

New Homeownership Incentives Introduced

By Michael J. Novogradac, CPA

One can not pick up a newspaper or magazine, turn on the broadcast media or visit a news web site without reading that housing is becoming increasingly unaffordable and pricing many working families out of the homeownership picture. It's no wonder then that three U.S. senators and a member of the House of Representatives received high praise for their introduction of the Housing America's Workforce Act of 2005.

On June 29, Sens. Hillary Rodham Clinton, D-N.Y.; Gordon Smith, R-Ore.; and Mel Martinez, R-Fla., introduced S. 1330, which encourages employers to offer housing assistance to low-income workers. They were joined by Rep. Nydia Velázquez, D-N.Y., who introduced the companion bill, H.R. 3194, in the House of Representatives. The move was hailed by many housing-related organizations, including the National Housing Conference (NHC), the National Association of Realtors (NAR) and the Illinois Metropolitan Planning Council.

As proposed, the legislation provides a 50-cent federal tax credit on every \$1 that an employer invests in employer-assisted housing (EAH). The bill also provides initial support to not-for-profit housing agencies that administer the program for employers and provide counseling to participating employees. Notably, it excludes as taxable income the housing support that employees receive from their employers.

Current federal tax laws require employees to include as taxable income any housing assistance received from an employer. This legislation would treat some housing assistance as a non-taxable benefit, excluding up to \$10,000 in homeownership assistance and up to \$2,000 in rental assistance.

"This essential piece of legislation offers an innovative local solution for increasing affordable housing opportunities," said Conrad Egan, president and CEO of NHC. "With benefits such as down-payment assistance and rental assistance, many experts believe it can and will become as popular as employee health-care."

The legislation would give employers the

option to offer financial homebuyer benefits for housing costs, including down payments, closing and financing costs, contributions to second mortgages, mortgage guarantee programs, or contributions to an employee homeownership savings account. "This measure creates a win-win for employers and employees," said Martinez, a former Secretary of the U.S. Department of Housing and Urban Development. "Employers are not penalized for offering a great benefit that will attract quality employees."

A business tax credit would be created as an incentive for employers who choose to participate. It would offset the cost of housing benefits for workers and promote homeownership opportunities. The credit would be equal to 50 percent of the cost of qualified housing expenses for eligible low- and moderate-income employees, which takes into account up to \$10,000 or 6 percent of the employee's home purchase price — whichever is less, and up to \$2,000 in the case of rental assistance offered.

"Across the country, the persistent gap between wages and housing costs is preventing low- and moderate-income families from finding decent, safe, affordable housing, Velázquez said. "With approximately 13 million families in America paying more than half of their income for housing, we must be creative and work across sectors to address this need."

NAR commended the legislation's potential to bring and retain quality employees because they would be closer to the workplace. "Employees are finding it increasingly difficult to live in the areas where they work," observed NAR President Al Mansell of Salt Lake City. "Many workers can only afford to live in areas geographically far from their place of employment.

According to the Center for Housing Policy, NHC's research affiliate, the number of low- to moderate-income working families paying more than half their income for housing grew 76 percent, to 4.2 million between 1997 and 2003. As a result, many employers are having a difficult time retaining employees who can not find affordable housing nearby and therefore face increased commute time. The proposed legislation

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addresses this problem directly, the NHC says.

Eagan added that employer-assisted housing is a powerful partnership between the public and private sectors that enables participating businesses to increase productivity and reduce turnover. "Neighborhoods are revitalized by increased investment and most significantly more working Americans are able to afford homes," he said.

In Illinois, the Metropolitan Planning Council (MPC) says it has instituted an employer-assisted housing model that has been implemented statewide. The EAH was put into action by the Illinois Housing Development Authority and Housing Action Illinois. MPC says the program has seen hundreds of employees purchase homes and more than 1,000 benefit from the counseling services. "This federal legislation builds on lessons learned in Illinois, while proposing stronger incentives for local programs," says an MPC statement.

While the authors of Housing America's Workforce Act of 2005 are basking in praise from the housing industry, the same can not be said for the Federal Housing Administration's Zero Downpayment Pilot Program Act of 2005, introduced by Reps. Patrick Tiberi, R-Ohio, and David Scott, D-Ga.

"Establishing a federally insured zero downpayment mortgage program ... would likely hurt the very people Congress is trying to aid and would further skew our limited housing resources away from solving the nation's most pressing problems, the National Multi Housing Council (NMHC) and National Apartment Association (NAA) said in a statement to the House subcommittee on Housing and Community Opportunity.

On the other side of the issue, the National Association of Home Builders (NAHB) told Congress that the pilot program would mean that 50,000 families who would otherwise be denied the opportunity would be able to achieve homeownership.

In its statement, the NAHB said it was especially pleased that H.R. 3043 would apply to condominiums and cooperatives as well as single-family homes, thereby reaching as many households as possible. "In many communities across the nation, these homeownership alternatives are more within the financial reach of low- and moderate-income families than single-family detached homes," said David Wilson, president of NAHB. "Condos and co-ops can provide the same wealth-building benefits for families and also bring stability to neighborhoods."

The bill would allow FHA to insure up to 50,000 zero down payment mortgages for first-time homebuyers. Homebuyers would be required to pay a 2.25 percent mortgage insurance premium (MIP) upfront, compared to the 1.5 percent that is required for an FHA single-family loan with a 3 percent down payment, and an annual MIP of 75 instead of 50 basis points for the first five years of the loan. In addition, monthly mortgages would be slightly higher than for a standard FHA-insured mortgage and home counseling would be mandatory.

NMHC president Doug Bibby said his group's concerns were not over market share but rather over the growing disconnect between the nation's housing policy and its housing needs. "Every dollar allocated to homeownership incentives is a dollar taken away from other housing programs," he said, noting that homeownership is not the best tool to solve the country's most pressing housing needs, including the affordable housing shortage, suburban sprawl and the need to house an aging population.

"Most policymakers at all levels operate under the mistaken notion that when it comes to homeownership, more is always better," Bibby said. "But the time has come to ask whether our single-minded pursuit of homeownership is doing more harm than good, especially when it comes to households with limited financial resources and/or weak credit histories." ❖