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**REP. ALISSA KENY-GUYER
(D-PORTLAND)**

PHOTO ILLUSTRATION BY KROACH/ISTOCK

Mortgage subsidy reform revisited

Rep. Keny-Guyer is considering a proposal to limit the mortgage interest deduction, whose dollars disproportionately benefit wealthy Oregonians

BY JOANNE ZUHL
EXECUTIVE EDITOR

State Rep. Alissa Keny-Guyer (D-Portland) said she will revisit Oregon's largest and most popular housing subsidy in the 2019 legislative session.

The problem is that the much-debated mortgage interest deduction favors wealthier homeowners, while the poorest state residents struggle to keep a roof over their heads. That's not how housing dollars should work, said Keny-Guyer, who chairs the House Interim Committee on Human Services and Housing.

Last year, the committee heard a bill to limit the deduction for the highest-income homeowners. The bill died in committee, but Keny-Guyer emerged from the debate feeling the support was there to revisit the issue again in the upcoming session.

"I think people were shocked when they found out the statistics of what federally and statewide we put into homeowner tax benefits, primarily the mortgage interest deduction, and conversely how little we put into non-homeowners – renters and the homeless," Keny-Guyer said.

"As the housing chair, I look at where we spend our housing dollars and I'm very alarmed and concerned at how much goes to the upper end. And I always lament the fact that we don't have enough for housing, and it's not that we as a state don't allow

significant amount for housing; it's just that we put it in the wrong area. I want to address that in the Legislature, and it's one of my top priorities."

Each biennium, the state's mortgage interest deduction sends \$1 billion to Oregon homeowners – more than half of it going to the top 20 percent of income earners, according to statistics compiled by the Oregon Center for Public Policy, which opposes the deduction.

The majority of homeowners, those in the lower income levels, receive less than 15 percent of those dollars.

"We have, over the years, been spending \$1 billion per biennium on our mortgage interest deduction, and only \$10 million on our emergency housing assistance for distressed renters and the State Homelessness Assistance Program. That's 1 percent of a billion," she said. "We're so out of whack on how we allocate our housing dollars."

The specifics of any modifications to the deduction are yet to be decided, Keny-Guyer said, but it is expected to preserve the deduction for most homeowners, with some limits placed on the highest mortgages.

In Oregon, the mortgage interest deduction, like most state tax laws, directly reflects federal laws. Until recent changes, homeowners were allowed to deduct the interest on mortgages up to \$1 million. Last year, homeowners received nearly \$70

billion in federal deductions.

However, this year, the Trump administration changed the tax policy to allow for interest deductions on mortgages up to \$750,000. Homeowners are also allowed to use the deduction when purchasing a second home. The cap on the mortgage applies only to new homebuyers.

"We will be coming forward with what will be a very reasonable proposal," Keny-Guyer said. "Certainly the intent remains to leave the vast majority of existing homeowners unaffected and really look at just eliminating or reforming the benefits that go to the wealthiest Oregonians who do not need help in affording a home."

Changing one of the largest and most popular tax deductions won't come without a fight. As in the past, the national and local Realtors associations are expected to argue against any modifications to the law, particularly with the changes already at the federal level.

The Oregon Association of Realtors did not respond to requests for an interview, but its position on the deduction has been consistent over the years. The mortgage interest deduction is a strong incentive for homeownership at all income levels, according to the association.

Oregon's homeownership rate hovers around 62 percent. That's just slightly lower than the 63 percent rate in Washington, one of nine states that do not collect income taxes and therefore do not offer the interest deduction. New Hampshire, which also doesn't offer the deduction, has a homeownership rate of 71 percent. Alaska, Florida, Tennessee and Wyoming also do not offer the deduction, and all have homeownership rates higher than Oregon's.

Although the Realtors consistently defend the deduction as an incentive compelling people to buy homes, a survey compiled in the National Association of Realtor's 2018 Home Buyer and Seller Generational Trends report shows the tax benefits are low on the list of reasons for buying a home.

Only 1 percent of all buyers surveyed said tax benefits were the primary reason for buying a home, ranking 14th out of 16 options. This supports critics' view that the deduction benefits people who already chose to buy a home but might be inclined to buy more expensive properties with the deduction.

"The policy continues to be ineffective, inefficient, and it does nothing to address Oregon's severe housing crisis," said Juan Carlos Ordóñez, communications director with the Oregon Center for Public Policy. "It's high time Oregon put its housing resources to the best use, and for that to happen, the mortgage interest deduction needs to be reformed."

Ordóñez said the forthcoming proposal would be "reasonable."

"Certainly the intent remains to leave the vast majority of existing homeowners unaffected and really look at just eliminating or reforming the benefits that go to the wealthiest Oregonians who do not need help in affording a home," Ordóñez said.

The current system, according to Ordóñez, actually does harm to prospective homeowners by artificially inflating pricing. Incentives for housing should be directed at people who are struggling under the region's housing crisis.

"It is truly an indefensible policy," Ordóñez said. "It makes no sense. Every

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