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House Revenue Committee

April 15, 2019

Testimony in Support of HB 3349

Chair Nathanson, Vice-Chairs Findley and Smith Warner, and members of the Committee:

My name is Daniel Hauser, policy analyst for the Oregon Center for Public Policy, and I respectfully submit this testimony in support of House Bill 3349.

Oregon faces a severe housing crisis. Families are being evicted from their homes. The number of homeless school children is near a record level. Homeownership is out of reach for many families. This crisis is not limited to urban areas. Oregon's rural counties are some of the least affordable among all rural counties nationally. Meanwhile, Oregon's biggest housing subsidy — the mortgage interest deduction — is doing nothing to alleviate the problem.

HB 3349 would shift $160 million in the 2021-23 budget period from housing subsidies for Oregon's richest households to investments in affordable homeownership and homeless services with an emphasis on families with children.

Oregon's mortgage interest deduction is a costly, inequitable, and ineffective housing subsidy. The deduction allows those who claim it to reduce their taxable income by the amount of interest paid on mortgage debt of up to $750,000 for new mortgages and $1 million for mortgages prior to 2018. This also includes debt on a second home.

HB 3349 scales back the state mortgage interest deduction for all filing types starting at $200,000 in adjusted gross income, and completely end the state subsidy at $250,000. This protects the deduction for 95 percent of taxpayers – only targeting the richest 5 percent who do not need the state to subsidy their homes.

This bill targets the mortgage interest deduction more intentionally by only permitting it to be used on the principal residence, the home a taxpayer lives in, preventing its use for second homes or vacation homes. This policy change does not, however, impact rental properties. An owner of a rental property deducts the mortgage interest as a business expense – not as part of the mortgage interest.

These two changes trim $160 million off the top of the nearly $1 billion price tag of the mortgage interest deduction, and redirect those savings equally in two funds focused on affordable homeownership and homeless services for families with children.

The current mortgage interest deduction is inequitable, putting at a disadvantage low- and moderate-income Oregonians, Oregonians of color, and rural Oregonians. The benefits accrue to higher income taxpayers because this is an itemized tax deduction – so folks who use the standard deduction do not benefit – and renters inherently receive no benefit.

Oregonians of color have faced generations of discriminatory policies that have excluded them from opportunities for homeownership and economic success. This leaves Oregonians of color with fewer benefits from the mortgage interest deduction, because they are less likely to own a home and are more likely to have lower incomes.

The deduction is also inequitable to rural Oregonians. Nearly nine out of 10 mortgage interest deduction dollars flow to urban areas. There is already significant economic inequality between urban and rural Oregon, and the mortgage interest deduction only adds to it.

Research has shown again and again that the mortgage interest deduction does not increase rates of homeownership. When comparing between states or countries that do and do not have this subsidy, there is no significant improvement in homeownership. Despite this expensive subsidy, Oregon ranks below the national average in homeownership, and even below 13 states that do not have a state mortgage interest deduction.

Economists and analysts across the political spectrum agree that the mortgage interest deduction is poorly designed public policy. It is costly, inequitable, and ineffective.

In the face of the housing crisis afflicting our state, it is urgent that the legislature transform the state's biggest housing subsidy into a vehicle for addressing the crisis. I urge you to enact HB 3349.