

Rent Burden in the Housing Choice Voucher Program

Kirk McClure
University of Kansas

Abstract

The Housing Choice Voucher Program is designed to help low-income households consume housing at an acceptable burden on their income. The incidence of high housing cost in the program has been reduced over the past few years. About 38 percent of all households in the program spend more than 31 percent of their income on housing, down from 47 percent only 2 years earlier. A high housing cost burden appears to stem from very low income rather than from market conditions or decisions by program administrators. Despite program rules, a small percentage of households in the program pay a very high level of income toward housing. It appears that this problem results from some households having very little or no income at the time their housing consumption was recorded.

Introduction

The Housing Choice Voucher (HCV) Program is the nation's largest single program for low-income renter households. The HCV Program currently serves about 1.9 million households. The program pays a portion of the participating household's rent on a dwelling offered in the marketplace. This Housing Assistance Payment (HAP) is the difference between 30 percent of the household's adjusted gross income and the payment standard. The payment standard is designed to reflect the cost of renting standard quality housing in the marketplace plus paying for utilities not provided in the rent. If all goes well, the tenant is able to find a unit with a rent reflecting the payment standard. The assisted household should pay a housing cost burden of 30 percent, which means that the cost of renting the unit and paying for utilities will be 30 percent of the household's income. This formula can break down in actual practice. The payment standard may not reflect rents in the marketplace. The household's income may change after entry into the program. The agency administering the program may fail to implement the program properly or may exercise its discretion poorly.

What is the rent burden in the HCV Program given these possible areas for breakdown? More specifically, does the program succeed in making housing affordable to all households who participate or do some households continue to confront a high housing cost burden despite participation in the program?

Tenant payment should be about 30 percent of adjusted gross income (HUD, 2000). A principal goal of the program is to make housing affordable to the households that participate

in the program. If participating households pay significantly more than 30 percent of income toward housing, then the program may not be functioning as it should.

All payments above 31 percent of adjusted income do not represent a breakdown in program implementation, however. The household may choose to move into a more expensive dwelling. In such cases, the household must pay a premium because the payment standard is fixed. If the household opts for more expensive housing, its contribution toward rent will be raised. The household will continue to pay 30 percent of its income toward housing plus the amount by which the unit's rent exceeds the payment standard. The household also may choose to live in a dwelling renting for less than the payment standard. This choice does not reduce the tenant's contribution, however. In such cases, the subsidy is based on the difference between the gross rent and 30 percent of the household's income.

Program Performance

In 2002, the typical participating household in the HCV Program paid a gross rent of about \$715 a month. This gross rent was made up of a \$90 utility allowance, a tenant payment of \$175, and a HAP of \$450. The typical household had an income of about \$10,900 and paid about 30 percent of its income toward housing. In general, the program is succeeding in serving households who have a very low income and is helping them to consume housing that costs no more than 30 percent of their limited income.

This nominal success is reassuring because it was not always obvious that the program would succeed. The voucher demonstration experiment began in 1985 (Kennedy and Leger, 1990). This demonstration was an effort to determine whether the Section 8 Existing Housing Certificate Program should be modified. The certificate program was the predecessor to the HCV Program. With the certificate program, the household could not rent a unit if the rent was higher than the fair market rent (FMR), a level set by the government. This arrangement did not permit households to search across the entire housing market, because no built-in provision permitted the consumption of units with rents higher than the FMR. If the FMR did not properly reflect the rents in the market or if the household was interested in consuming housing at a price above the FMR, then the certificate program did not function well.

The HCV Program adopted the payment standard approach, initially setting the payment standard at the FMR and giving households the freedom to consume units even if the rents are above the FMR. Some feared that the HCV Program would result in higher housing cost burdens. If the payment standards and the FMRs lagged behind actual market rents, households would have to absorb a higher housing cost burden. Early experience with the HCV Program confirmed these fears. The demonstration program found that a typical voucher holder paid 35 percent of income toward housing, 4 points higher than a typical certificate program participant (Kennedy and Leger, 1990).

In 1998, the HCV Program merged from the Section 8 Existing Housing Certificate and Voucher programs into a single program very similar to the voucher demonstration program. With this merger, a new limitation was placed on the program administrators: after joining the program, the participating household cannot pay more than 40 percent of its income on rent (HUD, 2000).

Public Housing Authorities (PHAs) are the dominant form of agency to administer the program.¹ The PHA cannot allow new program participants to assume rent burdens greater than 40 percent of household income, but the PHA is obligated by the program to serve households with very low incomes. The Quality Housing and Work Responsibility Act of 1998 requires that 75 percent of households served by each administering agency must

have income at or below 30 percent of the metropolitan area median family income (AMFI). Even within these constraints, the PHAs vary in terms of the approach that they take to implementing the program. Some PHAs see their mission as providing a social safety net for those with greatest need. Others see their mission as helping people achieve greater self-sufficiency (Devine et al., 2001). Provision of a safety net encourages the admission of households with the lowest incomes among low-income households and seeks to reduce the burden of housing costs on these households. Pursuit of self-sufficiency may place greater emphasis on spreading the scarce housing resources across as many households as possible, even at the expense of these households suffering a higher housing cost burden.

Research Questions

This article examines recent data from the HCV Program. Data on rent payments and income have been used to calculate the percentage of income allocated to housing costs among these households. The standard definition of rent burden is used in this research. It divides total tenant payment (the sum of tenant-paid rent and estimated utility payments) by the adjusted annual income of the household (gross income net adjustments for household members being elderly, having dependent children, or having disabilities).²

At issue is whether some participating households pay more than 30 percent of income on housing.³ Multiple explanations suggest why program participants may suffer from high housing cost burdens.

The first possible explanation for a high housing cost burden may be found in the characteristics of the households themselves. Discrimination against racial minorities continues to be a problem in housing markets across the nation (Yinger, 1998). Ample reason exists to suspect that discrimination is also experienced by Hispanic or female-headed households. Hispanics live in housing of inferior quality when compared to non-Hispanic Whites, but the role of discrimination in this outcome is open to debate (Krivo, 1995; Betancur, 1996). Single-parent, female-headed households also tend to reside in lower quality housing than do married couples (South and Crowder, 1998). This research asks whether evidence of discrimination can be seen through a high incidence of racial or ethnic minorities, female-headed households, or other affected groups among those with high rent burden.

The second possible explanation for a high housing cost burden may be found in the characteristics of the neighborhoods where the participating households choose to reside. Rental housing markets vary across the nation. Some have very tight conditions with high rents while others are very soft with low rents. It is possible that tight market conditions may contribute to a disproportionately high incidence of households suffering from a high housing cost burden. Evidence already exists on the impact of housing market conditions on program operation. Only about 70 percent of those awarded vouchers are successful in finding housing that meets program requirements, and tight market conditions lower this number further (Finkel and Buron, 2001). In tight markets, about 61 percent of HCV households were able to find units while 80 percent of households were successful in soft markets. It is possible that in tight markets those that do find housing are compelled to accept a high housing cost burden to secure the HCV subsidy.

Turner (1998) points out that the issues of racial discrimination and housing market conditions are not readily separated. The provision of an HCV Program does not ensure access by minority households to neighborhoods with good-quality housing. Rather, minorities may be relegated to neighborhoods providing poor-quality housing while, elsewhere in the same market, ample housing may be available to nonminority households. Low-income people and minorities are concentrated into unhealthy neighborhoods despite the mobility that is supposed to be part of the voucher approach to housing assistance.

Pendall (2000) confirms this spatial concentration of low-income people as well as the limited mobility provided by the program. He discovers that users of Section 8 certificates and vouchers were 75 percent as likely as other low-income tenants to live in distressed neighborhoods. Thus, the subsidy did facilitate some movement to better neighborhoods. When compared to all renter households, however, independent of income, the tenant-based rental assistance did not close the gap. Assisted households were 150 percent more likely than all renters to live in distressed areas, although a great deal of variation existed among metropolitan areas. Assisted households tend to concentrate in distressed neighborhoods because the low-cost rental housing concentrates there. In addition, this concentration is related to race. African-American households are more likely than White households to live in distressed neighborhoods.

These concerns lead to research questions over location. Do these problems of location translate into higher housing cost burden as well? Are tight markets associated with high housing cost burden? Are urban areas or certain regions with tight housing conditions associated with high housing cost burden? Do households have to accept a high housing cost burden to leave high-poverty neighborhoods?

The third possible explanation for a high housing cost burden may be found in the decisions made by the program administrators, both the local PHA and the U.S. Department of Housing and Urban Development (HUD). A household in the HCV Program can live in any neighborhood and any dwelling unit it wants if it can find a unit that is affordable under program rules. This unit must meet HUD's Housing Quality Standards and the owner must be willing to participate in the program. The PHA, however, sets the payment standard, and HUD has established the 40th percentile standard for setting FMRs. These implementation decisions can affect the incidence of high housing cost burden.

Payment Standard as a Percentage of the FMR

With the HCV Program, the subsidy amount is dictated by the payment standard, not the FMR. Local payment standards vary, but the payment standard is initially set at the FMR (Kennedy and Leger, 1990). PHAs, however, complained that the FMRs lag below actual rents (HUD, 2000), meaning that households were unable to obtain housing without paying more than 30 percent of income because the FMR (if used as the payment standard) was below the market rent. This problem could be especially severe in housing markets experiencing very high rents (HUD, 2000).

To help with this problem, the Public Housing Reform Act of 1998 grants discretion to PHAs in setting the payment standard. PHAs may lower the payment standard to as low as 90 percent or to raise it to 110 percent of the FMRs. This adjustment may be done on a neighborhood-by-neighborhood basis or across a jurisdiction. Setting the payment standard higher offers the opportunity for a household to lease a unit with a higher rent or enter into a higher priced neighborhood than would be the case with a lower payment standard (HUD, 2000). If the PHA opts for a payment standard that is a higher percentage, the participating household receives a higher HAP, lowering the household's rent burden. Fewer households can be helped, however, with the available program dollars. If the PHA opts for a payment standard that is lower, the assisted household receives a lower HAP but more households can be helped with the available dollars (Lubell, 2001).

High rents in some housing markets present the possibility of setting a payment standard equally high and causing the program to participate in leasing units priced higher than they are worth, even in a high-priced market. As a preventive measure, a rent reasonableness test must be undertaken for each dwelling admitted to the program. This test checks the rent of the unit against what is determined to be a fair rent by comparing the rent to other units available in the marketplace and other unassisted units available in the same development or building.

If market conditions merit the adjustment, HUD can grant still further adjustments to the payment standard. With HUD permission, some parts or even all of a jurisdiction may have payment standards that are more than 120 percent of the FMR. HUD has granted hundreds of these exceptions (HUD, 2000).

Setting local payment standards and granting exceptions may influence the housing cost burden of the affected households. Do PHAs employ this discretion to set payment standard so as to avoid high rent burden?

40th Percentile Rents

A second administrative issue deals with the way the FMRs are determined. The FMRs are set so they reflect the rent of a unit at the 40th percentile from the bottom for rental units in the market. HUD has recognized that difficulties have arisen with the use of the 40th percentile rents (Lubell, 2001). The adoption of the 40th percentile standard excludes many units from the upper end of the rent distribution. To facilitate higher payment standards in some markets, HUD has raised FMRs to the 50th percentile in selected areas, increasing the number of units affordable to families with vouchers. This increase should help reduce the housing cost burden in these markets. This action raises another research question. Does HUD select 50th percentile areas well, avoiding high rent burdens in those markets?

These administrative rules for the program may contribute to a high incidence of households in the program suffering from a high housing cost burden. The program permits administering agencies to set their jurisdiction's payment standard below the FMR. The program establishes the FMR as the 40th percentile of all rents in the market. In addition, the program permits administering agencies to impose a minimum rent, independent of income. Each of these factors will be examined to determine their impact on the incidence of high housing cost burden among voucher participants.

Data

Data have been assembled from the Multifamily Tenant Characteristics System (MTCS) covering fiscal years 2000, 2001, and 2002. The data include reports from about 2,400 agencies administering HCVs for a total of about 1.3 million households (HUD, 1998).⁴

MTCS data contain demographic information about each assisted household as well as the size, rent, and utility information for the dwelling unit. HUD has added information describing the housing market conditions where the units are located along with information on each PHA's payment standard and FMR.

Question: What is the typical rent burden in the HCV Program?

In the HCV Program, more than 60 percent of all households in the program pay about 30 percent of income toward rent. Only a few, about 1 percent, pay less than 30 percent. About 38 percent pay more than 31 percent. About 11 percent allocate between 31 and 35 percent of income toward housing costs. Another 11 percent of the households allocate between 35 and 40 percent of income toward housing. About 10 percent allocate between 40 and 60 percent of income. Finally, just less than 7 percent of the voucher households allocate more than 60 percent of income toward housing costs. See exhibit 1.

Exhibit 1

Distribution of Rent-burdened Families in the HCV Program by Fiscal Year

Fiscal Year	Percentage of All Households With Rent Burden		
	31% or less	More Than 31%	More Than 40%
All households, FY 2002	62.0	38.0	16.6
All households, FY 2001	62.5	37.5	16.2
All households, FY 2000	53.6	46.5	22.5
Percentage point change from FY 2000 to FY 2002	8.4	- 8.4	- 5.8

Notes: Rent burden is calculated as total tenant payment (rent plus utility allowance) as a percentage of adjusted gross income. A household is included only if it reported income greater than zero.

Source: Multifamily Tenant Characteristics System data for fiscal years 2000, 2001, and 2002

It is important to note that households reporting zero income are excluded from the analysis. Approximately 73,000 households report zero income. Of these households, about 60,000 pay no rent. As such, their housing cost burden due to rent is also zero, but these households may suffer some housing cost burden due to the obligation to pay utilities not included in the rent. The remaining 13,000 households with zero income report paying some level of rent.

For families with income, particular attention is paid to those households suffering from a housing hardship. For purposes of this research, hardship is defined as paying more than 31 percent of adjusted annual income toward housing.

The tables examining the HCV Program over time tell a story of improvement. From 2000 to 2002, the program witnessed significant reductions in the incidence of high housing cost burden. Households paying more than 40 percent of income dropped about 6 percentage points, from 22.5 percent to 16.6 percent. Households paying more than 30 percent dropped about 8 percentage points.

About one in six HCV Program households is paying a very high housing cost burden, spending more than 40 percent of income on housing. The administrative rules of the program are designed to prevent this problem. At any given time, however, a participating household may lose its source of income or the household may break up, leaving it with fewer wage earners or members providing other forms of support. These incidents can cause a household to suffer a high housing cost burden given the loss of income. About 1 in 15 is paying an extremely high housing cost burden, with more than 60 percent of income spent on housing. These are extreme cases that merit additional exploration.

Question: Who pays a high housing cost burden?

A set of household characteristics was examined to see if any of these characteristics are associated with a high incidence of HCV households paying a high housing cost burden. For this analysis, a high incidence is identified by the incidence of households paying more than 31 percent of income toward housing that is at least 3 percentage points above the norm. The analysis looks for categories of households in which 41 percent or more pay in excess of 31 percent of income toward housing costs. To further refine this analysis, the incidence of households paying more than 40 percent has been detailed. As above, the analysis looks for characteristics in which the incidence of households with this very high housing cost burden is more than 3 percentage points above the norm. In round numbers, 38 percent of all HCV households pay 31 percent or more of income toward housing. A group will be identified having a high incidence of housing burden if 41 percent or more of the households pay above 31 percent of income toward housing. Similarly, 17

percent of all HCV households pay 40 percent or more on housing, making 20 percent the trigger level for identification of an especially high incidence of housing cost burden. See exhibit 2.

Exhibit 2

Distribution of Rent-burdened Families in the HCV Program by Household Characteristics, Fiscal Year 2002

Household Characteristic	Percentage of All Households With Rent Burden		
	31% or less	More Than 31%	More Than 40%
All households, fiscal year 2002	62.0	38.0	16.6
Single-parent, female-headed household	57.1	42.9	21.6
Household size			
One or two persons	64.3	35.7	13.6
Three or more persons	59.2	40.8	20.3
Disabled head of household	66.8	33.2	10.2
Presence of children			
Families with children	58.2	41.8	20.4
Families without children	67.5	32.5	11.2
Income			
0 to 9 percent of area median	23.5	76.5	63.6
10 to 29 percent of area median	67.1	32.9	11.4
30 to 49 percent of area median	69.2	30.8	4.4
50 percent or more of the area median	76.1	24.0	1.8
Largest source of income			
Wages	67.8	32.2	9.2
Government (welfare, Social Security, etc.)	62.3	37.7	16.7
Race/ethnicity of household			
Asian/Pacific Islands	68.3	31.7	11.5
African American—not Hispanic	60.1	39.9	19.8
American Indian/Alaska Native	60.5	39.5	16.1
White—not Hispanic	62.1	37.9	14.4
Hispanic—any race	65.6	34.4	15.5

Notes: Rent burden is calculated as total tenant payment (rent plus utility allowance) as a percentage of adjusted gross income. A household is included only if it reported income greater than zero. Entry is shown in **bold** if it differs from the total population of HCV households by more than 3 percentage points.

Source: Multifamily Tenant Characteristics System data for fiscal year 2002

Three percentage points was chosen somewhat arbitrarily as an indicator of a significantly high incidence of high housing cost burden. The data set comprises nearly the entire population of HCV Program households, with more than 1.3 million households. As such, normal statistical tests for significance of difference between samples have little meaning. In addition, with samples this large, even the smallest of differences between the samples in the proportion of households suffering from a high housing cost burden are statistically significant. As a result, tests for statistical significance provide little guidance in identifying which characteristics of the population are associated with high housing cost burden. Review of the incidence of high housing cost burden among the various samples drawn from the entire population of HCV Program households suggests that 3 percentage points is a reasonable dividing point. The results found in this examination generally are not sensitive to the selection of a 3 percentage point differential as the dividing line. Any number of other dividing lines would lead to essentially the same conclusions with regard to which factors are associated with a high housing cost burden among participating households.

Single-parent, female-headed households with children have a high incidence of high housing cost burden. About 43 percent pay more than 31 percent of income on housing and 22 percent pay more than 40 percent, 5 percentage points over the average for all HCV households. Larger households have a higher incidence of high housing cost burden, as do households with children.

Households with disabled heads of household generally have a housing cost burden below the norm, suggesting that the many programs to help the disabled are protecting these households from hardship.

Household size is a factor, with larger households being associated with a higher incidence of high housing cost burden.

Race is not a significant factor. No racial or ethnic group was more than 2 percentage points above the population as a whole in terms of paying more than 31 percent of income toward housing. At the next level up, paying more than 40 percent of income toward housing, only one group had a disproportionate representation. About 20 percent of African-American HCV households pay more than 40 percent of income on housing, which is about 3 percentage points above the norm for the population.

The primary source of income is not associated with a high housing cost burden. Those households with wages did prove to have lower housing cost burdens, but those with Temporary Assistance for Needy Families (TANF) and/or Aid to Families with Dependent Children as the primary source were in line with the population as a whole in terms of housing cost burden.

Income level, rather than its source, proved to be associated with high housing cost burden, but only at the lowest levels of income. The households with the lowest incomes, those with income from 0 to 9 percent of AMFI, suffer from a disproportionately high housing cost burden. As might be expected with households that have such low incomes, about 77 percent have housing cost burdens above 31 percent, and about 64 percent pay more than 40 percent of their limited income toward housing. The scale of this disproportionate incidence of high housing cost burden suggests that income, or the lack of it, is the driving force behind high housing cost burden.

Under the HCV Program rules, participating households make a contribution to rent that is the greater of 30 percent of income adjusted for various factors (such as disabilities or the presence of children) or 10 percent of gross income without adjustments (HUD, 2001). Very few households make a tenant contribution based on this 10 percent of gross income rule. Less than 2 percent of the households fall into this category, and of these, only about half have any income. Of those households paying under the 10 percent rule and that have income, nearly all are paying in excess of 40 percent of income on housing costs. This condition exists because these households are overwhelmingly low income. Of the approximately 24,000 households making contributions under the 10 percent rule, the mean gross income is about \$2,100 a year and, after adjustments, the mean annual income is less than \$400 a year.

Question: Where are the households who are paying a high housing cost burden?

Analysis was made of various characteristics of the housing unit and the implementation of the HCV Program. See exhibit 3.

Unit size has a clear pattern corresponding to the finding that larger families tend to have housing cost burden problems. Each successively larger unit has a higher incidence of

high housing cost burden. Single-room, efficiency apartments and one-bedroom units are all below average. All unit sizes from two bedrooms and larger have above average levels of high housing cost burden. In very large units, those with five or more bedrooms, more than half of all households suffer a high housing cost burden.

Exhibit 3

Distribution of Rent-burdened Families in the HCV Program by Housing Market Characteristics, Fiscal Year 2002

Housing and Market Characteristic	Percentage of All Households With Rent Burden		
	31% or less	More Than 31%	More Than 40%
All households, fiscal year 2002	62.0	38.0	16.6
Unit size			
Single room occupancy	90.8	9.2	4.1
Efficiency/0 bedrooms	74.4	25.6	9.3
1 bedroom	73.0	27.0	7.7
2 bedrooms	59.3	40.7	17.4
3 bedrooms	57.7	42.3	21.8
4 bedrooms	51.9	48.2	25.3
More than 4 bedrooms	48.2	51.8	28.0
Market characteristic			
Central city	64.2	35.8	16.3
Suburban	63.8	36.2	15.1
Metropolitan	64.0	36.0	15.7
Nonmetropolitan/rural	52.6	47.4	20.9
Northeast Region	65.8	34.2	11.4
South Region	55.8	44.2	22.8
Midwest Region	63.6	36.4	15.3
West Region	66.1	33.9	11.5
Tract poverty rate 15% or less	61.1	38.9	15.5
Tract poverty rate between 15 and 25%	62.2	37.8	16.8
Tract poverty rate 25% or more	64.0	36.0	17.5
County vacancy less than 5%	69.9	30.1	10.9
County vacancy 5 to 8%	62.5	37.5	16.4
County vacancy greater than 8%	55.5	44.5	21.3
Rent below \$400 per month	62.0	38.0	18.1
Rent \$400 to \$800 per month	62.5	37.5	9.6
Rent above \$800 per month	54.4	45.6	12.4

Notes: Rent burden is calculated as total tenant payment (rent plus utility allowance) as a percentage of adjusted gross income. A household is included only if it reported income greater than zero.

Entry is shown in **bold** if it differs from the total population of HCV households by more than 3 percentage points.

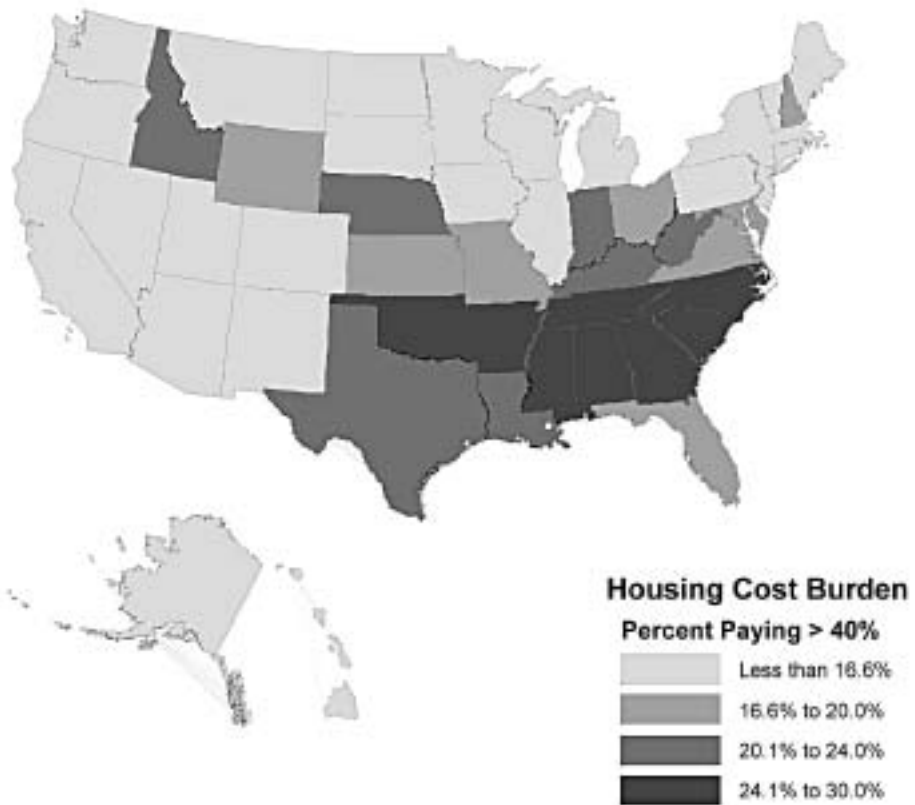
Source: Multifamily Tenant Characteristics System data for fiscal year 2002

Examining the type of markets finds that within urban areas no significant difference exists between central city and suburban areas. The nonmetropolitan households, however, do experience a higher level of high housing cost burden.

Across regions of the nation, the South alone stands out with a high housing cost burden. The map in exhibit 4 illustrates this regional difference. Alabama, Arkansas, Georgia, Mississippi, Oklahoma, North Carolina, South Carolina, and Tennessee all have more than 24 percent participating households paying more than 40 percent of income toward housing costs. This amount may be due to low levels of welfare payments in the South. Annualized payments under TANF and food stamps as a percent of the poverty level are 11 percentage points lower in the South than in other states (U.S. House of Representatives, 2000).

Exhibit 4

Distribution of Rent-burdened Families Paying in Excess of 40 Percent of Income in the HCV Program by State, Fiscal Year 2002



Paradoxically, a higher incidence of high housing cost burden occurs in counties with very high vacancy rates. Very low-income people may have access only to tracts suffering from significant deterioration; thus, it is not low vacancy rate but the low income of residents in these deteriorated soft markets that triggers high housing cost burden. Data are available only at the county level, which is large. A county can contain significant variation within its boundaries. Some neighborhoods in the county could have high or low vacancy rates. Vouchers are portable, permitting movement across markets, such as counties. If a household confronts very tight conditions within any one neighborhood, it should be able to find substitute housing elsewhere in the county where vacancy rates are higher. Thus, it would be expected that the mobility provided by the HCV Program would operate to permit households suffering from a high housing cost burden to more readily find relief by moving to areas with high vacancy rates. Movement to areas with high vacancy, and presumably lower rents, however, has not reduced the incidence of high housing cost burden. More research is needed on this topic.

Equally, the level of poverty in the neighborhood is not a factor in the incidence of high housing cost burden. Whether the level of poverty in the tract is low, average, or high, the incidence of high housing cost burden is normal.

Tenants with high average rents are associated with high housing cost burdens. Here it is likely that the market itself is the source of the problem with high rents leading to high housing cost burden. Those households paying rent above \$800 a month were more likely to have disproportionately high incidence of high housing cost burden. About 46 percent of the HCV households paying more than \$800 per month suffer from a housing cost burden above 31 percent of income.

Question: Do administrative decisions factor into the incidence of high housing cost burden?

As expected, those PHAs that set the payment standard very low, below 90 percent of FMR, are associated with high housing cost burden. Findings show that, for the HCV households assisted through PHAs with extremely low payment standards, 44 percent of households pay in excess of 31 percent of income toward housing and 22 percent pay in excess of 40 percent. Unexpectedly, those PHAs with payment standards set at exactly 100 percent of FMRs had a somewhat high level of HCV households paying more than 31 percent of income on housing. In this group of PHAs, 41 percent of households pay above this standard. Those PHAs with payment standards above 100 percent of FMRs had below normal incidence of housing cost burden as would be expected. See exhibit 5.

Exhibit 5

Distribution of Rent-burdened Families in the HCV Program by Housing Authority Characteristics, Fiscal Year 2002

Housing Authority Characteristic	Percentage of All Households With Rent Burden		
	31% or less	More Than 31%	More Than 40%
All households, fiscal year 2002	62.0	38.0	16.6
Payment standard as a percentage of FMR			
Less than 90% of FMR	56.1	44.0	21.6
90 to less than 100% of FMR	63.1	36.9	16.8
100% of FMR	58.9	41.1	16.8
Greater than 100 to 110% of FMR	65.3	34.7	14.4
Greater than 110 to 120% of FMR	63.7	36.3	13.9
Greater than 120% of FMR	69.4	30.6	12.9
Agencies with 50th percentile FMRs	68.2	31.8	13.9
Size of agency (nonstate agencies only)			
5,000 vouchers	71.3	28.7	13.1
1,000 to 5,000 vouchers	61.7	38.3	17.0
500 to 1,000 vouchers	57.6	42.4	18.3
250 to 500 vouchers	57.4	42.6	17.8
100 to 250 vouchers	58.6	41.4	17.3
Fewer than 100 vouchers	56.7	43.3	19.6
Type of agency			
All nonstate agencies	62.1	37.9	16.6
All state agencies	60.7	39.3	17.2
Households new to the program	77.5	22.5	7.4

Notes: Rent burden is calculated as total tenant payment (rent plus utility allowance) as a percentage of adjusted gross income. A household is included only if it reported income greater than zero.

Entry is shown in **bold** if it differs from the total population of HCV households by more than 3 percentage points.

Source: Multifamily Tenant Characteristics System data for fiscal year 2002

Agencies with 50th percentile rents are associated with lower levels of housing cost burden. Setting FMRs higher permits greater choice and higher payment standards to the participating households. This higher level translates into a lower incidence of participating households paying a high housing cost burden. While 38 percent of all HCV households pay more than 31 percent of income on housing, those households served by PHAs with 50th percentile rents find only 32 percent of their households with high cost burden.

In the event that a household in the HCV Program has so little income that its total tenant contribution falls to very low levels, the program guidelines provide that local housing authorities may adopt minimum rents, typically of \$25 per month or \$50 per month (HUD, 2001). Exemptions from this minimum rent requirement may be granted in situations in which the minimum rent would pose an undue hardship. If the hardship is temporary in nature, however, the minimum rent may be imposed despite its short-term harm. Within the national database of 1.3 million HCV households, about 76,000 are estimated to be making a tenant contribution based on a minimum rent of either \$25 a month or \$50 a month. A large portion of these households, about 46,000, has a reported adjusted gross income of zero. Examining the burden of housing costs on those with income, 90 percent or more pay in excess of 40 percent of income on housing costs. It does not appear to be the minimum rents that generate this problem, because these rents are, by any standard, very low. These households have such low incomes, however, that rent at any level would create a burden. The typical HCV household had an annual income of more than \$10,000 in 2002. Among those paying the minimum rents, the average gross reported income is less than \$900 a year. It is important to remember that housing authorities have the power to waive these rents and, thus, the imposition of these minimum rents on households that have such low incomes may result from a determination by the housing authority that the extremely low income is transitory.

Smaller agencies are associated with high housing cost burden, while the very largest have a very low incidence of this problem. Those agencies with 500 or fewer vouchers all have at least 41 percent of their households with a high housing cost burden. The agencies with 1,000 to 5,000 vouchers have a normal incidence of high housing cost burden. The few agencies in the nation with more than 5,000 vouchers have a very low incidence at 29 percent. Nothing about the voucher mechanism should dictate this result. More research is needed to see if the smaller agencies confront markets where high rents and/or extremely low-income households create this high housing cost burden.⁵

PHAs began as the offspring of municipal government. The portability of vouchers should make the ties to a municipality less of an issue as households may choose to locate outside the immediate jurisdiction. Voucher holders, however, have tended to stay in close proximity to their original residence with long moves as the exception (Varady et al., 1999). The state agency is an alternative administrative mechanism to facilitate households in their use of vouchers. The distinction between a state agency and a conventional agency is not significant, at least in terms of the incidence of high housing cost burden. State agencies had 39 percent of their households with high housing cost burden, while nonstate agencies had 38 percent of their households with a high housing cost burden.

One last program administration issue remains. Are households that are new to the program able to avoid high housing cost burden? A little more than 7 percent of all households that are new to the program suffer from a housing cost burden in excess of 40 percent of income. This result is interesting because the administering agency is not supposed to accept a rental arrangement with a household in which this 40 percent threshold is exceeded. In 2002, however, about 1 in every 14 households newly admitted to the HCV Program entered with housing costs in excess of 40 percent of household income.

Question: Which households are suffering from an extremely high housing cost burden?

Exhibit 6 explores the characteristics of those households who suffer from an extremely high housing cost burden. An extremely high housing cost burden is defined as housing costs in excess of 60 percent of household income. It is important to note that inclusion in this category requires the household to report an adjusted gross income above zero. These households have an income, making calculation of a rent burden possible. In 2002, about 82,000 households in the HCV Program did have income with a rent burden of more than 60 percent. These households represent about 6.6 percent of the households in the program. See exhibit 6.

Exhibit 6

Distribution of Rent-burdened Families in the HCV Program Comparing Households With High Rent Burden to All Households, Fiscal Year 2002

Characteristics	Households by Rent Burden as Percent of Income	
	Burden > 60%	All Households
Count of households	81,626	1,228,413
Household characteristics		
Mean total annual household income	\$3,352	\$10,959
Mean age of head of household	35	44
Number of persons in household	3.16	2.14
Percentage with rent burden greater than 60%		
All households	6.6%	
African American households	9.3%	
Hispanic households	6.6%	
Elderly households	1.3%	
Disabled households	1.7%	
Unit characteristics		
Mean number of bedrooms	2.57	2.14
Mean gross rent	\$734	\$721
Mean tenant rent	\$47	\$182
Neighborhood characteristics		
Mean tract percent poverty	20.8%	18.9%
Mean county percent vacant	8.2%	7.0%

Notes: Rent burden is calculated as total tenant payment (rent plus utility allowance) as a percentage of adjusted gross income. A household is included only if it reported income greater than zero.

Source: Multifamily Tenant Characteristics System data for fiscal year 2002

What characteristics set households with extremely high housing cost burden apart from other households in the HCV Program? The clear difference is income. These households have an average total annual household income of only \$3,352, compared to almost \$11,000 for the typical HCV household. The households tend to be somewhat younger and somewhat larger than other households. Race is a factor insofar as African Americans are overrepresented. Although 6.6 percent of all HCV households suffer from an extremely high housing cost burden, 9.3 percent of African Americans suffer a burden at this level. Hispanics by comparison are in line with the population as a whole. The elderly and the disabled are well below the average for the population.

The housing arrangements of these households with an extremely high housing cost burden do not fully explain the problem. Given the larger household size, the units occupied by these households are somewhat larger and the mean gross rent is correspondingly higher. Given the workings of the HCV Program, however, the tenant contribution toward rent (exclusive of utilities) is much lower, at only \$47 per month. These households tend to

live in neighborhoods with only a marginally higher incidence of poverty and with a slightly higher vacancy rate, as might be expected. Given the especially low incomes of these households, they seek out the units with the lowest rent for the unit size, and these would be found in soft markets.

Taken jointly, about 150,000 households in the HCV Program have income that is either zero or is very low, making a high housing cost burden unavoidable. In round numbers, these households comprise one in every nine households in the HCV Program. The data do not indicate whether this extremely low income is chronic or transitory. As such, it is not possible to determine whether these households have hit on hard times and will bounce back or whether their problems will continue over time. It is expected that some households will confront a loss of income due to loss of employment or break up of the household, which can cause a very high housing cost burden in the short term. New employment may be found, however, or the household may adjust its housing consumption to reflect the new household composition. With these adjustments, the housing cost burden may return to an acceptable range. If the household is unable to regain its footing and find some source of income, then the high housing cost burden may continue.

Conclusion

The goal of the HCV is to help low-income households consume housing at reasonably affordable rates. Administration of this program is cumbersome given the complexities of housing markets and the variation across the many housing markets of the nation. The HCV Program has developed restrictions to encourage prudent use of scarce resources and to prevent abuse. The restrictions and the many decisions made by both program administrators and participating households make some level of housing cost burden unavoidable. Over time, the program seems to be improving with the level of high housing cost burden dropping to about 38 percent of all participating households paying more than 31 percent of income on housing and about 17 percent paying more than 40 percent of income on housing.

To the extent that it can be determined, households who suffer from this high housing cost burden do so largely because of having little or no income. While some household characteristics and some market characteristics are associated with a high housing cost burden, the single strongest predictor of high housing cost burden is household income. This problem is heightened for families with children and families in rural areas and in the South. The problem is worse for those households served by PHAs that set payment standards very low. The almost complete lack of income, however, remains the strongest reason that households suffer from high housing cost burden despite the subsidy provided through the program.

Rent burden in the HCV Program has been declining over time; however, problems remain. About 1 in 6 households in the program suffers from high housing cost burden, and about 1 in 14 households enters the program with a housing cost burden above 40 percent. The implication of this research is that the program does not accommodate the housing problems of families with extremely low or no income.

It is not clear if this failure to accommodate those with no income is a problem. Olsen (2001) argues that the program should serve only those households with the lowest incomes among low-income households. He suggests that the eligibility limits should be more restrictive than the current ceiling of 50 percent of AMFI. With this more restrictive eligibility rule, Olsen argues for reducing the subsidy given to each household in the program to serve more households in aggregate, moving the program toward an entitlement level. The research reported here indicates that movement toward an entitlement status would involve a tradeoff. The problems of a very high housing cost burden are greatest

among very low-income people. The problems are also greater where the subsidy level is reduced by lowering the payment standard relative to the FMR. Movement toward this type of entitlement approach would combine these two factors. More very low-income households would be assisted, but the incidence of a high housing cost burden would rise.

If this increase is to be avoided, then the program needs to be modified to help those households with very low incomes through such steps as waiving minimum rents and basing tenant payment only on adjusted income and not on gross income. Such steps would ultimately increase the subsidy level to participating households, requiring that fewer households be served or that more funds be committed to the HCV.

Author

Kirk McClure is an associate professor with the Graduate Program in Urban Planning at the University of Kansas. He teaches and performs research in the area of affordable housing and housing finance. Currently, he is performing research on housing assistance and the deconcentration of low-income and minority households. He received his Ph.D. from the University of California, Berkeley.

Notes

1. Other agencies that administer the Housing Voucher Choice Program include statewide housing agencies, such as state housing finance agencies, and specialized agencies serving metropolitan areas.
2. Alternative definitions were examined using gross income rather than adjusted income and tenant payment to rent net of utility allowances. Reducing the tenant contribution and increasing the income included in the calculations lowered the incidence of high housing cost burden. The conventional use of the concept of housing cost burden, however, involves adjusted income and rent plus utility allowance; this approach has been used in this study.
3. For purposes of this study, a household is deemed to pay 30 percent of income on housing if payment is greater than 29 and less than or equal to 31 percent of income. This adjustment is necessary due to some rounding on both reported income and reported tenant payment.
4. These data cover all reporting Public Housing Authorities (PHAs) for which valid records were obtained. Some PHAs, however, did not report or did not report fully. For this reason, some bias may exist in the results because of the nonreporting PHAs. All results in this study are reported across the nation and large regions. Given this aggregation of the data, significant bias due to nonreporting is unlikely.
5. The U.S. Department of Housing and Urban Development (HUD) is monitoring those PHAs with a high incidence of families paying a high percentage of income toward housing costs. HUD prepared two lists. The first list identifies those PHAs for which at least 50 percent of the assisted households were paying more than 40 percent of income on housing during fiscal year 2002. This list is referred to as the High Concentration List. The second list identifies those PHAs for which at least 40 percent of the assisted households were paying more than 31 percent of income on housing during fiscal year 2002. This list is referred to as the Watch List.

The data include reports from 2,394 agencies administering HCVs. Of these, 76 are on the High Concentration List. These 76 agencies are disproportionately small. Of the 76 agencies, 55 (72 percent) have fewer than 100 vouchers, yet agencies with fewer than 100 vouchers comprise less than 35 percent of all agencies. The Watch List contains more than half of all PHAs administering the program.

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