March 9, 2017
Submitted in Support of HB 2006

Dear Members of the 79th Oregon Legislative Assembly,

We, the undersigned Oregon economists and housing policy experts, respectfully urge you to reform the Oregon mortgage interest deduction by limiting the amount of interest that may be deducted from Oregon income taxes, eliminating the subsidy for high-income households, and ending the possibility of deducting interest from the mortgage of second homes.

Given Oregon's significant challenges with housing affordability and homelessness, we believe that Oregon housing subsidies would be much better focused on strategies to provide emergency housing assistance for those at risk of losing access to shelter, increase the supply of affordable rental units, and facilitate homeownership among households currently priced out of the market by the need for large down payments.

There is wide agreement among economists that the mortgage interest deduction does not effectively increase home ownership.[1] As Edward Glaeser and Jesse Shapiro point out, the value of the subsidy provided by the federal mortgage interest deduction has fluctuated dramatically over time, with swings in the rates of inflation and itemization, but "since the 1950s, the homeownership rate has barely budged."[2]

The Oregon mortgage interest deduction mirrors the federal mortgage interest deduction. At an estimated cost of $1.1 billion in the upcoming budget period, the mortgage interest deduction is Oregon's biggest housing subsidy.[3]

State level mortgage interest deduction programs do not appear to affect homeownership rates among states.[4] Indeed, Oregon offers one of the highest effective mortgage subsidy rates of any state, but home ownership rates in Oregon in 2016 were below average.[5]

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[1] Christian A. L. Hilber and Tracy M. Turner, 2014. "The Mortgage Interest Deduction and its Impact on Homeownership Decisions." *Review of Economics and Statistics* 96(4): 618-637; Jason Fitchner and Jacob Feldman, Reforming the Mortgage Interest Deduction, Mercatus Center at George Mason University, June 2014; Andrew Hanson, Size of Home, Homeownership, and the Mortgage Interest Deduction, Marquette University, September 2012; Eric Toder et. al., Reforming the Mortgage Interest Deduction, Urban Institute, April 2010 at pp. 2-5; William Gale et. al., Encouraging Homeownership Through the Tax Code, Tax Notes, June 18, 2007, pp. 1179-1181; Edward L. Glaeser and Jesse M. Shapiro. 2002. "The Benefits of the Home Mortgage Interest Deduction." National Bureau of Economic Research Working Paper 9284. Cambridge, MA.

[2] Edward L. Glaeser and Jesse M. Shapiro. 2002, p. 3.

[3] Oregon Department of Revenue Research Section. State of Oregon Tax Expenditure Report: 2017-19 Biennium. Salem, OR: Oregon Department of Administrative Services, 2016, p. 89

[4] Glaeser and Shapiro, 2002.

[5] Glaeser and Shapiro, 2002, p. 49; Christian A. L. Hilber and Tracy M. Turner, 2014, p. 625; U.S. Census Bureau, 2016. "Home Ownership Rates by State, 2005 to the Present." https://www.census.gov/housing/hvs/data/rates.html

Further, the subsidy to homeownership provided by the mortgage interest deduction "creates tax savings overwhelmingly for the top deciles of the income distribution."[6] In Oregon, 61 percent of benefits from the state mortgage interest deduction go to the wealthiest fifth of Oregonians.[7]

Oregon's mortgage interest deduction is ineffective, inequitable and costly, at a time when we face severe housing needs. Clearly, Oregon would be better off putting the revenue currently lost to the state mortgage interest deduction toward effectively addressing Oregon's housing affordability crisis.

In sum, we urge you to support the reforms proposed by HB 2006 to eliminate the subsidy for second homes, end the subsidy for primary residences of upper-income households, and limit how much interest other homeowners can deduct.

Respectfully yours,*

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[6] Glaeser and Shapiro, 2002, p. 4.
[7] Oregon Department of Revenue Research Section. State of Oregon Tax Expenditure Report: 2017-19 Biennium. Salem, OR: Oregon Department of Administrative Services, 2016, p. 89

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