TO: The Honorable Alan Simpson and the Honorable Erskine Bowles, Co-Chairmen of the National Commission on Fiscal Responsibility and Reform

FROM: Sheila Crowley, President and CEO, National Low Income Housing Coalition [1]

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On behalf of the National Low Income Housing Coalition, I am pleased to offer these comments to the National Commission on Fiscal Responsibility and Reform that we hope will inform your deliberations on the future of the federal budget.

The National Low Income Housing Coalition (NLIHC) is dedicated solely to achieving socially just public policy that assures that people with the lowest incomes in the United States have affordable and decent homes. Our members include non-profit 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 sector of the housing industry. Rather, NLIHC 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. NLIHC is entirely funded with private donations.

Unmet Housing Needs in the United States

In the United States today, there are 9.2 million extremely low income (ELI) renter households (incomes of 0-30% of their area median) and only 6.1 million rental homes they can afford (paying no more than 30% of their income for their housing). For every 100 extremely low income household in the United States, there are just 37 rental homes that are affordable and available to them.[2] As a result, these households pay precariously high portions of their income for the homes, leaving little left for other necessities.

The 2010 *State of the Nation's Housing* report from the Joint Center on Housing Studies concludes that in 2008, 54% of all households in the bottom income quintile paid over half of their income on rent and utilities. For renters the number was 59%.[3] In both cases, this represented a 19% increase from 2001.[4] Households of all kinds with incomes in the bottom quintile have housing cost burdens, paying more than 30% of household income for their homes. No matter what the age group, household composition, or employment status of the head of

[1] National Low Income Housing Coalition, 727 15th Street, NW, 6th Floor, Washington, DC, 20005, www.nlihc.org.
[2] Pelletiere, D. (2009). *Preliminary assessment of American Community Survey data shows housing affordability gap worsened for lowest income households from 2007 to 2008.* Washington, DC: National Low Income Housing Coalition.
[3] Joint Center for Housing Studies, Harvard University. (2010). *State of the Nation's Housing.* Cambridge, MA: Author.
[4] Using a lower income threshold NLIHC found that nearly three quarters (71%) of ELI renter households spent over half of their incomes for housing in 2007, and the average ELI renter spent 83% of household income on housing. Pelletiere, D. (2009).

households, these households have to pay unacceptably high portions of their meager income for their homes. And despite growing vacancies, with declining incomes and employment there is no evidence households have an increased ability to pay or that rent burdens are declining. If anything the opposite trend is observable.[5]

Moreover, rents at the lower end of the market continue to rise. The National Low Income Housing Coalition's annual study of housing costs, *Out of Reach*, reports that the 2010 national housing wage, that is, the hourly wage that a full-time worker must earn in order to afford a two-bedroom rental home, is $18.44 an hour, up from $17.84 an hour in 2009. There remains no place in the United States where a full time minimum wage worker can afford the rent on a one-bedroom rental unit.[6]

The consequences of this scarcity of affordable and available housing are dire for the families most directly affected. High housing cost burdens mean fewer dollars to spend on other necessities and going without. High housing costs mean never saving money and having no cushion for emergencies. High housing cost burdens mean risk of eviction and frequent moves, lost school time. The shortage of affordable rental homes for extremely low income households is the principle cause of homelessness in the United States.

A stable home is the platform for success in all other spheres of individual and family life. Children cannot succeed in school if they do not have a stable place to go home to when school is out. Adults cannot succeed in the workforce or in civic life if they do not have a stable place to go home to at the end of the workday. Someone cannot recover from illness in the absence of a stable home. People with chronic disabilities are consigned to institutions or the streets if they lack access to stable homes. All the other interventions policy wonks and helping professionals devise to help low income people improve their social and economic well-being are for naught if we first do not make sure they have safe, decent, and affordable homes.

The major cause of this shortage of affordable housing can be viewed as a classic market failure. Even though providing for a stably housed citizenry serves the greater social good, decent, safe housing cannot be reliably built or operated at a price that the lowest income workers, or many people who are disabled or elderly can afford. The United States has been losing low cost rental housing at an accelerating rate. Of the units renting for less than $400 in 1997, 15% were lost to demolition, disaster, or neglect. For units with rents between $400 and $600, the rate was just 10% and the rate was under 5% for units with rents over $600.[7] Neither market forces nor public policy has stopped this decline or filled this gap to date.

Interest in Federal Budget Reform

We are deeply concerned about the federal budget deficit and the cost to the Treasury of the interest that is paid on the federal debt. We note that the annual cost of our national debt far

[5] Joint Center (2010) and Collison, R.& Winter, B. (2010). *U.S. Rental Housing Characteristics: Supply, Vacancy, and Affordability*. HUD PD&R Working Paper 10-1.
[6] National Low Income Housing Coalition. (2010) *Out of Reach 2010*. Washington, DC: Author.
[7] Joint Center for Housing Studies, Harvard University. (2010). *State of the Nation's Housing.* Cambridge, MA: Author.

exceeds the amount the federal government spends on the housing needs of low income Americans many times over. At the same time, we know that public expenditures are needed now to restore our country's economic well-being. Our measure of economic well-being should be that everyone who is looking for work is gainfully employed, everyone has access to affordable health care, and everyone has a safe and affordable home.

NLIHC hopes that the recommendations of the commission will serve to achieve greater economic equity and fairness in the United States. Incomes at the lower end of the economic ladder have been lagged behind in the last 30 years, while incomes at the high end have grown considerably. Yet, upper income people do not pay their fair share of taxes; nor do many corporations. The tax burden must be more progressively shared.

Housing subsidy inequities.

We are particularly concerned about the extreme inequities in federal housing subsidies. In FY 2009, the Federal government spent $300 billion to support housing and the mortgage markets. Eighty percent subsidized home ownership, and the remaining 20% supported rental housing. The majority of the homeownership subsidy is provided through tax expenditures, while most of rental housing support is provided through the HUD budget.[8]

The cost of the mortgage interest deduction (MID) alone in FY09 was $86 billion, twice the total HUD budget. It is projected to cost $135 billion by FY13.[9]

A truer picture of the Federal commitment to housing would also count the nearly $2 trillion in support for mortgage credit and other insurance through Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, FHA, Ginnie Mae, VA and Rural Housing Services loans, and the National Flood Insurance Program.

Moreover, the federal expenditures on housing have become remarkably more regressive in the last 30 years. The budget authority for direct spending on low income housing assistance budget authority peaked at $83.3 billion in 1978, the same year that homeowner subsidies via tax expenditures were just $36.5 billion.[10]

The tax advantages provided for homeowners are skewed to benefit higher income households. First, a taxpayer has to have sufficient income to benefit from filing an itemized return in order to take a tax deduction at all. Only a third of all households claimed the MID in 2009. Second, the bigger one's mortgage, the greater one's deduction will be, so people with the most expensive homes get the most generous subsidy. Of those who took the deduction, 76% of the subsidy went to households with incomes of $100,000 or more; 32% went to households with

[8] Congressional Budget Office. (2009, November 3). *An overview of federal support for housing.* Washington, DC: Author.
[9] [9] Joint Committee on Taxation. (2010, January 11). *Estimates of federal tax expenditures for fiscal years 2009-2013.* Washington, DC: Author.
[10] Dolbeare, C., Saraf, I.B., & Crowley, S. (2004). *Changing priorities: The federal budget and housing assistance, 1976-2005*.Washington, DC: Author.

incomes of $200,000 or more. Similar skewing in favor of the financially well-off is found in the real property tax deduction.[11]

Contrary to popular opinion, the MID was not created to expand homeownership in the U.S.. In fact, the MID is an inefficient and ineffective means of achieving this goal. Since most low income homeowners receive little benefit from the program, it does not support low income homeownership. Theoretically, the MID may raise homeownership rates by increasing homeownership among higher income households, but higher income households would likely own their homes anyway. The most cited evidence of the lack of causality between the MID and the homeownership rate is that the homeownership rate in countries without similar tax policy, including Australia, Canada and the United Kingdom, is at least equal to or higher than in the United States. [12]

The consensus among economists is that the MID is best suited to encourage people to borrow more and pay more for homes.[13] Encouraging Americans to put more money into housing, as opposed to other forms of consumption or investment, is mostly beneficial for the housing industry, but not necessarily for the consumer. Money that goes into housing due to the MID is not available for investment in other sectors of the U.S. economy or for other public goods. Recently, concerns have been raised the MID elevates home prices, affecting what people are willing to pay and the types of new housing that are constructed, by encouraging homeowners to maximize the leverage on their own homes with an eye on their tax returns.[14] Thus, the MID has been implicated in the housing price bubble and the large number of households without a significant equity cushion today. As a result of over-leverage and falling prices, one out of five homeowners today is “underwater,” i.e., owes more on the mortgage than the house is worth.[15]

Proposals to reform or redirect the mortgage interest deduction.

Given its cost, inefficiency, and unfairness, the MID has been the subject of numerous reforms. Here are three examples.

The Bush Tax Commission proposed replacing the MID with a Home Credit available to all taxpayers equal to 15% of interest paid on a principal residence. The amount of mortgage interest eligible for the Home Credit would be based on average regional housing costs, not the flat $1 million in interest that is now the case.[16]

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[11] Joint Committee on Taxation. (2010).
[12] Congressional Budget Office (2009, August). *Budget options, Volume 2.* Washington, DC: Author.
[13]Gale, W. G., Gruber, J., & Stephens-Davidowitz, S. (2007, June 18). Encouraging homeownership though the tax code. *Tax Notes.*
[14] Glaeser, E.L., Gottlieb, J. & Gyouroko, J. (2010, May 10) *Did credit market policies cause the housing bubble?* Cambridge, MA: Harvard Kennedy School.
[15] Haughwout, A. Peach, R. & Tracy. J. (2010) The homeownership gap. *Federal Reserve Bank of New York Current Issues in Economics and Finance, 16*(5).
[16]President’s Advisory Panel on Federal Tax Reform (2005, November). *Report of the Advisory Panel: Simple, Fair, and Pro-Growth: Proposals to Fix America’s Tax System.* Washington, DC: Author.

In the FY10 budget proposal, the Obama Administration offered the MID as a revenue source for health reform by limiting taxpayers with incomes over $250,000 to a tax rate of 28% at which they can take itemized deductions. This would have produced $318 billion over 10 years.

In 2007, Representative John Dingell (D-MI), then chairman of the House Energy and Commerce Committee, proposed to limit the mortgage interest deduction as part of comprehensive climate-change legislation. Chairman Dingell proposed phasing out the deduction on homes larger than 3000 square feet with no deduction available for homes of 4,200 square feet or more. The goals of the proposal were twofold, raise revenue and reduce carbon omissions.[17]

Our proposal.

The NLIHC supports changing the tax treatment of mortgage interest from a deduction to a credit and limiting the size of a mortgage eligible for the credit to what it would cost to purchase a modest home. In addition to providing housing subsidies to low income homeowners, such a change would produce a considerable amount of additional revenue. For example, the Congressional Budget Office estimates that if the current mortgage interest tax deduction were replaced with a 15% tax credit on mortgages up to $400,000 for primary residences, revenue of $21.7 billion would have been generated in 2008 alone, with $418.5 billion between 2008 and 2017.[18]

NLIHC proposes that these revenues be redirected to solving the most serious housing problems of the lowest income families. Specifically, we propose directing at least $15 billion a year for ten years to the National Housing Trust Fund, which will produce or preserve 1.5 million rental homes affordable to households with incomes at or below 30% of their area median. We also propose that the number of Housing Choice Vouchers be doubled from 2 million to 4 million over a ten year period. Other funds should be added to the HUD budget at a level sufficient to preserve and assure the long term sustainability of the 1.2 million units of public housing and the rest of the HUD assisted low income housing stock.

NLIHC will oppose any efforts to change the MID that will cause the revenue that would be raised to be used for any other purpose than improving the housing circumstances of the lowest income Americans.

Thank you for the opportunity to offer NLIHC's perspective on the work of the Commission.

[17] http://www.house.gov/dingell/carbonTaxSummary.shtml.

[18] Congressional Budget Office. (2008). *Budget Options*. Washington, DC: Author.