

Re: Docket No. FR-6466-N-01
Request for Information: Direct Rental Assistance

To Whom it May Concern:

I am a Research Associate at the Jain Family Institute, a non-partisan applied research organization. I am an expert in government cash assistance policy, and I am advising The Housing Pledge, a direct cash assistance for housing demonstration project spearheaded by the Fund for Guaranteed Income.¹

Direct rental assistance is a unique opportunity to make the housing voucher program far more effective. However, much depends on the specifics of implementation. It is possible to design direct rental assistance (DRA) with so many layers of bureaucratic requirements and guardrails that it recreates the shortcomings of the current voucher program. To realize DRA's potential, it must make landlords' experience serving assisted tenants equivalent to that of middle-income tenants who are not receiving government assistance. If renting to DRA tenants comes with extra hurdles, landlords will likely be far less accepting, and recipients' housing choices will be far more limited.

The following sections provide specific programmatic suggestions to apply these principles while responding to the specific questions of interest posed by the request for information. The last section—labeled 'Other Considerations'—brings up additional factors that should be considered as plans for DRA move forward.

What policies or procedures should be in place to ensure that direct rental assistance payments are used by recipients for rental housing costs?

Whatever policies are put in place to verify that rental assistance payments are used for rental housing costs should be minimally burdensome on tenants receiving assistance and should not require any special actions on the part of the landlord. Any requirements imposed on landlords to receive or verify payments threatens the parity with unassisted tenants that is foundational to the effectiveness of direct rental assistance.

One model that has been proposed to verify payments are used for rental housing costs is to create a new payments system specific for this purpose, similar to the way SNAP functions like cash but restricts usage to food items.² If this creates significant hassle for landlords to accept payments (by requiring landlords to set up a designed payment accepting account) it will make landlord acceptance of DRA tenants far less likely.

While SNAP manages widespread retail participation, it caters to a fundamentally different market than housing vouchers that is key to its widespread acceptance. For one, SNAP retailers get

¹ More information about The Housing Pledge can be found at f4gi.org/pilot/housing-pledge/

² Fischer, Will, and Barbara Sard. "Memo: Streamlined Rental Assistance Payment Demonstration." Washington, DC: Center on Budget and Policy Priorities. (2021). And Pham, Nam, Mary P. Donovan, and Cassandra Brzezinski. "The Benefits of Converting HUD's Housing Choice Voucher Program to an EBT System." (2020).

access to a larger market—about 12 percent of people receive SNAP while less than 2 percent of people receive vouchers. The WIC program is similar to SNAP but serves a far smaller market, which can help explain why it enjoys far less retail penetration relative to SNAP. Second, the dichotomous nature of housing consumption makes it easier for landlords to avoid serving voucher tenants altogether, while grocers who do not participate in SNAP miss out on substantial income. Third, the housing market is far less concentrated than the grocery market. As long as large corporate grocery stores accept SNAP, the program will offer a reasonable number of redemption venues for SNAP participants, even if participation by smaller convenience stores is more limited. There is no large grocery store analogy in the housing market—a few large corporate landlords who adopt a system will not give people nearly enough housing options.³ Fourth, SNAP retailer participation has built up over decades, replacing a previously ineffective and meager food assistance program, which gave it a large runway to build up effectiveness.⁴ The housing voucher system is well established and works reasonably well for millions of families, so is more sensitive to initial frictions even if the end product becomes more effective. Finally, even if the SNAP model could be adopted for DRA, a large-scale rollout would be essential for its effectiveness. If the SNAP model was adopted for DRA on a pilot basis, there would be little incentive for landlords to go through the initial fixed costs of setting up to accept DRA payments for a one or two tenants. While a large-scale program might have more success, it is unclear how large-scale changes to the voucher system would be feasible without a successful smaller-scale pilot.

A SNAP-like model where restrictions are only placed on recipients of assistance has more merit for helping verify recipients pay rent. Such a system would not be any different for landlords receiving rental funds, thus would not deter landlord participation. However, DRA could be deposited in a special-purpose bank account that limits transfers to a single account where the landlord accepts rent. The account could accept deposits, so DRA recipients could transfer their own funds to the account for their share of the rental payment to pay the landlord in a single transfer. Utility costs could also be incorporated under the same system. Here, the only verification challenge would be to ensure the designated bank account belonged to the landlord, and to manage changes due to moving or changing landlords preferred method of payment.

Another option for verification would be for DRA recipients to submit rental receipts to the PHA every month. Such a system would be easy to implement without special purpose bank account technology. Receipts could simply show a bank transfer in the amount of the rent payment every month. If further verification was deemed necessary, PHAs could reach out to landlords periodically to verify timely payments, perhaps compensating them for their time.

Importantly, tenants may be within their rights to withhold rent payments if landlords do not make important repairs. This represents an important safeguard for a DRA program that no longer comes with a HAP contract. Tenants withholding rent should be able to report this to the PHA without adverse consequences.

³ A researcher at HUD estimates that there are 10-12 million landlords who manage 48.5 million rental housing units. Richardson, Todd M. “Landlords” (2018). URL:

<https://www.huduser.gov/portal/pdredge/pdr-edge-frm-asst-sec-061118.html>

⁴ Berry, Jeffrey M. *Feeding hungry people: Rulemaking in the food stamp program*. Rutgers University Press, 1984.

What steps should be taken to ensure that direct rental assistance is not treated as income for the purposes of taxes and other public benefit programs?

The most effective way to ensure direct rental assistance is not treated as income for the purposes of taxes and other public benefit programs is to pass federal legislation to that effect. This will eliminate any ambiguity in current laws and regulations, ensuring that rental assistance will not threaten eligibility or reduce benefits in other public benefit programs. While federal law would not impact programs solely governed and funded at the state or local level, the vast majority of public assistance programs are governed by federal regulations, and state-controlled programs often follow federal rules.

Even without new laws, existing regulations should protect direct rental assistance from being counted as income in most federal programs or taxed by the IRS. The largest reaching means-tested public assistance program, SNAP, specifically excludes “Housing assistance payments made through a State or local housing authority” as income for the purposes of calculating SNAP benefits.⁵ SSI specifically excludes the “value of any assistance paid with respect to a dwelling unit” under various federal housing laws.⁶ Medicaid has different rules for different populations, but neither calculation should count direct rental payment assistance as income.⁷ TANF is one exception to this general rule, as states have wide discretion over what resources to count for eligibility. Regarding taxes, direct rental assistance should not be taxed based on the general welfare exclusion, as a direct rental assistance program is based on need and for the promotion of the general welfare.⁸ Given payments’ non-taxability, tax credit benefits for low-income families like the Earned Income Tax Credit and the Additional Child Tax Credit would also not be affected. General cash support programs from non-profits or state and local governments may face more benefit interaction issues because they are not specifically earmarked for housing and are not exempt under current law.

Even if laws and regulations protect direct rental assistance programs from being counted as income, PHAs should be directed to affirmatively reach out to local benefits administrators to inform them of this regulatory guidance and its activities, as practices on the ground sometimes do not conform to regulatory intention. This has been an important lesson of some Guaranteed Income pilots—even explicit laws carving out these cash payments from being counted as income have not been carried out as intended. PHAs should ask DRA participants to reach out if they have experienced benefits cuts due to DRA being counted as income and work with benefits administrators to clarify and rectify the situation if the benefit cut was contrary to regulatory guidance.

⁵ [7 CFR 273.9\(c\)\(1\)\(i\)\(E\)](#)

⁶ [20 CFR 416.1124\(c\)\(14\)](#)

⁷ For most people, income for determining Medicaid eligibility is based on the IRS’s definition of modified adjusted gross income, which should not include housing assistance payments per the general welfare exclusion [42 CFR 435.603\(e\)](#) (see next sentence in the main text for more details on the general welfare exclusion). For select other populations, Medicaid eligibility is based on the methodology for determining SSI eligibility (or some other methodology that is less strict than the SSI methodology at the states’ option, and SSI especially excludes housing payments [42 CFR 435.601\(d\)\(2\)](#) (see prior sentence main text).

⁸ Ball, Milan. “The IRS’s General Welfare Exclusion” *Congressional Research Service* (2022)
<https://sgp.fas.org/crs/misc/IF12326.pdf>

If the DRA subsidy formula offered an opportunity for assisted tenants to spend a portion of their cash assistance on non-rent costs, some part of the transfer could potentially be counted as income for other government programs without an explicit federal carveout. This complication (among others detailed in response to the subsidy design question) may tilt towards maintaining the existing voucher assistance formula or ensuring any tweaks do not give recipients cash to spend on items other than rent. For assisted tenants who would spend more than 30 percent of their income on rent in the absence of subsidy, the program will still indirectly increase total disposable income that can be spent on non-housing costs.

How would the behaviors or engagement of housing providers, tenants or other stakeholders be expected to respond to direct rental assistance?

Research has found that some landlords are attracted to the HCV program because it guarantees at least a portion of the rent is reliably paid by the PHA rather than relying entirely on tenant payments.⁹ These landlords may view direct rental assistance unfavorably because providing assistance directly to the tenant introduces the risk that the tenant will not pay the landlord, removing the rent guarantee (at least for the PHA portion of the rent). While this may be a drawback for the direct rental assistance program, it is likely to be a minor one, if it materializes at all. Landlords who are attracted to the HCV program's guaranteed rent cannot attract middle and high-income tenants who also reliably pay rent—they deal with the administrative hassles of the HCV program because they cannot attract higher income tenants. Even if direct rental assistance increases the (real or perceived) risk of non-payment relative to traditional vouchers for these landlords, participants still have a significant leg up over similar unassisted renters who make up the counterfactual market for HCV-specialist landlords. Thus, these landlords should still have incentives to rent to households assisted via direct rental assistance. Moreover, DRA comes with strong incentives for participants to pay rent—if they do not, they will lose the subsidy altogether.

Landlords specializing in the HCV program generally offer lower-quality housing in less desirable neighborhoods.¹⁰ Direct rental assistance should aspire to improve the housing stock of voucher-holders by broadening the number of landlords willing to rent to voucher holders, rather than solely catering to the interests of incumbent landlords participating in the program.

Other landlords who do not currently specialize in the HCV program should respond to the DRA program favorably, accepting tenants assisted under DRA who they would have avoided had they been issued a traditional voucher. After removing the extra hassles accepting vouchers entails, the key criteria landlords use to screen tenants is ability to pay.¹¹ Assuming the direct rental assistance formula is the same as that of traditional vouchers, assisted tenants should be able to pay rent, as the formula ensures at maximum 30 percent of their income goes to rent with the remainder

⁹ Rosen, Eva. *The Voucher Promise: "Section 8" and the Fate of an American Neighborhood*. Princeton University Press, 2020.

¹⁰ Another motivation of these landlords is receiving a "voucher premium" of higher monthly rents relative to what they would receive for market-rate tenants.

¹¹ Garboden, Philip. *Urban landlords and the housing choice voucher program: A research report*. US Department of Housing and Urban Development, Office of Policy Development and Research, 2018.

subsidized. In fact, direct rental assistance can be even more desirable than market-rate tenants paying 30 percent of their income to rent. Unlike market rate tenants who have no safety net, direct rental assistance subsidies should increase in response to a negative income shock via interim recertifications to ensure tenants can continue paying rent (discussed in more detail in the next section).

While we can expect direct rental assistance to improve households' lease worthiness, much depends on landlords' ability to understand and trust the program. One view of the direct rental assistance program is that households do not need to share anything about receiving government assistance with landlords, as this will solve voucher discrimination and ensure access to more housing. However, without rental assistance, recipients of vouchers have very low incomes (over half have household incomes below \$15,000 per HUD's 2023 Picture of Subsidized Households microdata) where they would struggle to pay for most market rate apartments. Under any kind of tenant income screening process, direct rental assistance applicants who only disclose their non-voucher sources of income would be unlikely to qualify for most apartments. While direct rental assistance should allow tenants to choose whether or not to disclose they are being assisted by the program (since landlords have no active participatory role), in most circumstances, disclosing participation should be advantageous. Since landlords screen income to assess tenants ability to pay, recipients need to be able to share the fact they are receiving assistance with landlords and landlords need to understand and trust that the program will ensure voucher-holders' ability to pay rent. Households receiving assistance should receive something that explains the program to prospective landlords, and PHA's should have a designated webpage with the same (or more detailed) information. This information should also clearly explain that on-time rental payments are verified as an ongoing eligibility requirement to further buffer any concerns about tenants' reliability from landlords.

It is especially important to communicate that direct rental assistance is different from general income support, as it must go to paying rent. If direct rental assistance is thought of as general income, it will be far less effective at improving the types of units an assisted household can qualify for. For instance, according to HUD's Picture of Subsidized Households data, the average housing choice voucher household receives a subsidy of \$1,068 per month and has a total household income of \$17,835. Using the heuristic that rent should not be more than 30 percent of income, if the subsidy was thought of as general income, the household would qualify for rentals costing no more than \$766 per month, compared to \$445 per month with no subsidy. However, if the subsidy is specifically earmarked for housing and the tenants contribution is 30 percent of non-subsidy income, the household will qualify for rentals costing \$1,513 a month. In other words, direct rental assistance used exclusively for rent increases the average voucher households' housing budget constraint by 240 percent, while direct rental assistance used as general income would increase the housing budget constraint by 75 percent.

How should direct rental assistance subsidies be calculated?

Recipients of direct rental assistance should receive a substantial lump-sum at the start of their housing search. Traditional vouchers only pay for rent, not application fees, security deposits, or

moving costs, which can be significant constraints on recipients' housing search.¹² These constraints can create barriers to finding qualifying housing and may steer voucher recipients toward lower-quality options with minimal or no upfront costs. For instance, one study reported that voucher recipients “kept application costs low by avoiding fees, holding off on applications until they felt confident landlords would accept them, and searching for bargains.”¹³ The lack of immediate benefits can also create resentment among voucher recipients, who have gone through a burdensome process to get off a waitlist and be issued a voucher, only to face an even more burdensome process of securing a qualifying unit with no financial support. Upfront benefits are not entirely novel to the current voucher process, as some high-performing PHAs fund security deposit assistance programs.¹⁴

Ideally, recipients should not have to prove they are using this initial lump-sum for housing related costs. Providing receipts for various moving-related costs is significantly more burdensome than proving you are spending DRA on rent, which, once established, is consistent. Moreover, recipients might benefit from using the funds for a variety of more informal costs, like paying an acquaintance with a car to show them different apartments. One potential compromise would be providing a smaller sum for application fees and other expenses that do not require verification, but requiring proof of use for a more substantial security deposit or a moving fee, and perhaps not disbursing cash until a specific unit that requires a security deposit is secured.

A slightly distinct justification for a cash infusion around the time of moving is to help recipients meet their basic needs and give more space for focusing on the hassles of moving. Research on vouchers has found that recipients' incomes decline around the initial receipt of vouchers and then rebound, which indicates that the frictions involved in moving temporarily depress incomes and justify extra unrestricted cash during this time.¹⁵ A one time initial unrestricted cash disbursement around moving is a distinct and more conservative approach from turning vouchers writ-large into unrestricted cash.¹⁶ While unrestricted cash may present issues with benefits interactions, one-time infusions around moving that slightly reduce other benefits are far less problematic than continual transfers that reduce the value of other benefits.

¹² A 1966 book interviewing a welfare recipient recounts this problem: "If you want to find a good apartment, you got to have the money in your hand for the security, but the Welfare won't give you this money until they approve the apartment and because they won't give you the key money for the super, you don't ever get the apartment." From Elman, Richard M. *The Poorhouse State: The American Way of Life on Public Assistance*. Dell Publishing Co, 1966. (Pg 99)

¹³ Galvez, Martha M. "Getting past "no": Housing Choice Voucher holders' experiences with discrimination and search costs." (2010). URL: <https://www.prrac.org/pdf/GettingPastNo.pdf> Pg 16.

¹⁴ Finkel, Meryl et al. "Moving to Work, Landlord Incentives Cohort Evaluation First Interim Report" (2023). Pg 35

¹⁵ The Moving To Opportunity Demonstration states, "the time pattern of the findings from the UI data suggests some short-run disruption effects of moving on employment outcomes in the first 2 years after random assignment, effects that dissipate over time." Orr, Larry et. al. "Moving to Opportunity for Fair Housing Demonstration Program: Interim Impacts Evaluation" pg 131 A similar pattern is found in HUD's welfare-to-work Housing voucher experiment, where small employment dips in the first two years dissipate in later years. Mills, Gregory, et al. "Effects of housing vouchers on welfare families: Final report." *Cambridge, Mass.: Abt Associates* (2006).

¹⁶ Program participants should be able to move multiple times with reasonable restrictions on multiple "cash-for-moving" type disbursements.

Beyond payments at program entry to facilitate moving, changes to the rental assistance subsidy calculation are not central to the effectiveness of direct rental assistance. The key change of direct rental assistance is making voucher recipients function on the housing market the same way unassisted tenants do to increase landlord acceptance and expand recipients' housing choices. Changing the rental assistance subsidy formula is not necessary for that goal, as the current voucher subsidy formula gives recipients the same rental buying power as middle-income market rate renters. In other words, there is nothing inherent in DRA that requires changing the status-quo HCV subsidy formula for the program to be effective.

However, changes to the subsidy calculation could make the program more effective by addressing various other drawbacks of the status-quo formula. There are three principal concerns with the current subsidy formula. First, it can be complicated for agencies to administer. Second, it can disincentivize work by implicitly taxing higher earnings. Third, it leaves little incentive for households to economize on housing, leaving PHAs to ensure rents are reasonable because the government, rather than the tenant, pays the entire tab for higher housing costs. Of these concerns, incentivizing households to economize on housing provides the most compelling justification to change the subsidy formula, as it would further empower recipients and reduce the need for PHAs to involve themselves in the lease-up process. Other considerations are not central to the functioning of DRA. Solving these issues may have merit, but also risks "mission creep" of trying to solve all the problems of the existing HCV program under the banner of DRA.

The HUD assistance formula depends on detailed questions about a households' income as well as the rent they pay. This presents a burden on both PHA staff and recipients of housing assistance, who have to provide a bevy of documentation to receive their voucher. While this process could be simplified, Direct Rental Assistance already greatly reduces the burdens involved in the voucher process for both PHAs and tenants. Further simplification and streamlining might be desirable, but should not be a central motivation of designing a new subsidy formula for DRA.¹⁷

It is difficult for DRA to reduce the theoretical work disincentives in the Housing Voucher program subsidy formula. As long as there is some kind of continuing income test to qualify for a voucher, and they are not otherwise time limited, there will always be some incentive to reduce earnings to maintain eligibility for the program. Giving a fixed subsidy (rather than making it dependent on income and rent levels) and/or extending time between certifications for DRA does not change this basic design limitation.¹⁸ HUD has commissioned research aiming at reducing the work disincentive by extending the time between recertifications from the standard one year to three years. The large multi-side randomized controlled trial found no impact on earnings, which suggests limited scope to improve work outcomes by modifying these program dimensions.¹⁹ These null results might be partially explained by the fact that vouchers are not very

¹⁷ To the extent the pre-voucher issuance process represents a barrier for eligible households receiving assistance, the bigger problem is likely opening up the waiting list and maintaining it than determining eligibility and precise subsidy level. However, the waiting list process is orthogonal to the design of DRA. See Kim, Huiyun. "Failing the least advantaged: an unintended consequence of local implementation of the Housing Choice Voucher Program." *Housing Policy Debate* 32.2 (2022): 369-385.

¹⁸ Even if housing assistance came without any continuing income test, it would still theoretically disincentive work via an income effect, as it increases the recipients resources for a given level of work.

¹⁹ Riccio, James et. al., *The Rent Reform Demonstration: Impacts on Work, Housing, and Well-Being After 42 Months* (2021) *MDRC Report*

work-disincentivizing at all—randomized evaluations giving some people access to vouchers have found small effects on earnings.²⁰ The fact that work disincentives are both difficult to solve and overrated as a source of concern suggests that the subsidy formula for direct cash assistance should not be designed around reducing work disincentives. Finally, analysis of work disincentives should not myopically focus on the subsidy formula. DRA could improve recipients earnings by giving them access to better quality housing in more job-dense neighborhoods relative to traditional vouchers, which have shown limited effectiveness in improving recipients neighborhoods.²¹

Incentivizing DRA recipients to economize on housing is the strongest argument for changing the subsidy formula. While the purpose of the voucher program is to increase households' rent expenditures, there needs to be some limit. Currently, the only incentive to limit rent expenditures is the maximum fair market rent and PHA's rent reasonableness determinations. Rent reasonableness determinations are another hoop voucher tenants have to jump through to lease-up and should ideally be removed from the DRA process, as delays in approvals and rent negotiations with the PHA would make DRA recipients less competitive relative to market rate renters.²² However, without any rent reasonableness determination, the only control on subsidy costs would be the maximum fair market rent if DRA subsidy formula was the same as traditional vouchers.

There is limited evidence that rent reasonableness determinations are effective at stopping landlords from price-discriminating and moving rents to the maximum subsidy level. Research has found that quasi-random increases in fair market rents result in higher rents with no housing quality improvements (either in locational outcomes or unit quality), suggesting landlords captured the value of the allowable rent increase despite rent reasonableness protections.²³ Tweaking the subsidy formula so that higher rents are partially paid by voucher holders is likely a more effective way for the program to control costs.

What could this look like in practice? One solution would be for the PHA to subsidize rent up to the fair market rent amount with tenants paying 30% of their income to rent, but keep the same subsidy amount if tenants lease units that are less expensive. This would give participants some

²⁰ The best evidence on this point is HUD's welfare-to-work evaluation of Housing Choice vouchers which randomized voucher receipt in six cities and found a marginally significant four percentage point decline in employment in the first year that quickly declined to zero in follow up years. Mills, Gregory, et al. "Effects of housing vouchers on welfare families: Final report." *Cambridge, Mass.: Abt Associates* (2006). Another study in Chicago found a slightly more persistent labor force participation decline (though the same small four percentage point effect size) that still went to zero in the long run. For the initial labor supply decline results, see Jacob, Brian A., and Jens Ludwig. "The effects of housing assistance on labor supply: Evidence from a voucher lottery." *American Economic Review* 102.1 (2012): 272-304. For long run labor market effects that go to zero, see Jacob, Brian A., Max Kapustin, and Jens Ludwig. "The impact of housing assistance on child outcomes: Evidence from a randomized housing lottery." *The Quarterly Journal of Economics* 130.1 (2015): 465-506.

²¹ Ellen, Ingrid Gould. "What do we know about housing choice vouchers?." *Regional Science and Urban Economics* 80 (2020)

²² Cossyleon, Jennifer E., Philip ME Garboden, and Stefanie DeLuca. *Recruiting Opportunity Landlords: Lessons from Landlords in Maryland*. Poverty & Race Research Action Council., 2020.

²³ Collinson, Robert, and Peter Ganong. "How do changes in housing voucher design affect rent and neighborhood quality?." *American Economic Journal: Economic Policy* 10.2 (2018): 62-89.

incentive to live in a cheaper unit, as their contribution to the rent would go down for a cheaper unit (unlike the status-quo HCV formula). However, it would ensure that all federal dollars are directed to housing, avoiding any issues with benefit interactions by giving participants unrestricted cash. If it was determined that keeping the full amount below fair market rent overly incentivized economizing on rent, the formula could be tweaked to allow tenants to keep a given percentage of rents less than the fair market rent (rather than the full amount).

This approach is not perfect for all situations. For instance, this approach would not work for tenants with little to no income, as their tenant contribution to rent would already be minimal. It would also introduce concerns that tenants with higher incomes were more incentivized to economize on rent and (indirectly) get more access to unrestricted cash, when the case for unrestricted cash is stronger for the lowest income participants. Overall, any tweaks to the subsidy formula will have strengths and weaknesses.

In the absence of subsidy formula changes, rent reasonableness determinations (if present) should be tightly controlled in a DRA process to prevent them from becoming a bottleneck in the leasing process. Tenants should be able to submit a rental listing to a PHA and have approval turned around within several business days. If PHAs do not make this deadline, the default judgment is that rents should be considered reasonable. Importantly, zip code level FMRs reduce the importance of rent reasonableness determinations, as there is far less dispersion in rents within a zip code than within a metropolitan area.

Regardless of the specific subsidy formula, it is important that direct rental assistance subsidies quickly adjust to tenants' changing circumstances. One of the benefits of the current voucher program is providing a safety net for changes in recipients' circumstances—if a tenant loses their job or faces a steep cut to their hours, their rent can go down by requesting an interim reexamination. Given the inherent instability of the low-income labor market, this policy can provide an important buffer against financial shocks. A direct rental assistance program that provides a fixed subsidy that does not provide flexibility for changing circumstances provides general housing support but does not function as an effective safety net. While interim recertifications are an extra burden on PHAs, they provide an essential stabilizing function to voucher holders. HUD's work on the Rent Reform Demonstration showed that providing a safety net of interim recertifications when incomes fell was essential to preventing excessive rent burdens.²⁴ This feature of the program can also make those receiving direct rental assistance more attractive to landlords relative to higher income unassisted households paying 30 percent of their income to rent, as their income comes with risk and no built-in safety net. It will also help ensure tenants use the subsidy to pay rent. If there is no adjustment for a negative change in circumstances, it may be difficult for households facing a sudden income shortfall to not use their subsidy to cover other basic needs.

How could a direct rental assistance program ensure that recipients have decent, safe, and sanitary housing, without creating a burden on landlords that might deter them from accepting tenants with the direct rental assistance subsidy?

²⁴ Riccio, James et. al., *The Rent Reform Demonstration: Impacts on Work, Housing, and Well-Being After 42 Months* (2021)

Reform of the inspection process is likely critical to the success of direct rental assistance. Landlords are reluctant to accept HCV relative to equivalent market-rate tenants because of both 1) the extra burdens involved in executing a housing assistance contract, receiving payments from both the local housing authority and the tenant and 2) the extra hassle and potential expense of passing an inspection from the local housing authority. A direct rental assistance program that removes the hassles of the payment process but keeps an equivalent inspection regime only makes the program marginally less burdensome for landlords. As long as renting to assisted tenants comes with extra hassles that market rate tenants do not have, market rate tenants will be more attractive. Large-scale improvement in outcomes will only be realized if assisted tenants are equivalent to market rate tenants from the perspective of landlords.

No one wants households to receive expensive government-provided housing assistance only to move into dangerous or unhealthy housing. However, requiring third-party inspections takes a dim view of voucher holders' ability to make decisions for themselves about what kind of housing would improve their circumstances. Relaxing or removing this requirement would be in line with the core lessons of the guaranteed income pilots that have inspired HUD's exploration of direct rental assistance—that recipients themselves have the most expertise over what is best for them.

Evidence for the efficacy of the current inspection regime is sorely lacking. The primary problem low-income renters face is cost burden, not housing quality. This was true when the HCV program started, but is especially true today, yet there have not been any substantial programmatic changes to the HCV inspection process.²⁵ For instance, research has found that a low-income renter in 2021 has housing quality comparable to an average household in 1985.²⁶ Similarly, research comparing the housing quality of households receiving housing assistance to similar market rate units finds minimal quality differences.²⁷

While housing quality problems are increasingly uncommon, it is possible that inspections still improve housing quality. Voucher recipients have extremely low incomes, and aggregate improvements in housing quality may disguise pockets of poor-quality housing for low-income renters in some markets with housing shortages. However, the evidence that does exist suggests inspections are not important to improving housing quality. HUD's welfare-to-work voucher experiments across six different major cities found "housing vouchers did not have significant

²⁵ On this being true with the HCV program started, the original report of the Experimental Housing Allowance Program wrote "some analyses of standardly available data have suggested that physically inadequate housing might be disappearing and that the remaining housing problem in the United States is almost entirely a matter of high housing costs and low income." Kennedy, Stephen Dandridge. *The final report of the housing allowance demand experiment*. Abt Assoc. Incorporated, 1980.

Researchers have been making the same point about inspections for years, see for instance Grigsby, William G., and Steven C. Bourassa. "Section 8: The time for fundamental program change?." *Housing Policy Debate* (2004): 805-834.

²⁶ Hembre, Erik, J. Michael Collins, and Samuel Wylde. "A rising tide lifts all homes? Housing consumption trends for low-income households since the 1980s." *Journal of Public Economics* 233 (2024)

²⁷ Newman, Sandra, and Scott Holupka. "The quality of assisted housing in the United States." *Cityscape* 20.1 (2018): 89-112.

effects on housing quality.”²⁸ While these experiments were conducted over twenty years ago, there is little reason to think inspections would be more important to improving housing quality today, as trends in overall housing quality have only improved since then.

Even if inspections successfully protect some fraction of voucher tenants from low-quality housing, they also come with costs. By imposing an extra burden on landlords that normal, market-rate tenants do not have, landlords willing to go through the hassle of an inspection are likely to have less desirable units in other dimensions. This is consistent with research finding vouchers have limited success in moving households to more desirable neighborhoods.²⁹ Besides the hassles for landlords that make lease-up less likely and housing choice more constrained, the inspection regime privileges certain dimensions of quality while ignoring others, which lead to tradeoffs. For instance, most people's sense of safety comes from the quality of their neighborhood, not just merely whether their door locks at night. Inspections test the latter while ignoring the former. By imposing burdens on landlords and making landlords with less desirable units some of the only ones willing to participate in the program, the inspection regime makes recipients more likely to live in higher crime neighborhoods. Similarly, some research has found that landlords that specialize in the HCV program actively worsen the quality of their units, making windows and rooms smaller and removing bathrooms to minimize potential inspection issues.³⁰

In fact, even if inspections prevent some voucher tenants from moving into unsafe housing, there is a strong theoretical case that housing inspections reduce the voucher programs' effectiveness at improving overall housing quality.³¹ Ensuring that all program participants live in housing that clears a given quality bar does not necessarily maximize increases in participants' housing quality. Research on administrative burdens in safety net programs has found that higher barriers to accessing benefits effectively screen out those who are more disadvantaged.³² There is very little research on the characteristics of people who successfully vs. unsuccessfully lease after getting off the housing voucher waitlist, and none of the existing research assesses pre-voucher housing quality. However, housing vouchers certainly have high administrative burdens, as the latest available research indicates that only 60 percent of households who come off the waitlist and are issued a voucher (itself a burden heavy process) successfully lease an apartment with the

²⁸ Mills, Gregory, et al. "Effects of housing vouchers on welfare families: Final report." *Cambridge, Mass.: Abt Associates* (2006).

²⁹ One recent review of research on vouchers concluded that while “one of the original motivations for establishing the voucher program was its potential to help low-income families reach neighborhoods that offer better schools and greater opportunities for economic advancement...vouchers have had limited success in achieving this potential.” Ellen, Ingrid Gould. "What do we know about housing choice vouchers?." *Regional Science and Urban Economics* 80 (2020)

³⁰ Rosen, Eva. *The Voucher Promise: "Section 8" and the Fate of an American Neighborhood*. Princeton University Press, 2020.

³¹ This argument has an empirical basis in HUD's original Housing Demand experiments,

³² See, for instance, Deshpande, Manasi, and Yue Li. "Who is screened out? Application costs and the targeting of disability programs." *American Economic Journal: Economic Policy* 11.4 (2019): 213-248.

Homonoff, Tatiana, and Jason Somerville. "Program recertification costs: Evidence from SNAP." *American Economic Journal: Economic Policy* 13.4 (2021): 271-298. Giannella, Eric, et al. "Administrative Burden and Procedural Denials: Experimental Evidence from SNAP." *American Economic Journal: Economic Policy*. Bhargava, Saurabh, and Dayanand Manoli. "Psychological frictions and the incomplete take-up of social benefits: Evidence from an IRS field experiment." *American Economic Review* 105.11 (2015): 3489-3529.

program.³³ If similar selection dynamics are at play, households who are unsuccessful at finding a landlord to accept their voucher likely live in more unsafe and unhealthy housing than households that successfully lease up. If inspections did not exist or were less burdensome, it is likely more of these high-needs households would move into better quality housing by improving lease up rates. Even if some small fraction of these units would not pass housing quality inspections, it is unlikely that households will move to units that have worse quality than their status-quo living arrangement. Thus, reforming the inspection process can cause larger overall increases in housing quality by facilitating quality-improving moves of the most disadvantaged voucher holders who are more likely to fail to lease-up under the status-quo voucher system. While the current inspection system attempts to ensure that anyone receiving vouchers lives in housing free of severe quality issues, it likely produces a selection effect that prevents households with the largest pre-existing quality problems from using the program, decreasing the program's overall positive impacts on housing quality.

HUD has made efforts to reform the inspection process with the National Standards for the Physical Inspection of Real Estate program. These new standards attempt to address the fact that landlords often object to inspections issues as being arbitrarily enforced. However, it does not resolve the fundamental issue with the inspection process—that units need to be inspected (often with considerable logistical hurdles) before payments start. Even if inspections are easy to pass, the fact that they have to be conducted and coordinated with the Public Housing Authority makes voucher tenants less attractive to landlords. While some high-performing PHAs may be able to complete inspections promptly and fairly, it is difficult for HUD to enforce those standards for thousands of PHAs across the country, especially when PHAs administrative fees are underfunded.³⁴

If some kind of inspection process is deemed necessary, it should prioritize assisted tenants lease-up process as equivalent to market rate tenants as possible. For instance, tenants could be encouraged to conduct a self-inspect with a checklist of quality standards at the time they tour the unit. Remote synchronous video inspections conducted by the tenant would likely prove difficult to implement in practice, but recording a video to demonstrate a unit passes basic measures of habitability may be possible. If an in-person third party inspection is necessary, it could be conducted after lease up in conjunction with the tenant and not involve the landlord. If the apartment does not meet quality standards, the PHA could simply opt to not continue to pay the subsidy if the lease is renewed (unless conditions are remedied), rather than cutting off the tenant mid-lease. PHAs could also provide tenants with basic materials to ensure the safety of a unit, like a smoke detector and carbon monoxide alarm.

What aspects of existing rental assistance programs, beyond those noted above, should be preserved in a direct rental assistance pilot or demonstration?

³³ Ellen, Ingrid Gould, Katherine O'Regan, and Sarah Stochak. "Race, Space, and Take Up: Explaining housing voucher lease-up rates." *Journal of Housing Economics* 63 (2024): 101980.

³⁴ While PHAs are underfunded under the status-quo administrative fee formula, research has found those fees themselves are inadequate. See Turnham, Jennifer, et al. "Housing Choice Voucher Program Administrative Fee Study: Final Report Executive Summary." *US Department of Housing and Urban Development, Office of Policy Development and Research* (2015).

It's important that direct rental assistance not be viewed as a cure-all for the problems voucher-assisted tenants face in the private housing market. Vouchers boost low-income tenants' ability to pay to be similar to a more market rate tenant, but come with severe administrative hassles that limit the programs' effectiveness. Direct rental assistance has the same boost in ability to pay effect without the administrative hassles, likely significantly boosting the program's efficacy. However, direct cash does not eliminate the structural disadvantages of low-income tenants in the housing market. Low-income households who are served by the HCV program are far more likely than middle income renters to have a low credit score, an eviction history, or otherwise unstable residential history. While source of income laws and other actions to combat discrimination can help on the margin, neutral screening criteria will often exclude low-income households for reasons other than ability to pay.³⁵

To truly level the playing field relative to market-rate tenants, policies must go beyond making the process for voucher tenants as seamless as it is for market-rate tenants. The low-income disadvantaged renters who receive direct rental assistance need to be given a deliberate leg-up to compete in the middle-income rental market and realize all the benefits of high-quality housing.

In the present, practices of high-performing PHAs that provide extra services for tenants and landlords should be continued under a direct rental assistance program. For instance, PHAs who currently have a designated landlord liaison, offer bonus payments contingent on initial leases, vacancy payments for staying in the voucher program, and an insurance program for tenant damages, should be encouraged to adopt such policies for direct rental assistance recipients.

Search assistance and landlord outreach should be especially encouraged. Larger corporate landlords might have automated processes for tenant screening that would have trouble accommodating the extra resources that DRA recipients have.³⁶ Someone dedicated to landlord outreach would likely have more success overcoming these barriers than individual tenants. The Creating Moves to Opportunity experiment showed that extra services helping voucher holders move to high opportunity areas were very successful, and that offering a full suite of services was far more impactful than financial incentives and information alone.³⁷

In the long-term, using administrative savings from direct rental assistance relative to traditional vouchers can be used to fund interventions that give tenants a leg up. This can be a key benefit to the direct rental assistance program. Instead of spending countless hours jumping through administrative hoops, PHAs can focus more on activities that directly support tenants that are necessary to give voucher tenants the same housing experience as middle-income renters.

Other Considerations

³⁵ Landlords may also question whether very-low income voucher holders can afford to pay the tenant portion of the rent. While the standard HCV formula caps a tenant's contribution at a reasonable fraction of their income level, tenants with very low incomes might have trouble meeting their other basic needs even when their rent burden is limited.

³⁶ Rosen, Eva, Philip ME Garboden, and Jennifer E. Cossyleon. "Racial discrimination in housing: How landlords use algorithms and home visits to screen tenants." *American Sociological Review* 86.5 (2021): 787-822.

³⁷ Bergman, Peter, et al. "Creating moves to opportunity: Experimental evidence on barriers to neighborhood choice." *American Economic Review* 114.5 (2024): 1281-1337.

Holistic Evaluation

As results from different areas piloting the DRA concept arrive, HUD should embrace a holistic evaluation criteria. Many of HUD's past and planned demonstration projects make slight tweaks to the current rules to see if modifying one or two program elements has a positive impact. DRA represents a more substantial departure from the status quo—while it has great potential, it is unlikely that the program will come with absolutely no drawbacks. However, just because DRA may have worse outcomes than status-quo vouchers on a few dimensions is not a reason to dismiss the possibilities of broader adoption. For instance, a relaxed or waived inspection process might result in mild reductions in unit quality among participants relative to select participants who successfully lease up under traditional vouchers, but DRA could produce a greater increase in housing quality among selected participants. DRA outcomes should be assessed holistically—current voucher policy should not be put on a pedestal just because it is the status quo. To the extent the creation of HCV was based on evidence, it was collected over fifty years ago with questionable relevance for the modern day rental market. DRA must be put on a reasonable evidentiary bar when considering it for broader program adoption.

Populations Most Likely To See Largest Benefits

The population most likely to benefit from DRA is one that has ingredients for success on the private rental market but just needs a boost in their ability to pay. In other words, these renters would pass most landlords' screening criteria if they just had more income to pay rent. Importantly, this does not describe all voucher holders, who often come from extremely disadvantaged backgrounds and may have a variety of barriers so securing safe and affordable housing. For instance, over fifty percent of voucher households have incomes below \$15,000 per year. DRA proposes providing cash to these households that have very little income to meet their basic needs, but entrusts them to spend it exclusively on rent, which may prove challenging.

Envisioning a more well-off population to serve was a challenge encountered by HUD's Moving to Opportunity demonstration. An extended quote from a retrospective evaluation of the experiment illustrates the issue best:

“But what those planning the experiment had not realized or allowed for was the fact that many families in the worst public housing projects had become harder to serve since Gautreaux [the program Moving to Opportunity was inspired by] began enrolling families in the 1970s. Beyond having extremely low incomes and little or no work history, many of those living in the most unsafe, distressed projects by the 1990s, many who would be eager to leave, had chronic health and mental-health problems and, in some cases, children or other family members with criminal records or drug abuse problems—an accumulated set of severe stressors. These challenges could affect their ability to relocate. What would a housing counselor helping such families need to do? These serious barriers could also limit

the families' ability to succeed after relocating—to create functional, satisfying lives in new places.”³⁸

This severe disadvantages many households receiving vouchers face is not a reason to shy away from experimenting with DRA. For instance, the Moving to Opportunity study had phenomenally successful long term impacts on young children despite planners misconceptions about who they would be serving.³⁹ Similarly, HUD's Family Options Study debunked the notion that homeless families need intensive support for psychosocial problems to succeed in housing.⁴⁰ However, it's important to design the DRA with the lived experiences of those receiving vouchers and those who work closely to serve them in mind. For instance, it is likely critically important that PHA's communicate that DRA must go to paying rent, and that diverting the cash for other purposes risks participants' continued eligibility in the program. Similarly, HUD should explore payment disbursement mechanisms that make it difficult for DRA funds to be diverted away from rent.

Geographic Mobility

Currently, geographic mobility out of the area a PHA serves is limited and riddled with time-consuming bureaucratic red tape. A primary justification for keeping voucher holders in a given geography was the fact that PHAs had a hands-on role to play in the lease up process and needed to inspect housing before a voucher recipient moved in. As those are no longer constraints in the DRA program, there is good reason to broaden the geographies in which voucher recipients can find housing.⁴¹ This will further increase the likelihood that recipients will successfully lease-up and expand possibilities for moving to high-opportunity areas.

Thank you for the opportunity to comment.

Sincerely,

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³⁸ de Souza Briggs, Xavier, Susan J. Popkin, and John Goering. *Moving to opportunity: The story of an American experiment to fight ghetto poverty*. Oxford University Press, 2010.

³⁹ Chetty, Raj, Nathaniel Hendren, and Lawrence F. Katz. "The effects of exposure to better neighborhoods on children: New evidence from the moving to opportunity experiment." *American Economic Review* 106.4 (2016): 855-902.

⁴⁰ Gubits, Daniel, et al. "What interventions work best for families who experience homelessness? Impact estimates from the family options study." *Journal of Policy Analysis and Management* 37.4 (2018): 835-866.

⁴¹ It will be especially helpful in the handful of PHAs that only serve low-income areas, which defacto segregates those recipients' housing search.