

# Renter Credit Programs: A Path Towards Reducing Concentrated Poverty in Chicago

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## Abstract

This article proposes that renter credit programs should be implemented alongside current investment initiatives in low-income Chicago neighborhoods to address concentrated poverty. Renter credit programs invest cash credits in accounts tied to each tenant that can be redeemed after a set amount of time. Such programs have helped to strengthen community ties and increase financial stability for renters. The article considers historical and current drivers of poverty as well as the lasting impact that racial segregation has had on urban areas. It further discusses recommendations for implementing renter credit programs in Chicago based off of models that have found success in other U.S. cities. Finally, it proposes strategies for adapting the approach and overcoming its limitations, ending with current opportunities for collaborating with city development initiatives.

In Over-the-Rhine, one of Cincinnati's highest poverty neighborhoods, renters living in apartments with a renter credit model have described their housing as an "oasis" in the community (Drever et al., 2015, p. 30). Residents know their neighbors and often sit together in a shared courtyard after work. They attend regular building meetings and help with property upkeep, which gives them a say in how shared common areas look and feel (Donnellan, 2010). When times become difficult and unexpected costs like medical emergencies and job losses arise, renters can rely on savings accrued through their participation in the

renter credit program or loans from the nonprofit organization running the program to keep them financially afloat. As one community member described it, the program has “gotten people off of the payday lender merry-go-round. This makes for a stronger community. They aren’t [moving] in and out, in and out” (Drever et al., 2015, p. 28).

Renter credit programs such as the one in Over-the-Rhine add cash credits to residents’ accounts each month they make an on-time rent payment and contribute to property upkeep. After a set number of years, typically five, residents’ accrued credits are fully vested and can be redeemed for personal investments that can increase their financial stability and help break cycles of poverty. The program in Over-the-Rhine has offered credits of about \$58 per month and tenants gained \$3,500 in five years on average (Locke, 2008).

The promise of renter credit programs comes from increasing savings in low-income households, keeping housing affordable, and strengthening support among neighbors. Despite these benefits, the story of such programs’ success has remained largely absent from academic investigation and urban development initiatives. It is time to take another look at these models. Applying renter credit programs in Chicago—alongside neighborhood investment initiatives—provides an opportunity to reduce concentrated poverty and guard against displacement. Such programs can thus help to address the lasting impact that inequitable housing policies have had on low-income communities of color.

## **Historical Context for Concentrated Poverty**

Discriminatory housing laws have played a significant role in structuring wealth distribution along racial lines and segregating cities in the United States. In addition to racially segregated public housing and restrictive covenants that isolated Black communities, government policies also created unequal access to homeownership. Through government programs, including the 1944 GI Bill, homeownership was granted to White Americans at affordable rates while the same programs rendered most Black Americans ineligible

(Rothstein, 2017). Tax benefits, including the mortgage interest deduction, allowed the beneficiaries of home ownership to build wealth through their property (Desmond, 2017; Sullivan et al., 2016). Property ownership thus became a key mechanism through which White Americans achieved upward economic mobility and passed wealth on to their children (Rothstein, 2017). Today, White families are over a third more likely to own a home and have, on average, more than six times as much wealth as Black families (Lei, 2017).

Spatial separation of wealth in cities like Chicago has only become starker over time. While poverty in Chicago has declined on the whole, it has also become more concentrated (Ramos, 2019; Misra, 2019). In the process of desegregation, Black families who could move out of lower-income segregated areas did so, while those with fewer economic resources remained. Policies of the 1980s and 1990s, including the War on Drugs, led to further disinvestment and increased criminalization of these communities (Wacquant, 2001). This sent many Black families deeper into poverty and ruptured community networks of support.

Today, one in five residents in Chicago's seven highest-poverty areas live off of income that is less than half of the federal poverty line (Emmanuel, 2015). All seven of these areas are located in predominantly African American communities (See Figure 1).

This stark racial and economic segregation is projected to increase as a result of the COVID-19 pandemic. Data on economic instability tied to the pandemic shows that Black households have already lost employment at higher rates than their White counterparts in the same economic bracket (Huber, 2020). Furthermore, Black households that hold little accrued wealth have had a disproportionately difficult time affording rent (Lake, 2020).

## **Today's Housing Crisis**

Housing has become one of the largest costs of living today due to property prices that have risen faster than income (Wetzstein,

2017; Elis, 2019). Lack of affordable housing has left nearly half of all renters in the United States “rent burdened,” which means that they are spending over 30% of their income on housing (U.S. Department of Housing and Urban Development [HUD], n.d.). Those earning under half of a geographic area’s median income often spend over 50% of their paycheck on housing (Desmond, 2018; Institute for Housing Studies, 2019; HUD, n.d.). This leaves residents unable to save, making them particularly vulnerable to economic crises such as the one brought on by the COVID-19 pandemic. These precarious living conditions also increase job insecurity and disrupt social networks, which compound the financial instability that people living in poverty experience (Edin & Shaefer, 2016).

## **Renter Credit Programs and Community Development Corporations**

One of Chicago’s attempts to address affordable housing and build household savings has been to implement the federal Family Self-Sufficiency Program (FSS) (“Family,” n.d.). Like other renter credit models, the program establishes an interest-bearing account for low-income families that they can access after five years. FSS, however, is tied to housing vouchers that can be used across the city, which means that it does not target community-level needs. The program is also inaccessible to many families due to strict eligibility requirements, long wait times to enter, and a time limit on program participation. Moreover, once enrolled, participants must adhere to an individual training and services plan and must demonstrate measurable progress toward goals to accrue money or receive a payout (“Family,” n.d.).

In contrast to FSS’ limitations, place-based renter credit models can provide broader access and expand their impact to a community level, as has happened with the program in Over-the-Rhine. Such place-based models are often run by nonprofits known as Community Development Corporations (CDCs), which work to support and revitalize communities. In Over-the-Rhine, as well as in Collinwood,

Cleveland, CDC-run models called “Renter Equity” programs have helped to strengthen residents’ community support networks in addition to increasing their savings (Clark, 2015). CDCs can connect tenants to neighborhood resources for support with finding jobs, managing legal work, and other technical assistance (Locke, 2008). Furthermore, through shared responsibilities with property upkeep and community meetings, residents build relationships and come to rely on one another when times are difficult. “People look out for one another. I haven’t seen that since childhood,” explained one resident in an evaluation of the Over-the-Rhine program (Drever et al., 2015, p. 30). This evaluation showed that residents named such community support as a primary positive outcome of their program participation (Drever et al., 2015, p. 33). CDC-run renter credit programs have thus helped renters to build savings in a way that parallels several benefits of homeownership, including increased community stability and a return on housing investment.

Not only do CDC-run renter credit models offer financial and community support, but they have been able to do so without increasing overall housing costs. In the long run, the credit payments these programs give to renters are financially self-sustaining. Renters’ financial incentive to stay until their credits are fully vested and can be redeemed decreases turnover and increases investment in property upkeep, both of which reduce administrative costs for the organization running the program.

One limitation of the renter credit approach is that it has few models and little precedent for scaling up since it has been largely ignored by urban development initiatives. Implementing the model on a broader scale in Chicago would therefore require further pilots. Start-up costs such as kick-starting renter credit funds and obtaining property do exist; however, the saved costs and self-sustaining nature of the model over the long run mean that innovation is fairly low-risk. CDCs in Chicago thus have opportunities to experiment with the approach.

Following the lead of programs that found success in Cincinnati and Cleveland, Chicago CDCs can pilot renter credit programs that learn from best practices but also adjust to the needs of local communities. For example, CDCs could experiment with adapting the model to include mixed-income residents. In doing so, they could use credits from higher-income renters to subsidize costs for lower-income renters in order to increase overall affordability.

## **Combining Renter Credit Programs with Chicago's Current Initiatives**

When renter credit programs are combined with investment projects targeted for low-income neighborhoods, they can help to increase community stability and affordable housing as these neighborhoods undergo changes associated with economic development. In 2019, Chicago Mayor Lori Lightfoot began the Invest South/West initiative to redevelop infrastructure and support programs for residents and business owners along ten declining commercial corridors on Chicago's South and West sides ("Invest South/West," n.d.). Community investment of this type plays an important role in reducing poverty, yet such new development also increases the likelihood that current residents will be displaced if housing costs rise faster than local income (Zuk et al., 2017; Duda, 2018).

When displacement occurs, families with the lowest income leave first. Recent studies show that families who leave areas undergoing redevelopment have household incomes that are over \$20,000 lower than the incomes of families who remain (Howell et al., 2019). Furthermore, these families often move to areas with a significantly lower median area income, which can further concentrate poverty within a geographic region. Adding renter credit programs alongside the Invest South/West initiative could thus play a critical role in guarding against this type of displacement and help to reduce, rather than simply disperse, the number of households living in poverty.

## **Conclusion**

Implementing renter credit programs in Chicago's low-income, racially segregated neighborhoods could provide an opportunity for residents to increase financial and community stability. Such community stability is critical in the process of alleviating poverty yet has often been left out of plans for neighborhood investment. When renter credit programs work in tandem with other neighborhood investment initiatives, the combined effect can help decrease concentrated poverty in communities of color. This takes a step towards addressing the nation's history of racial discrimination that has limited wealth building opportunities for Black families across generations and led to racially and economically segregated neighborhoods. Such initiatives that actively address this history and respond to ongoing community neglect are especially important to consider in the face of the current COVID-19 pandemic that has already widened disparities along race and class lines.

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