Bolstering the Housing Safety Net: The Promise of Automatic Stabilizers

A Hamilton Project proposal by Robert Collinson of the University of Notre Dame, Ingrid Gould Ellen of New York University, and Benjamin J. Keys of the University of Pennsylvania reimagines housing assistance programs. They propose several programs to stabilize households and housing markets by supporting homeowners and renters during future downturns.

Specifically, Collinson, Ellen, and Keys' proposal would:

- Create new emergency rental assistance accounts from the IRS for low-income households;
- Implement an automatic, three-month forbearance period for vulnerable mortgage borrowers in response to elevated local unemployment; and
- Establish a permanent tax credit exchange program that allows states to exchange tax credits for direct subsidies at a fiscally neutral price when demand from tax credit investors falls.

Issue Overview

- **Housing costs in the United States account for much larger portions of household budgets than they did between 1960 and 2000**. In 1960, just 25 percent of renters and 20 percent of homeowners paid more than 30 percent of their income on housing costs. By 2018, nearly 50 percent of renters and 25 percent of homeowners did.
- **Unanticipated shocks to income and expenses (such as a loss of work, which may or may not be related to business cycle conditions) strain households' short-term budgets and their ability to cover housing costs**. Many households who can afford their homes over the long run may experience difficulties in the short term, and few have the savings needed to make ends meet. But such shocks are common, particularly among lower-income households, and put households' housing security—especially that of renters'—at risk.
- **Housing assistance programs are often unable to meet the need when it is greatest--during economic downturns**. Evictions and foreclosures have large negative effects on households' economic outcomes and occur disproportionately often among communities of color. Despite these serious effects, housing assistance programs do not automatically provide more support during times of increased housing insecurity at either the macro-level or household-level.

The Challenge

Current housing policies do not adequately address housing insecurity and its related costs for either homeowners or renters. Additionally, programs meant to increase the production of low-income housing and maintain such structures are particularly vulnerable during downturns, when low-income housing is needed most.

The Path Forward

Collinson, Ellen, and Keyes propose the following policy initiatives to bolster the housing safety net:

1. **Create Emergency Rental Assistance Accounts**. The IRS would create new emergency rental assistance accounts for individual tax-units that are renting with an income less than 80 percent of the area median income (AMI). These accounts could be used to buffer negative shocks that trigger acute housing instability. Deposits to the accounts would be made by the U.S. Treasury with a balance equal to four or five times the local Fair Market Rent (FMR) at the time of account opening.

2. **Implement an Automatic Homeownership Stabilization Program**. All mortgages for low- and moderate-income homeowners with household incomes below 100 percent of AMI in their pre-economic distress period or at origination would be eligible for program participation. Those mortgages would enter a three-month forbearance period automatically in response to a "triggering event" of elevated local unemployment, and borrowers could choose to opt-out of forbearance.

3. **Establish a permanent Automatic Tax Credit Exchange Program**. This would reform the Low-Income Housing Tax Credit (LIHTC) Exchange Program to better boost, or at least sustain, creation and maintenance of affordable housing during recessions. First, the LIHTC Exchange Program would become automatic and permanent. Second, the exchange option would be opened up to 4 percent tax credits and Congress would give states—or, at least, local areas with high vacancies and soft housing markets—flexibility to use the dollars they receive by exchanging their tax credits for demand-side and construction subsidies.

By proposing effective aid to homeowners and renters facing short-term negative shocks, as well as building in long-term support for the construction and maintenance of affordable housing, Collinson, Ellen, and Keyes target multiple weaknesses in today's housing assistance programs.

About the Author

Robert Collinson is a Professor of Economics at the University of Notre Dame. Ingrid Gould Ellen is a Professor of Urban Policy and Planning at New York University. Benjamin J. Keys is a Professor of Real Estate at the University of Pennsylvania.