UNITED FOR HOMES

CAMPAIGN FOR THE NATIONAL HOUSING TRUST FUND

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National Alliance on Mental Illness

April 15, 2015

The Honorable Charles Grassley
Individual Income Tax Working Group
Committee on Finance
U.S. Senate
135 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Mike Enzi
Individual Income Tax Working Group
Committee on Finance
U.S. Senate
379A Russell Senate Office Building
Washington, D.C. 20510

The Honorable Debbie Stabenow
Individual Income Tax Working Group
Committee on Finance
U.S. Senate
731 Hart Senate Office Building
Washing, D.C. 20510

Dear Senators Grassley, Enzi and Stabenow:

I respectfully submit comments on behalf of the National Low Income Housing Coalition (NLIHC) and the more than 2,000 organizations that comprise the United for Homes Campaign on proposed changes to the federal tax code that fall under the purview of the Finance Committee's Individual Income Tax Working Group. Our comments are focused on reforms to the mortgage interest deduction that will raise revenue to be applied to the National Housing Trust Fund (NHTF). The changes will make the tax code fairer and flatter, and distribute current federal housing supports in a way that is targeted to actual housing need.

NLIHC is a non-profit policy advocacy and research organization dedicated solely to achieving socially just public policy that assures people with the lowest incomes in the United States have affordable and decent homes. Our members include nonprofit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, private developers and property owners, housing researchers, local and state government agencies, faith-based organizations, residents of public and assisted housing and their organizations, and concerned citizens. NLIHC does not represent any segment of the housing sector, but rather works only on behalf of and with low income people who need safe, decent, and affordable housing, especially those with the most serious housing problems, including people who are homeless.

The United for Homes Campaign is a coalition of national, state, and local organizations from every single congressional district that have endorsed NLIHC's proposal to fund the NHTF through a modernization of the mortgage interest deduction and are working to educate the public about our proposal. A list of the participating organizations in United for Homes is attached (Attachment 1).

Affordable Rental Need

The goal of the United for Homes campaign is to address the longstanding and under recognized shortage of rental homes that people in the low wage work force and seniors and people with disabilities on fixed incomes can afford. The number of extremely low income[1] (ELI) renter households in the United States far exceeds the number of housing units renting at prices they can afford.[2] In 2013, there were about 10.3 million ELI households and only 5.8 million rental housing units they could afford. Moreover, many of the units they could afford were occupied by higher income households. Thus the true shortage of units for this income group was 7.1 million.[3] There are three key things to keep in mind about the rental housing shortage for ELI households.

1. The shortage grows every year.
2. It is the primary cause of homelessness in America.
3. There is a shortage in every state. It is 57,410 units in Iowa, 7,426 in Wyoming, and 221,925 units in Michigan.[4]

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[1] Extremely low income is 30% of area median income. It is $22,470 in Des Moines, IA, $22,350 in Cheyenne, WY, and $19,380 in Detroit, MI.
[2] Affordability means paying no more than 30% of household income on housing costs, including utilities.
[3] See *Housing Spotlight* at http://nlihc.org/article/housing-spotlight-volume-5-issue-1.
[4] For additional data on low income housing needs nationwide, go to http://nlihc.org/library/SHP.

The consequences of failing to address this housing shortage have serious implications for numerous other spheres of family and community life. The shortage leads to housing instability, with poor families forced to make frequent moves, disrupting children's educational achievement and parents' ability to be good employees. Poor people faced with excessively high housing costs must skimp on other necessities and are one car repair or illness without sick leave away from eviction. They often live "doubled-up" in overcrowded and substandard conditions. An investment in affordable housing for the extremely low income population is an investment that will lead to increased educational outcomes, better health outcomes, and greatly improved family and community well-being.

The National Housing Trust Fund (NHTF) is an authorized program that will expand the supply of housing affordable and available to ELI households, and if funded to scale will close the gap between supply and need for housing and end homelessness in the United States.

Details about the NHTF and NLIHC's proposed changes to the mortgage interest deduction are described below.

What is the National Housing Trust Fund?

The NHTF was authorized in the Housing and Economic Recovery Act (HERA) of 2008 specifically to address the housing needs of extremely low income households.[5] The NHTF is a block grant to states that once funded can be used to produce, preserve, rehabilitate, and operate rental homes for ELI and very low income households. At least 80% of the funds must be used for rental housing and at least 75% of the funds must benefit extremely low income households. The NHTF is intended to be a permanent program with dedicated sources of funding, not subject to the annual appropriations process.

The funds are to be distributed by formula, based on factors detailed in the statute. With a $5 billion investment, Iowa would receive $33,700,000, Wyoming would receive $4,100,000 and Michigan would receive $147,400,000. A chart showing the amount each state would receive is attached (Attachment 2).

The NHTF was initially to be funded by contributions from the government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. However, shortly after HERA was enacted the financial crisis occurred and the GSEs were taken into conservatorship by their

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[5] 12 USC § 4568.

regulator, the Federal Housing Finance Agency (FHFA). FHFA suspended payments to the NHTF before they even started. Only this past winter was the suspension lifted when FHFA Director Mel Watt instructed the GSEs to begin setting aside funds for the NHTF. Nonetheless, because of the uncertainties around the GSEs and the housing finance system, it is essential to secure other sources of revenue for the NHTF if it is to fully address the national shortage of housing affordable for ELI families. HERA specifies that Congress can allocate other funds to the NHTF beyond the GSE contributions, but Congress has not done so to date.

HUD developed regulations to implement the NHTF and OMB released an interim rule on January 30, 2015.[6] The program is ready to be implemented as soon as funds are made available for the first time in 2016.

Funding the NHTF through Changes to the Mortgage Interest Deduction

The mortgage interest deduction, estimated to be more than $80 billion for 2016 by the Joint Committee on Taxation, is the second largest federal tax expenditure. It is also widely considered an inefficient and ineffective way for the federal government to subsidize housing. Only taxpayers who have enough income and a big enough mortgage to itemize on their tax returns benefit from the mortgage interest deduction. The Joint Committee on Taxation reports that just 21% of all taxpayers claim the mortgage interest deduction. Among taxpayers who do claim the mortgage interest deduction, the top 61% of taxpayers who claimed the deduction received 82% of the benefit. The top 18% of taxpayers (incomes over $200,000 a year) received 42% of the benefit.[7]

Congress has a unique opportunity to modify the mortgage interest deduction through comprehensive tax reform to ensure that more homeowners receive a benefit for interest paid on their mortgages and to distribute federal investments in housing to more accurately reach where resources are needed.

We propose two key changes to the mortgage interest deduction:

- First, NLIHC proposes to reduce the cap on interest for which a household can receive a tax benefit from $1 million plus $100,000 in home equity loans to

[6] To see the interim rule go to http://www.gpo.gov/fdsys/pkg/FR-2015-01-30/pdf/2015-01642.pdf.
[7] NLIHC calculations of Joint Tax Committee data https://www.jct.gov/publications.html?func=startdown&id=4663

$500,000. NLIHC proposes that second homes and home equity loans be included under this cap.

NLIHC analysis of Home Mortgage Disclosure Act (HMDA) data shows that between 2011-2013, only 4.5% of mortgages nationwide were valued at more than $500,000. In 40 states, 4% or less of all mortgages were for more than $500,000. California, the District of Columbia, and Hawaii are the outliers with 15-20% of mortgages valued above $500,000. In both Iowa and Michigan, less than 1% of mortgages were above $500,000, while in Wyoming, only 1.2% of mortgages met that threshold. A map showing the percentage in each state is attached (Attachment 3).

- Second, NLIHC proposes converting the current deduction to a 15% nonrefundable credit.

  The conversion to a credit makes the mortgage interest tax break available to a larger and less wealthy home owning population than receives it now. Based on an analysis commissioned by NLIHC by the Tax Policy Center, the number of homeowners to get a tax break would expand from 39 million to 55 million and 99% of that increase would be taxpayers with annual income of $100,000 or less.

These two changes would be phased on over five years as follows:

- Reduce the current maximum of $1,000,000 to $900,000 in the first year after enactment, and by an additional $100,000 for each subsequent year until the permanent limit of $500,000 is reached in five years.
- Allowing taxpayers to claim only 80 percent of eligible mortgage interest in the first year, decreasing by 20 percentage points every year until the mortgage interest deduction is completely eliminated in 2020.
- With respect to the 15% credit, allowing taxpayers to claim a nonrefundable credit equal to three percent of eligible mortgage interest in the first year, increasing by three percentage points per year until hitting the target 15% in the fifth year.

The analysis by the Tax Policy Center shows that these two changes, phased-in over five years would raise $232 billion in revenue over ten years.[8] We propose that this new revenue be directed to the NHTF.

[8] To read the report by the Tax Policy Center on which these calculations are based, go to http://www.taxpolicycenter.org/UploadedPDF/413124-updated-options-to-reform-the-deduction-for-home-mortgage-interest.pdf

Why Use Reform of the Mortgage Interest Deduction to Fund the NHTF

We readily acknowledge proposing to fund a federal trust fund by raising revenue through reform of a federal tax expenditure is unorthodox. But it is the kind of creative, out-of-the box thinking that is required in this era of diminishing resources for low income housing programs.

The transfer mechanism we propose is quite simple. The Treasury Secretary would allocate to the NHTF the amount of the score of the changes to the tax code at the point of enactment for that year and each year after for ten years, thus creating a ten year revenue stream to the NHTF on the mandatory side of the budget.

The primary advantages to this proposal is that the shortage of rental housing for extremely low income people can be addressed, and homelessness ended, without increasing costs to the federal government. The federal government just needs to use its housing subsidies better. Another key advantage is that not only are very poor renters helped, but so are low and moderate income homeowners.

We offer this proposal as a path forward to funding the NHTF in a deficit neutral manner in the context of comprehensive tax reform. If other paths present themselves as tax reform unfolds, we would consider them as long as the funding source is on the mandatory side of the budget and does not take away resources from other programs that serve ELI households.

Support for Modernizing the Mortgage Interest Deduction and Funding Housing for the Very Poor

There is bipartisan support for applying savings achieved through a modernization of the mortgage interest deduction to housing programs that serve the very poor. The Bipartisan Policy Center's Bipartisan Housing Commission said in its report *Housing America's Future,* "A portion of any revenue generated from changes in tax subsidies for homeownership should be devoted to expanding support for rental housing programs for low-income populations in need of affordable housing."

Likewise, public opinion research shows that while the mortgage interest deduction is popular with the American population, in fact, 60% of Americans support the two changes to the mortgage interest deduction proposed by NLIHC. Americans also support expanding federal resources for affordable housing in order to end homelessness. More than twothirds (68%) of Americans would use some or all of the revenue raised by NLIHC's proposed changes to the mortgage interest deduction to expand the supply of affordable housing in order to end homelessness.[9]

Legislative momentum is growing around both modernizing the mortgage interest deduction and applying the revenue raised from the changes to affordable housing. Representative Keith Ellison (D-MN) has introduced legislation, the Common Sense Housing Investment Act (H.R. 1662) that incorporates NLIHC's proposed changes to the mortgage interest deduction and applies the savings to the National Housing Trust Fund and other housing programs. NLIHC has endorsed the legislation.

Thank you for the opportunity to comment. Please do not hesitate to contact me if you have any questions or would like to discuss NLIHC's proposal further.

Sincerely,

Sheila Crowley
President and CEO
National Low Income Housing Coalition

Attachments:
1. Endorsers of United for Homes Campaign
2. NHTF Allocation at $5 Billion
3. Number of home loans by State, 2011-2013

[9] For more information on the public opinion research referenced here, go to http://nlihc.org/sites/default/files/2013_mid_survey_presentation.pdf.