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Commentary: Trump Administration Should Reinstate Promising Housing Voucher Initiative

By Will Fischer

The Trump Administration’s suspension of a 2016 regulatory provision governing the Housing Choice Voucher program will leave in place a flawed policy that reinforces segregation and reduces the program’s efficiency. The provision, suspended August 11, would have required state and local housing agencies in 23 metropolitan areas to adopt small area fair market rents (SAFMRs), which tie voucher subsidies to market rents in a particular neighborhood rather than an entire metropolitan area. SAFMRs are designed to ensure that voucher subsidies are adequate to enable families to move to neighborhoods that have low poverty rates and strong schools, but also above-average housing costs — while at the same time avoiding excessive subsidies in lower-rent, high-poverty neighborhoods.

State and local agencies will still have the option to implement SAFMRs, but few agencies will likely do so voluntarily, resulting in far more limited application of a policy that has shown promise for reducing segregation and expanding opportunity for low-income families. The Department of Housing and Urban Development (HUD) offered several justifications for its decision to suspend the requirement, but none are persuasive. Moreover, HUD appears to have gone beyond its legal authority to modify the SAFMR requirement without going through a formal rulemaking process that provides an opportunity for the public to comment. HUD should reverse the suspension and implement the expansion requirement promptly.¹

SAFMRs Offer Promising Alternative to Flawed Policy

The suspension means that agencies in the 23 metropolitan areas can continue to set voucher subsidies based on HUD-determined fair market rents (FMRs) that reflect market rents for an entire metro area. This is a deeply flawed approach, since metro-level FMRs are often lower than needed to cover market rents in some neighborhoods and higher than needed in others. As a result, they make it difficult for families to use vouchers in higher-rent neighborhoods (which often also have low poverty rates, low crime, and well-performing schools) and encourages them to live in lower-rent, higher-poverty neighborhoods. Setting a single FMR for an entire metropolitan area can also

¹ Will Fischer, “Trump Administration Blocks Housing Voucher Policy That Would Expand Opportunity and Reduce Costs,” September 7, 2017, <https://www.cbpp.org/research/housing/trump-administration-blocks-housing-voucher-policy-that-would-expand-opportunity>.

foster racial and ethnic segregation by preventing minority voucher holders from renting housing outside of neighborhoods with high concentrations of minority residents.

By contrast, SAFMRs are set based on rents for individual zip codes, so they better reflect neighborhood rents and give voucher holders more choice about where they live. SAFMRs were first implemented in 2011 in the Dallas metropolitan area under a settlement of fair housing litigation claiming that metro FMRs prevented minority voucher holders from moving to predominantly white neighborhoods with higher rents. An interim evaluation that studied seven local agencies testing SAFMRs shows that the approach works largely as intended. At agencies that implemented SAFMRs, more voucher holders moved to high-opportunity areas while overall subsidy costs fell — because savings in low-rent neighborhoods exceeded higher costs in high-rent ones. Those agencies incurred some added administrative costs, but those appear to have amounted to a small fraction of the subsidy savings.

Policies such as SAFMRs that help voucher holders rent in low-poverty, high-opportunity neighborhoods have important implications for efforts to reduce poverty and expand opportunity. Research shows that children whose families move with vouchers to low-poverty neighborhoods when they are young are more likely to attend college, are less likely to become single parents, and earn substantially more as adults.²

Justifications for Suspension Are Not Persuasive

In November 2016, HUD issued a regulation allowing state and local agencies in all metro areas to use SAFMRs beginning in January 2017, and requiring agencies to do so beginning in January 2018 in 23 metro areas where vouchers are highly concentrated in low-income areas. On August 11, 2017, HUD sent letters to the roughly 175 state and local agencies that administer vouchers in those areas, stating that the requirement would not go into effect as planned and that they would not have to use SAFMRs until 2020. The Administration might well decide to delay the requirement further or eliminate it entirely.

HUD has offered several justifications for the suspension, but none are persuasive. HUD reports that it received public comments this spring (in response to a general request regarding regulatory burdens) expressing concern about the SAFMR requirement. But HUD previously solicited two rounds of public comments before issuing the 2016 rule and received extensive input — including comments both for and against requiring agencies in certain metro areas to use SAFMRs — that informed the final policy, which included provisions that addressed some of the concerns raised in the comment period on the SAFMR rule. HUD also claims that more time is needed for it to issue guidance and for agencies to prepare to implement the SAFMR requirement, but the 13 months between the issuance of the final rule and the January 2018 implementation deadline should have provided ample time for these preparations, and they certainly do not require an added two-year delay. Moreover, the 2016 rule was sufficiently clear that agencies could implement it without additional information from HUD. Finally, HUD points to findings in the interim evaluation that SAFMRs were accompanied by some negative effects, particularly evidence that on average families at agencies implementing SAFMRs were left with higher out-of-pocket rent costs, but the 2016 rule

² Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz, “The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment,” National Bureau of Economic Research Working Paper No. 21156, May 2015.

anticipated these effects and instituted strong protections that should enable state and local agencies to prevent such rent increases from recurring.

Voluntary Implementation Is Not an Adequate Alternative to the Suspended Requirement

In defending the suspension, HUD emphasizes that agencies could still voluntarily implement SAFMRs, but this is not an adequate alternative to a requirement. Housing agencies have long had some flexibility to vary voucher subsidies by neighborhood (because they can set subsidy limits 10 percent above or below the FMR), but few do so. For example, of the 20 largest local agencies that the 2016 rule required to use SAFMRs starting in 2018, just three currently set different subsidy limits for different geographic areas. It is not clear why agencies that have not used this existing flexibility would be expected to voluntarily adopt SAFMRs.

Moreover, SAFMRs will be more effective if all housing agencies in a metro area adopt them, which is unlikely without a requirement. If only a few agencies within a metropolitan area use SAFMRs, voucher holders may have difficulty moving to high-opportunity neighborhoods outside those agencies' jurisdiction. For example, if an urban agency adopts SAFMRs but the surrounding suburbs do not, then families will face the same cost hurdles that currently prevent them from moving to lower-poverty, suburban neighborhoods. The SAFMR evaluation findings show that the share of families that receive housing vouchers that move to high-opportunity neighborhoods rose much more when SAFMRs were used by agencies administering most or all vouchers in a metro area.

HUD Should Reinstate SAFMR Requirement Promptly

In addition to being bad policy, the suspension may also be illegal. The 2016 rule provided HUD authority to suspend the SAFMR requirement, but this was explicitly intended to allow HUD to address natural disasters or other documented events limiting the availability of rental housing in particular areas. Since no event of that kind has occurred across the 23 affected areas, HUD doesn't appear to have legal authority to suspend the requirement on a wholesale basis except by revising the rule itself, which would require it to publish a proposed rule with a formal analysis of the economic impacts of the proposed change, allow a period for public comments, and then issue a final rule.

The suspension also represents a major break from a longstanding, bipartisan effort to enable families to use vouchers in a broader range of neighborhoods, including lower-poverty areas that are not predominantly minority. The 2016 rule's SAFMR expansion replaced an earlier policy — established in 2000 and retained through the Bush and Obama Administrations — that also sought to broaden housing choices in metro areas where voucher holders are concentrated in certain neighborhoods, by requiring housing agencies there to use metro FMRs set at higher levels (at the 50th percentile of market rents rather than the 40th percentile that HUD usually uses). One reason the Obama Administration issued the SAFMR rule was because research suggested that this previous policy had not been as effective as hoped at providing opportunities for families to move to lower-poverty communities. The Trump Administration's August 11 action would suspend the requirement that 23 metro areas use SAFMRs, but it would allow the phase out of the prior 50th percentile policy to continue — thus leaving the federal government for the first time in 17 years without a policy requiring agencies in areas where vouchers are highly concentrated to use FMRs

designed to provide voucher holders access to housing outside high-poverty, racially segregated neighborhoods.

The SAFMR requirement included in the 2016 rule was a sensible step to scale up a policy that has proven effective. By suspending the requirement, HUD would leave in place a flawed metro FMR policy that reinforces segregation and reduces the voucher program's efficiency. HUD should reverse the suspension and implement the expansion requirement as soon as possible.