

## An Overview of Federal Support for Housing

### Summary and Introduction

The federal government commits substantial resources to support housing and mortgage markets through a combination of spending programs and tax expenditures (that is, subsidies conveyed through reductions in taxes). During the crisis of the past two years, the budgetary commitment expanded—to about \$300 billion in fiscal year 2009—from the placement into conservatorship in September 2008 of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and the creation of new housing programs. This Congressional Budget Office (CBO) brief describes, in broad terms, the array of federal activities that support housing and the recent expansion of particular programs.

Most of the federal government's support for housing is provided for homeownership (see Figure 1). In 2009, the federal government devoted almost four times the amount of budgetary resources to supporting homeownership (about \$230 billion) as it devoted to improving rental affordability (\$60 billion). The government supports homeownership by subsidizing the costs of owning a home (reducing down payments, mortgage insurance costs, and tax liability) and increasing the availability of mortgage loans. Until recently, the bulk of federal support for homeownership took the form of tax expenditures, which make it less expensive to own a home by reducing taxes for homeowners and investors.

As a result of recent actions to address the crisis, the government now provides roughly equivalent amounts of support for homeownership through tax expenditures and spending programs. About 80 percent of the federal support for renters is provided by spending programs; the remainder is provided through tax expenditures. The federal government also shapes the housing and mortgage markets through regulation—as provided, for example, in the Truth in Lending Act and the Home Mortgage Disclosure Act.

This brief categorizes 28 federal housing activities by type of support (homeownership or rental), mechanism

(spending or taxation), and budgetary cost in 2009.<sup>1</sup> Because much of the recent assistance is intended to be temporary, such costs are expected to decline as market conditions improve. Those costs are recorded in the federal budget using one of three accounting methods—cash basis, present-value basis, or present-value basis adjusted for market risk (see Box 1). Annual spending amounts recorded in the budget can vary considerably depending on the method used to estimate them, and for some programs, they understate the full economic cost of the resources committed.

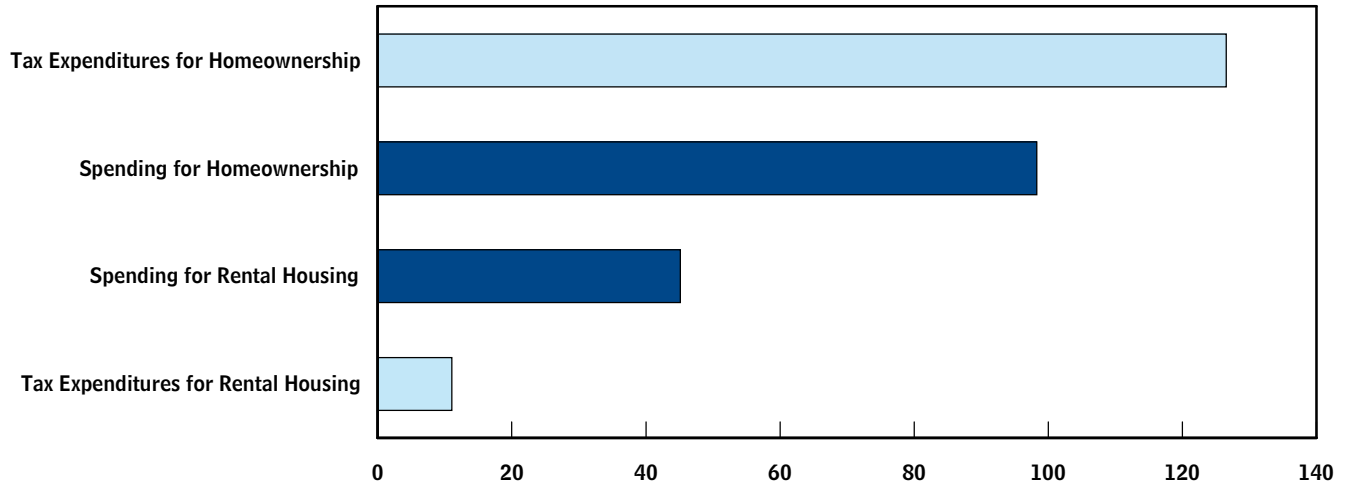
### Goals of Federal Support for Housing

Federal housing policy has long aimed to increase the rate of homeownership and, to a lesser extent, make rental housing affordable for low-income families. The nation has made more progress on the former goal than on the latter. Homeownership rates increased steadily throughout the 1990s and early 2000s, peaking in 2004 at just under 68 percent of all households (see Figure 2 on page 4).<sup>2</sup> However, the proportion of households paying more than 30 percent of their income for housing—an

1. Spending amounts are the amount of budget authority provided or estimated for 2009, unless otherwise noted. Budget authority is authority provided by law to incur financial obligations that will result in immediate or future outlays of federal government funds. Tax expenditure amounts are from the Joint Committee on Taxation (JCT), *Estimates of Federal Tax Expenditures for Fiscal Years 2008–2012*, JCS-2-08 (2008). This brief excludes programs that received budget authority of less than \$100 million in 2009. It excludes four additional tax expenditures—the deferral of income from installment sales, the deferral of gain on like-kind exchanges, the new markets tax credit, and the credit for rehabilitation of historic structures—that support the production of homeownership units and rental housing. Although JCT estimates those expenditures, the amounts include tax expenditures from transactions involving nonhousing assets and are therefore excluded from this analysis.
2. Census Bureau, decennial census, long-form housing characteristics; and Census Bureau, *Homeownership Rates by Race and Ethnicity of Householder: 1994 to 2008*, Current Population Survey/Housing Vacancy Survey, Table 22.

**Figure 1.****Federal Support for Housing, 2009**

(Billions of dollars)



Sources: Congressional Budget Office (for spending amounts); Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008–2012* (2008) (for tax expenditure amounts).

Note: The figure shows the sum of the estimates for individual tax expenditures. Those estimates are generally not completely additive because each estimate is done in isolation and does not account for likely interactions among expenditures and with other provisions of the tax code.

amount that is often categorized as unaffordable in light of households' other needs—increased steadily from 1997 to 2007.<sup>3</sup> The burden of housing's costs is more pronounced among renters than among owners: In 2007, 45 percent of renters (compared with 30 percent of owners) paid more than 30 percent of their income for housing.<sup>4</sup> In addition, a historically high rate of homeownership overall masks large gaps in rates between white and minority households. The homeownership rate was 72 percent among white households in 2008, compared with rates of 49 percent and 47 percent, respectively, for Hispanic and black households.<sup>5</sup> Federal housing pro-

grams generally aim to address persistent racial and ethnic gaps in homeownership and rising gaps between the costs of housing and incomes. Most recently, concerns over foreclosures, liquidity in the mortgage market, and problems in the financial markets have spurred a sharp increase in spending by the Department of the Treasury and the Department of Housing and Urban Development (HUD).<sup>6</sup>

**Tax Expenditures for Homeownership**

Until recently, most federal support for homeownership was provided through the tax code in the form of tax expenditures. The largest and most widely used tax expenditure in the housing area is the **mortgage interest deduction**, which resulted in an estimated revenue loss of

- For a discussion of the origin and use of the standard specifying 30 percent of income, see Department of Housing and Urban Development, *Trends in Housing Costs: 1985–2005 and the 30-Percent-of-Income Standard* (June 2008), p. 29, [www.huduser.org/Publications/pdf/Trends\\_hsg\\_costs\\_85-2005.pdf](http://www.huduser.org/Publications/pdf/Trends_hsg_costs_85-2005.pdf).
- About 28 percent of households paid more than 30 percent of their income for housing in 1997, compared with 35 percent of households in 2007. See Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing* (2009), Table A-5, and *The State of the Nation's Housing* (2003), Table A-10.

- Edward L. Glaeser and Joseph Gyourko, *Rethinking Federal Housing Policy: How to Make Housing Plentiful and Affordable* (Washington, D.C.: American Enterprise Institute, 2009), p. 16.
- The Federal Reserve has also engaged in activities aimed at ameliorating mortgage market conditions, but those have no direct budgetary effect.

**Box 1.****Estimation Methods Used in the Federal Budget**

The costs of federal housing programs and the government's other activities are estimated for budget purposes using one of three accounting methods—cash basis, present-value basis, or present-value basis adjusted for market risk—based on the nature of the program and specifications in law. Those differences make it difficult to use budget estimates to compare the costs of different programs.

The cash-basis method applies to most transactions in the federal budget, including tax expenditures and grant programs, such as the Housing Choice Voucher program. That method measures all outflows of funds for a program in each fiscal year.

Unlike grant programs, loan and loan guarantee programs—such as those carried out by the Federal Housing Administration, the Department of Veterans Affairs, the Department of Agriculture, and Ginnie Mae—involve flows or obligations of funds that extend over multiple years. For loans and loan guarantees, the Federal Credit Reform Act of 1990 requires the Congressional Budget Office (CBO) and the Administration to estimate and record in the budget the present value of future cash flows on credit extended in a given year. More specifically, the budget reflects the government's expected gains (from

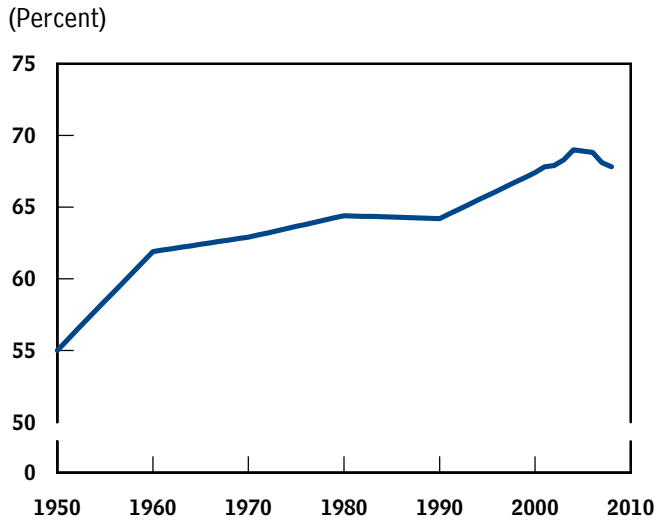
repayment of principal, fees, and recoveries on defaults) minus the outflows (from disbursement of principal, payments for defaults, and interest rate subsidies). Those flows are converted to their present values (discounted) using the interest rates on Treasury securities.

Conventional budget estimates of the costs of loan and loan guarantee programs incorporate an estimated default rate. Defaults may fall short of or exceed that rate but are likely to be unusually high at times of market stress. The compensation for accepting that risk is referred to as the “cost of market risk.” When the federal government took control of Fannie Mae and Freddie Mac, CBO began estimating the costs of the government's resulting commitments by discounting the projected cash flows of those government-sponsored enterprises using rates that reflect the cost of market risk—just as such costs are reflected in the budget for the Troubled Asset Relief Program (TARP). (That budgetary treatment was specified in the law that created the TARP.) In contrast, the Administration has continued to consider Fannie Mae and Freddie Mac to be nongovernmental entities for federal budgeting purposes. Under that treatment, the Treasury's cash infusions to Fannie Mae and Freddie Mac are recorded as federal outlays.

\$80 billion in 2009 (see Figure 3 on page 6).<sup>7</sup> That deduction typically reduces the income tax that an individual owes by an amount equal to the individual's

7. Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008–2012*. As noted by JCT (p. 35), its tax expenditure estimates, unlike its revenue estimates, do not take into account possible differences in taxpayers' behavior with and without the tax expenditure. Numerous researchers have noted that such estimates of tax expenditures might differ from the revenue gain to the government if the exclusion was eliminated from the tax code because the estimates do not account for taxpayers' behavioral responses, such as selling taxable assets to pay off mortgage debt. See James Poterba and Todd Sinai, “Income Tax Provisions Affecting Owner-Occupied Housing: Revenue Costs and Incentive Effects” (working paper, University of Pennsylvania, July 2008), p. 2.

marginal tax rate (the rate on the last dollar of income) multiplied by the amount of interest he or she pays on loans secured by a primary or second home. The **deduction for state and local property taxes** (resulting in a tax expenditure of \$16 billion) produces a similar tax savings for property taxes paid by an owner on a primary or second home. The **exclusion for capital gains** (\$16 billion) allows homeowners to earn a capital gain of up to \$250,000 (\$500,000 for a joint return) on the sale of their primary home without paying taxes on that gain, and the **first-time home buyer credit** (\$14 billion) lowers by up to \$8,000 the amount of taxes owed by new home buyers who purchase a home between April 2008 and December 2009. The **exemption for mortgage subsidy bonds** (\$1 billion) allows investors in bonds issued by state entities to earn interest on those bonds tax-free, as

**Figure 2.****U.S. Homeownership Rates, 1950 to 2008**

Source: Congressional Budget Office based on data from the Census Bureau.

long as those entities use the proceeds to purchase mortgages of first-time and lower-income home buyers. The smallest tax expenditure for homeownership—the **discharge of mortgage indebtedness** (\$300 million)—allows taxpayers to exclude from their income mortgage indebtedness on a principal residence that is discharged in a debt restructuring or foreclosure during calendar years 2007 to 2012.

## Spending Programs for Homeownership

The federal government also supports homeownership through spending programs that increase the ability of households to purchase homes or avoid foreclosure. Those programs can assist homeowners directly, through grants, or indirectly, through programs designed to reduce the costs of borrowing. The largest of those programs is the **Making Home Affordable** program, which was created by the Treasury in March 2009 as a temporary response to the housing market crisis. That program aims to allow homeowners to refinance or modify their loans and move into lower-cost or fixed-rate mortgages. The modification program, with \$75 billion in committed funds, provides incentive payments to mortgage servicers and homeowners. The Treasury has committed up to \$50 billion of funds to the program from the Troubled

Asset Relief Program, and Fannie Mae and Freddie Mac are expected to spend up to \$25 billion to carry out the program. CBO expects that the costs of the Making Home Affordable program, as well as those for assistance provided to Fannie Mae and Freddie Mac, will decline as the housing market recovers.<sup>8</sup> (Only a very small portion of the \$75 billion commitment was spent in 2009.)

The federal government also provides mortgage assistance through loan guarantees. The largest providers of guarantees are Fannie Mae and Freddie Mac. By buying mortgages from banks and other lenders, Fannie Mae and Freddie Mac provide liquidity to the mortgage market. They create mortgage-backed securities by pooling payment streams from many mortgages combined with guarantees that insulate the purchaser of the securities from the risk of default and either hold or sell them. Fannie Mae and Freddie Mac were placed in federal conservatorship and have been receiving direct cash infusions from the Treasury to help cover the costs of reported losses on the guarantees.<sup>9</sup> (Through September 2009, such cash infusions have totaled \$96 billion.) Now that Fannie Mae and Freddie Mac are in conservatorship, the federal government effectively is assuming risk on the mortgages that they buy and the securities that they guarantee. For that reason, CBO now accounts for the entities' financial transactions in its budget projections using an accounting treatment similar to that used under credit reform but adjusted for market risk. CBO estimates that the **subsidy costs of new Fannie Mae and Freddie Mac credit activities** in 2009 are \$43 billion.<sup>10</sup>

8. See Congressional Budget Office, *The Budget and Economic Outlook: An Update* (August 2009), Table 1-1.

9. Fannie Mae and Freddie Mac were created and chartered by the federal government (and thus are referred to as government-sponsored enterprises, or GSEs). They operated for many decades as privately owned entities and lacked explicit government backing. In 2008, the federal government took control of their operations. They are exempt from state and local taxes and most regulations.

10. See Congressional Budget Office, *The Budget and Economic Outlook: An Update*. On the basis of projections of the GSEs' assets and liabilities over the long term, CBO estimated in August 2009 that the government's commitments to them would increase the federal deficit by nearly \$291 billion in 2009. About \$248 billion of the cost estimated by CBO for 2009 stems from the existing assets and liabilities of the GSEs at the time they were placed in conservatorship, whereas the remaining \$43 billion represents the estimated subsidy costs associated with the GSEs' new business after that time.

The federal government also directly issues, guarantees, and insures mortgages and mortgage-backed securities through various government agencies.<sup>11</sup> The Federal Housing Administration (FHA), for example, operates one of the largest programs, the Mutual Mortgage Insurance (MMI) program, which aims to extend access to homeownership to buyers who lack the savings, credit history, or income to qualify for conventional mortgages. The program insures mortgages on single- and multi-family homes issued by private lenders, in exchange for a fee. If a borrower fails to make a payment or defaults on an insured mortgage, the FHA pays the issuer or holder of the mortgage the amount due.

As specified in the Federal Credit Reform Act (FCRA), the subsidy estimates for the MMI program reflect the estimated present value of all cash flows associated with such mortgage insurance (excluding administrative costs), without an adjustment for market risk. The FHA estimates that the 2009 subsidy rate for the MMI program is slightly negative, meaning that fee collections are estimated to exceed net payments for defaults on a present-value basis. (To date, the FHA has never requested an appropriation for the program.) In contrast, CBO estimates that insuring more than \$300 billion of new mortgages through the MMI program in 2009 will not result in savings to the government. Although the FHA has, to date, generally estimated that those guarantees will result in net savings to the government when they were initially made, the net cost of those guarantees is now estimated to be positive, as reflected in the sum of annual reestimates to the program's credit subsidies.<sup>12</sup> (FCRA allows federal agencies to update their initial subsidy estimates each year, and they have permanent authority to record credit reestimates.)

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11. The Departments of Agriculture (USDA) and Veterans Affairs (VA) directly issue and guarantee mortgages; the Government National Mortgage Association (Ginnie Mae) guarantees securities backed by mortgages insured, guaranteed, or issued by federal agencies; and the Federal Housing Administration provides mortgage insurance to private lenders that issue mortgages for single- and multifamily homes. Following the budgetary treatment specified in the Federal Credit Reform Act, CBO estimates that the programs run by USDA, VA, and Ginnie Mae resulted in no significant costs or savings to the federal government in 2009. However, those programs entail market risk similar to the market risk associated with mortgage credit provided by Fannie Mae and Freddie Mac. Estimates of those programs' costs would increase if the estimates included an adjustment for market risk.

Another response to the housing crisis was the creation in 2008 of the **Neighborhood Stabilization** program, which provided \$2 billion in 2009 for the redevelopment and sale of vacant, abandoned, or foreclosed properties. Until 2008, the largest spending program for homeownership had been the **HOME Investment Partnership** program. HOME provided about \$4 billion in grants to state, local, or nonprofit entities in 2009; just under half of those funds were used to assist low-to-moderate-income households with purchasing or remaining in their homes. Three additional programs—**Community Development Block Grant**, **USDA rural housing**, and **Housing for People with AIDS**—provided smaller amounts (\$1 billion or less) in support of homeownership in 2009.

### Tax Expenditures for Rental Housing

The federal tax code also supports rental housing but to a lesser extent than it supports homeownership. Two of those tax expenditures—the **low-income housing tax credit (LIHTC)** and **accelerated depreciation**—each provide about \$5 billion to \$6 billion in annual support (see Figure 4). LIHTCs are allocated to the states on the basis of a formula and are then distributed by the states to developers on a competitive basis. Private developers generally sell the tax credits and use the proceeds to reduce the amount of debt they incur to develop or rehabilitate rental housing. In exchange, developers make a portion of their rental units available to low-income households at rents set by HUD. However, estimates of the size of the tax expenditures for rental housing vary considerably depending on the tax structure to which the expenditure is being compared, making it difficult to rank their relative size.<sup>13</sup> Two additional tax expenditures—the **exclusion of interest on rental housing bonds** and the **foreign housing deduction and exclusion**—each provided approximately \$1 billion in support of rental housing in 2009.

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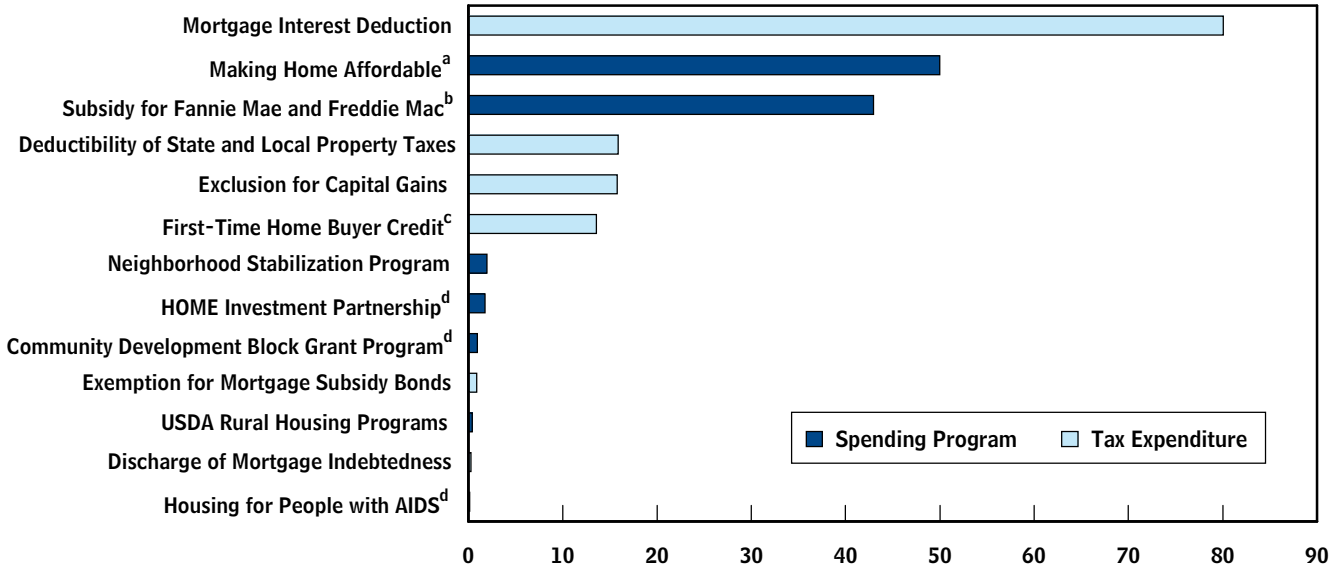
12. Although the original estimates of the MMI program's total costs from 1992 to 2008 are a negative subsidy of \$31 billion, the Administration has revised those estimates. On the basis of those data, CBO estimates the program's total costs over the period at about \$3 billion. For the annual reestimate amounts, see Office of Management and Budget, "Federal Credit Supplement," *Budget of the United States Government, Fiscal Year 2010*, Table 8.

13. For example, according to the Office of Management and Budget, the largest tax expenditure for rental housing in 2009 was accelerated depreciation, at \$10.2 billion. See Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2010: Analytical Perspectives*, Table 19-1.

**Figure 3.**

**Federal Support for Homeownership, 2009**

(Billions of dollars)



Sources: Congressional Budget Office (for spending amounts); Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008–2012* (2008) (for tax expenditure amounts).

Notes: The subsidy for Fannie Mae and Freddie Mac is estimated by CBO on a present-value basis, reflecting an adjustment for market risk. All other spending amounts are recorded on a cash basis.

USDA = U.S. Department of Agriculture.

- a. A portion of the \$25 billion in assistance under this program is included in the subsidy for Fannie Mae and Freddie Mac in fiscal year 2009. The remainder will be provided in 2010.
- b. Excludes CBO’s estimate of the credit subsidy cost for guarantees provided by Fannie Mae and Freddie Mac prior to 2009.
- c. Of the \$14 billion estimated expenditure, about \$4.5 billion takes the form of outlays for refundable credits.
- d. Supports homeownership and rental housing.

**Spending Programs for Rental Housing**

Federal spending programs for rental housing take two forms: payments for households to rent housing in the private market and payments to public housing authorities (PHAs) and private developers to build and operate rental housing. The largest of those programs is the **Housing Choice Voucher** program, also known as Section 8, which was funded at about \$16 billion in 2009. The voucher program sets the portion of income that a qualifying household pays to a private landlord, with the PHA paying the difference between the tenant’s portion and a market-rate rent determined by HUD. The second-largest program, funded at about \$11 billion in 2009 and

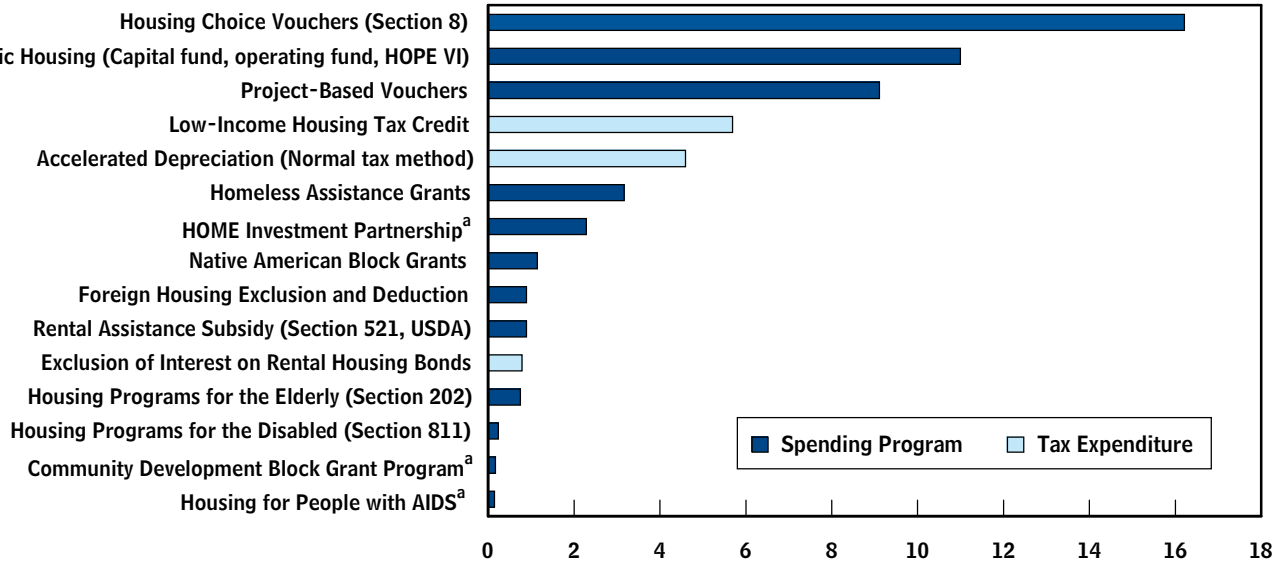
also administered by HUD, is the **public housing** program.<sup>14</sup> That program provides funds for PHAs to operate, renovate, and build publicly owned housing developments. Finally, HUD also operates the **project-based voucher** programs (\$9 billion), in which HUD agrees to pay the owner of a rental unit the difference between 30 percent of the tenant’s income and the rent of the unit.

14. That amount includes budget authority for the operating, capital, and HOPE VI (Homeownership and Opportunity for People Everywhere) funds for public housing. HOPE VI provides funds for PHAs to make physical, managerial, or social service improvements to public housing.

**Figure 4.**

**Federal Support for Rental Housing, 2009**

(Billions of dollars)



Sources: Congressional Budget Office (for spending amounts); Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008–2012* (2008) (for tax expenditure amounts).

Note: HOPE = Homeownership and Opportunity for People Everywhere; USDA = U.S. Department of Agriculture.

a. Supports homeownership and rental housing.

Eight additional programs provided between \$150 million and \$3 billion in support of rental housing in 2009 (see Figure 4). They include, in descending order of support provided, **Homeless Assistance Grants**, the **HOME Investment Partnership**, **Native American Block Grants**, **Rental Assistance Subsidy** (assistance for low-income, elderly, and disabled renters in rural areas), **Housing Programs for the Elderly**, **Housing Programs for the Disabled**, **Community Development Block Grants**, and **Housing for People with AIDS**.

In addition, two federal agencies—FHA and USDA—provide direct loans and guarantees to support rental housing. Just as with mortgage-related programs for homeownership, loans and guarantees made by those agencies in 2009 resulted in no significant costs or savings to the government under the method of accounting specified in the Federal Credit Reform Act.

## Regulation of Mortgages and Housing

In addition to spending programs and tax expenditures, the federal government shapes the housing market through regulation. Federal regulation of mortgages and housing generally serves two main purposes: establishing the rules for consumers and producers to follow and bringing about specific housing outcomes. Regarding the former, the Truth in Lending Act and the Real Estate Settlement Procedures Act aim to ensure that home buyers have adequate and understandable information about the terms of their mortgages. Other laws, such as the Home Mortgage Disclosure Act and the Fair Housing Act (generally known as antidiscrimination laws), support equal access to rental housing and homeownership opportunities. Laws aimed at the second purpose—bringing about certain housing outcomes—are intended to lower rates of mortgage default (in the case of the Real

Estate Settlement Procedures Act) or to boost homeownership among low-income households (in the case of the Community Reinvestment Act). State and local laws also shape the housing market and are widely recognized to be influential determinants of the supply of both homeownership units and rental housing.

This brief was prepared by Elizabeth Cove Delisle of CBO's Budget Analysis Division. It and other CBO publications are available at the agency's Web site ([www.cbo.gov](http://www.cbo.gov)), together with a list of sources on [federal housing activities](#) and [additional descriptions of federal housing activities](#).

*Douglas W. Elmendorf*

Douglas W. Elmendorf  
Director