likely to have criminal records, and already face constraints in finding housing due to discrimination and segregation (Acolin, Bostic, and Painter 2016; Ellen and Ross 2018; Hanson and Hawley 2011; Turner et al. 2013).

A third justification for housing subsidies is that housing stability generates private benefits that individuals may not fully understand or appreciate. The existence of such internalities seems particularly likely in the case of families with children, as parents may choose to spend less of any cash transfer on rent than would be socially optimal for their children. Not appreciating the degree to which housing stability would benefit their children, they may choose to spend any provided funds on transportation or other goods and services that they prioritize over housing stability (Olsen 2008). Of course, this paternalistic argument assumes that housing stability provides more benefits to children's long-run well-being than other types of expenditures. There is growing evidence that housing subsidies provide long-run benefits, but the research is surely not definitive (Schwartz et al. 2020; Mills et al. 2006; Gubits et al. 2016; Andersson et al. 2016).

3. Existing Efforts and Proposals

There are existing efforts at the local level to provide emergency rental assistance to families at risk of eviction or homelessness, and there have been a few proposals to offer such assistance at the federal level. This section reviews these existing programs and proposals and what we know about their efficacy.

3.a. Local Emergency Housing Assistance Programs, Idiosyncratic Shocks

Numerous jurisdictions across the country have developed programs to provide short-term or one-time financial assistance for households facing risk of eviction or homelessness (frequently called 'one-shots'). Our review of approximately 10 such programs[6] reveals variation in program details, but identifies several common themes. First, eligibility is generally limited to lower-income households who can document their need for assistance to remain in their housing, e.g. a utility-shutoff notice or an eviction filing. Frequently, a formal eviction filing is a pre-requisite (as in New

6 New York City's "One Shot'; Los Angeles EAPE; Chicago's Homelessness Prevention Call Center (HPCC); Amherst's Rental Assistance; Jacksonville, FL Emergency Assistance Program; City of Grand Rapids Eviction Prevention Program; Phoenix, AZ emergency rental assistance program; Richmond, VA Eviction Diversion Program; San Antonio's Risk Mitigation Fund.

York City's emergency grants and Richmond, Virginia's Eviction Diversion Program). Second, the cause of the hardship typically must be an unexpected emergency, an event beyond the recipient's control. Examples include job loss, unexpected medical expenses, a death in the family, or other large unexpected expenses such as car repairs. Third, the one-time infusion must be adequate to stabilize the household, meaning the funds cover a temporary gap in the ability to pay rent, and that the household will be able to make consistent rental payments moving forward. Finally, there are caps on the amount and frequency of money received, and payments are made directly to the landlords.

There are a few interesting, but less common policy features. For example, some programs aid both renters and homeowners, such as Jacksonville, Florida's Emergency Assistance Program and San Antonio, Texas's Risk Mitigation Fund. While most programs are limited to those with existing housing, some localities, like New York City, also provide short-term assistance to homeless households to cover security deposits or other related costs that help them secure housing.

Some programs require that applicants participate in additional services that are believed to increase housing stability in order to receive cash assistance. Amherst, Massachusetts, for example, requires applicants to connect with a social service agency, while Jacksonville, Florida and Richmond, Virginia require participation in a financial literacy or money management course. Even if these services don't enhance stability in themselves, they may serve as a screening device to weed out households who are less in need of assistance. (Of course, whether they are effective in screening out the right households is unclear.)

While these are all local government initiatives, the California-based Resident Relief Foundation offers a private, philanthropic version of a one-shot program, providing grants to help renters stay in their homes after an unexpected financial emergency. While structured with many of the same features as the public programs, this assistance is limited to the narrower set of tenants who can document five years of timely rental payment prior to the emergency.

Some of the features found in these emergency rental assistance programs (focusing on events beyond the control of recipients and the ability of short-term funding to stabilize housing situations) are similar to features of the Pennsylvania Housing Finance Agency's Homeowners' Emergency Mortgage Assistance Program (HEMAP). HEMAP served homeowners who were sixty-days delinquent in making a mortgage payment, with careful screening to target homeowners expected to be able to resume their mortgage payments within 24 months (or 36 months during periods of high unemployment). Here, the assistance was a low-cost (zero interest) loan rather than a grant.

3.b. COVID-19 Emergency Rental Assistance Programs, Common Shocks

There has been a rapid expansion of emergency rental assistance programs in response to the COVID pandemic and ensuing economic crisis, in part facilitated by federal funding through the CARES Act, but also relying on state, local, and in some cases, private philanthropic funding. As of July 16, 2020, the National Low Income Housing Coalition had cataloged over 190 state and local emergency rental-assistance programs that had been created or dramatically expanded in response to the economic fallout from COVID-19. The Urban Institute's review of 43 such programs and the Local Housing Solutions' review of 10 such programs both provide some insight into early experiences with creating such initiatives and how they differ from emergency assistance programs aimed at idiosyncratic shocks.

Similar to preexisting emergency assistance programs, these COVID-related initiatives include income restrictions, though they differ on whether pre- or post-COVID income is used to qualify. Payments are typically made to the landlord and are capped in terms of dollar amount and frequency or duration. COVID-related programs are less likely to require proof of rental arrears, but they generally require proof of financial hardship or loss of earnings due to COVID. Some of this requirement is driven by the use (or expected use) of federal funding through the CARES Act, which required use for COVID-related expenses. Many of these programs also impose requirements on landlords, such as waiving late fees and interest, providing penalty-free repayment plans for any rental arrears not covered by the program, and refraining from evicting tenants for some period of time. These requirements recognize the weaker negotiation position of landlords during a common shock.

Significantly, these COVID-related programs also have a fundamentally different goal than emergency assistance aimed at idiosyncratic shocks. Emergency housing assistance related to a common shock aims to avoid the potentially quite large-scale housing disruption that event might cause; hence, linking the assistance to hardships arising from the shock. To limit economic fall-out, efforts to address common shocks may also be motivated by a desire to assist landlords, to ensure that they have the revenue to cover basic maintenance and repair costs, make timely mortgage and property tax payments, and most fundamentally, continue to provide rental housing. Owners of smaller buildings are likely to be particularly at risk of budget shortfalls due to non-payment. A survey of 380 small landlords (80 percent of whom own or manage fewer than 20 units) in early July 2020 revealed that one in four landlords had borrowed funds over the past few months to cover operating cost, and only three in five expressed confidence that they would be able to cover their costs in the next three months (Metcalf 2020).

One theme that emerges from the reviews of the new COVID emergency programs is the challenge of scaling new programs quickly. Eight of the 10 new COVID programs in the Local Housing Solutions brief relied on non-governmental partners for program management and operations. Those who were able to leverage an existing program with the capacity to adapt had a clear advantage in implementing quickly. As an example, the state of Florida leveraged an existing State Housing Initiatives Partnership (SHIP) for emergency housing assistance triggered by state emergencies, created in the 1990s. SHIP is more focused on homeowners than renters, but the associated statutes have been waived to use this program and its organizational infrastructure to implement COVID emergency rental assistance. San Antonio, Texas made small modifications to its existing Risk Mitigation Fund, and increased its 2020 budget of $1 million to $25 million through a city council vote in April 2020 (Brnger, Salinas, and Gomez 2020).

Finally, it's worth noting that these new state and local rental assistance programs have been expanded or established in the context of greatly expanded direct cash assistance through the CARES Act. Such direct cash assistance is in all likelihood a first-best policy response to such an economic crisis; emergency rental assistance would complement such assistance (particularly for those not covered or reached by cash benefits, and recognizing that such benefits are not adjusted for variations in the cost of housing), thus playing a secondary but important role in the safety net.

3.c. Evidence on Efficacy

There is some evidence suggesting that short-term emergency rental assistance can prevent or interrupt the downward spiral of eviction. Evans, Sullivan, and Wallskog (2016) evaluated Chicago's Homelessness Prevention Call Center (HPCC), which connects families and individuals facing the threat of homelessness with emergency financial assistance. The authors exploit variation in the availability of funding to explore the extent to which the program prevented homelessness among recipients. Callers were screened for eligibility based on whether a financial disruption—such as job loss, changes in a shared housing situation, or the loss of public assistance—had occurred and whether the individual would be able to make consistent rental payments going forward after receiving assistance. The authors found the policy reduced homeless shelter use by 76 percent.

Palmer, Phillips, and Sullivan (2018) examined the impact of the same emergency financial assistance program on criminal activity, finding a decline in arrests one to two years after individuals receive assistance. Importantly, the authors note "the decline in crime appears to be related, in part, to greater housing stability—being referred to assistance significantly decreases arrests for homelessness-related, outdoor crimes such as trespassing."

There is also evidence that New York City's HomeBase program helps to reduce homelessness. The HomeBase program provides both financial and other assistance to families who believe that they are at risk of becoming homeless. Goodman, Messeri, and O'Flaherty (2016) use the fact that HomeBase started at different times in different neighborhoods to estimate its impacts. Using this quasi-experimental variation, they find that HomeBase reduced shelter entries by between 5 and 10 percent. A more formal evaluation of the program that randomly assigned families to receive HomeBase prevention services also found benefits (Rolston, Geyer, and Locke 2013). The study found that the families assigned to receive HomeBase assistance were 9 percentage points less likely to apply to stay in a homeless shelter over the subsequent 27 months, and spent 23 fewer nights in shelter in aggregate than control group families.

3.d. Federal Proposals

The 2013 Bipartisan Policy Center (BPC) Report Housing America's Future: New Directions for National Policy included a proposal to create a federal emergency rental assistance program, to complement a collection of reforms and funding expansions to increase the supply of rental housing and consolidate federal rental assistance resources among those with the greatest need.The commission proposed to offer households with extremely low income—defined as those earnings less than 30 percent of the area median income (AMI)—a long-term federal rental subsidy in the form of a voucher or public housing. Those programs, however, would no longer provide any assistance to households earning more than this amount. (Households earning up to 50 percent, and in some cases 80 percent of AMI, are currently eligible for federal assistance.) To offset this lower income threshold, the commission also proposed an emergency rental assistance program for households earning between 30 and 80 percent of AMI who suffer temporary financial setbacks. The proposal called for one-time assistance of up to $1,200 to be used to pay security deposits, back rent, and other housing-related costs. Emergency assistance would be administered through HUD's HOME formula grant program with broadened flexibility to provide short-term, tenant-based rental assistance and supplemental funding for that purpose.

More recently, the 2019 Eviction Crisis Act (S.3030), sponsored by Senators Michael Bennet (D-Colorado) and Rob Portman (R-Ohio), proposed creating an emergency assistance fund supported through a federal competitive grant program with matching funds from local governments or private philanthropy. Under the proposed program, extremely low-income tenants could apply for short-term rental assistance. To qualify, tenants would need to demonstrate that they are at risk of homelessness or housing instability by presenting a past-due utility or rent notice, a decline in household income, a family health crisis, or documentation of an unexpected expense. Although the bill does not cap the total amount of assistance provided to each household, it limits the duration of aid to a maximum of 90 days with eligibility resetting each year.

One important distinction between the two proposals is their target population. Under the BPC proposal, the emergency rental assistance would be available to households with income between 30 and 80 percent of AMI (since those earning less than 30 percent of AMI would be offered a long-term rental subsidy). Under the Bennet-Portman proposal, emergency assistance would be provided only to households with extremely low incomes, regardless of whether they receive other federal rental assistance. A second distinction is that the BPC proposal restricts households to receiving emergency assistance just once, while the Bennet-Portman plan would allow households to receive assistance in multiple years, if warranted. A third distinction is that funds would be allocated to all or most localities under the BPC proposal, while the Bennet-Portman Act proposes a competition, resulting in funds going only to a limited set of places.

4. The Policy Proposal: A Federal Short-Term (Emergency) Rental Assistance Program

We propose the development of a short-term rental assistance program to address temporary income and expense volatility that can threaten housing stability. This tool would complement, rather than substitute for, longer-term and deeper rental subsidies, though its existence could prevent some destabilizing events that result in a household needing longer-term rental assistance. In essence, we are proposing to get 'up stream' of costly, destabilizing events, similar in concept to reform proposals to disability insurance, such as recommended by the Hamilton Project (Greenstone et al. 2013). While the program is intended to address idiosyncratic events in renters' lives, emergency rental assistance could also be modified and scaled up to mitigate harm during a common shock, such as a natural disaster or pandemic, much as the unemployment insurance system has been used to respond to the COVID-19 pandemic. As numerous localities around the country have learned this spring and summer, having even a small, preexisting program makes it far easier to stand up a more scaled relief program in a broader emergency.

4.a. Rationale for Federal Support

Unlike the emergency rental assistance programs currently in place, we are proposing a federally-funded program, with funding dedicated to emergency rental assistance.[7] The federal government has greater fiscal flexibility than states and localities, and redistributive programs are most appropriately funded at the federal level. Further, federal funding ensures that the program will be available broadly, not just to those jurisdictions with sufficient resources to establish such programs, eliminating any strategic behavior on the part of individuals to move to jurisdictions that offer more generous, short-term assistance, or on the part of cities that anticipate such mobility responses. To the extent that the federal funding includes some guidance and minimum program and reporting requirements, it may also help to address disparities in local capacity levels. Finally, a federal program can be temporarily expanded to address common shocks, something few localities could manage. That said, while federal funding is key, any federal program should be flexible enough to permit tailoring to local conditions and to enable its use with other state and local programs addressing housing stability.

We propose the program be limited to renters with incomes of 80 percent of AMI or less prior to the income or expense shock, which balances the desire to target to the very neediest households with the interest in serving somewhat higher-income households, for whom short-term help is more likely to be sufficient to prevent a forced move. To ensure the short-term or emergency nature of assistance, renters would be limited to one-time assistance within a specified period. While many program details should be left to states and localities, to permit local innovation, we outline key considerations for an effective and efficient program.

4.b. Distinction from Current Proposals

Our proposed program most resembles the BPC proposal in terms of target population and basic funding structure. But given that we are not proposing a program to complement universal access to rental assistance for households with incomes below 30 percent of AMI, *all* renters with incomes below 80 percent of AMI would be potentially eligible under our proposal, though assistance could be limited to those without other rental assistance. Localities could choose to prioritize those with lower incomes among those who are eligible, or to provide different amounts of support depending on a household's prior income level. As noted below, we also consider strategies for allowing households to receive assistance more than once, while still trying to limit moral hazard.

7 Note that federal funding received through HOME, Emergency Solutions Grants (ESG), and even CDBG can be used by states and localities for emergency rental assistance, as one of numerous permitted uses and out of existing, capped federal funding. There is no existing federal program dedicated to emergency rental assistance.

Similar to the BPC proposal, we propose a federal formula-based funding source (HOME) that allocates funding based on housing need. While a competitive grant program requiring a local match can bring some efficiencies, these come at the expense of broad coverage and redistribution, and HOME's required 25 percent local match ensures some local "skin in the game." HOME may be the most flexible existing federal option, with some modifications to broaden the use of tenant-based rental assistance. This places emergency rental assistance within the "toolbox" of states and localities, along with other affordable housing efforts. The Emergency Solutions Grants (ESG) program could also be expanded for this purpose, as it was under the CARES Act. However, ESG would place the new funding in local homelessness systems and efforts, which in some locations may be less connected with broader affordable housing and stability efforts.[8] One drawback of relying on the HOME infrastructure is that, unlike ESG, it does not currently require activities to be reported separately such that emergency rental assistance can be tracked and monitored. Both the BPC proposal and our proposal require a change in reporting.[9]

A key goal of emergency assistance is to get "upstream," and to provide assistance that can head off a housing shock that could cause collateral damage. One such event is an eviction filing, which can negatively affect households even if they are not formally evicted, as filings are generally publicly reported and some landlords refuse to house people who have received eviction filings in the past (Gold 2016). A number of the existing local programs require proof of such a filing for the applicant to qualify. While this requirement may help to target assistance to tenants at greater risk, it also means that even tenants receiving assistance will still be harmed by having an eviction filing on their record. Further, conditioning assistance on an eviction filing may incentivize tenants to skip payments and landlords to make such filings so that their tenants can access assistance. Our proposed program would make explicit the goal of providing assistance prior to such potentially damaging events. We would also aim for considerable flexibility to permit grantees to innovate and leverage the available funding by combining with other public (and philanthropic) funding sources, as well as by potentially using portions of this funding for zero-cost loans rather than out-right grants. HOME dollars are currently combined with an array of other funding sources and would provide such flexibility.

8 ESG funds are allocated using the Community Development Block Grant Formula, and receiving jurisdictions must consult with local Continuums of Care (CoCs) in determining the use of funds.

9 In its assessment of the best existing federal program for providing expanded emergency rental assistance, the Urban Institute selected ESG over HOME (Galvez et al., 2020). However, the goal was for addressing the immediate COVID economic crisis, and ESG has a reporting structure in place.

4.c. Design Challenges and Considerations

There are a multitude of challenges and tradeoffs in designing such a rental assistance program. Here we raise several of the key issues states and localities would need to consider.

4.c.1. Simplicity versus oversight

As is the case in all public assistance programs, there is a tradeoff here between simplicity (with its lower administrative costs and ease of access for eligible households) versus oversight to ensure that public resources are being used for the stated goals of the program, and to serve the intended target population. Localities will need to consider the level and form of documenting need for emergency rental assistance, the qualifying event(s) that triggered that need, as well as evidence that temporary assistance is sufficient to stabilize the household. Given the short-term nature of this assistance, and the aim to provide assistance that can meet emergency needs, we would err on the side of simplicity. But some guardrails need to be put in place to protect against fraud and abuse.

4.c.2. Safety net versus moral hazard

Perhaps the greatest challenge in providing this kind of assistance is addressing the threat of moral hazard. On the tenant side, the concern is that low-income renters will be less motivated to pay rent because of the existence of this safety net. Knowing that they can miss a rental payment (or more) with potentially no negative consequences, they may be less apt to economize on expenditures and build up savings. On the landlord side, there could be concern that they would work less hard to collect overdue rent directly from the tenant or be less inclined to offer concessions of small amounts of missed rent, if they know that they can receive full payment through the emergency program.

There are numerous ways to minimize moral hazard through program features. Some existing emergency assistance programs limit assistance to a one-time payment, or a one-time payment within a given time period, mediating both renter and landlord moral hazard. Such limits, of course, reduce the ability of the program to buffer against additional shocks. One way to preserve that ability would be to permit previously assisted households to renew their eligibility for future assistance if they pay back the original subsidy. A time-limited rental assistance program in Chile does just this (Ross and Pelletiere 2014). The program allows subsidy recipients to miss rental payments up to three times during the five-year program, before losing eligibility. A tenant may repay a missed rent in a later month to preserve the ability to access this benefit again in the future, in essence permitting a zero-interest loan.[10] Alternatively, the assistance, or some portion it, could come explicitly in the form of a zero-interest loan, similar to HEMAP. The renter then bears a real cost to accessing the assistance, lowering moral hazard, but again lowering the reach and benefits of the program.[11]

Another way to limit moral hazard is by specifying a set of qualifying events, which involve an unexpected cost or shock beyond the household's control. The qualifying events must also be beyond the landlord's control. For example, tenants could not receive assistance simply because their landlord has increased rent. The program would then require proof that the need is coming from one of these qualifying events.

Another concern is that landlords will simply increase rents in response to the program, thereby capturing some or all of its benefits. The more generous and broad-based the program, the more likely it is that landlords will enjoy a substantial share of benefits. In this case, because the assistance is modest and time-limited, and targeted to those experiencing qualifying events, the risk that landlords will capture significant benefits is somewhat lower. But it is possible, as noted above, that landlords might hold back on offering rent relief in the presence of this program. Covering only part of the rent arrearages (say 80 or 90 percent) would help to minimize such behavior.

4.c.3. Excluding versus including households in subsidized housing

One difficult choice is whether to permit residents of subsidized housing to receive this emergency assistance. On the one hand, households in subsidized housing are less vulnerable to forced moves than those in unsubsidized housing given their lower rent payments (and perhaps more forgiving landlords). Moreover, in the case of a sizable shock to income, their rent payments may be adjusted to compensate.[12] On the other hand, they are not insulated from financial shocks, especially expense shocks. Further, because of their lower rents, short-term assistance is more likely to be sufficient to enable them to stay in their homes in the face of a shock and maintain their long-term subsidy. One possibility would be to exclude public housing residents, but to make voucher holders eligible, since they live in privately owned housing; they often have to pay for their own utilities and appear to struggle with

10 At the end of the five-year subsidy, families receive a share of any unused portion of the three-month buffer, creating a disincentive to simply miss three rental payments regardless of need.

11 As an example, each branch of the military provides emergency financial assistance to active service members, as zero interest loans, grants or a combination depending on the circumstances of the person requesting it.

12 For this discussion, subsidized housing does not include housing financed with the Low Income Housing Tax Credit, in which rents are set for the unit and not by the occupant's income. Hence, rents do not adjust to offset negative shocks in the tenant's income.

making critical utility payments (Sanbonmatsu et al. 2011).[13] It also seems advisable to permit residents of Low Income Housing Tax Credit (LIHTC) developments to receive assistance, since LIHTC rents do not adjust with tenant incomes.

Conclusion

Unexpected financial shocks pose a significant threat to the stability of lower-income renters, because their budgets are increasingly constrained by the combination of stagnant incomes and rising rents, they have limited ability to save, and there are few options to renegotiate leases. Many lower-income renters are now formally or informally evicted as a result of idiosyncratic financial shocks. A federal short-term emergency rental assistance program could help such renters to stay in their homes or to transition smoothly to new, affordable homes where needed. We believe that the costs of such a program would be modest relative to the benefits of stabilizing low-income renters and avoiding the cascade of other social problems (and costs) that may follow from forced moves.

The aim of such a program would be to address idiosyncratic shocks experienced by individual renters. But such a program could also be scaled up to address broader market threats, like the COVID-19 pandemic. In the case of broader market threats, however, direct cash assistance is more likely to be the optimal strategy, with emergency rental assistance playing a secondary role in the safety net.

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13 In the follow-up of the Moving to Opportunity Demonstration, families living in public housing who were randomly assigned to receive a housing voucher were 8 percentage points (and 33 percent) more likely than controls to have received a utility shut-off notice due to non-payment in the past year. (Sanbonmatsu et al. 2011, Exhibit 2.4, p. 55).

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