RECESSION REMEDIES

Lessons Learned from Housing Policy during COVID-19

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Housing Policy

To aid American households experiencing distress during the COVID-19 pandemic, the U.S. government implemented a variety of programs and policies to aid renters and homeowners with mortgages. When the pandemic struck in early 2020, homeowners had substantially more equity in their homes than they did at the start of the Great Recession, leaving them in better financial shape than they were then and they enjoyed rising house prices. Renters were not so fortunate. Rents fell slightly below trend for a few months early in the pandemic and then accelerated.

Congress declared that homeowners who were experiencing hardship could postpone payments on their federally backed mortgage for up to 18 months with no penalty (known as forbearance). Many servicers of mortgages not backed by the federal government voluntarily did the same. In addition, mortgage rates fell, in part because of actions by the Federal Reserve, allowing many homeowners to reduce their monthly payments by refinancing their loans. For renters, Congress established the $46 billion Emergency Rental Assistance (ERA) program to help eligible households pay rent and utility bills. This program, coupled with federal, state, and local eviction moratoria, helped keep renters in their homes.

Evidence on Housing Policy

- The national forbearance mandate, foreclosure moratorium, enhanced Unemployment Insurance (UI), and Economic Impact Payments (EIPs) aided in reducing financial distress for both owners and renters at the outset of the pandemic and prevented longer-run problems in mortgage and housing markets.

- Over 80 percent of borrowers who missed a mortgage payment in the first three months of the pandemic enrolled in forbearance. Although minority mortgage borrowers were much more likely to experience distress and miss mortgage payments, conditional on missing payments, forbearance uptake was similar across racial and ethnic lines.

- Low interest rates led to a wave of refinancing but fewer Black borrowers benefited from refinancing than white borrowers.

- The share of renters behind on rental payments has been above 2017 levels since 2020. Renter households who missed a rental payment were more likely to be lower-income households and were disproportionately minority households. Missed payments were most common among households who were struggling prior to the pandemic. The erratic rollout of the ERA, which was administered at the local level, prevented timely or easy access to these funds.

- Eviction moratoria resulted in a redirection of scarce household resources to immediate consumption needs and likely prevented homelessness. The decline in evictions during the pandemic is not solely the result of the eviction moratorium. The decline may also reflect the impact of ERA, greater access to legal aid, the impact of eviction diversion programs, and income replacement for households.

## Share of Renters Who Paid Rent by the End of the Month, January 2020–January 2022
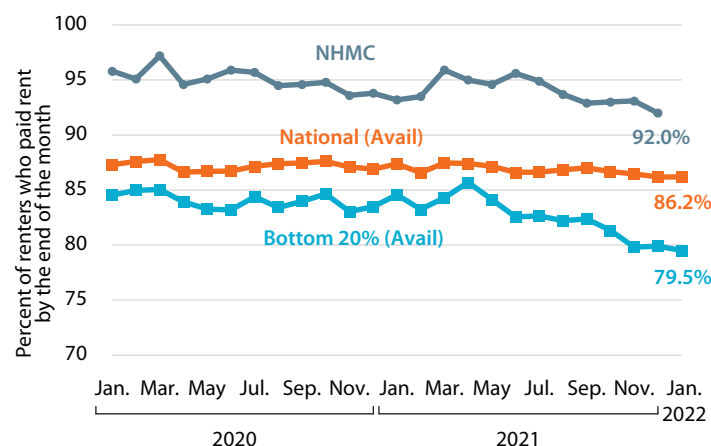
Source: Avail 2022; National Multifamily Housing Council (NMHC) 2021.

Note: Rent payment data includes both full and partial payments. The share of those who made partial payments account for only 1 to 2 percent of those who made payments throughout the sample period. NMHC data collected ended December 31, 2021. Avail data has been updated through January 2022.

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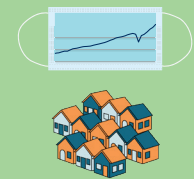
Lessons Learned from Housing Policy during COVID-19

Generous income replacement may be sufficient to support renters and homeowners if policymakers are concerned only with the incremental effect of the recession on those who were employed in the formal market before the recession. For renter households who were housing insecure before the pandemic, many without formal labor force attachment, this income replacement, the eviction moratorium and the ERA helped compensate for losses associated with the pandemic. However, these programs did not address the longstanding problems of this segment of the population which were worsened by pandemic.

Unlike the Home Affordable Modification Program implemented during the Great Recession, enrolling in forbearance required zero documentation on the part of borrowers. But it is unclear if it would be as effective in a future crisis as the state of the pre-pandemic housing and mortgage markets and the dynamic of the pandemic were set up almost perfectly for forbearance to be effective: the rapid labor market recovery meant that most borrowers only needed a few months of assistance, the majority of outstanding mortgage debt was insured by the U.S. government, and the housing market was exceptionally healthy.

The decline in mortgage interest rates had more modest effects: most borrowers experiencing pandemic-related financial distress were less likely to refinance. To ensure that the benefits of lower mortgage rates reach a broader set of borrowers in future downturns, one could develop and market alternative mortgage products that automatically lower payments when rates decline as well as support more widespread adoption of streamlined refinance programs that do not require employment or income verification.

While the eviction moratorium did put a substantial dent in the number of filings where these data can be tracked, an eviction moratorium alone is not a long-run solution. The tenant still owes the money and may not have the resources to pay. Eviction moratoriums have negative externalities for landlords and are second best relative to ERA. A successful ERA program could keep renter delinquency rates from rising during recessions and in their aftermath. Such a program must be streamlined, with a simple application, minimal documentation, and clear eligibility rules, like the successful forbearance program.

Scan the QR code with your camera to access the full book, the Recession Remedies Podcast, and more.

Overview

The COVID-19 pandemic posed an extraordinary threat to lives and livelihoods, triggering a sharp economic downturn in the United States. Yet, the recovery was faster and stronger than nearly any forecaster anticipated due in part to the swift, aggressive, sustained, and creative response of U.S. fiscal and monetary policy.

Recession Remedies evaluates the breadth of the economic policy response. Chapters address Unemployment Insurance, Economic Impact Payments, loans and grants to businesses, help for renters and mortgage holders, aid to state and local governments, policies that targeted children, Federal Reserve policy, and the use of nontraditional data to monitor the economy and guide policy.

The Hamilton Project and the Hutchins Center on Fiscal & Monetary Policy at the Brookings Institution gathered scholars with deep expertise to describe specific economic policy responses to the pandemic, summarize the available evidence about the outcomes of those policies, and analyze the lessons learned for future recessions by separating policies that were pandemic-specific from those that were not. Because when the next recession arrives, it most likely won't be triggered by a pandemic. Overall, we learned that:

- A strong, broad, and inclusive social insurance system provides effective relief to households as well as macroeconomic stimulus.

- The sizable fiscal and monetary policy response helped stabilize the economy. However, its size, particularly in the spring of 2021, was a factor behind the unwelcome surge in inflation.

- Generous Unemployment Insurance may have smaller disincentive effects than previously thought.

- Support for the business sector should be more targeted.

- Support for households should better reflect the state of the economy and the needs of the households.

- Federal and state governments should improve their administrative capacity now so they can respond quickly to changing economic conditions.

- Policymakers need more reliable, representative, and timely data.

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