National Housing Trust Fund
Current Avenues for Funding

Prepared by the National Low Income Housing Coalition
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SUMMARY

MORTGAGE INTEREST DEDUCTION REFORM

- The United for Homes campaign proposes reducing the size of a mortgage eligible for a tax break to $500,000, and convert the deduction to a 15% non-refundable tax credit
- Will raise $200 billion over 10 years direct to NHTF
- Dedicated source of ongoing revenue
- Also will benefit low and moderate income homeowners
- H.R. 1213, Common Sense Housing Investment Act of 2013, has been introduced

FANNIE AND FREDDIE TODAY

- GSEs are profitable again; all profits going to the Federal Treasury
- Legal analysis shows failure to make contributions to NHTF violates statute
- NLIHC and other are demanding immediate payment for all of 2012, and have filed suit against FHFA Acting Director Edward DeMarco for such payments
- Estimate is $390 million for NHTF from 2012

HOUSING FINANCE REFORM

- Strategy advocated by Administration and Democrats in Congress
- Dedicated source of ongoing revenue
- Unclear when and if Congress will take it up
- Guesstimate is $1-$5 billion a year

$1 BILLION IN OBAMA FY14 PROPOSED BUDGET

- On mandatory side
- One time allocation
- No offset identified
- 5th Obama budget that has asked for $1 billion

DETAILS

MORTGAGE INTEREST DEDUCTION REFORM

The mortgage interest deduction (MID) has long been considered a "sacred cow," but it is on the table as part of the debate on comprehensive tax reform and deficit reduction. Polling shows broad public support for modifying, not eliminating, the MID. The challenge for housing advocates is assure that any revenue raised by changing the MID stays in housing and is not used for other purposes.

The United for Homes Campaign supports directing all revenue raised from reform of the MID to the NHTF. The campaign proposes to reform the MID by reducing the size of a mortgage eligible for a tax break from $1 million to $500,000 and converting the deduction to a non-refundable tax credit set at 15%.

These changes would mean that all homeowners with mortgages would be eligible for a tax break, not just those who have enough income to file itemized tax returns. Under this proposal, the number of homeowners with mortgages who would get tax break would increase from 39 million to 55 million, with 99% of the increase being households with incomes less than $100,000 a year.

Phased in over five years, these changes would raise about $200 billion over ten years that could be directed to the NHTF. An investment of this size would substantially expand the supply of rental homes that the lowest income households can afford.

Representative Keith Ellison (D-MN) has introduced H.R. 1213, the Common Sense Housing Investment Act of 2013, which mirrors the United for Homes Campaign proposal to reform the MID and directs most of the revenue raised to the NHTF. The United for Homes Campaign supports H.R. 1213.

FANNIE AND FREDDIE CURRENT PROFITS

The legislation that created the NHTF in 2008 was part of a large bill that included reform of the GSEs. The bill directed the GSEs to make contributions to the NHTF. Soon after the bill passed, the financial crisis hit and the GSEs were taken into conservatorship. Their regulator, the Federal Housing Finance Agency, suspended any payments to the NHTF. These payments remain suspended to this day.

However, the financial condition of the two GSEs has improved considerably. They are no longer relying on taxpayer bailouts and are turning substantial profits, and have been making dividend payments to the Treasury. Starting January 1, 2013, all Fannie and Freddie profits will be "swept" to the Treasury.

It is the position of NLIHC that the conditions that permitted the regulator to suspend payments to the NHTF are no longer present and the obligation to make such payments is now in effect. NLIHC asserts that the NHTF should receive contributions starting from the first quarter of 2012 and that failure to do so violates the statute.

NLIHC is pressing the case with the Federal Housing Finance Agency and the Obama Administration. This could be accomplished by administrative action and not be dependent on Congress passing legislation.

HOUSING FINANCE REFORM

In the wake of the financial meltdown precipitated by the foreclosure crisis in 2008, the federal government had to take over Fannie Mae and Freddie Mac, the two government sponsored enterprises (GSEs) that served as the secondary mortgage provider for many mortgages made in the United States. While all parties agree that the GSEs cannot continue in their current form, no consensus has been reached on the future of federal housing finance policy. Legislative action will be no earlier than 2013 and could be later.

The Obama Administration released a "white paper" in February 2011 that reflected the Administration's position that the federal government should play a more limited role in the general mortgage market, but continue to have a duty to help lower income households. In particular, the paper highlights the importance of rental housing and the need to expand its supply for the lowest income households.

The Administration proposes a dedicated revenue source to pay for several programs that the market would not provide on its own. It uses the NHTF as an example of the kind of program that could be funded through this dedicated revenue source. Numerous Administration officials have affirmed this position in the ensuing months. The estimated annual amount to the NHTF is between $1 billion and $5 billion.

Democrats in the Congress support providing funding for the NHTF in the final reform package. Some Republicans want to do away with a federal role in housing finance altogether, while others recognize that for the mortgage market to work, there must be some sort of federal guarantee. Therefore, a compromise will have to be reached between Democrats and Republicans who favor reform, not elimination, of the GSEs. It is expected that funding for the NHTF will be part of that compromise.

$1 BILLION IN OBAMA PROPOSED FY14 BUDGET

President Obama has included $1 billion for the NHTF in his FY14 budget proposal. It is reported as part of HUD's budget, but on the mandatory funding side of the budget. This means that the President is not seeking funding for the NHTF through discretionary appropriations that fund other HUD low income housing programs. This is in keeping with the longstanding position of NLIHC that the NHTF not compete with existing HUD appropriations.

The budget proposal does not identify a specific funding source for the NHTF. Finding a funding source ("pay-for" or "offset," in federal budget speak) that can gain bipartisan support in the Congress will be difficult.

President Obama also asked for $1 billion for the NHTF in his FY10, FY11, FY12, and FY13 budget proposals. The NHTF was included as one of several expenditures in a large tax bill that extended a number of business related tax breaks and offset the cost by raising taxes elsewhere that passed the House of Representatives in late 2009. Several versions of this bill were offered in the Senate in 2010 that all continued to include the NHTF, until the last version in the lame duck session. Eventually, the tax breaks were included in the larger tax deal struck between the White House and the Senate Republicans that extended the Bush-era tax cuts. The NHTF was dropped during those negotiations as it was tagged as "new spending."

We also worked to get $1 billion for the NHTF in the tax package negotiated at the end of 2011 and early 2012 that extended the payroll tax holiday and Unemployment Insurance, but in the end, the negotiators opted not to include any of the smaller items that each side was proposing.

One proposal for an offset was offered by Senator Jack Reed (D-RI) and Representative Elijah Cummings (D-MD) in the last Congress. S. 489, "The Preserving Homes and Communities Act of 2011," and its companion bill, H.R. 1477, would provide $1 billion for the NHTF from the profits made on the sale of "warrants." Senator Reed requested warrants be included in the Emergency Economic Stability Act of 2008, which established the Troubled Asset Relief Program (TARP). In exchange for federal TARP funds that kept banks from failing, banks gave the Treasury warrants. A warrant is the right to purchase one share of stock at a specified price.

Senator Reed's and Representative Cummings's bills had 18 Senate and 51 House Democrats cosponsors at the end of the 112th Congress.