Affordable Housing Finance in the Wake of the Subprime Crisis:
Why We Need a Transaction Fee on Mortgage-backed Securities and Derivatives

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**Acronyms**

<table>
<thead>
<tr>
<th>Term</th>
<th>Acronym</th>
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<tr>
<td>Area median income</td>
<td>AMI</td>
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<td>American Recovery and Reinvestment Act</td>
<td>ARRA</td>
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<td>Extremely low-income households</td>
<td>ELI</td>
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<td>Government sponsored enterprises</td>
<td>GSEs</td>
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<td>Housing Finance Agency</td>
<td>HFA</td>
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<td>Home Mortgage Disclosure Act</td>
<td>HMDA</td>
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<td>Housing and Urban Development</td>
<td>HUD</td>
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<td>Low-Income Housing Tax Credit</td>
<td>LIHTC</td>
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<tr>
<td>Mortgage backed securities and derivatives</td>
<td>MBS/D</td>
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<td>Mortgage interest deduction</td>
<td>MID</td>
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<td>Metropolitan Statistical Area</td>
<td>MSA</td>
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<td>National Housing Trust Fund</td>
<td>NHTF</td>
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<td>Over the counter</td>
<td>OTC</td>
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<td>Qualified Allocation Plan</td>
<td>QAP</td>
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<td>Tax Credit Assistance Program</td>
<td>TCAP</td>
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<td>Tax Credit Exchange Program</td>
<td>TCEP</td>
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Executive Summary

Considering the recent economic crisis that has severely limited the effectiveness of current federal programs to fund affordable housing and with multiple pieces of legislation to reform the housing finance system under consideration by the 112th Congress\(^1\), it is an opportune time to evaluate new ways to fund the development and preservation of affordable housing. While a new program that would produce and preserve affordable housing has been created, the National Housing Trust Fund (NHTF), it currently lacks funding. The proclivity to use financial products such as securities and derivatives to mitigate risk in the housing market provides regulators with a potential new funding source for the NHTF—a tax on mortgage backed securities and derivatives (MBS/D). An ex-post analysis of 2006 mortgage data in the Washington, DC Metropolitan Statistical Area indicates that this proposed funding source has an opportunity to become a substantial revenue component to meet the growing demand for affordable housing for extremely low income households. Specifically, results indicate that using a MBS/D tax to fund the NHTF would provide more resources for affordable housing than current programs like the Low Income Housing Tax Credit without raising the federal deficit.
1. Introduction

The shortage of affordable and accessible housing units for households with extremely low income has been consistently documented by the U.S. Department of Housing and Urban Development (HUD), and national housing advocacy organizations such as the National Low Income Housing Coalition. In 2005, as the housing boom neared its peak, there were only forty housing units affordable and available nationwide for every one hundred ELI households. This study hypothesizes a tax on mortgage backed securities and derivatives would require fewer direct subsidies and tax expenditures than are currently used to support the Low-Income Housing Tax Credit (LIHTC). Additionally, when paired with the National Housing Trust Fund (NHTF), revenue from the MBS/D tax would produce and preserve ELI housing without increasing the federal deficit.

This study will approach the hypothesis from two perspectives. First, the study will determine if the LIHTC, the federal government’s largest program for the production and preservation of affordable housing, meets the housing needs of ELI households. It will be shown that billions of dollars are spent annually to support the LIHTC, while the amount of affordable and accessible housing for ELI households continues to decline. Second, this study will calculate the amount of revenue that could be generated by a proposed tax on mortgage backed securities and derivatives that are backed by jumbo-sized mortgages.

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¹ Extremely low-income households (ELI) are defined as having income at or below 30% of the area median income.
There is ample evidence of the economic benefit of building housing for communities in the short and long-term. Furthermore, by building or renovating housing that is affordable for ELI households, these households will spend less of their income on housing. By living in affordable housing, households have more of their income available to spend on other necessities such as food, transportation and healthcare. Additional spending by ELI households will contribute to an economic multiplier that will benefit local and regional economies. These benefits can be used to illustrate the advantages of pairing the proposed MBS/D tax revenue with the NHTF in an effort to help build political support and increase political feasibility.

Legislation such as the Gramm-Leach-Bliley Act (1999) and the Commodities Futures Modernization Act (2000), led to significant reorganization within the financial services industry, as well as the growth of products such as securities and derivatives. Furthermore, the emergence of non-depository financial entities contributed to the unrestrained growth of the banking, credit and financial services industries and helped fuel the environment that allowed the housing market bubble. Rather than using the federal tax code via the LIHTC to incentivize market involvement in the preservation and development of affordable housing, the MBS/D tax would generate revenue for the NHTF to preserve and develop housing affordable to extremely low income households and act to restrain the growth of jumbo mortgages in size and number.

2. The National Housing Trust Fund (NHTF)

The NHTF was established by Congress in July 2008 in response to the increasing need for housing that is affordable to ELI households. The NHTF was created after a multi-year campaign by thousands of supporters nationwide including elected officials, religious leaders,
housing developers, social service providers, tenant associations, labor unions, healthcare organizations and other advocates at the national, state and local level. The original source of funding for the NHTF was a fee on the new business of Fannie Mae and Freddie Mac, entities otherwise known as government sponsored enterprises (GSEs). In September 2008, these GSEs were placed into conservatorship as a result, in part, of their exposure to underperforming mortgages and mortgage backed securities. After being placed into conservatorship, the federal government suspended payments to the NHTF from the GSEs. To date, the NHTF remains unfunded.

The NHTF is the only federal housing development program that mandates its funds be used by private and non-profit developers to build and preserve housing affordable for ELI households. All NHTF funds must be used to develop affordable housing for households with incomes at or below 50% of the area median income and 75% of the funds must support the development or preservation of affordable housing for ELI households. If used, NHTF regulations require 90% of the funds must be used to develop rental housing, while the remaining 10% can be used to develop housing for home ownership.

Any revenue put into the NHTF is allocated to state designated entities based on statutorily defined criteria. To date, most states are still in the process of identifying the entity that will distribute NHTF funds.

3. The Low Income Housing Tax Credit (LIHTC)

Federal policies frequently involve engaging with the private market to provide affordable rental housing. To help developers lower the cost of building and preserving
affordable housing, federal policy uses direct grants and loans through programs such as the HOME Investment Partnership Program. In addition to grants and loans, the federal government uses private market incentives in the form of tax credits for investors through the LIHTC program.

Since its inception in 1986, the LIHTC program has become the primary source of revenue for companies and organizations to develop and preserve affordable housing. Projects are eligible for LIHTCs if a minimum of 20% of the units are affordable for households earning up to 50% of the area median income (AMI) or if 40% of the units are affordable for households earning up to 60% AMI. In 2006, the LIHTC cost the federal government an estimated $4.8 billion and produced or preserved 48,993 units of housing, of which 46,118 (94.13%) were low income units. Between 1987 and 2007, the LIHTC has helped build 1.8 million units of housing. The HOME Investment Partnership Program is the second largest affordable housing development program; HOME received $1.757 billion in fiscal year 2006 and subsidized 307,000 affordable rental units between 1992 and 2007 (138,000 new; 153,000 rehabilitated; 16,000 acquired).

All states, the District of Columbia, the Virgin Islands and Puerto Rico receive annual allocations of LIHTCs from the U.S. Treasury based on population. In 2006, the amount of tax credits each state received was calculated by multiplying state population by $1.90.

Typically a state’s Housing Finance Agency (HFA) handles allocation of tax credits within the state. After receiving the annual allocation of tax credits, state HFAs use their

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Data about housing units benefiting from 2006 LIHTC allocations were found using the LIHTC database (http://lihtc.huduser.org/), selecting 2006 as the credit allocation year and placing no other restrictions on the search (such as year placed in service).
Qualified Allocation Plan (QAP) to determine which projects will receive tax credits. Housing developers must apply to HFAs for tax credits, but at least 10% of the credits are required to go to non-profit developers.\textsuperscript{12}

The maximum rent allowable for LIHTC units is 30% of either 50% or 60% AMI.\textsuperscript{13} The LIHTC program sets a higher rent ceiling than programs such as Housing Choice Vouchers (i.e. Section 8 vouchers) where participants pay 30% of their income. To illustrate, the Smith family is an ELI household living on a monthly income of $2,000 in Baltimore where the area median income is $82,200. If the Smith family used a housing voucher to pay for their housing, they would pay $600 (30% of income). However, if the Smith household lived in a unit built or preserved using LIHTCs, the rent on this unit could be either $1,028 (30% of 50% of AMI) or even $1,233 (30% of 60% AMI). If the Smith household lived in an LIHTC unit, they could spend upwards of 61% of their income to live in “affordable” housing. After housing costs, the Smith household could be left with only $767 per month for food, transportation, medical costs and other necessities. The tendency for an ELI household to spend a large proportion of their income on housing while participating in the LIHTC program is a key reason why the LIHTC program has been unable to meet the needs of ELI households.

To obtain capital for LIHTC projects, developers frequently work with both for-profit and non-profit syndicators. Syndicators use limited partnerships to attract and minimize investors’ risk. Syndicators manage portfolios containing the tax credits of multiple projects and ensure that projects comply with LIHTC requirements. The amount of capital developers gain access to as a result of LIHTCs is therefore predominantly determined by the price investors are willing to pay for the tax credits minus the total cost of any syndicator fees.\textsuperscript{14}
Historically, the major investors in LIHTCs have been financial services institutions, banks and GSEs, such as Fannie Mae and Freddie Mac. These institutions purchase LIHTCs to offset the amount of taxes owed on profits. The decline of the housing market and the overall economy has either erased or greatly reduced the profits of LIHTC investors. This has resulted in a decline in demand for LIHTCs and a corresponding decrease in LIHTC prices. In 2006, many investors were using LIHTCs to reduce their taxable income from profits. As a result, an average price of $1 was being paid for every $1 of tax credit. By June 2008, however, the economic downturn reduced investor profits and brought the price paid for every $1 of tax credit to less than $0.75. These changes in the prices paid for tax credits have severely limited the amount of capital available for the preservation and development of affordable housing.

Both LIHTCs and the HOME program have played important roles in providing and preserving housing for low income households in the past. However, the capital limitations facing the LIHTC program are coupled with increased levels of unemployment due to the economic crisis and record foreclosure levels. These factors are compounding the existing problems of households spending an escalating amount of their income on housing, and an increase in the demand for rental housing affordable to people with lower incomes despite falling home prices.

4. Measuring Housing Needs Using the Mismatch Ratio

With the FY 1991 appropriations bill, the Senate Appropriations Committee directed HUD to begin reporting to Congress on worst case housing needs. While the metrics used by HUD have limitations as measures of housing need, they do illustrate the increasing difficulty
ELI households face in finding affordable housing. One measurement used by HUD for these reports has been the mismatch ratio, which determines the number of units affordable and accessible for every one hundred ELI renter households. HUD defines housing as affordable when no more than 30\% of the household’s income is spent for rent and utilities. HUD defines a unit as accessible if it is either vacant or occupied by renters whose income is below the income range’s upper cutoff.

When the mismatch ratio was first used in 1996, HUD reported there had been 114 units of housing affordable for every one hundred ELI households in 1970. Recognizing that a unit may be affordable but not accessible to ELI households, HUD began reporting on the number of units that met this criterion as well. As the table below shows, there has been a fairly steady decline in the number of units affordable and accessible to ELI renter households. In 1991, five years after the LIHTC was established, there were fifty-two units affordable and accessible for every one hundred ELI renter households. By 1993, this figure had declined to forty-six units nationwide and by 2008 this figure had dwindled to thirty-eight.

While the number of units affordable and accessible to ELI households continues to decline, the nature of the LIHTC’s design makes it difficult for the program to meet the demand in the ELI segment of the housing market. In the May 2010 issue of Housing Policy Debate, Dr. Kirk McClure, of Kansas University’s School of Architecture and Urban Planning notes that “because the LIHTC provides exactly the same benefit to a development whether it opts for the higher [income] limit or the lower [income] limit, an overwhelming majority of developments have rents at or very close to the maximum allowed.” These higher rents increase the cash flow levels for a development, making the overall development easier to finance, operate, and
maintain. This aspect of the LIHTC program largely explains why it has not addressed the affordable housing needs of ELI households despite this demographic having the greatest need.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Units Affordable and Accessible per 100 ELI Households</th>
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<tbody>
<tr>
<td>1991</td>
<td>52(^{23})</td>
</tr>
<tr>
<td>1993</td>
<td>46(^{24})</td>
</tr>
<tr>
<td>1995</td>
<td>43.9(^{25})</td>
</tr>
<tr>
<td>1997</td>
<td>42.3(^{26})</td>
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<tr>
<td>1999</td>
<td>42(^{27})</td>
</tr>
<tr>
<td>2001</td>
<td>43.5(^{28})</td>
</tr>
<tr>
<td>2003</td>
<td>42(^{29})</td>
</tr>
<tr>
<td>2005</td>
<td>40(^{30})</td>
</tr>
<tr>
<td>2007</td>
<td>39(^{31})</td>
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<tr>
<td>2008</td>
<td>38(^{32})</td>
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5. The Tax Credit Assistance Program and the Tax Credit Exchange Program

The decline in the market for LIHTCs has significantly restricted the capital available for the development and preservation of affordable housing. In response, the Obama administration established two new supplementary programs in February 2009. The Tax Credit Assistance Program (TCAP) and the Tax Credit Exchange Program (TCEP) are administered by HUD and U.S. Treasury respectively. Created as part of the American Recovery and Reinvestment Act (ARRA), the programs address the collapse of the LIHTC market in different manners, but with the same end result—direct subsidies to state housing finance agencies.

The first program, TCAP, provides grants to the state-level entity that administers the LIHTCs, generally state HFAs. Grants are given for affordable-housing projects that had been awarded LIHTCs in 2007, 2008 and 2009. The HFAs award grants based on a HUD designated
formula; however priority must be given to projects that are expected to be finished by February 2012.\textsuperscript{33} TCAP received a $2.25 billion allocation via ARRA.\textsuperscript{34}

The second program, TCEP, authorizes the Treasury to provide eighty-five cents on the dollar to HFAs in exchange for unused LIHTCs from 2008 and 2009.\textsuperscript{35} Money provided to HFAs after exchanging LIHTCs can be used to give either grants or loans to developers of affordable housing. The grants or loans are not required to be given to a project that had been previously awarded LIHTCs, however any project receiving TCEP money must still meet LIHTC income, rent and use restriction requirements. As of June 30, 2010, the Treasury Department reported they had awarded states nearly $5.5 billion via the TCEP and that states had in turn awarded more than $4.1 billion to eligible projects.\textsuperscript{36}

In his book, \textit{Housing Policy in the United States}, Dr. Alex Schwartz, Chairman of The New School’s Department of Urban Policy Analysis and Management, notes that both the TCAP and the TCEP resemble “direct subsidy program[s] more than a tax incentive.”\textsuperscript{37} Schwartz points out that the TCAP and the TCEP are more efficient in distributing resources to affordable housing developments because there are fewer actors involved in the overall process. As a result, less money is used for administrative efforts such as reporting and regulatory compliance monitoring. Despite these programs being more efficient, the amount of money these programs provide to developers continues to use the complex formula outlined in the LIHTC program. Furthermore, Schwartz notes that “the tax credit’s regulatory requirements make the management of mixed-income tax credit developments especially burdensome.”\textsuperscript{38} These problems underscore the need for a new mechanism to fund the development of affordable housing.
6. **Mortgage Backed Securities and Derivatives**

Mortgage backed securities can also help provide capital for affordable housing in the same manner as they help provide liquidity for home ownership. The Pew Charitable Trust working group on financial systems reform cites the growth of the derivatives market from having a total notional value of approximately $198 trillion in 1998 to approximately $1,000 trillion in 2007.\(^3\) The proliferation of derivatives in the last ten years demonstrates the market’s enthusiasm for the ability of these innovations to assist in minimizing risk in the short run, thereby allowing greater leverage and larger profits\(^iii\). The failure of the market and government regulators to make sure mortgage-backed securities and derivatives were based on appropriately valued assets is a separate issue than the overall ability of the mechanisms to perform their intended functions. Overvalued assets, imprudent lending standards, and inaccurate financial product ratings were key components in the housing bubble and ensuing crisis. These elements combined with a lack of government oversight and a consumer market compelled to become involved in the expected continuous growth of the housing market to bring the global economy to the cusp of collapse. Many of these issues continue to plague the United States economy and global financial institutions.

Alterations in the types of mortgages being originated corresponded with changes in who held the outstanding loans. From 1990 to 2006, the peak year for U.S. housing prices, ownership of mortgages for one to four family properties shifted markedly toward secondary mortgage

\(^{iii}\) Derivatives are types of financial products whose value is based on the value of an underlying asset. Some derivatives’ values are based on other financial products or a combination of financial products. For example, mortgages can be pooled together and mixed in various ways to form a mortgage backed security (MBS). Multiple securities can be pooled together and securitized to form a derivative that is known as a collateralized debt obligation (CDO). A CDO is a financial product whose value is derived from an underlying asset such as mortgage backed securities. As the market began seeing large profits from MBSs and CDOs, a form of insurance was developed. With “insurance” on initial MBSs and CDOs, the market allowed firms highly leveraged in MBS and CDOs to take on more debt. The “insurance” is another example of a derivative call a credit default swap (CDS). A CDS’s value is derived from the MBSs and CDOs it insures. These financial products offered the market additional opportunity to take advantage of rapidly rising housing prices.
markets and private issuers. In 1990, depository institutions held 41.3% of mortgages on one to four family properties, while the secondary mortgage market held 44.4% with private security issuers accounting for 2.1%. By 1995, depository institution holdings declined to 34.6% of this market, while secondary market holdings rose to 56.2%, with private issuers holding 5.6%. In 2005, depository institution holdings further declined to 31.9%, with secondary market holdings rising to 58.6% and private issuers holding 17.3%. These changes are noteworthy since the amount of money in this market rose by 211% from $4.889 trillion in 1995 to $10.345 trillion in 2005 (in 2008 dollars).

However, the changes in the year from 2005 to 2006 should be particularly noted. Between 2005 and 2006, depository institution holdings declined from 31.9% to 30.9%. This one percentage point decline is the same amount of decline as was seen in the preceding five years. Private issuer’s holdings rose from 17.3% in 2005 to 20.4% in 2006, when this sector held only 5.6% in 1995. These are rapid and substantial changes in market dynamics in an exceptionally short period of time as the market also grew by 7.8% from $10.345 trillion to $11.154 trillion.

Changes in the mortgage origination market and who held those loans were reflected in the mortgage securitization market. Historically, the GSEs had been the primary providers of MBS and in 2003 the private sector held 22% of the $2.7 trillion issued mortgage securities. By 2004, the private sector held 46% of mortgage securities and by 2006 the private sector held more than 55%. In 2006, the GSEs were issuing approximately $1 trillion in MBS while the private market issued approximately $1.2 trillion. In retrospect, this change in the dynamics of the securitization market provides evidence of how the purpose of secondary mortgage market
morphed from helping provide liquidity for the primary mortgage market into the profitable reason for originations.

A lack of regulatory enforcement surrounding existing financial products, the unprecedented rapid development in which new financial products were created and the volume at which products were traded were key factors contributing to the current economic crisis. The lack of regulatory oversight in the “over the counter” (OTC) derivatives market is a prime example of widely used financial products that were not monitored.

The confluence of these factors provided little restraint on the private-label market for MBS/D. While the proposed tax on MBS/D cannot stop the market from exploiting gaps in regulatory enforcement, it can provide a mechanism to help moderate the unrestrained growth of the private label MBS/D market which helped fuel the unsustainable acceleration of housing prices. The proposed MBS/D tax will offer a moderate disincentive for securities to use jumbo loans. A disincentive to securitize jumbo loans may act to encourage the origination of smaller mortgages. When revenue generated by the MBS/D tax is paired with the NHTF, the production and preservation of housing affordable for ELI households will increase. As a result, greater levels of affordability and more sustained levels of growth within the overall housing market can be expected.

7. Data and Methods

For the reasons discussed above, new approaches to fund the growing need for affordable housing are required. The expenditures used to support the LIHTC program can be compared against the potential revenue that could be raised with the proposed new tax on MBS/D.
This paper uses an ex-post analysis of 2006 mortgage data to approximate the potential revenue the MBS/D tax could generate for preservation and development of housing for extremely low income households.

The revenue generated by the proposed MBS/D tax will be approximated using the rate of taxation used to generate revenue for the NHTF that was included in H.R. 3221. Enacted into law in July 2008, H.R. 3221 funded the NHTF using “4.2 basis points for each dollar of the unpaid principal balance of [the GSE’s] total new business purchases’ each year.” Therefore, using the 4.2 basis point rate of taxation, the proposed MBS/D tax is suggested to apply to any security or derivative using jumbo mortgages to back the product. The assessed tax on a financial product would be 4.2 basis points multiplied by the sum of the jumbo sized mortgages that are a part of a given MBS/D.

To determine the potential revenue that could be generated by the proposed tax, this study assumes that all jumbo loans are sold and resold at least three times into various securities or derivatives. This assumption is based on email communication with Mr. Peter Zorn, Vice President of Housing Analysis and Research at Freddie Mac and Ms. Nomi Prins, a Senior Fellow at Demos and former manager at both Goldman Sachs and Bear Sterns. Both Mr. Zorn and Ms. Prins confirmed that jumbo loans are likely to be sold and resold in at least three forms of securities and/or derivatives (e.g. a jumbo loan is likely to initially be a part of security A. Security A is likely to be a part of security/derivative B. Security/derivative B is likely to be a part of derivative C. Therefore the jumbo loan was sold as part of three securities or derivatives.).
8. Results

The volume of data held in an entire year’s Home Mortgage Disclosure Act (HMDA) file prohibited analysis using all 2006 data. Therefore, only data from the District of Columbia Metropolitan Statistical Area (DC MSA) from the 2006 HMDA was used to approximate the amount of revenue generated by the suggested MBS/D tax. The DC MSA contains the District of Columbia as well as counties and cities from northern Virginia and Maryland and loan level data was identified from the HMDA Loan Application Register.47

In 2006, to qualify as a jumbo (or non-conforming) loan, a mortgage needed to be greater than $417,000 for a one-unit property.48 Conforming loan-limit levels vary based on the number of units within a property. However, HMDA data only categorizes loan level data in terms of one to four family unit, manufactured housing, and multifamily housing. For the purposes of this study, it was assumed that manufactured housing would not require a jumbo loan, so loans identified for manufactured housing were not analyzed. Additionally, HMDA data does not report the number of units, but conforming loan levels are dependent on the number of units in a property. Therefore, properties reported as multi-family were also not analyzed. After removing these portions of HMDA data, only data on one to four family units remain. Due to uncertainty about the number of units in the one to four family HMDA data, this study assumes that all remaining data was on mortgages for single family properties and therefore the conforming loan level for a single unit ($417,000) was used. This assumption may result in some loans being considered jumbo/non-conforming when they would qualify as a conforming loan given the number of units in the property.
HMDA data also categorizes the “Action Taken” on a loan. For the purposes of this analysis, loans were selected only if they were classified as “Loan Originated” which indicated a loan was, in fact, originated. Additionally, HMDA classifies some loans as “Loan purchased by the institution” indicating a loan was sold to a secondary investor. Loans identified as being purchased by an institution were also included in this study’s analysis. Loans were not included in the analysis if they were classified as having been approved but not accepted, the loan application was denied, the application was withdrawn by the applicant, a loan file was closed for incompleteness, pre-approval was denied or the pre-approval was approved but not accepted.

Given these qualifications, there were 70,693 loans in the DC MSA greater than or equal to $418,000 (i.e. above the $417,000 conforming loan limit) with the highest being for $9,500,000. The average loan was for $592,000 with the median being $531,000.

The sum of these loans was $41,909,546,000. This sum multiplied by the proposed level of taxation of 4.2 basis points (0.00042) is $17,609,674.

Using the methodology described in the previous section of this report, the tax generated from the jumbo loans ($17,609,674) would be multiplied by three to provide an estimate of $52,806,028 generated by a MBS/D tax on jumbo loans in the DC MSA in 2006. Preliminary estimates predict every $1 billion in the NHTF would create 18,900 jobs nationwide. In addition, it is estimated that the average national cost to create a unit of housing is $100,000.

9. Public Policy

With federal commitments to the LIHTC program via the TCAP and TCEP program totaling $7.75 billion, the federal government has continued to invest resources in the
development of affordable housing. However, as the earlier table shows, the amount of housing affordable and accessible to ELI households has continued to decline despite investments in the LIHTC program, TCAP, and TCEP. With the NHTF’s statutory requirements aimed at addressing the housing needs of ELI households specifically, pairing revenue generated by the proposed MBS/D tax with the NHTF is a viable way help meet these housing needs.

It should also be noted that conforming loan limits were raised beginning in 2008 to take into account the geographic diversity of housing. The limit for a one-unit property in a “high-cost” area was raised to $729,750. This change is likely to have a substantive impact on MBS/D revenue projections that are based on HMDA data in years after 2008.

The MBS/D tax should also provide a market incentive for lenders, developers and consumers to favor properties that fall below conforming loan limits and focus on smaller and less expensive housing. Over time, by taxing MBS/D based on jumbo loans and channeling the revenue into the NHTF, areas with high housing costs should see more development of lower cost housing, creating a moderating effect on overall housing prices. Thus, households will spend less on housing costs and more on other necessities, resulting in an economic multiplier effect benefiting local and regional economies and governments. Additionally, the implementation of a MBS/D tax provides a mechanism for moderating the impact of existing sources of housing market interference, such as the mortgage interest deduction (MID).

If enacted, administration of the MBS/D tax could be coordinated by the SEC’s Division of Enforcement and the newly established Division of Risk, Strategy and Financial Innovation. These entities are situated to ensure proper compliance, while monitoring and documenting the
The evolution of financial product innovations. Revenue generated by the MBS/D fee could be collected quarterly by the SEC from MBS/D originators with annual revenue transfers to HUD for capitalization of the NHTF.

If the United States is to minimize the impact poverty has on communities, access to affordable housing will be critical. A dedicated funding source for the NHTF, such as the proposal outlined in this study, offers an alternative way to fund the development and preservation of affordable housing without increasing federal expenditures. In a time of rising demand for affordable housing and rising government deficits, new options to fund affordable housing must be considered and the proposed MBS/D tax provides the opportunity to begin that conversation.

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