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homeownership rates would decline and could undermine the housing market.

It is also credited with keeping home prices elevated, with the market factoring the deduction as a kind of rebate on the sale price. Without it, or with it reduced, forecasters with the National Association of Realtors say, prices would decline.

**M**ortgage interest has been a tax deduction since 1913, when the U.S. Constitution received the 16th Amendment sanctioning income taxes. It's widely believed this was intended more as a benefit to businesses that considered interest payments as a cost of doing business, rather than for homeowners, who at the time were more likely to have paid cash outright for their homes.

That began to change after World War II, when homeownership became a pillar of the federal government. Today, homeownership rates hover around 65 percent nationally.

By the 1980s, under the tax reforms spearheaded by Oregon's own Sen. Bob Packwood, interest deductions were scaled back. You could no longer deduct your credit card interest, for example. But the mortgage deduction remained intact as a subsidy to ensure that the dream of homeownership remained accessible to the middle class. Today, at the federal level, it's a \$75 billion a year nationwide subsidy for homeowners, even on their second home.

Realtors defend the deduction, saying the majority of people who file for it make \$100,000 or less annually. In terms of actual dollars, however, the majority goes to the highest income brackets.

"One of the weird features of the MID is because it's based upon a deduction rather than a credit is that some people gain more benefit than others, based strictly upon the tax bracket that they're in," said Gerard Mildner, associate professor of real estate

finance at Portland State University.

Higher-income homeowners in a higher tax bracket have a greater percentage deducted from their taxes.

"So what it does is give more of an incentive to people in high-income tax brackets to become homeowners because they're simply borrowing at a lower after-tax rate than

everybody else," Mildner said.

According to the Oregon Center for Public Policy, more than 60 percent of Oregon's deduction goes to the top fifth of the state's earners.

The Oregon Association of Realtors says the current policy, which echoes federal tax law, is a key incentive for homeownership at all income levels.

"We totally believe that the mortgage interest deduction is a very strong incentive for homeownership, and homeownership is the foundation for a stable financial future," said Shawn Cleave, government affairs

director with the Oregon Association of Realtors.

According to the U.S. Census, the homeownership rate was 55 percent in 1950. In 1995, it had reached 65 percent. The rate continued to climb, to 69 percent in 2004, before the housing market collapsed. The rate has declined back to 1995 levels.

Oregon's homeownership rate ended 2016 at just over 63 percent, making it the 15th lowest in the nation, Cleave said.

Over the years, there have been numerous attempts to modify the mortgage interest deduction, from the national level on down. Most of those never got off the ground against the opposition of the National Association of Realtors and its affiliates, which boasts being the nation's largest trade organization with more than 1.1 million members. In 2012, the national group successfully campaigned to amend Oregon's constitution to prohibit a real estate transfer tax to fund low-income housing assistance.

Oregon Association of Realtors wields state and national resources through its political action committee, Achieving the American Dream Coalition. The Oregon Home Builders Association, which has also come out against changes to the deduction, is fortifying its Oregonians for Affordable Housing PAC in anticipation of the upcoming session. Combined, the two groups have raised more than half a billion dollars in 2016.

In 2015, a proposal to cap the mortgage interest deduction on second homes at \$125,000 in income failed to move out of the House Revenue Committee, chaired by Rep. Phil Barnhart (D-Lane and Linn counties).

Barnhart said he anticipates there will be more interest in working on this now than in previous sessions.

"I'm expecting to see several proposals for ways to improve Oregon's housing-related tax subsidies in 2017, and I think it's time we took a comprehensive look at these subsidies. We have to make sure housing subsidies in the tax code benefit the families who really need help with basic housing needs. We also need to make sure tax expenditures meant to encourage homeownership are having the intended impact at a reasonable cost given other priorities for scarce public dollars."

He added that if members "continue to hear from their constituents that affordable housing needs to be a priority, I'm hopeful we'll be able to make progress."

**I**n small, coastal communities, the housing market is buoyed up by people who live elsewhere buying second homes.

These communities rely on the vacation and tourism industry as their economic base, said Cleave, of the Oregon Association of Realtors. Without the deduction, "It would be a considerable reduction in purchasing," he said.

Jerry Johnson is an economist with Johnson Economics in Portland, which specializes in working with developers and urban planning. He said that a second home mortgage is probably somewhat of an incentive, particularly for small, vacation-oriented counties.

"The elimination of the deduction on second homes would likely impact the Oregon Coast and Central Oregon, and may reduce second-home ownership marginally and/or reduce pricing. The impact would probably not be that pronounced though," he said.

Regarding a \$10,000 cap on interest, Johnson said it would probably not affect most homeowners, particularly first-time buyers.

"The impact of this on first-time homebuyers is likely negligible, as they would not typically have over \$10,000 in annual mortgage interest in the current rate environment," Johnson said. "This likely doesn't have a substantive impact on homeownership rates. It would seem like the proposed change would dampen some pricing at the upper end of the market, as well as second-home sales. This could be helpful for housing costs in areas such as the Oregon Coast and Central Oregon, but these economies also benefit from the construction of second homes."

But buyers of coastal vacation homes don't need a housing subsidy, say proponents of the change.

"Our goal is to not take it away from people for ordinary folks," said Ordóñez, of the Oregon Center for Public Policy. "It's only going to affect those at the very top of the income scale who don't need a subsidy. To the industry, we would say - look, this is a poorly designed way of promoting homeownership. It's not promoting homeownership. If your industry benefits from increased homeownership, you will do better under our plan, which will actually increase homeownership."

Mildner, with PSU, said the change could dampen second-home purchases if second mortgages no longer qualify. However, those mortgages could qualify for the deduction if they're absorbed in refinancing the initial home's mortgage. That could also mean that home prices could dip.

"The supply will probably stay the same," Mildner said. "But it will be a demand change, and it's going to be a demand change to probably cause the price of homes to fall a little bit at the top end of the market."

**U**nder Oregon's tax code, the stated purpose of the deduction is "to promote homeownership by lowering the cost of mortgages."

"It's not meeting the one stated goal," Ordóñez said. "If one stops to think about it, if that's the goal, then you've designed the wrong kind of policy altogether to achieve that goal. Because we have a subsidy designed to steer most of the tax benefits to those at the top. To those who already own a home. It's structured in a way to not accomplish the goal."

"That's not just a theoretical argument. We know from the data that the deduction is not promoting homeownership," Ordóñez said. "Oregon ranks poorly to some states that don't even offer the deduction."

Ordóñez was citing information from the Census' American Communities Survey, which showed that at the close of 2015, Oregon's homeownership rate, at 61 percent, was lower than Texas, Alaska, Washington,

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**JUAN CARLOS ORDÓÑEZ**  
COMMUNICATIONS DIRECTOR WITH THE  
OREGON CENTER FOR PUBLIC POLICY

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GOVERNMENT AFFAIRS DIRECTOR WITH  
THE OREGON ASSOCIATION OF REALTORS