UNITED FOR HOMES

CAMPAIGN FOR THE NATIONAL HOUSING TRUST FUND

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May 15, 2014

U.S. House of Representatives
Washington, DC 20515

Dear Members of the House,

Last week you received a letter from the President of the National Association of Realtors (NAR) urging you to oppose H.R. 1662, the Common Sense Housing Investment Act of 2015. My letter, sent on behalf of the United for Homes Campaign, is for two purposes. First, I urge you to support H.R. 1662, and will tell you what it does and does not do and why it is important. The second purpose is to offer a different viewpoint about the mortgage interest deduction (MID) than that communicated by NAR.

H.R. 1662 does NOT propose to eliminate the MID. Rather, H.R. 1662 would make two modest changes to the MID that will make it fairer and more efficient. The first is to lower the cap on the amount of mortgage for which the interest could be deducted from $1.1 million to $500,000. Under current law, a taxpayer can deduct the interest on mortgages of up to $1 million on first and second homes, as well as up to $100,000 in home equity loans. H.R. 1662 sets the cap at $500,000 for all home-related borrowing and would allow interest on second homes and home equity loans under the $500,000 cap. Of course, anyone could borrow more than $500,000, but the tax break would be limited to the first $500,000.

The vast majority of homebuyers in the United States do not borrow more than $500,000. Between 2011 and 2013, just 4.5% of all mortgages made in the United States were for over $500,000. In 40 states, 3% or fewer of mortgages were over $500,000.[1] Please see the attached map, which shows the distribution of these higher mortgages across the country by county.

The second change to the MID proposed in H.R. 1662 is to convert the deduction to a 15% non-refundable tax credit. This would make the homeownership tax break available to more homeowners with more modest incomes than those who benefit from it now. Contrary to popular perceptions, the mortgage interest deduction is not available to most moderate and middle income homeowners. The Joint Center on Taxation reports that in 2014, only 21% of all taxpayers took the mortgage interest deduction. While 79% of all taxpayers reported incomes of $100,000 or less, only 39% of taxpayers with incomes of $100,000 or less took the mortgage interest deduction and they received only 18% of the benefit. Taxpayers with incomes above $100,000 received 82% of the MID benefit and taxpayers with incomes over $200,000 received 42% of the benefit.[2]

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[1] http://nlihc.org/sites/default/files/UFH_Mortgage_National.pdf
[2] https://www.jct.gov/publications.html?func=startdown&id=4663

If the MID were converted a 15% non-refundable mortgage interest tax credit, 16 million more homeowners with mortgages would get the tax break. Virtually all of the new beneficiaries would be those with incomes of $100,000 a year or less.

H.R. 1662 would phase-in both of these changes over five years. Analysis by the Tax Policy Center shows that H.R. 1662 would generate $230 billion over ten years.[3]

H.R. 1662 would direct 60% of the new revenue to the National Housing Trust Fund (NHTF), as well as increase the Low Income Housing Tax Credit, the Public Housing Capital Fund, and the Section 8 Program. The purpose of the NHTF is to expand the supply of rental housing that is affordable for extremely low income households.[4] Today there are 10.3 million extremely low income renter households in the United States and only 3.2 million rental units that are available and affordable to them.[5] The result is that on any given night in America there are 600,000 people who are homeless[6] and another 7.7 million extremely low income households spending more than half of their income on housing.[7]

The effect of H.R. 1662 would be threefold:

1. Higher income homeowners would pay more in federal income taxes.
2. More low and moderate income homeowners would pay less in federal income taxes.
3. Enough new revenue would be generated to end homelessness and the housing shortage for poor people in the United States.

Please note that H.R. 1662 is budget neutral. If Congress were to pass H.R. 1662, we could help millions more Americans afford their homes without increasing the deficit.

I will now turn to the second purpose of my letter, that is, to offer counter arguments to those raised by NAR. Specifically, I will address assertions made in the following quotes from their letter:

- "If enacted, (H.R. 1662) would jeopardize the ability of millions of Americans to afford a home, cause a severe blow to the net worth of middle-class Americans, and endanger the overall health of the housing market."
- "H.R. 1662 would lessen the value of the MID to millions of current and prospective homeowners."
- H.R. 1662 "would harm the ability of many middle-income Americans to afford to buy a home or remain in a home they own."
- "Because the value of this tax benefit is imbedded in the price of homes, the proposal also would adversely affect the value of all homes and thus unfairly strike a blow against

[3] http://www.taxpolicycenter.org/publications/url.cfm?ID=413124
[4] Extremely low income (ELI) households have incomes of 30% or less of the area median. In most of the country, ELI for a family of four is below the federal poverty threshold. Affordable is defined as spending no more than 30% of household income for all housing costs.
[5] http://nlihc.org/article/housing-spotlight-volume-5-issue-1
[6] http://endhomelessness.org/library/entry/the-state-of-homelessness-in-america-2015
[7] http://nlihc.org/article/housing-spotlight-volume-5-issue-

> the economic well-being of all current homeowners. This would weaken our still-recovering housing markets."

First, I must point out that the NAR letter provides no data and cites no research to back up its claims. Rather, NAR relies on emotionally charged language to make its case. Empirical studies done by independent researchers do not support NAR's claims.

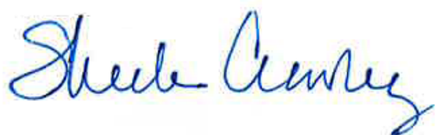
Any survey of the academic literature shows widespread agreement across the ideological spectrum that the MID as currently structured is inefficient and regressive. For example, a study titled "The Mortgage Interest Deduction and its Impact on Homeownership Decisions" published in *The Review of Economics and Statistics* in 2013 found that the MID has no effect at all on the decision to move from renting to owning for low and moderate income households. The MID may be an incentive for homeowners in places with loose housing markets, but only for upper income households, and it comes at a very high cost to the taxpayers. In tight housing markets, the MID inflates the cost of homeownership for everyone, puts it out of reach for most households, and "acts as tax on homeownership." The authors conclude that "the MID is a costly and ineffective policy for boosting homeownership."[8]

If a change to the MID did reduce the cost of home buying in high cost areas, this would be a good outcome for current and future low and moderate income home buyers. It may mean that current homeowners in high cost areas will not make as much profit when they sell their homes (nor would their real estate agents), but it could serve to right-size the price of housing in places with extreme housing costs, benefiting future home buyers and local economies.

I hope this letter offers you a broader perspective on the MID and encourages you to give H.R. 1662 a closer look. Please visit www.unitedforhomes.org to learn more and in particular note the organizations in your district that are part of the United for Homes Campaign. A representative of the United for Homes Campaign is available to meet with you and your staff at your convenience. Please contact me at 202-507-7444 or sheila@nlihc.org.

Thank you for your attention.

Sincerely,



Sheila Crowley
President and CEO
National Low Income Housing Coalition

Attachment: United States Map — Counties with Mortgages Over $500,000
http://nlihc.org/sites/default/files/UFH_Mortgage_National.pdf

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[8] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2375853

JUST 4.6% OF MORTGAGES IN THE UNITED STATES FROM 2011 TO 2013 WERE OVER $500,000

UNITED FOR HOMES proposes reducing the size of a mortgage eligible for a tax break from $1 million to $500,000. An analysis of Home Mortgage Disclosure Act data from 2011 to 2013 shows that just **4.6% OF ALL MORTGAGES IN THE U.S. WERE OVER $500,000** during those three years.

This map shows the percentage of mortgages over $500,000 in every county in the country. In 95% of U.S. counties that number is less than 3%. Through the United for Homes proposal, **16 MILLION MORE HOMEOWNERS WITH MORTGAGES WOULD RECEIVE A TAX BREAK**, 99% who have incomes under $100,000.

PERCENT OF MORTGAGES OVER $500,000

No Data Available | 0.0% – 1.0% | 1.1% – 3.0% | 3.1% – 5.0% | 5.1% – 20.0% | More than 20%

Source: National Low Income Housing Coalition analysis of Home Mortgage Disclosure Act (HMDA) data from 2011 to 2013. The analysis covers both government-insured and conventional loans for home purchase or refinancing and is restricted to owner-occupied properties that are one-to-four family or manufactured housing secured with a first lien.

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05/08/2015