



TEXAS LOW INCOME HOUSING INFORMATION SERVICE

HOUSING MATTERS

A newsletter dedicated to the goal that every Texan should have decent, safe, affordable housing

Housing assistance bypasses neediest in Texas and the US

TxLIHIS has consistently advocated more attention and resources be directed toward the housing needs of the poorest Texans. We are deeply troubled that most government housing subsidies go to upper and middle-income households rather than to the poor, who live in the worst housing conditions.

Consider this: in 2003, the federal government spent \$57.2 billion

in housing-related tax expenditures on households in the top income bracket, those with an annual income of \$148,138. This is nearly two times what the government spent on housing subsidies for the working poor, those with incomes below \$18,500.

In fact, only one federal housing program is considered an entitlement: the homeowner tax deduction. Every homeowner with enough deductions to itemize their return can benefit from the tax deduction for mortgage interest, property taxes and home equity loans. Meanwhile, less than 12% of the poor families in Texas who qualify actually see any housing assistance at all. Public housing and Section 8 programs are funded at such low levels that they are rationed, leaving most low-income families unassisted or on waiting lists.

Government subsidy of two typical homeowners

Both homeowners are fictional hypotheticals and are used as examples only.



Housing tax subsidy = \$91,924
Direct housing assistance = \$0

*Above: Mortgage: \$200,000
Loan term: 8% interest, 30 year note
Total interest paid over 30 years: \$328,300
Owner tax bracket: 28% (income = \$125,000/yr)
Net tax subsidy over 30 years: \$91,924
Property taxes, home equity loan deductions not included.*




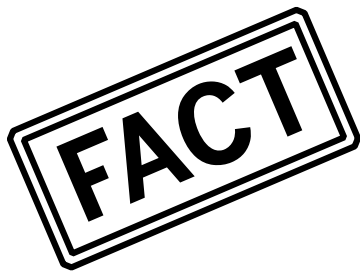
Housing tax subsidy = \$0
Direct housing assistance = \$0

Above: Home in South Texas colonia, owner earns \$18,000 per year and does not meet threshold to itemize deductions so receives no housing tax subsidy.

The disparity also exists at the state level. Texas allocates housing tax credits, block grants and other state housing funds. Yet these funds are not directed at the most impoverished families, but rather to those with higher incomes. Only \$30 million of the state's \$500 million housing budget went to help the poorest families in 2004.

Our point is not that tax benefits for middle and upper income homeowners should be eliminated. Rather, we as a state and nation should demand a more equitable system that provides adequate housing resources to the poor. Ultimately, we all need help with housing and the poor, contrary to common opinion, are not receiving a fair share.

In this issue of *Housing Matters* we examine these inequities, reveal how current policies neglect the most vulnerable families, and dispel common myths about who are the beneficiaries of federal housing subsidy. 



Federal housing subsidies do not principally benefit the poor

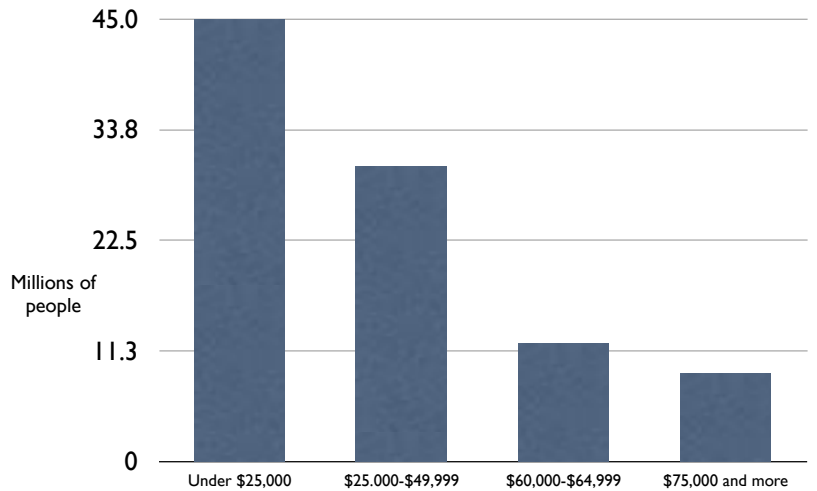
The chart at the right shows that low-income households overwhelmingly face more housing problems than upper-income households.

Yet federal housing subsidies are skewed away from the poor and toward those with higher incomes.

The chart at the bottom of the facing page shows the vast discrepancies in the distribution of federal housing subsidies. These subsidies come in two forms: tax deductions that target upper-income households (mortgage interest deductions, property tax deductions, capital gains on homes deductions, investor housing deductions and home equity loan deductions) and direct housing outlays for the poor (public housing, elderly housing, rural housing, Section 8, etc.).

The cost of federal low-income housing subsidies is dwarfed by the cost of homeownership subsidies for middle- and upper-income homeowners. Housing-related tax expenditures amounted to \$121 billion in 2003; \$113 billion of those expenditures went to homeowners with sufficient incomes to itemize their tax returns. The rest went to investors. It should be noted that many low-income homeowners do not earn enough money to itemize their tax returns; therefore they do not benefit from the mortgage

US households with housing problems by income



Source: America's Neighbors: The Affordable Housing Crisis and the People it Affects, National Low Income Housing Coalition, Feb 2004.

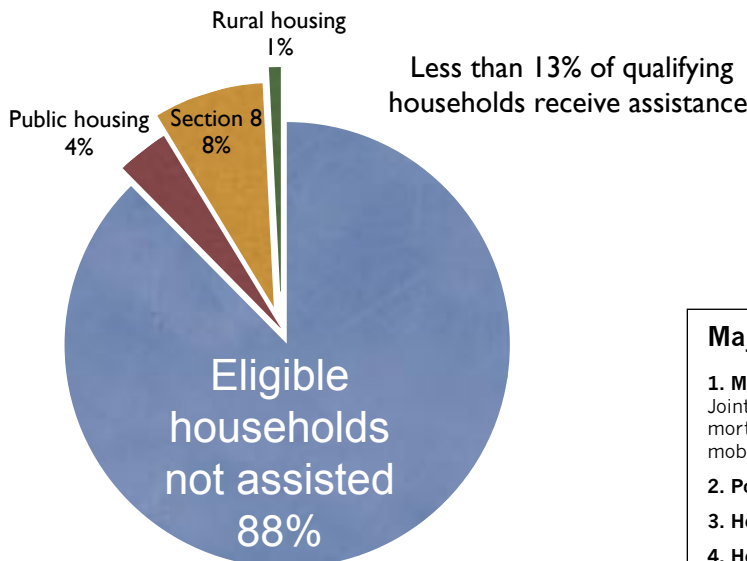
interest deduction and other homeowner tax benefits. In 2003 only \$36 billion went to low-income housing assistance. A mere \$23 billion went to public housing, assisted housing and vouchers, which are the primary ways the federal government aids low-income renters.

Because of the low funding levels for direct housing assistance, housing programs for the poor are rationed.

Most of the households that receive direct assistance are comprised of the elderly, disabled or working poor. According to HUD, 31% of public housing residents have income from wages and 51% are elderly or disabled. Among housing voucher recipients, 36% earn wages and 41% are elderly or disabled.

The chart at left shows the distribution of housing funds in Texas. About 13% of the eligible low-income households in Texas receive federal housing assistance while 87% of low-income families who are eligible do not receive any form of help. 🏠

Major federal housing programs in Texas



Texas households qualified for assistance = 1,761,000

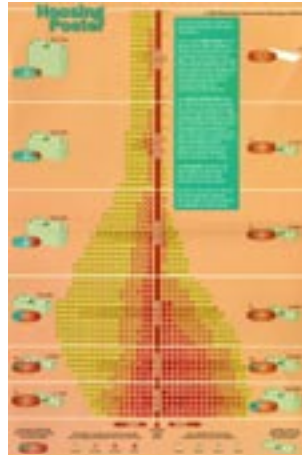
Qualified households are those earning <50% of area median income

Major components of tax expenditure housing subsidies

- 1. Mortgage Interest**
Joint tax filers can deduct all the interest on a maximum of \$1 million in mortgage debt on up to two homes. A home can be a house, co-op, condominium, mobile home, trailer, or even a houseboat.
- 2. Points paid to reduce the interest rate of a mortgage loan**
- 3. Home Equity Loan Interest**
- 4. Home Improvement Loan Interest**
- 5. Property Taxes**
- 6. Capital Gains Exclusion**
This is a true tax shelter for those treating home buying as an investment. Married taxpayers get to keep, tax free, up to \$500,000 in profit on the sale of a home.

The Housing Poster: the big picture of housing — (next page) —>

The poster on the following two pages was produced by the Low Income Housing Information Service in 1993. Despite its age, the patterns it portrays are still accurate and it remains the best visual overview of household characteristics and federal housing subsidy disbursements.



The chart at the bottom of this page provides updated data on the distribution of housing subsidies to the different income groups.

It takes several minutes to orient to the data on *The Housing Poster*. Here are the highlights of the poster.

The poster graphically displays six different factors:

1 - **The renters in the US are shown by the houses on the right side of chart and the owners are shown by the houses on the left.** Of the roughly 94 million households in the US, 60 million (64%) are owners, and 34 million (36%) are renters. Each house on the chart represents approximately 94,000 households.

2 - **The houses are grouped by household annual income,** from \$0 to \$10,000 at the bottom of the chart, to \$90,000 and above at the top of the chart.

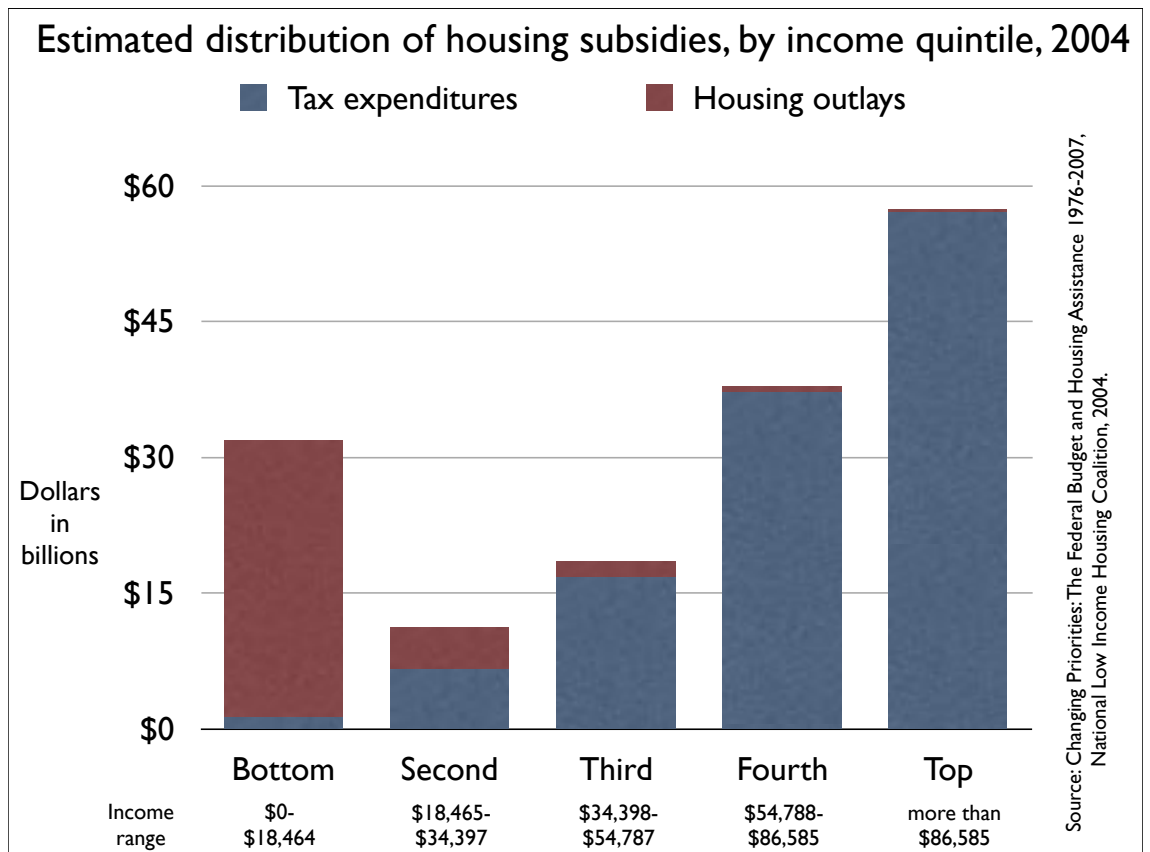
3 - **The race of households in each income bracket is indicated by the colors in the windows and doors of each house.** Note that white families predominate in the upper-income brackets. Black and Hispanic families make up a disproportionate number of the lower income families.

4 - **The amount households spend annually on housing is shown by the color of the houses.** Note that families in the upper-income brackets spend a smaller percentage

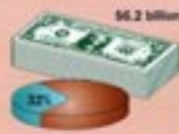
of their income on housing than do renters in the lower income brackets. On average, you spend more of your income on housing the poorer you are. Poor renters pay an average of 45% of their income on housing. Wealthy homeowners, in contrast, on average spend less than 15% of their income on housing.

5 - **The amount each income bracket receives in housing subsidies from the federal government is represented by the stack of dollar bills.** The majority goes to wealthy homeowners through the mortgage interest and property tax deductions and the exclusion of capital gains taxes on property sales. Surprisingly, only about one in three middle class homeowners (earning \$20,000 to \$40,000 a year) and one in ten low-income homeowners (earning less than \$20,000 a year) get any benefits from the mortgage interest deduction. This is because some of them own their homes outright and a vast majority do not itemize their taxes.

6 - **The percentage of households in each income bracket who benefit from the subsidies are shown on the pie charts.** The vast majority of middle- and low-income homeowners do not receive a federal housing subsidy. Similarly, most renters get little or no help from the federal government to pay their housing costs. 🏠



THE Housing Poster



This chart provides a wealth of data about America's 94 million households.

Each of the **1,000 houses** in the center of the chart represents 94,000 households (with owners on the left and renters on the right). They are grouped vertically by household annual income. The color of each house indicates the percentage of income spent on housing and the color of the windows indicates the household's race/ethnicity.

The **stacks of dollar bills** along the sides of the chart represent the amount of subsidy that each income bracket received in 1989, including both tax deductions and direct subsidies. Housing-related tax deductions accounted for nearly \$65 billion in benefits that went exclusively to homeowners. Direct housing subsidies accounted for less than \$15 billion in benefits that went almost exclusively to renters.

The **pie charts** represent the percentage of households in each income bracket that benefited from that subsidy.

All data in this chart are derived from the American Housing Survey 1989; the income figures are adjusted to 1992 dollars.



← OWNERS RENTERS →

Percentage of households in income bracket that benefit from federal subsidy

Percentage of annual income that the household spent on housing is indicated by the color of the house:

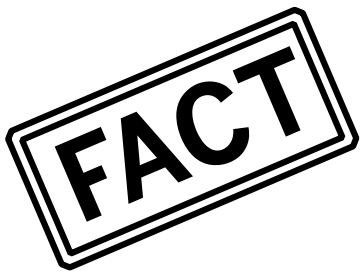
- 0-20%
- 20-30%
- 30-50%
- 50%+

Household annual income

Race/ethnicity of the household is indicated by the color of the windows:

- White
- Black
- Latino
- Other

Total dollar amount of federal subsidy received by income bracket



Texas housing programs do not principally benefit the poor

The state of Texas allocates housing subsidies through the Texas Department of Housing and Community Affairs (TDHCA).

According to TDHCA's State Low Income Housing Plan, 23,435 Texas households with incomes less than 80% of the median income received assistance in 2004 (see chart at right). Of these households, 84% had incomes between 31% and 60% of the area median while only 11% had incomes below 30% of the median.

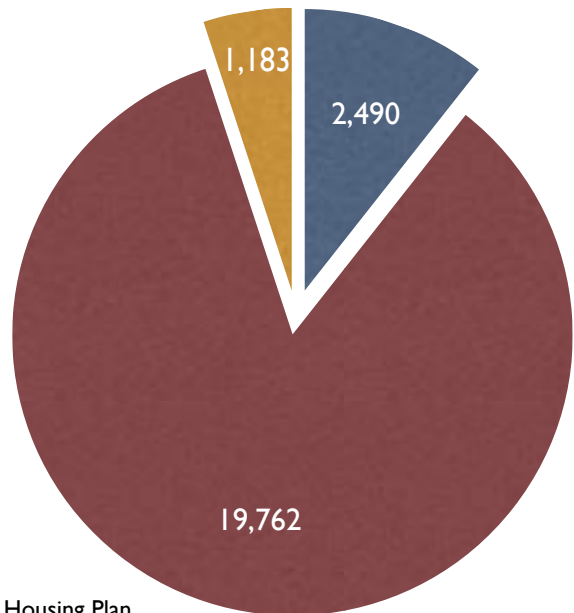
A principal reason for this imbalance is found in the resources that TDHCA has at its disposal (see chart below).

The State of Texas allocates only about \$3 million per year from state funds for housing and relies

TDHCA households assisted by income group, 2003

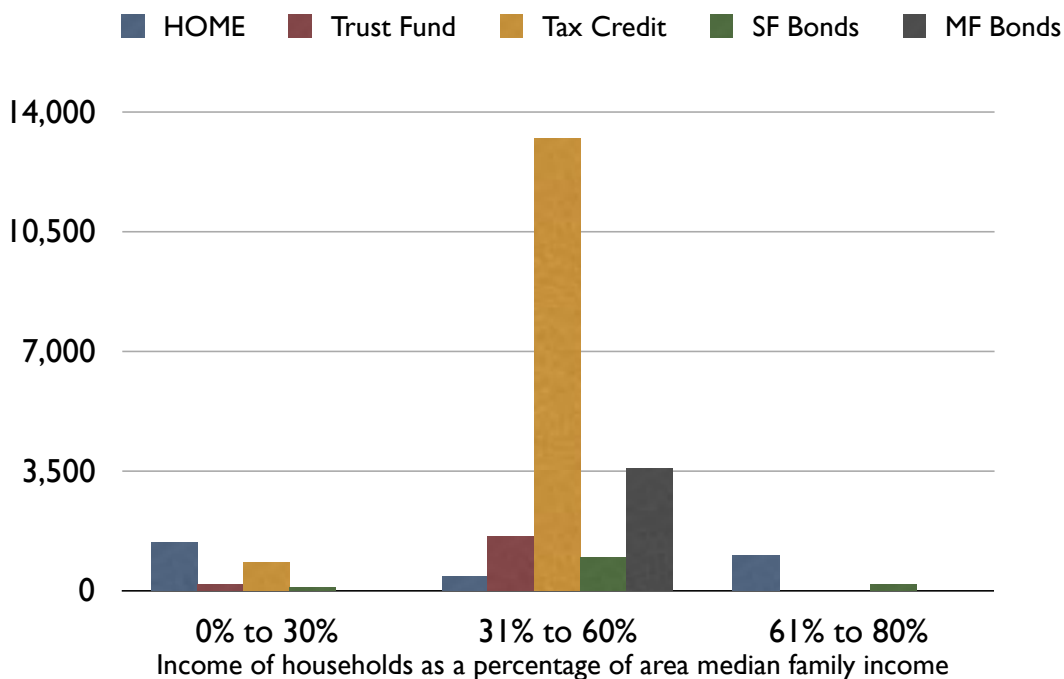
Median Family Income

- 0%-30%
- 31%-60%
- 61%-80%



Source: 2004 State Low Income Housing Plan

Households assisted by TDHCA program, 2003

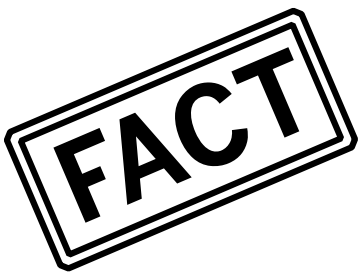


Source: State Low Income Housing Plan. 2004

overwhelmingly on federal dollars to provide housing assistance.

A majority of the funds available come from bonds and housing tax credits. Bonds and tax credits provide a relatively shallow level of subsidy, making it difficult to use these type of funds to aid families at the lowest income levels who need deep housing subsidies.

The Texas Legislature has directed TDHCA to spend a minimum of \$30 million of the \$500 million in total housing funds available each year to assist the lowest income families (those with incomes of <30% of the median) with their housing needs. 🏠



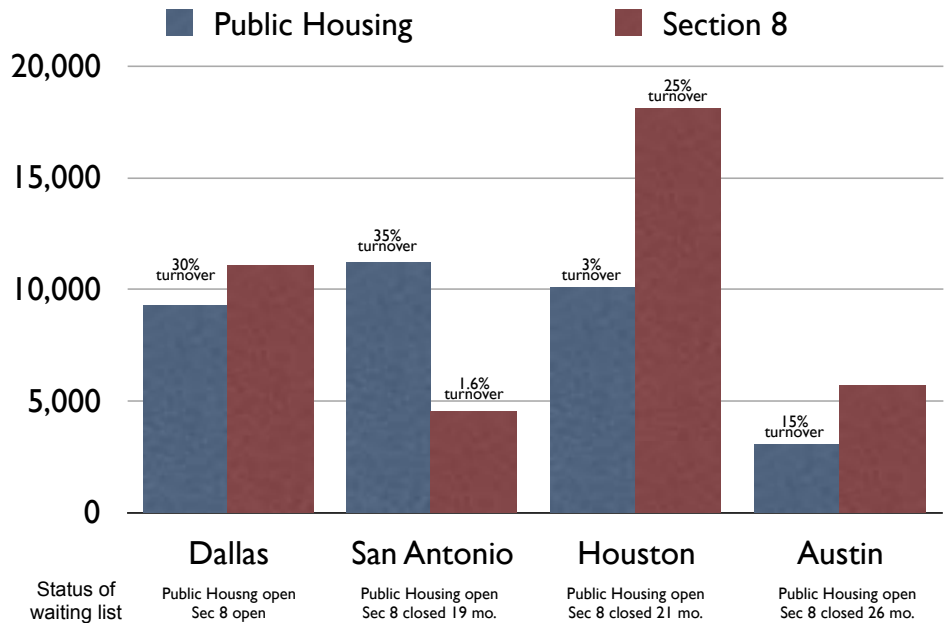
The poor have worst housing problems and greatest needs

As we have noted earlier, housing subsidies for middle and upper-income Americans are an entitlement built into the tax code in the form of mortgage interest, property tax, investment, capital gains and home equity deductions. But housing subsidies for low-income Americans are not an entitlement. They are at the mercy of Congress, which appropriates funds each year.

The waiting lists for public housing and Section 8 Housing Choice rent vouchers show the massive shortcomings of this rationed housing subsidy system.

In all major Texas cities there are long waiting lists for housing assistance (see chart at right). The wait can be many years, and most of the families who need help never get assistance.

Public Housing Authority Waiting Lists

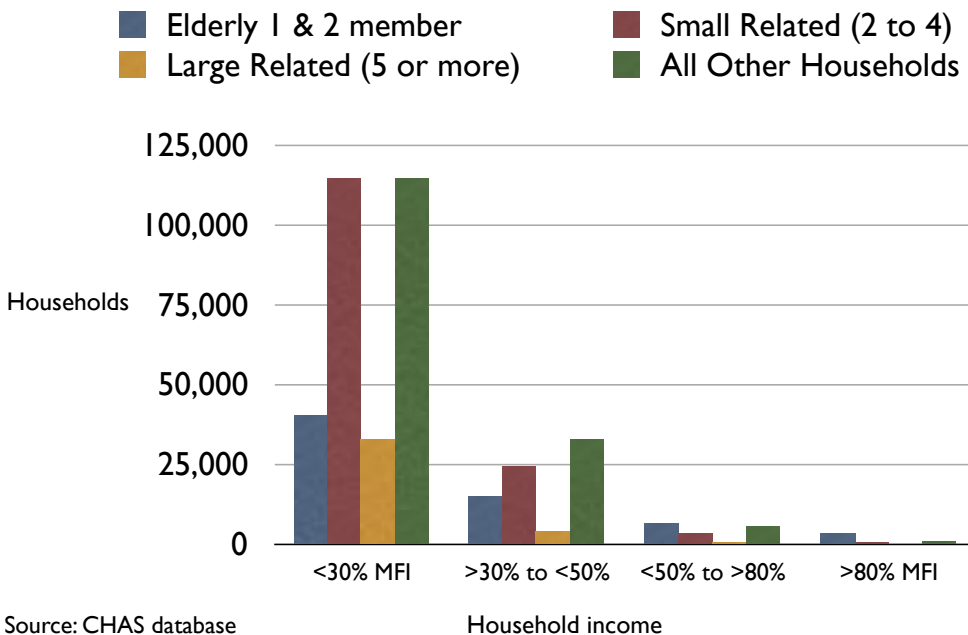


The consequences of this system are severe. The chart

below indicates the number of Texas households that have what the government defines as a “severe cost

burden” for housing. These are families who pay more than half their income for rent or house payments. Congress has defined these families as having “worst case housing needs.”

Texas households with severe cost burden with or without another problem, 2000



Source: CHAS database

The chart demonstrates that a vast majority of these families have incomes below 30% of the area median income (<\$12,500 to <\$21,350 for a family of four depending on where in the state they live). These families comprise more than one-fifth of all the renters in Texas.

The indisputable fact is that the poorest families have the greatest housing need. The state’s funding inequities are illuminated when considering the chart at the top of the preceding page – only 11% of the families assisted are in the lowest income category. 🏠

Restoring fairness to housing assistance

Texas solutions

The Texas Department of Housing and Community Affairs does not do a bad job allocating state housing funds, given the limited resources it has available. The Texas Legislature has directed TDHCA to expend a minimum of \$30 million each year to provide housing assistance to the poorest Texans and TDHCA complies. Additionally, TDHCA has moved to provide modest incentives to developers to use Low Income Housing Tax Credits and tax exempt bonds, where financially possible, to provide housing to the poor.

Though more can be done, the central problem is that most of the \$500 million in housing resources available to the State of Texas are, by virtue of their shallow subsidy levels, inadequate to provide the assistance necessary to house low-income families. The problem is, in other words, that Texas does not have the financial tools it needs to get the job done.

Texas needs a source of housing funding that it can use to address the housing needs of the poor. The best source would be a dedicated, general-revenue-based housing trust fund that would provide \$100 million per year.

Federal solutions

At the federal level there are things that can be done as well. The proposal to establish a National Housing Trust Fund would be a good start. This would provide block grants to states and cities to help them produce housing for the poor.

President Bush has proposed to dedicate federal housing programs to the creation of home buyer opportunities. Yet these initiatives are not likely to work for the poorest families who are not financially ready for homeownership.

We must be careful that a set of new home owner programs at HUD do not further shift resources away from the poor. There are already some indications that this is happening through recent proposals to reduce funding for the Section 8 Housing Choice Voucher program, which successfully assists extremely low-income families.

The lesson we should take away from this data is that many of us depend on government help to have a decent home and we need to work harder to ensure that the distribution of this public assistance is fair to all our citizens. 🏠

www.texashousing.org



**Texas Low Income Housing
Information Service**

508 Powell Street
Austin, TX 78703-5122

Return Service Requested

Housing assistance bypasses the
neediest in Texas and the US