U.S. House of Representatives, Committee on Financial Services
Subcommittee on Housing, Community Development, and Insurance

Written testimony for hearing: The Rent Is Still Due: America's Renters, COVID-19, and an Unprecedented Eviction Crisis

June 10, 2020

Chairman Clay, Ranking Member Stivers, and Members of the Subcommittee, thank you for the opportunity to testify on the critically important issue of housing insecurity among renters. It is an honor to be here before you this afternoon. I'm grateful for your continued leadership and attention on this issue.

My name is Jenny Schuetz. I am a Fellow at Brookings Metropolitan Policy Program and the Future of the Middle Class Initiative. The views expressed in my testimony are my personal views and do not reflect the views of Brookings, other scholars, officers, or trustees.

You asked me to address several challenges facing renters today, namely:

- The consequences renters face when they are unable to pay their rent;
- How the pandemic has disproportionately affected low income households and households of color;
- The current gaps in protections for and resources available to renters who are struggling to pay their rent due to the pandemic; and
- How renters' inability to pay rent has downstream impacts on other stakeholders and entities.

Below I provide some larger context for the current rental housing crisis, and offer recommendations for how Congress can help address the needs of America's renters.

Low-income renters faced housing insecurity even before the COVID-19 pandemic

The COVID-19 pandemic and subsequent recession has exacerbated an already widespread problem of housing insecurity among low-income renters. Even before the crisis, more than 10 million households spent more than half their income on rent, well above the 30% guideline recommended by the U.S. Department of Housing and Urban Development (HUD).[1] When families devote such a large share of their monthly budget to pay for housing, they often have too little remaining income to pay for food, health, care, and other necessities. Any unexpected loss of income will leave them unable to pay rent, increasing the risk of eviction and displacement. Financial stress also harms people's physical and mental health.[2]

[1] Joint Center for Housing Studies. 2020. America's Rental Housing 2020. Cambridge MA: Harvard University. https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_Americas_Rental_Housing_2020.pdf
[2] Desmond, Matthew. 2016. *Evicted: Poverty and Profit in the American City.* New York, NY: Crown Publishers; Edin, Kathryn J. and H. Luke Shaffer. 2016. *$2.00 a Day: Living on Almost Nothing in America.* New York, NY: Houghton Mifflin Harcourt Publishing; Gabriel, Stuart and Gary Painter. 2017. "Why Does Housing Affordability Matter?" Working Paper.

Housing insecurity among low-income households is a national problem: the poorest 20% of households everywhere in the U.S. do not earn enough income to afford the rent on even modest-quality market-rate housing.[3] Most low-income renters receive no federal housing subsidies. Unlike food stamps and Medicaid, federal rental assistance is not an entitlement. Roughly one in four eligible renter households receive any subsidy. Most public housing authorities have years-long wait lists for housing vouchers.[4]

While housing affordability before COVID-19 was clearly worst for poor renters, lower-middle-income households were also financially strained to pay rent in high-cost metropolitan areas. Renters in the second income quintile spend on average 40% of their income on housing, well above HUD's guideline.[5] Middle-income families with children face high rates of crowding, particularly in California, Texas, and the New York metropolitan area. Too many people sharing too little space makes it difficult to practice social distancing during the current public health crisis. Lower-income households in the Northeast and Midwest are more likely to live in older, poor quality housing,[6] which can contribute to health problems.[7]

The precarious plight of low- and moderate-income renters prior to the current crisis reflects a series of policy choices made by federal, state, and local governments. Excessively strict state and local regulations, such as prohibitions on building apartments, contribute to the high cost and limited availability of rental housing.[8] The share of low-income households receiving federal rental assistance has declined over the past 20 years.[9]

<u>Policy recommendations to support low-income renters:</u>
In the short run, Congress can assist renters who have lost income due to COVID-19 by providing direct financial assistance. This could take the form of additional stimulus funds, expanded unemployment insurance, or emergency rental assistance. In the medium- and long-term, reducing housing insecurity among low-income renters will require either an expansion of

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[3] Larrimore, Jeff and Jenny Schuetz. 2017. Assessing the Severity of Rent Burden on Low-Income Families. Board of Governors of the Federal Reserve System. FEDS Notes. https://www.federalreserve.gov/econres/notes/feds-notes/assessing-the-severity-of-rent-burden-on-low-income-families-20171222.htm

[4] Ellen, Ingrid Gould. 2020. What do we know about housing choice vouchers? Regional Science and Urban Economics Vol 80. https://www.sciencedirect.com/science/article/pii/S0166046217302983

[5] Schuetz, Jenny. 2019. Cost, Crowding, or Commuting? Housing Stress on the Middle Class. Brookings Institution. https://www.brookings.edu/research/cost-crowding-or-commuting-housing-stress-on-the-middle-class/

[6] Schuetz, Jenny. 2019. Housing affordability and quality create stress for Heartland families. Brookings Institution. https://www.brookings.edu/blog/the-avenue/2019/07/02/housing-affordability-and-quality-create-stress-for-heartland-families/

[7] Boch, Samantha, Danielle Taylor, Melissa Danielson, Deena Chisholm, and Kelly Kelleher. 2020. "Home is Where the Health Is": Housing quality and adult health outcomes in the Survey of Income and Program Participation. Preventative Medicine Vol 132. https://www.sciencedirect.com/science/article/pii/S0091743520300141

[8] Gyourko, Joseph and Raven Molloy. 2014. Regulation and Housing Supply. NBER Working Paper 20536. Hsieh, Chang-Tai and Enrico Moretti. 2019. Housing Constraints and Spatial Misallocation. American Economic Journal: Macroeconomics 11(2): 1-29. Murray, Cecile and Jenny Schuetz. 2019. Is California's Apartment Market Broken? University of California-Berkeley, Terner Center Working Paper. Ganong, Peter and Daniel Shoag. 2017. Why has income convergence in the U.S. declined? Journal of Urban Economics 102: 76-90.

[9] Kingsley, G. Thomas. 2017. Trends in Housing Problems and Federal Housing Assistance. Urban Institute. https://www.urban.org/sites/default/files/publication/94146/trends-in-housing-problems-and-federal-housing-assistance.pdf

funding for existing federal rental assistance or restructuring existing housing subsidies to cover more households. The federal government should also work with state and local governments to reform land use regulations that make it difficult and expensive to build rental housing.[10]

Consumer protections for renters vary widely across states and local jurisdictions

The federal government plays a more active role in regulating mortgage markets for owner-occupied housing than the rental housing market, even though renters are typically less affluent than homeowners. In the wake of the Great Recession, federal agencies enacted new consumer protections for homebuyers, such as requiring more transparent disclosure of key mortgage terms, and restricting certain risky loan characteristics.[11] By contrast, state governments set most of the legal parameters for rental housing, leading to wide variation across states in renter protections.[12] Some states have pre-empted the ability of local governments to adopt additional tenant protections.[13] The current patchwork of approaches to temporary eviction moratoria is simply the logical extension of rental housing regulations that are adopted and enforced at the state and local level.[14]

The different levels of federal engagement in the owner-occupied and rental housing markets can be seen in responses to the current crisis. The Federal Housing Finance Agency has directed Fannie Mae and Freddie Mac to allow borrowers harmed by the pandemic up to one year of forbearance on their mortgages.[15] Missed payments do not have to be repaid in a lump sum after the forbearance period—a critical difference from most eviction moratoria. Neither HUD nor any other federal agency has equivalent authority over private-sector landlords who own and operate most of the nation's rental housing.

<u>Policy recommendations for more consistent renter protections</u>

In the short run, providing renters with sufficient financial support to continue paying their rent is the most direct and effective action Congress could take. Because evictions are carried out at the local level, the resources available to local governments—such as the number of lawyers available to counsel tenants—will affect what happens once temporary eviction moratoria end. Financial assistance to local governments for additional legal staff could help them more equitably manage the anticipated high volume of eviction filings. In the longer term, Congress may wish to consider whether CFBP could provide more consistent consumer protection for renters across states.

[10] Schuetz, Jenny. 2018. HUD can't fix exclusionary zoning by withholding CDBG funds. Brookings Institution. https://www.brookings.edu/research/hud-cant-fix-exclusionary-zoning-by-withholding-cdbg-funds/

[11] https://www.consumerfinance.gov/ask-cfpb/what-is-a-qualified-mortgage-en-1789/ https://www.consumerfinance.gov/ask-cfpb/what-is-a-hud-1-settlement-statement-en-178/

[12] https://www.law.cornell.edu/wex/landlord-tenant_law

[13] Hatch, Megan. 2017. Statutory Protection for Renters: Classification of state landlord-tenant approaches. Housing Policy Debate 27(1): 98-119.

[14] https://nlihc.org/eviction-and-foreclosure-moratoriums

[15] https://www.fhfa.gov/Media/PublicAffairs/Pages/No-Lump-Sum-Required-at-the-End-of-Forbearance-says-FHFAs-Calabria.aspx

The COVID-19 pandemic has disproportionately affected low-wage workers, Black and Latino households

The economic impacts of the pandemic have fallen especially hard on low-wage workers. Nearly 40% of households with annual incomes under $40,000 experienced job loss in March, a substantially higher share than higher-income households.[16] Additionally, Black and Latino households have been more at risk of severe health outcomes related to COVID-19.[17] Within many cities, majority Black or Latino neighborhoods have registered higher incidence of COVID-19 cases.[18] Black and Latino workers are overrepresented among "essential workforce" jobs and are less likely to hold jobs that can be carried out remotely.[19] The most recent jobs report from the Bureau of Labor Statistics showed slight improvement in the unemployment rate among white workers, while the Black unemployment rate rose between April and May.[20]

Income and race are strongly correlated with homeownership rates, which means the economic crisis has been particularly pronounced among renter households.[21] Many renter households had very limited savings even before COVID-19, which will make it difficult for them to weather even short-term income losses.

<u>Policy recommendations addressing racially disparate impacts of COVID-19</u>
Continuing to provide financial support directly to households who have lost income due to the pandemic is critical.[22] The most recent jobs report suggests that the economic recovery may be uneven across workers; enhanced unemployment insurance or other support may be needed for longer periods for workers in heavily affected industries or geographic areas, even as the overall labor market improves. It is also important to ensure that assistance programs for businesses are accessible to small, women- and minority-owned businesses.[23]

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[16] Board of Governors of the Federal Reserve. 2020. Survey of Household Economics and Well-Being 2020. https://www.federalreserve.gov/publications/2020-economic-well-being-of-us-households-in-2019-financial-repercussions-from-covid-19.htm

[17] Hooper, Monica Webb, Anna María Nápoles, and Eliseo J. Pérez-Stable. 2020. COVID-19 and Racial/Ethnic Disparities. Journal of the American Medical Association. https://jamanetwork.com/journals/jama/article-abstract/2766098

[18] https://furmancenter.org/thestoop/entry/covid-19-cases-in-new-york-city-a-neighborhood-level-analysis

[19] Brown, Steven. 2020. How COVID-19 is affecting Black and Latino Families Well-Being. Urban Institute. https://www.urban.org/urban-wire/how-covid-19-affecting-black-and-latino-families-employment-and-financial-well-being

[20] https://www.bls.gov/news.release/pdf/empsit.pdf

[21] Schuetz, Jenny. 2020. When middle-class incomes collapse, how you gonna pay next month's rent. Brookings Institution. https://www.brookings.edu/blog/up-front/2020/03/26/when-middle-class-incomes-collapse-how-you-gonna-pay-next-months-rent/

[22] Boushey, Heather, Ryan Nunn, and Jay Shambaugh. 2019. Recession Ready: Fiscal policies to stabilize the American economy. Brookings Institution. https://www.brookings.edu/multi-chapter-report/recession-ready-fiscal-policies-to-stabilize-the-american-economy/

[23] Liu, Sifan and Joseph Parilla. 2020. Businesses owned by women and minorities have grown. Will COVID-19 undo that? Brookings Institution. https://www.brookings.edu/research/businesses-owned-by-women-and-minorities-have-grown-will-covid-19-undo-that/

Suspending or cancelling rent payments could harm local economies

In order to protect renters from displacement during the pandemic, a number of states and localities have adopted temporary eviction moratoriums. While allowing renters to suspend rent payments for a few months can help them in the short term, these moratoriums could increase households' longer-term financial insecurity. Suspending rent payments may also harm other stakeholders in the local economy.[24]

Allowing renters to defer current rent payments to some future date will most likely result in households accumulating debt that they cannot pay off.[25] Families who cannot afford one month of rent now will face even greater difficulty paying several months of overdue rent when the moratorium comes to an end. Unlike mortgage forbearance offered through the government sponsored enterprises, eviction moratoria do not provide a mechanism for renters to spread missed rent payments over a longer term, unless negotiated on a case-by-case basis with landlords.

Halting rent payments can have harmful ripple effects throughout local economies. Landlords rely on rent checks to pay their mortgages, insurance, utilities, and property taxes to local governments.[26] Landlords with federally-backed mortgages can qualify for one year of forbearance, but many landlords will not qualify for this program. Local government budgets have already been hit hard by declining revenues and increased need for services; delayed or diminished property tax revenues will impact their ability to provide essential services.[27] Rent checks pay the wages of other workers. Large property owners employ in-house maintenance and housekeeping staff, while small landlords hire independent contractors, such as plumbers and electricians. When renters cannot pay their landlords, other workers and small businesses will lose income. If landlords are forced to defer building maintenance due to cash shortfalls, the quality of the housing can deteriorate and become hazardous to tenants.

Interrupting cash flows will inflict the most harm on small-scale, non-professional property owners. Many of these landlords operate on very thin margins, so the delay or loss of rent payments may force them to sell their properties. These are also the types of apartment buildings that are most likely to house economically vulnerable renters.[28] Black and Latino landlords own and operate a substantial share of older, small rental properties that make up the unsubsidized ("naturally occurring") affordable rental stock. Additionally, in recent years, many cities have

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[24] Fields, Samantha. 2020. HUD, Fannie Mae, Freddie Mac, and a growing list of cities suspend evictions because of coronavirus. Marketplace. https://www.marketplace.org/2020/03/16/growing-number-of-cities-states-halting-evictions-because-of-coronavirus/

[25] Burrows, Kimberly and Maya Brennan. 2020. When pandemic hits, pausing evictions can help renters and landlords—but it's not enough. Urban Institute. https://housingmatters.urban.org/articles/when-pandemic-hits-pausing-evictions-can-help-renters-and-landlords-its-not-enough

[26] Schuetz, Jenny. 2020. Halting evictions during the coronavirus crisis isn't as good as it sounds. Brookings Institution. https://www.brookings.edu/blog/the-avenue/2020/03/25/halting-evictions-during-the-coronavirus-crisis-isnt-as-good-as-it-sounds/

[27] Belz, Sage and Louise Sheiner. 2020. Brookings Institution. https://www.brookings.edu/blog/up-front/2020/03/23/how-will-the-coronavirus-affect-state-and-local-government-budgets/

[28] https://furmancenter.org/thestoop/entry/covid-19-and-the-rental-market

tried to increase the supply of rental housing through "gentle density".[29] For instance, homeowners are encouraged to convert their basement or garage into an accessory dwelling unit (ADU).[30] Policies that make being a landlord more complicated or riskier are a disincentive to operating small-scale rental housing.

Policy recommendations to support owners of affordable rental properties

In addition to direct financial support to households, Congress could provide targeted grants or low-interest loans to property owners. Such grants could help preserve the physical condition and financial viability of existing affordable housing. Renters are at higher risk of eviction when their landlords fall behind on taxes and other bills.[31] Older apartment buildings are often targeted by investors who plan to raise rents. Targeted support to small property owners could help avoid the permanent loss of existing affordable housing.[32]

Conclusion

Congress has already acted to help households and businesses weather the initial impact of the pandemic. More targeted assistance is needed to keep renters in their homes and allow landlords to continue providing safe, habitable housing to all their tenants.

Thank you again for the opportunity to testify virtually here today on this important issue. I look forward to answering your questions.

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[29] https://www.smartergrowth.ca/what-gentle-density-and-why-do-we-need-it

[30] Kirk, Mimi. 2018. The granny flats are coming. CityLab. https://www.citylab.com/design/2018/01/the-granny-sflats-are-coming/550388/

[31] Raymond, Elora Lee, Richard Duckworth, Benjamin Miller, Michael Lewis, Shiraj Pokharel. 2018. From Foreclosure to Eviction: Housing insecurity in corporate-owned single-family rentals. Cityscape 20(3): 159-185. https://www.huduser.gov/portal/periodicals/cityscpe/vol20num3/Cityscape-November_2018.pdf#page=165

[32] Graves, Erin, Ingrid Gould Ellen, Katherine O'Regan, and Jenny Schuetz. 2020. Strategies for increasing affordable housing amid the COVID-19 economic crisis. Brookings Institution.