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National Housing Trust Fund

Current Avenues for Funding

October 2011

SUMMARY

\$1 billion in Obama FY12 proposed budget

- On mandatory side
- No offset identified

\$1 billion in S. 489 and H.R. 1477

- Funded with proceeds from sale of TARP warrants, which have produced \$9 billion to date.

Dedicated source of revenue in housing finance reform

- In Administration's White Paper
- Guesstimate is \$1-\$5 billion a year

Mortgage interest deduction reform

- Convert MID to 15% non-refundable tax credit, lower cap to \$500,000
- Will simplify tax code and benefit low and moderate income homeowners.
- Will save at least \$30 billion a year to direct to NHTF.

DETAILS

\$1 Billion in Obama Proposed FY12 Budget

President Obama has included \$1 billion for the NHTF in his FY12 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 the NHTF Campaign that the NHTF not compete with existing HUD appropriations.

The budget proposal does not identify a specific funding source for the NHTF. Rather, HUD officials said they would look for "opportunities" to include it in legislative vehicles as they arise. Finding a funding source ("pay-for" or "offset," in federal budget speak) that can gain bipartisan support in the Congress will be very difficult.

The NHTF Campaign urged the Administration to include funding for the NHTF in its “jobs” package released in early September, but White House officials declined to do so, missing what may be the last opportunity for the Administration to advance the NHTF in 2011.

President Obama also asked for \$1 billion for the NHTF in his FY10 and FY11 budget proposals. In the FY10 budget, the initial “pay-for” was receipts to the federal government from Ginnie Mae, the HUD mortgage program. Later in 2009, the Administration determined it would not be possible to use Ginnie Mae funds and proposed an offset that was a tax provision unrelated to housing.

Eventually, 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. This bill passed the House of Representatives in late 2009. Several versions of this bill were offered in the Senate as 2010 wore on. 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.”

\$1 billion in S. 489 and H.R. 1477

S. 489, “The Preserving Homes and Communities Act of 2011,” introduced by Senator Jack Reed (D-RI), with a companion bill in the House, H.R. 1477, introduced by Representative Elijah Cummings (D-MD), 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. Treasury has begun to sell these stocks as the economy strengthens, bringing proceeds back to the federal government.

The sale of these warrants has yielded almost \$9 billion. These proceeds are in addition to the loans made through TARP, and are seen as a way for the public to benefit from the U.S. bankrolling the recovery of financial institutions.

This is a one-time allocation to the NHTF.

Senator Reed and Representative Cummings are seeking cosponsors for their bills. As of October 15, 2011, 16 Senate and 43 House Democrats have signed on. The NHTF campaign is asking Members of Congress to cosponsor the respective bills.

The bills also have several provisions to address the ongoing foreclosure crisis. As Congress grapples with the foreclosure issue, these bills may be under consideration, although partisanship may prevent any agreement...

Dedicated Source of Revenue in Housing Finance Reform

The Obama Administration released a “white paper” on February 11 that offered its recommendations for the future of housing finance. In the wake of the financial meltdown precipitated by the foreclosure crisis, 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 U.S. This takeover has been at considerable cost to the federal treasury.

The white paper reflects the Administration’s position that the federal government should play a more limited role in the general mortgage market, but continues to have a duty to help lower income households. In particular, the paper highlights the importance of rental housing and the need to expand the supply of rental housing for the lowest income households.

The Administration proposes the creation of 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. No details are offered as to where the revenue would come from for the dedicated source.

The NHTF Campaign advocated with the Administration over the last several months that the NHTF be included in this report and that the housing finance industry be required to direct funds toward this purpose. In a letter to Administration, the Campaign said, “there should be revenue-generating requirements on all financial institutions, including, but not limited to, the next generation of secondary market entities. 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. Congress could also levy a fee on the securitization of mortgages by any capital markets participant and direct these revenues to the National Housing Trust Fund.”

The Administration’s proposal is the starting point for the legislative debate that will take place over the next two years and likely beyond. The future of Fannie Mae and Freddie Mac is a subject of disagreement among policy makers with splits along partisan lines. Representative Barney Frank (D-MA), the ranking member of the House Financial Services Committee, has stated that funding for the NHTF is his top priority for housing finance reform. The NHTF campaign is monitoring the development of legislation and communicating to key Senators and Representatives that we expect dedicated revenue for the NHTF to be in the housing finance reform bill that is enacted.

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 by their federal regulator, who suspended any payments to the NHTF. The fact that Congress has already determined that the housing finance system should be one revenue source for the NHTF serves as the basis for our advocacy going forward.

Mortgage interest deduction reform

The mortgage interest deduction is an expensive and regressive homeowner subsidy that costs the federal government \$100 billion a year and benefits only 22% of all taxpayers and just 52 of all homeowners who pay mortgage interest. The top 10% of taxpayers get 30% of the benefit; 72% of the benefit goes to the top 32% of taxpayers. The mortgage interest deduction has long been considered a “sacred cow,” but there are numerous calls for its reform this year. It is on the table as part of the debate on deficit reduction, as well as in conjunction with examination of the role of the federal government in subsidizing home ownership.

It is the position of the NHTF campaign that any savings realized from the reform of the mortgage interest deduction should go in whole or in part to the NHTF. The NHTF campaign supports a proposal for reform of the mortgage interest deduction developed by the National Low Income Housing Coalition that would reduce the size of a mortgage eligible for a tax break from \$1 million to \$500,000 and convert the deduction to a non-refundable tax credit set at 15%.

These changes would mean that all homeowners with mortgages would get a tax break, not just those who have enough income to file itemized tax returns. The number of homeowners with mortgages who would get tax break would increase from 37 million to 52 million, with 94% of the increase being households with incomes less than \$100,000 a year.

These changes would also save approximately \$30 billion a year that could be directed to the NHTF. An investment of this size would expand the supply of rental homes that the lowest income households can afford by 3.5 million over 10 years, ending the housing shortage for this population.

This proposal has three compelling qualities:

- Significantly expands federal support for low and moderate income homeowners.
- Simplifies the tax code.
- Ends the housing shortage for the lowest income people, including people who are homeless.

Caution: Even the most adamant advocates for mortgage interest deduction reform advise a gradual phase-in of changes beginning when the housing market has stabilized.