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# “A New Safety Net for Working Families”

## Some Comments

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Urban Institute Forum  
January 13, 2009

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# General Comments

## **Thoughtful, informative, balanced**

Learn about:

Social Safety Net programs, and interactions

Assets of lower-income families

## **Serious**

Recognize possible negative consequences of proposals, and discuss them

## **Comments offered in same spirit, I hope**

Somewhat different judgment on needs and negatives

Focus mostly on housing

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# Housing Tax Expenditures (2007, in \$billions)

- Deductible by both landlords & homeowners
  - Mortgage interest \$79
  - Property taxes \$15
  - Capital gains exclusion \$37
    - Total \$131
- Deductible by homeowners only
  - Imputed rental income \$32
- Deductible by landlords only
  - Accelerated depreciation \$11
- **Net homeowner subsidy: \$21**
  - Partly offset by landlords' ability to deduct maintenance & operating expenses

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# The Mortgage Interest Deduction: Promoting Homeownership? (first time homebuyers in 2005)

Median Income	\$ 55,000	
Standard Deduction		\$10,000
Median House Price	\$150,000	
Median Mortgage	\$130,000	
Mortgage Interest Rate	5.86%	
Mortgage Interest		\$ 7,600
Property Taxes		\$ 1,200
Other Deductions Needed to Itemize		\$ 1,200

The median-income homebuyer would itemize in every large state except New Jersey

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# The Mortgage Interest Deduction: Income and Age (Itemizing Homeowners in 2004)

Age	Income		
	<\$40k	\$40-\$75k	\$75-\$125K
25-35	54%	74%	97%
35-50	52%	78%	92%
50-65	34%	64%	83%
Over 65	4%	38%	56%
All	23%	66%	86%

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# “Shortage of Affordable Rental Housing”

- Rental Vacancy Rate:9.9%
    - Above 9% since 2002
    - “Normal” rate is about 6%
  - Markets with Vacancies Below 6%
    - 12 of largest 75
    - New York & Boston; California & Pacific rim
      - Elsewhere: Baton Rouge & Salt Lake City
  - What They Have in Common: Regulatory Barriers to Affordable Rental Housing
  - Why Spend Federal Money in These Markets?
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# Assets of Lower-income Households (means for second decile)

	1989	2004
Checking accounts	\$ 500	\$ 800
Cars (net of car payments)	\$1200	\$2500
Retirement accounts	\$ 150	\$ 350
Home equity	\$ 200	\$1000
Net worth	\$1300	\$3000

(includes other assets and debts)

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# Assets of Lower-income Households (means for fourth decile)

	1989	2004
Checking accounts	\$ 3400	\$ 4000
Cars (net of car payments)	\$ 4800	\$ 7400
Retirement accounts	\$ 1600	\$ 6400
Home equity	\$12000	\$18000
Net worth	\$25000	\$37000
(includes other assets and debts)		

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# Conclusions

Lower-income households already building assets

Levels are low

Growth is positive

Generous inducements to save – what about households a bit better off?

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