Federal Housing Policy at the Crossroads—What’s at Stake?

This issue of My View will look at how much affordable housing developers depend on federally created and supported tax incentives and financing programs to help people obtain affordable housing.

It is also a look to the future. No one knows what will ultimately emerge from current efforts to reform our housing finance system and revise our federal tax code. I believe these reform efforts present a tremendous opportunity for all of us to reaffirm the critical role the federal government has to play to ensure that affordable housing is accessible to all Americans.
Congress is currently re-envisioning the role of Fannie Mae and Freddie Mac—along with federal tax supports for homeownership and affordable multifamily development. Obviously, there is much at stake.

Right now, for the first time in many years, fundamental questions about our federal housing policy are being addressed by our legislators in Washington D.C. The decisions they make will extend across the entire body of federal housing regulations and incentives in the U.S.—from tax policies to housing finance reform and the restructuring of the two residential mortgage giants Fannie Mae and Freddie Mac.

The two major initiatives underway in Congress are:

- Essentially, reforming and “reinventing” the two government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, currently in receivership.
- The stated intentions of several key legislators, including the Senate Finance and House Ways and Means Chairs, to overhaul the U.S. tax code, initiating this by taking all current tax deductions “off the table” and demanding compelling justifications for renewing them.

### Critical Supports for both homeowners and renters

The federal government has for decades helped make homeownership more affordable through the Federal Housing Administration (FHA)-mandated 30-year fixed-rate mortgage, GSE backing in the secondary market for mortgages, as well as mortgage-interest and property-tax deductions, and capital gains exclusions on the sale of principal residences.

On the rental side are the tax-exempt bonds and housing tax credits that have helped finance the construction of critically needed multifamily rental homes for low-income people. Additionally, we cannot afford to overlook the key role that Fannie and Freddie have historically played in the financing of affordable multifamily rental homes as well.

I’ve asked leaders from the housing policy, mortgage finance, homebuilding, real estate, and nonprofit housing arenas to give their perspective on existing federal housing programs and policies, and how they view the slate of reforms currently under consideration.

Although federal tax reform and GSE or housing-finance reform are two very different initiatives, they both represent a massive impact on housing markets, prices, accessibility and affordability—in short, the entire U.S. economy and everyone in it. I’ll talk about each separately, but their impacts on housing are inescapably intertwined.
Dollars and Demographics: A Rough Snapshot

Here are some important facts to keep in mind about the size and scope of the issues at hand, and the huge deficit in affordable housing that currently exists in the U.S., especially for the most vulnerable:

1. Federal government dollar commitments: The federal government supports the housing markets both through tax expenditures (deductions and capital gains exclusions for either owning a home or developing homes for lower-income people) and direct appropriations, like tenant-based and project-based rental assistance and public housing for renters.

   In 2012, homeownership was the largest beneficiary, with some $120 billion in tax expenditures ($117.7B) and appropriations ($2.5B). Renters, on the other hand, benefited from approximately $61.6 billion in federal housing supports. $20.1 billion of that came from tax expenditures like the low-income housing tax credit; $41.5 billion of that was appropriations.

   The numbers above roughly represent a 2:1 ratio of federal government support for homeownership vs. renting. The U.S. population is currently made up of more than 60% homeowner-ship households and about 35% renter households.¹

2. Current GSE “turf”: Today, more than 90% of all U.S. single-family mortgages are backed by government entities, including FHA, Fannie Mae, Freddie Mac, and Ginnie Mae. “Backed” doesn’t necessarily mean these loans are actually held on the balance sheets of these entities—but the federal government does serve as guarantor for this large majority of mortgages. These entities also support about 65% of the U.S. rental mortgage market.

3. Rental affordability: Despite the fact that the federal standard for affordable housing is households’ paying no more than 30% of their income for rent, close to 80% of extremely low-income U.S. renters report carrying a rent burden of more than that, with most—about 65%—paying a rent that takes up more than half of their household income.

4. Affordable rental availability: In 2009, only 3.7 million rental housing units were both affordable and available to extremely low-income households—far fewer units than were needed to provide affordable housing to the nation’s 10.3 million renter households that qualified as extremely low-income: A shortfall of more than 6.5 million homes.²


² The Bipartisan Policy Center, op. cit. pp. 81-83.
Let's start with housing finance reform. We all know what happened in the go-go years leading to the housing bubble, as shoddy mortgage underwriting standards by some lenders, along with a raft of risky, subprime lending instruments, led many homebuyers to take on financial commitments that proved to be unsustainable. That's just part of the story. The tangle of hedge fund strategies that created huge demand for mortgage-backed-securities (MBS) that were stuffed with these sub-prime loans—and yet somehow earned top credit ratings—played a significant part as well. As did many other global economic players; these events have been discussed extensively elsewhere.

But when the housing bubble burst, our U.S. housing finance system fell shockingly short in terms of providing a backstop for the kind of catastrophic plummet our economy, along with millions of U.S. homeowners, suffered.

Fannie Mae and Freddie Mac had been placed in an unwinnable position. Owned by shareholders and traded on the public markets, they have carried, since 1992, a federal mandate to serve our nation’s affordable housing goals. Since that time, attempting to balance the affordable housing needs of U.S. citizens while also delivering a return on shareholder investment had meant an almost continual conflict between these interests. And this was certainly integral to their collapse back in 2008.

So where do we go from here?

Under federal conservatorship since 2008, Fannie and Freddie, in the last several years, helped by our slow-but-relatively-sure housing recovery, have turned themselves around and in fact, are making money. They announced recently that they would pay $39 billion to the U.S. Treasury by the end of 2013, which puts them in the position of having returned to the federal government almost as much as was injected in them back during the housing crisis: close to $188 billion.

As we’re pressing to get this issue to your inboxes, the latest news coming out of Congress indicates that our federal lawmakers are working to push through a plan for GSE reform, perhaps by early this year. Their most difficult challenge continues to be finding common ground in terms of defining the federal government’s role in establishing and furthering affordable housing goals.

Corker-Warner: The “chassis” of the GSE reform vehicle

Last spring, Senators Bob Corker and Mark Warner introduced comprehensive GSE reform legislation, the Housing Finance Reform and Taxpayer Protection Act of 2013 (S.1217). I am encouraged that both the merits and the shortcomings of this legislation continue to be explored in hearings in the Capitol. As with any undertaking of this magnitude, there will inevitably be differences in philosophy among our legislators regarding the federal government’s role. But GSE reform is absolutely essential to our ability to keep our housing finance markets stable and healthy.

As described in a summary by NCSHA, (available at www.ncsha.org/resources), S.1217 would phase out Fannie and Freddie over the next five years and replace them with an entity called the Federal Mortgage Insurance Corporation (FMIC). The FMIC, modeled after the FDIC, would serve as a much-needed catastrophic backstop to the mortgage markets. It would sell federally guaranteed catastrophic reinsurance on MBSs; this would be paid for through insurance premiums on individual mortgages. But private MBS investors would be the first in line to absorb losses, with the FMIC standing by in a last-resort position to safeguard market stability.
The lure of Fannie and Freddie’s profit-making as the housing markets have turned around has led several big hedge fund investors to take significant positions in their common stock, including Fairholme Capital Management, Perry Capital, Paulson & Co., and Pershing Square Capital Management. Shares of Fannie and Freddie are up more than 1000% for the year. Now that they are pulling in big profits, these investment firms want to see them recapitalized, and return to the business of bundling mortgage loans into MBSs. One of these hedge funds’ proposals is to recapitalize both entities as new state-regulated bond-insurance companies.

Our federal representatives aren’t buying this solution. Virginia Senator Mark Warner remarked, “Taxpayers can do a lot better than this deal.” And New Jersey Rep. Scott Garrett said that if these investors “really wanted a brand-new institution that has no connection to the federal government to sell mortgage-backed securities, they could start one.” Gene Sperling, President Barack Obama’s top economic advisor also weighed in, saying that this recapitalization was unacceptable, as it would not address Fannie and Freddie’s central role in housing finance.

Still pending are at least two separate lawsuits against the federal government by these hedge fund investors, alleging that the government is illegally appropriating their assets by keeping 100% of the profits to pay itself back, while legally owning only 80% of the stock.3

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Barry Zigas, who is a Commissioner on the BPC’s Housing Commission, has been, along with his fellow commissioners, crisscrossing the country since February 2012 to publicize Housing America’s Future and its housing policy imperatives. He was here in Spokane, Washington in October 2013 to speak at our Housing Washington conference. I’ve known Barry for years and he has a unique perspective on these issues. His background includes serving “inside” Fannie Mae as a Senior Vice President; he also at one point headed the National Low Income Housing Coalition (NLIHC). Now he runs his own consulting firm in addition to his role as Director of Housing Policy for the Consumer Federation of America.

Says Barry, “I think the Report has been received very well. I would argue that it’s one of the reasons that Corker-Warner moved forward. Both Corker and Warner had bills earlier that looked nothing like what they came together to suggest. The fact that the [BPC Housing] Commission came out with these bipartisan recommendations, I think, was a very powerful goad to the Senate especially, and to some Republicans and most Democrats in the House.”

Barry uses the metaphor of Corker-Warner as the “chassis” of whatever GSE reform legislation finally emerges from Congress. The Corker-Warner approach basically would “rebuild the system keeping all of its essential parts—but separating out the functions.”

Additionally, under S.1217, the multifamily guarantee business of Fannie and Freddie would be transferred to FMIC and remain unchanged.

The challenge of course is the degree of complexity in this undertaking. The strides being made in Washington have been helped greatly by the efforts of the Bipartisan Policy Center’s (BPC’s) Housing Commission, who, in February 2013, published their findings after 16 months of intensely pursued cross-country forums and research. One of Housing America’s Future: New Directions for National Policy’s great achievements has been reaching a consensus across political ideologies. And importantly, these weren’t watered-down policy versions that ‘everyone could actually agree on.’ The report offers a deep, considered view of the challenges and provides a nuanced and workable set of solutions (available at www.bipartisanpolicy.org).

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In other words, Fannie and Freddie would no longer be “quasi-governmental entities that carry constant tension between their private shareholders and their public role to advance affordability and access.”

The Senate Banking Committee, led by Committee Chair Tim Johnson and Ranking Member Mike Crapo, is forging ahead with setting in place the final determinations after a long series of hearings in Washington. Says Barry, “Corker-Warner was essentially a first rough draft; even the drafters would say that. There was nothing significant about multifamily housing in it. And in terms of mission-oriented concerns, it completely punts on the question of broad responsibilities for access and affordability.

“In addition,” he adds, “there are a number of provisions that have created quite a bit of opposition and controversy, including high minimum downpayments, a 10% capital requirement [for private investors in the mortgage markets], and allowing issuers a choice between how they provide the private credit enhancement. Many issues continue to be discussed.”

**Multifamily Housing: An argument for Fed oversight and backing**

The involvement of Fannie Mae and Freddie Mac in shoring up multifamily mortgages during the recent housing crisis was a very clear reminder of how much we depend on this financing—and the federal government’s role of preventing, or at least softening, the blows of market dislocations. Discussions of both tax reform and GSE reform absolutely must not fail to highlight how stable, affordable financing for multifamily housing is vital to us as a nation.

Just to emphasize the role of Fannie and Freddie in multifamily housing finance here in our state, here are some facts:

- Since the Commission’s founding 30 years ago through September 25th of 2013, the Commission had issued $2.632 billion in bonds for multifamily housing. Of that total, $1.213 billion (46%) of our bonds were enhanced, permanently financed, and/or purchased by Fannie Mae or Freddie Mac.
- In terms of individual units, of the 42,268 rental homes financed with Commission bonds or Commission bonds plus tax credits, 16,985 (41%) were made possible thanks to the participation of Fannie Mae or Freddie Mac.

Those numbers are for those multifamily homes developed solely through our tax-exempt bond and tax credit programs. They don’t include other programs and entities; nor do they include single-family housing. As all of us who are engaged in this effort know, the work of building and sustaining affordable housing is always a matter of careful attention to the tightest of margins, and the importance of stability, predictability, and access to liquidity in financing can’t be overstated.

As a representative of homebuilders in the Puget Sound area, Shannon Affholter echoes my concerns. Shannon is executive director of the Master Builders Association of King and Snohomish Counties (MBA).

“**It’s essential that the federal government plays a proper role as a backstop for our nation’s housing finance system, that there’s liquidity and stability for both homeownership and rental housing.**”
“Prior to the mortgage market meltdown, Fannie Mae and Freddie Mac, Ginnie Mae, and other federal entities backed about one-quarter of all multifamily loans sold into the secondary market. By 2011, their share had tripled to more than 75 percent—evidence of their role as the “only game in town” while the broader commercial mortgage backed securities (CMBS) and private conduit markets healed.”

WILLIAM C. APGAR AND ELIZABETH LA JEUNESSE, JOINT CENTER FOR HOUSING STUDIES, HARVARD UNIVERSITY

homebuilders, as he points out, “the attention is focused on GSE reform for single-family homes, but we can’t forget that our multifamily mortgage programs play a critical role in the overall health of the U.S. economy: At least one-third of Americans live in rental housing, and the demand for rental housing is expected to increase.”

In the current Congressional debates over Corker-Warner, one proposal, aired by the Federal Reserve Bank of New York, has been to “decouple” the current single- and multifamily functions of Fannie Mae and Freddie Mac into two separate government entities; to acknowledge, and treat differently, the clearly distinct attributes and demands of these two finance markets. For more information on this initiative and instructive research into multifamily finance, Apgar and Le Jeunesse’s The Changing Landscape for Multifamily Finance (see footnote) is a great resource.

Secondary market reform: The private sector needs more assurances to return to these markets

What’s the current financing environment for mortgage lending in our state and region? I asked Don Burton, President of Evergreen Home Loans, to give his perspective on how the markets have been functioning with Fannie Mae and Freddie Mac carrying the lion’s share of U.S. mortgage-market infrastructure. Evergreen is a Seattle-headquartered community lender with branches in seven Western states that is approved by all three agencies: Fannie Mae, Freddie Mac, and Ginnie Mae.

Don says that, with major Dodd-Frank rules coming into play for mortgage lenders in early January, and with no firm plan yet for GSE reform, focusing on the future of the GSEs123(697,510),(996,780)(697,510),(996,780) has not been at the top of his priorities. The new QM (Qualified Mortgage) rules take effect on January 10, and he, along with every other U.S. mortgage lender, is in a final push to meet that deadline. But he makes it clear that the stakes for GSE reform are high: “Housing recovery has been 100% dependent on the agencies,” he says.

And five years out from the housing crash, private investors in the secondary (MBS) markets are still wary of non-GSE securities brought to market. “The reality is that there have only been a few players bringing non-GSE product to the markets,” he says. “This fall, there were a couple of private MBS issues that just didn’t go well, where the MBSs either weren’t purchased or the pricing was very unfavorable.”

Each of these leaders, when asked about the particulars of their industries’ position on GSE reform, referred me to their national organizations: the National Association of Home Builders (NAHB), National Association of Realtors (NAR), and Mortgage Bankers Association (MBA). You can access these websites and/or position papers at mbaa.org/advocacy/issues, nahb.org, and realtor.org.

Not surprisingly, these industries each have their own key concerns and constituencies. But particularly on the absolute need for a federal backstop in these markets, they are in absolute agreement. To attract private capital back into our housing finance system, investors must be able to predictably rely on a transparent, stable marketplace, with clear and adequate regulations and underwriting standards—and the ability to properly assess investment risk. The U.S. home loan market amounts to some $10 trillion, and so very many Americans rely on this financing. We simply have to get this right.

The consensus: A federal backstop is essential

In presenting this overview on GSE and federal tax reform, I wanted to include the perspectives of people working on the ground in the real estate, mortgage banking, and homebuilding industries. In addition to Don and Shannon, this included Bob Mitchell, currently executive project director for Washington Realtors, who has worked in the real estate industry for four decades.

“There’s no question that in order for us to have healthy real estate markets, the federal government’s got to play a role in it—they can’t just leave it up to the private sector. Without that involvement, we’re going to be subject to these very short-term cycles, depending upon the state of the economy.”
Another piece of the puzzle: The Federal Home Loan Banks

One of the players in housing finance reform was actually created by housing finance reform—in 1932. As the nation grappled with the Great Depression, the government chartered the Federal Home Loan Bank System to provide funds to banking institutions and make mortgages available. The system has since gone through many rounds of reform, but its essence remains the same: It is one of the nation’s largest sources of private funding for affordable housing.

Each of the 12 Federal Home Loan Banks (FHLBs) across the U.S. is a member-owned cooperative of financial institutions, including savings banks, commercial banks, credit unions, insurance companies, and others. The Federal Home Loan Bank of Seattle is one of these 12 cooperatives. It has 330 members throughout 11 western states and territories.

Seattle Bank CEO Michael Wilson explains that the FHLB offers “a way to connect Wall Street to Main Street,” giving member banks and credit unions access to lower-cost funds from the secondary market. The members borrow funds from the FHLB through secured loans called “advances,” which they then put to use in their home communities through home mortgages, small-business loans, and other lending—including reduced-rate loans for affordable housing.

The FHLBs also support affordable housing by dedicating 10 percent of their profits to fund rental housing and homeownership for low- and moderate-income households. This Affordable Housing Program provides a flexible subsidy to purchase, build, or rehabilitate single-family, transition, or multifamily housing. At the Commission, we often see AHP awards as a key piece of leverage brought by nonprofit and for-profit developers who are seeking tax credit or bond funding.

And, FHLBs support Housing Finance Authorities like the Commission by purchasing our bonds and tax credits, which raise capital for developers of affordable housing.

Protecting its role in housing finance reform is a key concern for the FHLB system. “We want to make sure that Congress recognizes the value that the home loan banks add, and preserves our ability to do our current business,” Mike says. “And of course we’re open to doing more.”
In a perfect world, the “promise” or “potential” of a truly balanced approach to federal tax reform would acknowledge how our federal tax code has, over decades, played an absolutely essential role in keeping affordability within reach both for homeowners and renters. And that writing this role out of the tax code would be devastating to our economy, which relies on robust, healthy housing markets—and would greatly diminish our ability to build and maintain affordable rental housing, particularly for people at the lowest levels of income.

No one can deny that the current tax code is labored and labyrinthine. And, as Barry points out above, that its various favorable tax treatments for housing have been added bit by bit, and not as part of some kind of grand design. And yet, these favorable tax treatments have accomplished enormous good.

For many middle- and lower-income homebuyers, relying on the mortgage interest deduction, for example, has meant the difference between being able to make monthly payments—and achieving homeownership—or not. And for those who build and maintain affordable multifamily housing, tax-exempt bonds and low-income housing tax credits have provided homes for lower-income people that could not possibly have been built or renovated without these tax incentives. In fact:

In Washington State over the past 30 years (through 6/30 2013), **84,513 multifamily rental homes** have been financed by the Commission through either the tax-exempt bond program alone or in conjunction with the 4% Housing Tax Credit program.

The news coming out of Congress in late 2013 indicated that momentum for comprehensive federal income tax reform is slowing. Senate Finance Chair Max Baucus, one of the champions of this reform, is leaving the Senate for an Ambassadorship. But House Ways and Means Chair Dave Camp remains committed, and Oregon Senator Ron Wyden, who is likely to replace Baucus as Senate Finance Chair, has reaffirmed his own interest in a tax code overhaul.

Regardless of whoever ultimately leads this process, as these reform efforts move forward in Congress, we must ensure that all of our legislators remain aware of what hangs in the balance.

“*It’s not like people sat down at some point and said, ‘Let’s see ... How should we treat housing in the tax code in order to get the following objectives?’*”

**BARRY ZIGAS, DIRECTOR OF HOUSING POLICY, CONSUMER FEDERATION OF AMERICA**

### Federal tax reform: Balancing priorities

**Multifamily housing tax incentives work**

Mercy Housing is one of the largest nonprofit affordable housing developers in the U.S. Bill Rumpf heads Mercy Housing Northwest, overseeing its housing efforts in both Washington and Idaho. I asked Bill to comment on the pending tax reform legislation. Mercy Housing Northwest works in both rural and urban communities, and addresses a wide range of affordable housing needs, which gives Bill a fairly unique view onto how the tax credit program in particular has benefited communities.

“I can’t think of any new affordable multifamily housing development that has been built without the use of tax credits in Washington State,” Bill says. “The stakes are very high: For increasing the supply of this housing, the tax credit generates, by far, more capital than any other single source.”

Bill points to a pilot project that Mercy Housing is involved with in Chicago. They acquired an existing multifamily property and are running it as affordable housing without the use of tax credits. “It’s basically a non-profit real estate investment trust, but it is very, very challenging. There’s been a lot of thinking within Mercy Housing about alternative ways to finance affordable housing without housing tax credit equity because of all the talk about tax reform. What’s being asked is: Are there other financing structures? And I’ll just say, we haven’t found it yet.”

Launched under the Tax Reform Act of 1986, one of the housing tax credit program’s virtues is how, although the credits themselves...
are authorized by the IRS, states retain the flexibility to make use of tax credits in ways that will most benefit their communities. In Washington State, for example, there’s more competition for the credits than in Idaho. “The level of competition is so high that essentially the difference is that projects that provide more in the way of public benefit are the ones that are successful in getting the credits.” More credits in our state end up going to address homelessness, special needs housing, and deeper affordability. Both states, Bill says, have mechanisms to use the credits geographically. He gives the example of the diverse range of projects Mercy Housing Northwest has taken on in the past several years.

“We constructed a new senior development in Tacoma, last year, we opened transit-oriented workforce housing in Seattle, and we renovated very-low-income senior housing developments in three rural Southwest Washington communities: Tenino, Winlock, and Centralia, page 14. As a development consultant, we have worked with the Yakama Nation Housing Authority in completing 60 new large-family, detached rental homes on tribal land.”

One of the points, says Bill, that he and his colleagues have been making to legislators is that investor interest in these tax credit projects continues to be strong. “The ‘Great Recession’ did cause a hiccup in these markets, but both longer-term and for the last two years we’ve had strong interest, even in these quite small rural markets. So we believe housing tax credits can continue to work in all parts of the state.”

I asked Bill how much at risk he thinks housing tax credits are in the current tax reform debate. “At Housing Washington last October, Nic Retsinas [Nicolas P. Retsinas, Director Emeritus at Harvard University’s Joint Center for Housing Studies] made an observation that resonated with me. He pointed out that the Housing Tax Credit has quite broad bipartisan support, so he didn’t envision a scenario under which it would lose on a stand-alone legislative proposal to eliminate these credits.

“But where it is vulnerable would be part of a more comprehensive package. What’s driving tax reform is that both political parties have said they want to lower corporate tax rates, and to pay for that, they have put tax expenditures on the table. That’s where I think we’re vulnerable.”

**Tax credits: A for-profit developer gives his perspective**

A discussion of the people served by the housing tax credit program, I believe, would not be complete without presenting this program from the viewpoint of for-profit developers. Here in Washington State, in allocating these credits, we at the Commission look first at the needs of communities, and the abilities of developers to meet these needs. That’s why both private and nonprofit developers are invited to submit applications to our state’s program.

Dave Baus of Village Concepts and his partners have successfully used the 4% housing tax credit to build much-needed low-income senior housing in Moses Lake and Covington,
Housing credits at work in rural Washington: 
New life for senior low-income apartments

With the help of housing tax credits, 92 senior apartments in three rural Washington State communities were preserved, revitalized and upgraded for energy efficiency—while infusing new life into the local economy. The four buildings in Tenino, Winlock, and Centralia, located in southwest Washington, reopened in July 2013.

Mercy Housing Northwest purchased the 30-year-old properties (originally built with USDA Rural Development funding) in 2003 from a retiring private owner in order to preserve them for affordable housing. Mercy’s $12 million redevelopment was made possible by a $9.5 million housing tax credit investment from Key Community Development Corporation, syndicated by Enterprise Community Investment, Inc. and allocated by the Commission.

New roofs, siding, windows and doors, plus upgrades to accessibility and energy efficiency will save costs down the line, and the homes have been preserved in areas badly in need of affordable housing for seniors.

Half the apartments are reserved for those at 30% AMI, with the rest split between 40% and 60% AMI. The average income of residents is $11,000; USDA provides ongoing rental assistance to ensure that residents don’t pay more than 30% of their income for rent.

At the same time, the projects boosted the local economies, bringing 200 construction workers (75% from local communities) and 15 new jobs (four permanent) to the communities. Local suppliers, restaurants, and hotels benefitted in three communities greatly needing an economic lift; in fact, one of the only cafés in Winlock was saved from going out of business by this effort.

THE CAMBRIDGE APARTMENTS The Cambridge Apartments in rural Centralia, Wash., were completely renovated through public-private financing that included Low-Income Housing Tax Credits.

PIONEER VILLAGE IN MOSES LAKE, an 84-unit affordable senior housing development by Village Concepts, was partially financed through the 4% low-income housing tax credit program administered by the Commission.
Washington. Just this month they’re completing a third affordable senior community in Milton, Washington. Over the past 19 years, Dave has worked on senior and multifamily housing credit developments in Utah, Oregon, Idaho, Alaska, and Montana, in both rural communities and in large cities like Salt Lake.

He gives the example of the affordable senior development, Pioneer Village, that he and his partners built in Moses Lake. “Before this development,” he says, “the only housing of this kind available in that area was targeted to very-low-income seniors at 30% AMI or below. And the wait list was long.” With the help of financing from the housing credit program, Dave and his partners were able to build homes to meet the needs of low-income seniors whose incomes range from 30 to 60% of AMI.

“Without tax credits, all of our developments for low-income seniors would not have happened,” he says. Especially in many rural areas, he observes, affordable housing that is appropriate to seniors’ needs is either non-existent or severely limited. But every community has what he calls “a different twist”: A community’s housing needs may vary, but housing tax credits are flexible enough to provide the best-fit solution.

We at the Commission are grateful to hear this endorsement of our careful allocation efforts: “Every state allocates tax credits in their own way,” Dave explains. “Here in Washington State, you are mindful that it’s a limited resource—and you treat it like that. All of the tax credit deals are well-thought-out and granted to the projects that serve the greatest needs.”

**The mortgage interest deduction: The challenge of reaching a consensus**

In making the case for continuing the mortgage interest deduction, those who are in the business of helping people become successful homeowners know full well that, particularly for lower-income and first-time homebuyers, finding a way to qualify for, and meet, monthly mortgage payments is very frequently a stretch. “For many young homebuyers,” says Bob Mitchell, “to get started in the marketplace is almost impossible—especially in certain marketplaces like Seattle.” As he argues, programs like the FHA’s 30-year fixed-rate mortgages, along with not overly burdensome downpayment requirements, and the ability to deduct mortgage interest and property taxes, can make all the difference in getting a leg up in the world economically.

Without these supports, as Bob affirms, “the whole opportunity for homeownership down the road is going to be, if no longer attainable, then certainly diminished.”

As noted in one of the sidebars to this issue, however, is a fact worth considering: In 2012, homeownership was the largest beneficiary of federal government support, worth some $120 billion. Renters, on the other hand, benefited from approximately $61.6 billion in federal supports—roughly a 2:1 ratio. And this is the question we all need to consider: If we’re going to continue to invest federal dollars in keeping housing affordable, how can we make the best use of them? In other words, should the greater portion of...
these dollars be allocated to where they are most needed?

This question, in fact, never found a complete consensus among the participants who hammered out the Bipartisan Policy Center Housing Commission’s February Housing America’s Future report. Explains Barry, “We were not able to get agreement on any specific recommendation in this regard, even though we did make a very carefully crafted statement.” Here’s how their report phrases it:

The commission notes that various tax benefits provided to homeowners, including the mortgage interest deduction, have been modified over the years. In the ongoing debate over tax reform and budget priorities, all revenue options must be evaluated. In that context, the commission recommends consideration of further modifications to federal tax incentives for homeownership to allow for an increase in the level of support provided to affordable rental housing.

Any changes should be made with careful attention to their effect on home prices and should be phased in to minimize any potential disruption to the housing market. A portion of any revenue generated from changes in tax subsidies for homeownership should be devoted to expanding support for rental housing programs for low-income populations in need of affordable housing.

Right now, this is a cause that has been taken up by the National Low Income Housing Coalition (NLIHC). Their United for Homes campaign (www.nlihc.org/unitedforhomes) is by no means asking to eliminate federal tax benefits for homeowners—just for those who least need them. The campaign proposes to modify the current mortgage interest tax deduction by reducing the size of a mortgage eligible for a tax break to $500,000, and converting this deduction to a 15% non-refundable tax credit.

In other words, the “credit” for mortgage interest goes to those who most need it:

― The hallmark for homeowners to rely upon, since the beginning of the U.S. taxation system, has been the mortgage interest deduction, along with deductions for state and local property taxes. These have been in effect for close to 100 years. We believe that they continue to be very important—and clearly feel very strongly about maintaining them.‖

BOB MITCHELL, EXECUTIVE PROJECT DIRECTOR, WASHINGTON REALTORS

lower- and middle-income homeowners. And the revenue that’s created by diverting the credit from upper-income homeowners would then be directed to a National Housing Trust Fund dedicated to ending homelessness and expanding the supply of rental housing affordable to America’s poorest families.

The United for Homes campaign is breaking important ground in opening up the conversation about how to address what, in many parts of the U.S., is a dire shortfall in affordable rental housing. As Housing America’s Future notes: “Demand for rental housing is increasing in many regions throughout the United States, and the number of renters spending more than they can afford on housing is unacceptably high and growing.”

Barry concludes, “The housing problems of low- and very-low-income renters have not abated, and if anything are going to get worse. As we point out in the report, the demographic characteristics of the rising generation of new homebuyers, people forming new households, will be very different than the households that have preceded them.

“This will raise all kinds of issues about equity fairness and how to ensure that the rising generation is able to find affordable rental housing—and, when their circumstances make it the right choice—to buy a home of their own.”

5 The Bipartisan Policy Center, op. cit. p. 105.
The Washington State Housing Finance Commission is a publicly accountable, self-supporting team, dedicated to increasing housing access and affordability and to expanding the availability of quality community services for the people of Washington.