Fact Sheet: Reallocate Mortgage Interest Deduction Funds

Summary

This proposed bill would repeal California's Mortgage Interest Deduction on second homes & re-allocate $250 million annually to provide additional funds to the California Housing Finance Agency's MyHome Assistance Program.

Homeownership in California

- Second lowest in the nation - The homeownership rate for Californians is second-lowest in the nation at 53.8%.
- Diverse communities are underserved - The figures are worse when broken down by race with, respectively, only 34.5% of Black people & 41.9% of Latinos are homeowners. While the top line figures for the Asian American community are not as framatic, in California there are many underserved Asian American communities that lack access to homeownership and were severely hurt by the foreclosure crisis.
- MID is not effective at serving first-time homebuyers - A first-time homebuyer's down-payment directly subsidizes the acquisition of a home, in contrast to the MID that often supports maintaining or increasing mortgage debt for a tax benefit.

Who Benefits from the MID on 2nd Homes?

- Approximately 175,000 Californians benefit from second-home MID, according to California's Franchise Tax Board.
- Six-figure income households capture about $0.80 of every dollar from mortgage interest and property tax deductions. MID is regressive and most of the benefits flow to families that can afford larger homes.
- The Mortgage Interest Deduction is an entitlement program, which means that the subsidy is guaranteed to anyone who applies, unlike programs aimed solely at working-class families which often require lengthy applications and limited availability of funds.

Proposal: Repeal California's Mortgage Interest Deduction on 2nd Homes

- Cut a wasteful tax subsidy for the wealthy - The MID subsidy on second homes cost taxpayers $230 million annually. If the MID for second homes are discontinued, the wealthier-than-average Californian would owe about $1,000 in taxes annually.
- Support first-time homebuyers and the businesses that serve them - If the goal of the MID is to

encourage home-ownership, there is no reason to extend that benefit to second homes. A repeal of MID for second homes would benefit first time homebuyers, but also all of the businesses that focus on building homes for working families. These could include small builders, local architects, construction workers, and realtors that focus on first time home buyers.

This bill would re-allocate $250 million annually to first-time home buyers:

- Create 25,000 first-time home buyers - By directing funds to California Housing Finance Agency's MyHome Assistance Program, and other programs that support moderate income homeownership, the ~$230 million could be used to create approximately 25,000 first-time homebuyers.
- Address historic redlining - 65-70% of CALHFA first-time home loans go to mostly people of color, helping reverse historic redlining practices. More than seven in ten borrowers make less than $100,000 annually.
- Create better homeowner data - Currently, state tax forms do not identify a person's primary and secondary residence to claim the mortgage interest deduction, the bill would clearly identify and split a person's primary residence and secondary residence by 2024.

History of the Mortgage Interest Deduction (MID)

The mortgage interest deduction was instituted federally in 1913. Owning property was less common then, and most people who purchased homes paid upfront rather than taking out a mortgage. It made sense 100 years ago to provide a broad tax subsidy to reduce the upfront cost of housing but in 2021 the consensus is that the MID does not really do much, if anything, for low-to-moderate income first time homebuyers.

A few decades later, when homeownership expanded to middle-class suburbs, the

mortgage interest deduction was adopted at the state level hoping it would increase homeownership. Contrary to this belief, The Federal Reserve of St. Louis calculated that state mortgage deductions similar to California's are regressive and inefficient, ultimately resulting in larger, less-affordable homes, increases the likelihood of mortgage defaults, and actually reduces the homeownership rate by about 5%.

MID Repeal at the Federal Level

The Federal Tax Cuts and Jobs Act of 2017 reduced the amount of mortgage interest a homeowner can claim on federal income tax filings for primary and secondary residences up to $750,000 for each home's value. The Republican-led tax bill reduced the amount of interest a filer can claim to a rate lower than California's $1 million value deduction for each home.

CALIFORNIA YIMBY

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