

To: Oregon House Human Services and Housing Committee  
From: Tom Cusack, Lake Oswego resident

Subject: March 11, 2019 Public Hearing, HB 3349 Testimony

I have two comments in support of HB 3349.

***Comment 1:*** *The phase out threshold is so high that the primary impact will be at sales prices of more than \$970,000 and loans of \$776,000 or more. These limits are similar in nature to the soft limits found in recently enacted rent control legislation.*

The 2018 change in Federal tax law established \$750,000 as the maximum mortgage indebtedness that can be used in calculating federal mortgage interest income tax deductions.

Using the National Association of Realtors housing affordability index inputs (20% down payment, 25% of income for mortgage payments) and an interest rate of 5%:

1. A homeowner would qualify for the \$750,000 maximum federal mortgage indebtedness deduction threshold (and a home priced at \$937,500) at an income BELOW the threshold of this bill: \$193,000 vs the \$200,000 threshold. *The phase out provisions of the bill therefore would NOT apply to homes and loans below these amounts.*
2. To reach the \$200,000 starting threshold for phase out would require a home with a sales price/value of \$970,217 and a loan of \$776,173
3. To reach the \$250,000 full phase out threshold out would require a home with a sales price/value of \$1,212,771 and a loan of \$970,217

To summarize (as the table below shows) the proposed limit in the bill:

- *Would NOT impact a borrower at or below the Federal maximum mortgage deduction limit of \$750,000, with a home sales price less than \$937,500.*
- *Would not begin to impact owners until the loan amount exceeds \$776,173, and sales prices exceed \$970,217.*
- *Would not fully phase out the deduction until loan amounts exceed \$970,217, and sales prices exceed \$1,212,771.*

	At Federal Limit	HB 3349 Phase In	HB 3349 Full Phase Out
Sale Price	\$937,500	<b>\$970,217</b>	<b>\$1,212,771</b>
Loan Amount	<b>\$750,000</b>	\$776,173	\$970,217
Income Required	\$193,256	<b>\$200,000</b>	<b>\$250,000</b>

**Comment 2:** *The table on page 2 shows that home owners subject to the phase out of the STATE mortgage deduction would continue to receive **substantial benefit** from loan principal reduction and additional equity from home price appreciation.*

Principal Reduction alone would add to homeowner equity between \$61,000 to \$79,000 by the end of year 5 (Line 10 in the table).

At the end of year 5 home price appreciation, at 2% annually, would add another \$77,000 to \$99,000 to home equity. [ Line 13 in the table].

**At the end of year 5**

**Principal reduction and home price appreciation would increase home owner equity by \$138,000 to \$179,000.**  
[Line 15 in the table].

**That's an average between \$2,300-\$3,000 a MONTH in increased home owner equity**  
[Line 16 in the table]

Note also that ALL homeowners, and especially high-income homeowners:

- Will continue to be able to write off mortgage interest and real estate taxes on their federal returns, subject to the \$750,000 mortgage deduction loan limit and \$10,000 SALT limit.
- Will also be able to *continue* to fully write off their real estate taxes on their state income tax returns.

HB 3349 Mortgage Interest Deduction Phase Out Occurs Only For Loans Above \$775,000, Sales Price Above \$975,000				
Principal Reduction and 2% Annual Appreciation Increases Equity by \$138,000-\$179,000 After 5 Years; \$2,300-\$3,000 Per MONTH				
Line Item	Inputs	At Federal Limit (\$750,000)	HB 3349 Threshold (\$200,000 Income)	HB 3349 Full Phase Out (\$250,000 Income)
1	Purchase Price	\$ 937,500	\$ 970,217	\$ 1,212,771
2	Down Payment	20%	20%	20%
3	Down Payment	\$ 187,500	\$ 194,043	\$ 242,554
4	Loan Amt	\$ 750,000	\$ 776,173	\$ 970,217
5	Int Rate	5.00%	5.00%	5.00%
6	Monthly Payment	(\$4,026)	(\$4,167)	(\$5,208)
7	NAR Qualifying Ratio	25%	25%	25%
8	<b>Income Required</b>	\$ 193,256	\$ 200,000	\$ 250,000
9	<b>Principal Reduction Year 1</b>	\$ 11,065	\$ 11,451	\$ 14,314
10	<b>Principal Reduction End of Year 5</b>	\$ 61,285	\$ 63,423	\$ 79,279
11	<b>Monthly Avg Principal Accumulation at EOY 5</b>	\$ 1,021	\$ 1,057	\$ 1,321
12	<b>Additional EOY 1 Equity with 2% Appreciation</b>	\$ 18,750	\$ 19,404	\$ 24,255
13	<b>Additional EOY 5 Equity with 2% Appreciation</b>	\$ 77,280	\$ 79,977	\$ 99,971
14	<b>Monthly Avg Year 5 Equity BC of 2% Appreciation</b>	\$ 1,288	\$ 1,333	\$ 1,666
15	<b>Total EOY 5 Equity and Price Appreciation</b>	\$ 138,565	\$ 143,400	\$ 179,250
16	<b>AVG Monthly Equity Increase EOY 5</b>	\$ 2,309	\$ 2,390	\$ 2,988