

July XX

Dear Senator XX:

I am writing on behalf of XX organization in strong support of a mortgage interest tax benefit that will not only increase the number of homeowners receiving a benefit for interest paid on their mortgage but will also fund housing affordable to America's poorest families. As the Senate Finance Committee begins in earnest to craft comprehensive tax reform legislation, we urge you to submit a proposal to improve the current mortgage interest deduction (MID) to meet these goals. The Senate Finance Committee will be focusing on proposals that would grow the economy, make the tax code fairer, or promote some other important policy objective. We believe there is a simple way to meet all three of these objectives.

My organization is a member of the United for Homes campaign, which is the campaign to fund the National Housing Trust Fund (NHTF) through modifications to the current MID. The overarching goal of the United for Homes campaign is to address the longstanding shortage of rental homes that people with the lowest incomes, including seniors and people with disabilities on fixed incomes, can afford. In 2011, there were 10.1 million extremely low income (ELI) renter households and only 5.5 million rental housing units they could afford. Moreover, many of the units they could afford were occupied by higher income households. Thus the true shortage of units for this income group was 7.1 million.

There are three things to keep in mind about the rental housing shortage: 1) it grows every year; 2) it is the primary contributing factor to homelessness in America; and, 3) there it is a shortage in every state. In our state the shortage of affordable and available homes is XX. Today, XX% of (state's) extremely low income population pays more than half of their income for housing, putting them at great risk of becoming homeless.

The National Housing Trust Fund is an authorized program that, once funded, will expand the supply of housing affordable and available to ELI households. When funded to scale, the NHTF will close the gap between supply and need for housing, thereby allowing every state to end homelessness in the United States. Under the formula created by HUD, for every \$5 billion allocated to the NHTF, our state would get XX.

The Senate has a unique opportunity in the "blank slate" tax reform process to improve upon the existing MID, and improve housing outcomes for the very poor. The MID is valued between \$70 billion and \$93 billion for 2013, and is the second largest tax expenditure. It is also widely considered an inefficient and ineffective way for the government to subsidize housing, as only approximately half of all homeowners with a mortgage actually claim the MID.

Now that the Senate is revisiting the entire tax code, we propose changing the way in which households can get a tax benefit for interest paid on a mortgage in two ways: reduce the size of a mortgage eligible for a tax break to \$500,000 from the current \$1 million, and convert the deduction to a 15% non-refundable tax credit. **These changes to the current MID would raise an estimated \$197 billion in revenue. We propose that the entirety of these funds be applied**

**to the authorized National Housing Trust Fund to address the housing needs of extremely low income households in our state.**

In addition to funding the National Housing Trust Fund, the proposal is good policy because it increases the number of homeowners who will receive a tax benefit on mortgage interest paid from 39 million to 55 million, by including people who do not currently itemize on their tax returns. Of the households newly eligible for the tax break, 99% have incomes under \$100,000. There is bipartisan support for applying savings achieved through a modification of the mortgage interest deduction to housing programs that serve the very poor. The Bipartisan Policy Center's Bipartisan Housing Commission said in its report *Housing America's Future*, "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."

Likewise, public opinion research shows that while the mortgage interest deduction is popular with the American population, 60% of Americans support the two changes to the mortgage interest deduction proposed by the United for Homes campaign. Americans also support expanding federal resources for affordable housing in order to end homelessness. More than two-thirds (68%) of Americans would use some or all of the revenue raised by the proposed changes to the mortgage interest deduction to expand the supply of affordable housing in order to end homelessness.

**This proposal to modify the mortgage interest deduction and provide resources to the NHTF will help grow the economy.** The proposal will provide housing construction jobs, for the construction and the rehabilitation of homes. And, the proposal will add permanent jobs for the management and ongoing maintenance of these homes. Further, the NHTF will provide affordable housing to potentially millions of people who otherwise would continue to use the vast majority of their incomes for housing costs. When the bulk of family income is not going to housing costs, families will have cash to spend in local businesses and for local services, and to save. And, the MID reforms will bring tax benefits to 16 million homeowners who have mortgages today but do not itemize. These families currently left out of the country's second largest tax expenditure would also have more to spend locally and to save for the future. Finally, stable housing benefits employees and employers. For employees, stable and affordable housing can allow people to live a reasonable distance from their jobs, providing them time to spend with their families and in their communities. For employers, stable and affordable housing can provide a pool of nearby workers.

**This proposal makes the tax code fairer.** By turning the deduction into a nonrefundable credit, the revised mortgage interest program would provide a tax benefit to a greater number of homeowners. The revised mortgage interest benefit would expand federal mortgage interest tax benefits to 16 million households. These are households that currently have a mortgage but do not receive any benefit from the MID today because they do not itemize their taxes. Under the benefit, as revised by the proposal, 99% of the 16 million newly benefitting households have incomes below \$100,000 a year. Today, the MID overwhelmingly benefits higher income households that have high mortgages. Under the attached proposal, the homeowner mortgage interest tax benefit would be uniform (15%) across all tax brackets, making the tax code fairer

for all and bringing this benefit for the first time to low and moderate income households that pay mortgage interest but don't itemize.

**This proposal effectively promotes other important policy objectives, such as supporting homeownership, ending homelessness, and achieving educational success for our nation's children.** The proposed modifications to the MID are a better way to support homeownership than current policy because those most likely to require a tax break to afford a home - low and moderate income households - would now be eligible for this benefit. This proposal would also provide the housing needed to end homelessness, a key goal of the U.S. Interagency Council on Homelessness. The USICH's goal is for the federal government to be on a path to end veterans' and chronic homelessness by 2015, and to end homelessness among children, families, and youth by 2020. Without the increase in affordable housing resources from the NHTF, which would be administered by states, states will continue to lose ground on their ability to provide stable and affordable housing to the lowest income households. Without significant new resources for affordable housing production and preservation, states will also not be able to meet the needs of the elderly and people with disabilities who would rather continue living in their communities than be forced into nursing homes and other institutional care settings. Stable housing is also necessary for children's academic success. Often because of financial constraints, low income households experience high rates of housing mobility, which often means frequent school changes. Frequent moves have been tied to children being left behind academically. Housing quality can also greatly impact educational achievement, with lead poisoning and asthma triggers responsible for high rates of absenteeism, which correlates to poor educational outcomes.

We ask that you take advantage of this opportunity to improve the MID and ensure that the poorest Americans and individuals in our state have access to affordable housing in a **deficit neutral** way. **I have included a copy of the United for Homes campaign proposal and sample legislative language that we urge you to submit to the Senate Finance Committee.**

Please do not hesitate to contact **XX of my staff at XXX-XXX-XXXX** for more information. We will also follow up with your staff next week. Thank you for your consideration.

Sincerely,

Attachment 1: United for Homes Proposal

Attachment 2: Draft legislative language