

# Federal Housing Policy & the Foreclosure Crisis: What does it mean for Affordable Housing?

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## 1986 Reagan's Tax Reform

Two changes in 1986 tax policy indicative of Federal Housing Policy changes:

- 1) **Low Income Housing Tax Credit Program (LIHTC)**: privatization of affordable housing finance programs along with massive HUD cuts
- 2) **Sanctified Home Mortgage Interest Deduction (HMID)**: maintained loophole in tax code, the larger and more expensive the home, the bigger the tax deduction

## Other trends in the 1980s and 90s

- What else was happening in the economy and in the streets?

## Urban Economic Trends: 1980s & 1990s

- Deindustrialization
- Rise of FIRE (Financial, Insurance, and Real Estate) industries
- Rise of service and information technology sectors
- Reinvestment in cities: urban land values increasing
- Homelessness
- Declining incomes for working families, loss of “blue collar” jobs

## Finance Capital

- Economic globalization: finance capital more mobile, more flexible
- Seeking ever increasing rates of profit
- Deregulation, speculation, innovation
- Bubbles in economy

## Dot.com Boom

- Gentrification and Rising Real Estate Market, especially in and around finance capital cities
- Urban economic development policies focusing on luxury offices and condos
- Affordable housing policy attempts to capture market (inclusionary zoning, “mixed income” housing)
- Displacement and dislocation of low-income communities and communities of color – many to outer-ring suburbs

## Push Toward Homeownership

- Rising housing costs and expectations of continued rise in value
- Explosion of credit markets, sub-prime and predatory lending and deregulation of mortgage lending industry
- Bush's "ownership society" and goals to increase homeownership rate
- Exotic loan products: adjustable rate mortgages, interest only, negative amortization, no documentation, etc.
- HUD allowed Freddie and Fannie to count billions invested in subprime securities as fulfilling government mandate to make buying a home more affordable – essentially fueling the unregulated subprime market

## Meanwhile: what Federal Housing Programs are our Taxes Paying For?

- **Home Mortgage Interest Deductions:** Tax expenditure steadily rising to almost \$100 Billion annually (one of top tax expenditures behind employer sponsored health benefits and pensions)
- **Housing and Urban Development Total Budget:** about \$35 Billion annually for all the programs serving the lowest income people

## Who benefits from Mortgage Interest Deductions?

### **The Wealthy!**

- The cap on mortgage and home equity loan value is \$1.1 Million
- Covers first and second homes
- People who itemize their taxes (wealthiest third)
- People who purchase and sell larger and more expensive homes
- It does NOT increase the rate of homeownership!
- What then is the policy goal of this deduction?

## Which Federal Policies have actually increased the Homeownership Rate?

- Creation of Federal Housing Administration in the 1930s (Fannie Mae & later Freddie Mac)
- FHA insured mortgages to create liquidity in the market so that banks could re-lend
- Set standards: 30-year fixed rate mortgages
- Before that, people bought homes with cash
- GI Bill subsidized low-interest home mortgages
- Government investment in suburbanization (building of highways, roads, infrastructure, automobile industry)

### Outcomes:

- After 1950, majority of homeowners had a mortgage
- 1960 homeownership rate = 62%
- 2005 homeownership rate = 69%

## Did the Homeownership Rate Increase Under Bush?

- Increase in homeownership rates due to deregulation, and sub-prime & predatory lending
- “Democratizing credit:” pushing what people could not afford for higher interest rates
- Policies supporting housing bubble, risky investments, and imbalanced economy
- Crash: Foreclosure crisis entirely predicted
- Now decrease in homeownership rate: Reached high in 2004, then in 2007, the rate returned to 2001 levels
- Lower income and people of color hardest hit

## Implications for Federal Housing Policies & Foreclosure Crisis Response

### **Homes that people can afford!**

- Recommitment & reinvestment in homes that meet people’s needs, that create healthy, sustainable and balanced economy.
- Build affordable rental housing!
- Preserve existing affordable rental housing!

## Stop the bleeding:

- Refinance mortgages and prevent as many foreclosures as possible
- Help people who have experienced foreclosure: both owners and tenants
- Re-regulate the industry with lasting solutions

## What to do with foreclosed properties & impacted neighborhoods:

- How do we prevent a devastating cycle of decline in working class neighborhoods?
- There is currently not enough \$\$ to make a dent (acquisition and rehab of scattered site single family homes is prohibitively expensive)
- Affordable housing developers won't be able to get to scale without massive infusion of new funding

**What then should we propose?**

## Phase out the Home Mortgage Interest Deduction!

- Eliminate the deductions for the wealthy
- Use the billions in reduced tax expenditure to fund affordable rental housing development AND to finance the rebuilding of foreclosed properties as affordable housing

## Specific Reform Proposals:

- 2005 Tax Policy Proposals under Bush -- Need to pay for elimination of AMT. Panel proposed:
  - A) Cap the mortgage at the average priced home
  - B) Make it a tax credit rather than a deduction
  - C) Only for principle residence
- Recent climate change proposal to limit McMansions (over 3,000 square feet)

## Or more realistically...

- Support the National Housing Trust Fund Act which is a proposal for Fannie Mae and Freddie Mac, and the Federal Housing Administration to contribute to a National Housing Trust Fund for affordable housing
- However, given the foreclosure crisis, is this still realistic?