Senate Housing Committee

April 1, 2021

Testimony in Support of SB 852

Chair Jama, Vice-Chair Linthicum, and members of the Committee:

My name is Daniel Hauser (he/him), Policy Analyst for the Oregon Center for Public Policy, and I respectfully submit this testimony in support of Senate Bill 852 on behalf of the Center.

The Oregon Center for Public Policy is a think tank dedicated to improving the economic outcomes for all Oregonians, particularly low-income families and Oregonians of color, through research and analysis.

Oregon faces a severe housing crisis. Only the eviction moratorium is stopping families from being evicted from their homes. More than twenty thousand school children don't know where they will sleep at night. 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.

SB 852 would raise nearly $200 million in a single budget period from housing subsidies for Oregon's richest households. These resources would be invested in affordable homeownership and homeless services with an emphasis on families with children. This committee has frequently heard about the need for additional investments in housing, yet heard only limited ways to pay for these valuable investments. SB 852 is a common-sense way to address the housing crisis. It does so without having to raise any new revenue, but by investing current resources more effectively and fairly.

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.

SB 852 scales back the state mortgage interest deduction for all filing types starting at $200,000 in adjusted gross income and completely ends 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 subsidize their homes.

This bill also targets the mortgage interest deduction more intentionally by only permitting it to be used on the principal residence, the home a taxpayer lives in. At a time when so many Oregonians can't afford the rent or to buy a home, it is indefensible for the state to subsidize the purchase of second homes or vacation homes.

These two changes trim nearly $200 million off the top of the more than $1 billion price tag of the mortgage interest deduction and redirect those savings equally into 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; taxpayers who use the standard deduction get no benefit, even if they pay interest on a mortgage. And by definition, renters — whose incomes tend to be lower than those of homeowners — receive no benefit from this housing subsidy.

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 consistently shown 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 12 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. We urge you to enact SB 852.