

At the Cleveland Housing Network, a simple behavioral solution doubled the number of low-income residents who paid their rent on time, a key requirement to participating in a life-changing rent-to-own home program.

Summary

For generations of post-World War II Americans, the path to wealth accumulation began with home ownership. It provided the equity that underwrote college educations, entrepreneurial dreams, and retirements. It created stability for families and neighborhoods, eased the impact of hard times, and helped fuel the next generation's success. Since the financial crisis of 2008, stagnant and falling wages, job insecurity, tightened credit, educational debt, and other economic stressors have put home ownership—a lynchpin of the American dream—beyond the reach of low- and moderate-income Americans. Today, home ownership rates hover near their 50-year low.

To help greater numbers of families accumulate financial assets, including home ownership, ideas42 collaborated with the Corporation for Enterprise Development (CFED) to create the Behavioral Economics Technical Assistance (BETA) Project. Our work spanned three separate projects with funding through Citi Foundation. In Cleveland, the BETA team partnered with Cleveland Housing Network (CHN), a non-profit that works with families to create sustainable paths toward homeownership. Our goal: to identify behavioral solutions that would enable more renters to take part in CHN's lease-to-own program.

Highlights

- ▶ Historically, home ownership has been a vehicle for wealth accumulation; however, present home ownership rates are at a 50-year low
- ▶ Home ownership is greatly reduced among low and moderate-income Americans due to repercussions of the 2008 financial crisis

The Cleveland Housing Network model

Cleveland mirrors many U.S. metropolitan areas in its high percentage of residents living in concentrated poverty. These families face barriers that make climbing the economic ladder an almost insurmountable challenge. The Cleveland Housing Network, which serves 30,000 individuals annually, helps families access affordable housing. One of its many extensive programs provides eligible residents with the opportunity to purchase a home by leasing it and having the rent applied toward the purchase price. Since 2003, more than 1,000 low-income families have achieved home ownership through this program.

To take part, residents must meet a number of eligibility requirements, including paying rent on time. Late payment of rent is one of the leading causes of ineligibility for the program. In any given month, only about 10% of families in the program pay their rent on time. In addition to losing the chance to eventually own their home, residents who pay their rent late can face fees and fines. If escalated, late rent payments could even destabilize the lives of residents through possible court costs and eviction.

Having recently set up a website for online payments, CHN's intended focus was increasing the number of renters who paid their rent online. CHN believed as more renters learned about this convenient option, more would use it, and on-time payments would increase automatically. Therefore, our initial task was to help CHN get more renters to sign up for online rent payment rather than paying at the office.

We started by examining the *hidden* assumption that paying online would increase on-time payments. While access to an online payment option may make paying easier for individuals, it doesn't necessarily increase on-time payments. Working with CHN to analyze payment data, we found the assumption didn't hold up. Residents who used the online portal actually had a slightly *lower* rate of on-time payment. Those who paid online made the deadline 9.5% of the time, compared with 11.8% of those who paid in person. So we redefined the problem question to simplify and broaden it: How could we get more people to pay their rent on time regardless of the payment method? Our goal was to identify and test easy-to-replicate interventions that would encourage this behavior.

Conversations yield insights

We conducted research interviews and focus groups with clients and staff across the organization, observed of the daily operations of the organization, and took an in-depth look at materials given to clients. We analyzed the data and uncovered a number of key insights.

First, residents were “anchored” to the wrong date for rent payment. Although rent was due on the first of each month, many residents chose to pay it on the 10th, the day before the late fee was applied. Rather than perceiving that the rent was due on the first, with a 10-day grace period, they were committed to the idea that rent was simply due on the 10th. The belief was so pervasive that both clients and CHN staff had adopted this mental model. Second, while CHN staff generally believed that rent should be the highest-priority bill for residents, residents often prioritized other bills. They appeared to focus on covering one bill at a time, typically the one that, if not paid, would lead to a utility or service being turned off. Or they tried to pay off the greatest number of bills, rather than the most “important” bill. Overall, they appeared not to use strategies to manage their budgets as a whole. Third, for someone paying the median rent (\$500), the \$25 late fee seemed trivial and did not deter some residents from paying late—even though those fees added up over the course of the year.

Solutions that re-orient residents

To overcome these barriers, we needed to design a package of solutions that would: remove residents' anchor to the 10th; create a sense of urgency around on-time payment; and encourage renters to prioritize their rent over other bills. Based on this diagnosis, we designed a three-part intervention.

An on-time rent raffle comprised the first part of the intervention. Households that paid their rent on time would be entered into a drawing to win one of two \$100 prizes each month, along with a chance to win the “grand prize” of a month's free rent in August. The raffle was not intended as a monetary incentive, but as a way to “buy” attention and re-orient residents to the first of the month as their rent payment deadline. Reminders made up the second part. Residents were sent monthly postcards to keep their attention focused on the raffle and give them time to prepare to pay by the first. They also received a constant physical reminder of the raffle program in the form of a magnet. The third feature was designed to draw attention to CHN's one-time late-fee waiver. We created a physical manifestation of this policy in the form of a coupon-like document. While residents' use of the existing policy had been largely ad hoc, receiving a redeemable physical document put the ability to manage consequences of late payment in the residents' hands.

Highlights

- ▶ To prompt on-time payments, solutions should create a sense of urgency for the right date and help residents prioritize rent over other bills.

Keeping constraints in mind

To test the effectiveness of our interventions, we conducted a randomized controlled trial, designed to address two logistical constraints. First, CHN was concerned that no residents be shut out of either the raffle or the waiver, so we jointly decided to make everyone eligible for both. Anyone who paid their rent on time would be entered into the raffle; however, we informed only residents in the test group that the program was taking place. Second, the waiver had the potential to cause a negative effect, since it drew attention to and broadened awareness of the existing late fee waiver program. We worked with CHN to develop a solution that minimized this risk; people who received the waiver also received notice of the raffle and the reminders.

Optimizing on-time payment

The raffle was quite successful. It nearly doubled the number of people who paid their rent on time. Residents who received communications about the raffle were twice as likely to pay their rent on time as those not informed about the raffle. Interestingly, the raffle was most successful with individuals on a fixed income, such as Social Security. The raffle also increased the overall number of people who paid their rent by the end of the month by 2%. We did not see an improvement of on-time payments among those who received the waiver and raffle versus those who received information about the raffle alone. As a result of these changes, the Cleveland Housing Network has continued to use the raffle program to optimize the level of on-time payment.

The power of “buying” attention

The results of our work with the Cleveland Housing Network demonstrate how effective the right behavioral intervention can be for increasing on-time payments. Though renters had only a slight chance of winning, the raffle was equal to or more powerful than a larger incentive might have been in changing renters' behavior because it re-oriented their attention to the “new” desired deadline. People who typically procrastinated paid on time. Those who typically tried to pay on the 10th felt guilty for paying late. Because of this intervention, the concept of *when you should pay* was altered substantially. It also challenged “present bias,” in which the immediate benefit of hanging onto a scarce resource like rent money longer appears to far outweigh home ownership, a much larger future reward.

Additionally, the findings have broad applicability for countless programs in the asset-building field, in which participants may need help overcoming present bias to reap a future reward. If scaled, this type of intervention and its underlying insights have the potential to massively impact the financial futures and economic mobility of innumerable people worldwide.