Averting an Eviction Crisis

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BY JIM PARROTT AND MARK ZANDI

The pandemic-stricken nation faces the daunting prospect of an eviction crisis, as millions of Americans struggling with the economic fall-out from the virus may soon face months of back rent that they can't possibly afford. Policymakers have responded by prohibiting rental evictions through the end of March and providing $25 billion to cover back rent and utilities. But more needs to be done, and quickly. To be evicted in the height of a pandemic would be devastating for these families, and for the nation as a whole as it struggles to break the emotional and economic grip the virus has imposed for almost a year.

According to the Census Bureau's Household Pulse Survey, as of late December, more than 10 million renters are behind on their rent payments and at risk of being evicted. At more than one in six renters, that's three times the typical rate. To put that into some perspective, approximately seven million households lost their homes in foreclosure during the five darkest years of the global financial crisis (2008-2012). Here we have 10 million families facing a similar fate over a matter of months.

Those who have fallen behind in their rent are among the most vulnerable members of society: more likely to be unemployed, with less income and less education. They are also more likely to be families of color. Consistent with this, delinquent renters are most likely to live in urban areas in the Northeast corridor and California, and parts of the South with a preponderance of lower income households (see Chart 1). Only one in four still has the sources of income they used prior to the pandemic to cover their rent payment and other expenses. To help make up for this, more than half of those behind in their rent are borrowing from their family and friends, and a third need unemployment insurance and food assistance from the Supplemental Nutrition Assistance Program.

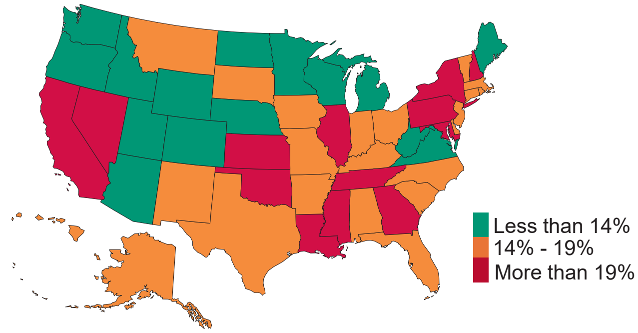
Moreover, many of those who are managing to cover their rent are grasping at straws. One in four renters is relying on the stimulus checks provided through the CARES Act early in the pandemic, a fast fading source of funds. And one in three is using their credit cards and what savings and assets they have left to make ends meet. Yet on average they have little in savings to work with. Over the past 20 years, we estimate that renters have been able to save only 2.4% of their income, approximately $440 per year in today's dollars. This compares to an average saving rate for homeowners of 9.2%, or $10,700 per year in today's dollars (see Chart 2).

All of this leaves us in a precarious place. Nearly 18 million renter households tell the Census they have little to no confidence they will be able to continue making their rent payments on time. And more than half of those already late on their payments believe it is at least somewhat likely they will be evicted when the eviction moratorium ends. Even if a significant number of these renters find a way to hold on for a few more months, these are staggering numbers.

How many renters will be evicted in the coming months depends on lawmakers, however, and they have already put off the initial surge in evictions by extending the CDC eviction moratorium through March and including $25 billion of renter assistance in the $900 billion relief package passed in December. The U.S. Treasury will distribute the funds to states and localities based on the same formula used to distribute the Coronavirus Relief Funds (see Table 1). Recipients will make payments directly to landlords or utility companies on behalf of renters who have suffered financial hardship due to the pandemic, have incomes below 80% of their area median income, and are at risk of housing instability.

Chart 1: Where Renters Are Most Distressed

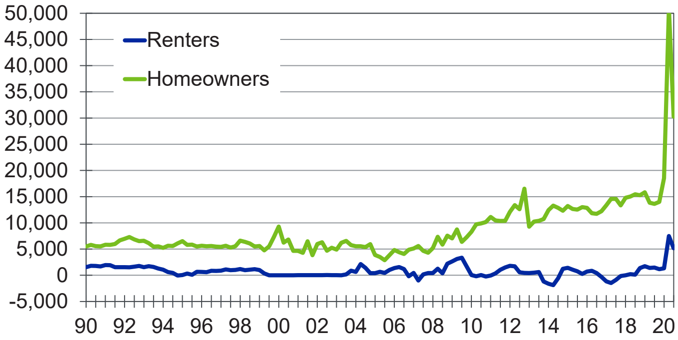
% of renting households behind on their rent, U.S. = 18%



Sources: Census Pulse Survey, BLS CES, Census HVS, Equifax, Moody's Analytics

Chart 2: Renters Are Unable To Save

Personal saving, annualized, 2020Q3 $



Sources: BLS, Moody's Analytics

We expect that as of the January rent payment, and prior to the distribution of the renter assistance funds, there will be over 10 million delinquent renters (see Table 2). The typical delinquent renter will be almost four months and $5,600 behind on their monthly rent and utilities, with another $50 per month of late-payment penalties. All told, this comes to about $57 billion in total owed by those behind on their monthly payments. These estimates are based on the Bureau of the Census Household Pulse Survey, the Bureau of Labor Statistics' Consumer Expenditure Survey, credit bureau Equifax, among other sources. If lawmakers had not passed the $900 billion relief package, the economy would have likely suffered a double-dip recession with more lost jobs and rising unemployment, adding significantly to the number of distressed renters.

The package passed will help some 3.5 million renters pay back rent and utilities by the time February rent payments are due. While meaningful, this still leaves us with 6.8 million delinquent renters owing $34 billion, a significant amount of financial stress that is sure to increase as the pandemic continues to rage and the economy continues to struggle. The result will be a three-fold increase in evictions over typical levels.

To address the challenge remaining, as part of its $1.9 trillion American Rescue Plan, the Biden administration has proposed an additional $30 billion for renter assistance and $5 billion to help relieve the strain of homelessness. This is exactly what is needed to give this vulnerable population a bridge to the other side of the economic crisis, when most will be able to return to the jobs needed to pay their rent again. While the entire $1.9 trillion relief plan is unlikely to get through the legislative process, we expect that lawmakers will agree to much of the funds proposed for rental assistance.

It will be important for policymakers to implement the total package of rental relief effectively, given the considerable amount of money involved and the importance of distributing it quickly. Many states- particularly larger ones- already have a well-developed infrastructure for distributing relief like this, so should be able to manage the effort quickly and effectively. Others will have to develop much of their infrastructure from scratch, which means moving more

Table 1: Rental Assistance Funds

$ mil

Alabama	326,751
Alaska	200,000
Arizona	485,058
Arkansas	201,108
California	2,633,120
Colorado	383,766
Connecticut	237,593
Delaware	200,000
District of Columbia	200,000
Florida	1,431,290
Georgia	707,552
Hawaii	200,000
Idaho	200,000
Illinois	844,458
Indiana	448,639
Iowa	210,256
Kansas	194,145
Kentucky	297,729
Louisiana	309,799
Maine	200,000
Maryland	402,888
Massachusetts	459,321
Michigan	665,531
Minnesota	375,829
Mississippi	198,333
Missouri	409,002
Montana	200,000
Nebraska	200,000
Nevada	205,264
New Hampshire	200,000
New Jersey	591,915
New Mexico	200,000
New York	1,296,398
North Carolina	698,933
North Dakota	200,000
Ohio	778,969
Oklahoma	263,695
Oregon	281,073
Pennsylvania	853,133
Rhode Island	200,000
South Carolina	343,114
South Dakota	200,000
Tennessee	455,101
Texas	1,932,304
Utah	213,647
Vermont	200,000
Virginia	568,813
Washington	507,461
West Virginia	200,000
Wisconsin	388,011
Wyoming	200,000
Puerto Rico	400,000
Native Americans	800,000

Source: Moody's Analytics

Table 2: Rental-Eviction Crisis

2021

	Jan	Feb	Mar	Apr	May	Jun
Back rent, utilities and late fees owed, $ bil	57.3	34.0	33.1	36.3	40.0	43.1
Delinquent renters	10,250,000	6,844,620	6,274,526	6,599,526	6,829,526	7,009,526
Amount delinquent per renter, $	5,586	4,964	5,282	5,499	5,854	6,148
Rent and utilities, $ per mo	1,420	1,410	1,401	1,397	1,399	1,400
Rent	1,130	1,120	1,110	1,105	1,105	1,105
Utilities	290	290	291	292	294	295
Late fees, $ per mo	50	50	50	50	50	50
Months late	3.8	3.4	3.6	3.8	4.0	4.2

Notes:

Based on the Moody's Analytics Jan 2021 baseline economic outlook

Assumes no additional fiscal relief

Includes all delinquent renters, not just renters impacted directly by the pandemic

Sources: Census Pulse Survey, BLS CES, Census HVS, Equifax, Moody's Analytics

slowly and uncertainly, at least at first. And some communities will understandably feel compelled to add further restrictions on how the money makes its way to landlords and renters, which may bog down a quick distribution. Policymakers at all levels will need to coordinate around best practices in order get the relief out quickly and efficiently enough to be impactful, erring on the side of simplicity and processes with some history of success.

Much more concerning is the prospect that Biden's proposed renter assistance is derailed altogether in congress, given their uneven track record in recent years and the nation's remarkably divisive politics. If that happens, a surge in evictions seems all but inevitable.

The pandemic has hit the nation's most vulnerable communities hard. Not only have they been more likely to get sick, but they have been more likely to lose their income and savings, and now they are more likely to be evicted. Any one of these challenges should insult the conscience of the nation; all three should be unacceptable. While lawmakers deserve credit for the steps they've taken so far, they need to do more. Soon.

About the Authors

Jim Parrott is a nonresident fellow at the Urban Institute and co-owner of Parrott Ryan Advisors, which provides strategic advice on housing finance issues to financial institutions active in the primary and secondary mortgage market. Parrott served in the Obama White House as a senior advisor at the National Economic Council, where he led the team charged with counseling the cabinet and president on housing issues. Earlier in the Obama administration, he was counsel to Secretary Shaun Donovan at the U.S. Department of Housing and Urban Development. Prior to his time in public policy, Parrott was a litigator, first in New York with Sullivan & Cromwell, and later in North Carolina with Smith Anderson. He served in Sri Lanka with the Peace Corps, has a BA in philosophy from the University of North Carolina, an MA in philosophy from the University of Washington, and a JD from Columbia Law School.

Mark Zandi is chief economist of Moody's Analytics, where he directs economic research. Moody's Analytics, a subsidiary of Moody's Corp., is a leading provider of economic research, data and analytical tools. Dr. Zandi is a cofounder of Economy.com, which Moody's purchased in 2005. Dr. Zandi is on the board of directors for MGIC, the nation's largest mortgage insurer, and is lead director of Reinvestment Fund, a national Community Development Financial Institution. Dr. Zandi is the author of *Paying the Price: Ending the Great Recession and Beginning a New American Century*, which provides an assessment of the monetary and fiscal policy response to the Great Recession. His other book, *Financial Shock: A 360º Look at the Subprime Mortgage Implosion, and How to Avoid the Next Financial Crisis*, is described by The New York Times as the "clearest guide" to the financial crisis. Dr. Zandi earned his BS from the Wharton School at the University of Pennsylvania and his PhD at the University of Pennsylvania. He lives with his wife and three children in the suburbs of Philadelphia.

Moody's Analytics economists Shannon Brobst and Todd Metcalfe also provided significant contributions to this paper.