

Testimony of Sheila Crowley, MSW, Ph.D.
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Chairman Frank, Ranking Member Bachus, and Members of the Committee, thank you for the opportunity to testify today on the future of federal housing finance policy.

I am Sheila Crowley, President of the National Low Income Housing Coalition (NLIHC). NLIHC is 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 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. We do 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 homes, especially those with the most serious housing problems, including people without homes. NLIHC is funded entirely with private contributions.

We organize our work in service of three specific goals for federal housing policy:

- There will be no further loss of federally assisted affordable housing units or federal resources for affordable housing or access to housing by extremely low income people.
- The federal government will increase its investment in housing in order to produce, rehabilitate, and/or subsidize at least 3,500,000 units of housing that are affordable and accessible to the lowest income households in the next ten years.
- Housing stability in the neighborhood of one's choice, which is foundational to good health, employment, educational achievement, and child well-being for people with the lowest incomes, will be the desired outcome of federal low income housing programs.

We are interested in the topic of today's hearing primarily because the housing finance system in the United States to date has failed miserably in assuring enough housing for all Americans and we want any reform that Congress undertakes to address that serious shortcoming. We think Congress can and should structure the way housing is financed in our country to finally make good on the housing goal that Congress established in 1949: "A decent home and a suitable living environment for every American family." If Congress is able to achieve this result, it may be possible for historians to look back at the housing and economic crisis known as the "Great Recession" and say that something good emerged from the turmoil that has caused such hardship.

My testimony will discuss the most serious housing problem in the United States, principles to guide reform of the housing finance sector, and specific policy recommendations.

The most serious housing problem.

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.¹ As a result, these households pay precariously high portions of their income for the homes, leaving little left for other necessities. 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.²

The most recent *State of the Nation's Housing* report from the Joint Center on Housing Studies comes to the same conclusion. Households of all kinds with incomes in the bottom quintile all 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 households, these households have to pay unacceptably high portions of their meager income for their homes.³

In the wake of the foreclosure crisis, conventional wisdom is that the nation has an excess supply of housing and higher than normal vacancy rates. While that may be the case for high cost housing, there is no evidence that the available supply of low cost rental housing has increased. Indeed, the supply of low cost rental housing continues to decline.⁴

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*, will be published next week. What I can report is 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.⁵

The consequences of this scarcity of housing are dire for the families who are 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. 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

¹ 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.

² Ibid.

³ Joint Center for Housing Studies, Harvard University. (2009). *State of the Nation's Housing*. Cambridge, MA: Author.

⁴ Collison, R. & Winter, B. (2010). *U.S. Rental Housing Characteristics: Supply, Vacancy, and Affordability*. HUD PD&R Working Paper 10-1.

⁵ National Low Income Housing Coalition. (forthcoming). *Out of Reach*. Washington, DC: Author.

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.

With the intense emphasis on homeownership as the preferred form of tenure in recent years, we have lost touch of with what housing really means. Housing needs to be understood much more as the place where one is sheltered and carries out family life, and much less as a financial asset and a source of wealth building.

Given this understanding of the housing crisis today, we offer the following principles to guide reform of the housing finance system in the United States.

Principles to guide reform.

- 1. Federal subsidies to the housing sector should be directed to meeting the needs of those with the most serious housing problems first.*

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.⁶

The tax advantages provided for homeowners are highly 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 mortgage interest 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 incomes of \$200,000 or more. Similar skewing in favor of the financially well-off is found in the real property tax deduction.⁷

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 FHA, Ginnie Mae, VA and Rural Housing Services loans, the National Flood Insurance Program, Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.

Despite this considerable federal involvement in the housing sector, we have a persistent structural deficit of housing that the lowest income people can afford. This is a problem that the housing market has not and cannot solve. Clearly subsidies are not being directed to where they are needed the most and where they would do the most good.

⁶ Congressional Budget Office. (2009, November 3). *An overview of federal support for housing*. Washington, DC: Author.

⁷ Joint Committee on Taxation. (2010, January 11). *Estimates of federal tax expenditures for fiscal years 2009-2013*. Washington, DC: Author.

2. *All segments of the housing finance sector have a duty to contribute to solving the most serious housing problems.*

Some would argue that imposition of the conflicting goals of maximizing profits and serving a public purpose contributed to the downfall of Fannie Mae and Freddie Mac. We would argue that housing, like health care, is so essential to human well-being that any profit seeking enterprise in housing must be grounded by social responsibility that is assured by government regulation.

In 1992, Congress directed Fannie Mae and Freddie Mac to take a more active role in assuring the availability of affordable housing by establishing “affordable housing goals” that the GSEs were required to meet. There is little agreement as to the effectiveness of these goals.⁸ Many observers would do away with them. Certainly the affordable housing goals made little difference in addressing the affordable housing shortage for the lowest income people.

In July 2008, Congress enacted additional reforms for the GSEs and added a further affordable housing obligation, in the form of contributions to the National Housing Trust Fund and the Capital Magnet Fund.⁹ The National Housing Trust Fund is specifically designed to address the shortage of rental housing for the lowest income people. Of course, these contributions were suspended before they ever started when Fannie and Freddie went in conservatorship in the fall of 2008.

We think that in whatever form Fannie and Freddie take in the future, the obligation to contribute to the National Housing Trust Fund must be renewed and expanded. Just as important, we think all federally regulated financial institutions have a similar obligation and should be required to make similar contributions.

3. *Federal policy should not favor one form of tenure over another; rather, federal policy should incentivize balance in the housing market and the full range of housing choices in every community.*

Federal policy has clearly favored homeownership over rental housing for much of the last 60-75 years, as indicated by the skewed nature of federal housing subsidies reviewed above. Not only has a disproportionate share of subsidies gone to homeownership, subsidies provided to homeowners through the tax code are an entitlement. Someone who fits all the eligibility criteria automatically receives the subsidy. Subsidies to renters through direct spending by HUD or other federal agencies are limited to the amount of annual appropriations; most people who are eligible for rental assistance do not receive any because of a lack of funding.

In the wake of the foreclosure crisis, many political and financial leaders, including HUD Secretary Shaun Donovan, are calling for a more balanced federal housing policy. Every community has members at all stages of the life cycle, at all income levels, and in all forms of family constellations. Every community needs a variety of housing options: owned and rented, single family and multifamily, assisted and supportive homes, sized for single persons and large

⁸ Federal Housing Finance Agency. (2010, February 1). *The housing goals of Fannie Mae and Freddie Mac in the context of the mortgage market: 1996-2009. Mortgage Market Note 10-2*. Washington, DC: Author.

⁹ The Housing and Economic Recovery Act of 2008 also established a “duty to serve” for the GSEs, explicitly to serve three underserved markets: manufactured housing, affordable housing preservation, and rural areas.

families. Forms of housing that expand housing choice such as two-to-four unit multifamily homes and manufactured housing should be encouraged.

Assuring that all members of a given community have homes they can afford in the neighborhood of their choosing will require strict enforcement of fair housing laws, including fair lending, and full implementation of the duty to affirmatively fair housing as a condition of receiving direct and indirect federal subsidies.

- 4. Federal policy should reward housing forms that are of reasonable size and are earth friendly, that is, policy should reward moderation, not excess.*

One of the manifestations of the housing bubble was the growth in the square footage of individual homes. The demand for bigger homes with more expensive amenities was in part fueled by the federal housing subsidies through the tax code. Currently, interest on a mortgage up to \$1 million is deductible. A simple reduction in the size of mortgage that would be eligible for favorable tax treatment would help right size houses and reduce the energy that each house consumed. Tax credits and favorable mortgage terms for homeowners and owners of multifamily properties that encourage energy efficiency should be continued and expanded.

- 5. Federal policy should make sure the housing finance system has enough liquidity to assure a robust single-family and multifamily housing market at affordable interest rates.*

A strong secondary mortgage market is essential to the long-term health of the U.S housing sector. Consider how much worse our economy would be if we had not had Fannie and Freddie over the past 18 months. Federal backing in some form or fashion will be required to sustain such a secondary mortgage market.

- 6. Federal policy should maximize the capacity of mission driven, public or non-profit housing providers to achieve tangible results in solving the nation's housing woes.*

Public and non-profit housing organizations that are not motivated by profit are more likely to engage in housing development and operation that will serve low income people over the long term.

Specific recommendations.

1. Immediately provide initial capital of \$1.065 billion to implement the National Housing Trust Fund, passed by Congress in 2008.
2. Fund the National Housing Trust Fund at the level required to take the program to scale needed to solve problems. The National Housing Trust Fund campaign recommends at least \$15 billion a year for ten years.

This funding level can easily be accomplished by structuring revenue-generating requirements on all financial institutions including, but not limited to, the next generation of Fannie and Freddie like entities. These could include:

- a. Fees on Federal Support to Financial Institutions. The federal government provides private financial institutions with low cost funds through a variety of sources. The most important of these are lenders' ability to borrow from the Federal Reserve and the Federal Home Loan Banks and to acquire low cost deposits based on federal deposit insurance. A 5 basis point annual fee on outstanding low-cost funding balances could raise several billion dollars per year for the NHTF.
- b. Securitization Fees. Congress could levy a fee on the securitization of mortgages by any capital markets participant.

Funding for the National Housing Trust Fund can also be generated through the tax code. We propose a Capital Gains Tax Surcharge. Homeowners benefit from their ability to avoid taxation on the capital gains that would be realized on the sale of their homes. A capital gains tax surcharge could be structured as percentage of the capital gains that the seller realized at the time of sale. A 10% surcharge would generate \$3 billion a year.

3. Reform the mortgage interest deduction. CBO estimates that if the upper limit on mortgages eligible for tax subsidies were lowered from \$1 million to \$400,000, it would have produced \$4.2 billion in revenue in 2008 and \$88.1 billion over 10 years. Such a change in 2008 would have raised taxes for just 1.2 million people, those with the largest mortgages, representing only 1% of all households in the United States.

Alternatively, CBO 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 2017.¹⁰ Such an approach would benefit lower income home owners who do not itemize their taxes and thus get no housing subsidy, while creating a disincentive to overinvest in housing.

4. Enact a federal rent credit to provide unassisted low income renters with a housing subsidy similar to that which homeowners receive. Twenty-eight states currently provide state tax credits for renters. Most are restricted to seniors or other subsets of the population, and most are limited to people at or below a prescribed income level.¹¹ A renter tax credit could be structured in any number of ways, with the primary purposes of creating greater equity between homeowners and renters and to reduce housing cost burdens.

Thank you for the opportunity to offer this testimony today.

¹⁰ Congressional Budget Office. (2008). Budget Options. Washington, DC: Author.

¹¹ Pellietiere, D. et al. (2008). *Housing assistance for low income households: States do not fill the gap*. Washington, DC: National Low Income Housing Coalition .