Housing

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Summary

Subsidies to Housing Dwarf Those to Other Sectors

Housing—whether looking for it or living in it—is a part of every American's life. Although shelter is a basic necessity, the housing sector encompasses a wide set of economic activities affecting everything from financial markets to the demand for commodities such as lumber. Through the use of subsidies, the federal government aims to reduce the cost of producing, purchasing or renting housing for households at a variety of income levels. These subsidies are distributed through dozens of programs, which provide grants, loans, tax expenditures or other incentives that support the construction of apartments, decrease the costs of mortgages and affect many other activities.

Subsidyscope estimates that the federal government spent $244 billion on housing-related grants and tax expenditures likely to contain subsidies in fiscal year 2009.[1] The government also provided $4 billion in direct loans, and $688 billion in loan guarantees for housing-related activities, including guarantees of securities backed by loans already carrying a federal guarantee. The ultimate subsidy cost of these loan and guarantee commitments is uncertain, as most are projected to be repaid by the borrowers and some federal sources project they may result in a profit to the government.[2] In addition, these estimates do not take into account administrative costs or market risk and are likely underestimates (see the discussion of Risk Transfers below).

The government's role in the housing sector increased in fiscal year 2009, as it continued funding multiple programs enacted to address effects of the 2008 financial crisis. Notably, the government took conservatorship over Fannie Mae and Freddie Mac, assuming substantial liabilities in the process.[3] However, subsidy estimates for Fannie and Freddie vary based on whether the entities are considered to be on- or off-budget. For more on the costs of these and other federal actions related to the crisis, see the discussion of Risk Transfers below.

The subsidy costs of housing loans and guarantee programs are uncertain and likely underestimates, and costs for Fannie Mae and Freddie Mac vary widely. Therefore, Subsidyscope does not add them to grants and tax expenditures.

Spending on housing programs that contain subsidies confers widespread benefits to homeowners and renters, as well as the construction sector, developers, realtors and more. Subsidyscope illuminates the budgetary costs of these programs; however, any use of these data for policy evaluation must weigh those costs against the benefits they provide.

Subsidyscope relies on multiple sources of government data to calculate these estimates. As previously noted, these data may not include some types of subsidies, and may contain gaps that prevent allocating some published subsidy data to the housing sector. All of these limitations can result in omissions of federal support that may, nonetheless, influence markets. However, they are the best data available, and they provide a baseline for comparing subsidies across economic sectors. By publishing these estimates, Subsidyscope makes these data more accessible and their shortcomings can be more easily identified and, ultimately, improved.

Majority of $244 Billion in Housing Grants and Tax Subsidies Benefits Homeownership

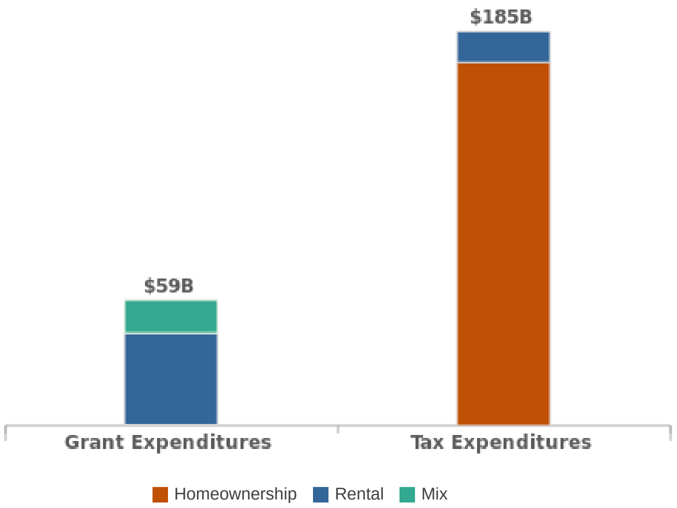
Subsidyscope divides federal support of the housing sector into four categories: direct expenditures (grants and contracts), tax expenditures, risk transfers (such as loans and loan guarantees) and regulations. Each of these categories is summarized in the sections below. This funding is administered through a variety of agencies, including the U.S. Department of Housing and Urban Development (HUD), the Department of Veterans Affairs (VA), Department of Agriculture, the Department of the Treasury (Treasury) and the Federal Reserve.

The government's housing activities can be further categorized into those that support rental housing, and those that support homeownership. As noted by the Congressional Budget Office (CBO), "most of the federal government's support for housing is provided for homeownership."[4] Figure 1 below illustrates this, with 70 percent of the $244 billion in combined grants and tax expenditures going to homeownership activities.[5]

Federal support for rental activities is conveyed primarily through grant programs, while support for homeownership is conveyed largely through the tax code and other avenues (such as loans and loan guarantees). Of the $185 billion in housing tax expenditures in fiscal year 2009, about 8 percent, or $14 billion, was for rental activities. In contrast, $43 billion of the $59 billion in housing grants, or about 73 percent, was for rental activities. The remaining funding was for programs that support homeownership, or a mix of homeownership and rental activities.[6]

Rental activities are generally targeted to households with lower incomes, as are some homeownership activities such as Rural Housing Service loans for single family mortgages.[7] However, some of the government's largest housing expenditures are related to tax subsidies that are often used by higher income households, such as the mortgage interest deduction (MID) and the property tax deduction. These two programs cost an estimated $108 billion in fiscal year 2009.[8]

Figure 1: Housing Activities Supported through Grants and Tax Expenditures, FY2009



Source: Subsidyscope analysis of FY2009 data from USAspending.gov and "Analytical Perspectives." See: OMB. "Analytical Perspectives Fiscal Year 2011." pp. 210-212.

Grants and Contracts: $59.1 Billion (FY2009)

In fiscal year 2009, the federal government awarded $59.1 billion in direct grants to companies or organizations engaged in housing-related work, or about 8 percent of all grants the government awarded during that period. Subsidyscope deems all of these programs as likely to contain a subsidy, and, therefore, includes all of them in its analysis.[9] Federal housing grants were distributed through more than 60 active programs; about 73 percent of this funding went to programs that support rental housing. The largest grant program in the sector is HUD's Section 8 Housing Choice Vouchers. The program received $16.3 billion in fiscal year 2009—about 28 percent of all housing grants.[10] Click here to search Subsidyscope's database of housing-related grants.

The government spent another $0.3 billion on non-competed contracts for housing-related goods or services.[11] Subsidyscope considers non-competed contracts as more likely to contain a subsidy component than competed contracts.[12] Click here to search Subsidyscope's database of housing-related non-competed contracts.

Tax Expenditures: $185.2 Billion (FY2009)

The housing sector claimed $185.2 billion in federal tax expenditures in fiscal year 2009. This figure includes some of the largest tax expenditures in the U.S. tax code. The mortgage interest deduction, which allows homeowners to claim a deduction on their taxes equal to the amount they pay in interest on their mortgage and a home equity loan (up to $1.1 million in mortgage debt), cost the federal government $79.4 billion in lost revenue in fiscal year 2009. The vast majority, about 92 percent, of housing-related tax expenditures benefit homeownership activities.[13] Click here to read more about tax expenditures for housing, and here to explore Pew's Tax Expenditure Database.

Risk Transfers: Increasing in Response to Financial Crisis

The federal government provides loans and loan guarantees in the housing sector, assuming financial risks that otherwise would be borne by investors or other entities. Through such “risk transfers,” the government has made a substantial financial commitment to the sector. In fiscal year 2009, more than $4 billion was directly loaned to individuals or companies for the purpose of financing homes. Also in fiscal year 2009, federal agencies issued guarantees totaling $688 billion on loans for housing-related activities; this includes guarantees of securities backed by mortgages on single- and multi-family homes already carrying a federal guarantee. This loan guarantee amount is approximately three times the $230 billion committed in 2008; the growth was primarily due to increases in guarantees issued by the Federal Housing Administration and Ginnie Mae.[14]

Although the amount of loan and guarantee commitments illustrates the breadth of the government's role in the housing sector, it does not measure the subsidy costs that will ultimately be incurred. Most of these commitments are likely to be repaid by the borrowers. In fact, if subsidy rates calculated by the government according to the Federal Credit Reform Act are applied, the direct loans would be projected to cost under $0.3 billion, and the loan guarantees would be projected to generate over $1 billion in earnings for the government.[15] However, these estimated subsidy rates do not include the costs of administering the programs or market risk (which arises from volatility in the economy)—the main sources of the implicit subsidy of getting a loan with better terms than are available in the competitive market. Therefore, the government likely underestimates the subsidy.[16] For more information, see Subsidyscope's risk transfers page.

In late 2008, the government took conservatorship of Fannie Mae and Freddie Mac in an effort to stabilize their declining finances; this was one of several steps taken by the government to bolster the housing market and the secondary credit markets which support it. The cost of conservatorship varies, depending on whether it is measured as federal outlays to Fannie Mae and Freddie Mac for stock purchases (off-budget), or calculated as the projected future costs of their portfolio at the time the government took on their liabilities (on-budget).[17] According to the Federal Housing Finance Agency, the government provided a net $93 billion to Fannie Mae and Freddie Mac in fiscal year 2009 by purchasing preferred stock from these two housing-related government sponsored enterprises (GSEs).[18] On a fair value basis, the CBO has estimated the subsidy cost of taking on their liabilities to be $291 billion in fiscal year 2009.[19] Federal agencies also purchased more than a trillion dollars of mortgage-backed securities issued or guaranteed by GSEs, among other activities related to the government response to the financial crisis.[20]

It is difficult to analyze the extent to which some of these actions contain subsidies specific to the housing sector. Subsidyscope presents these activities in order to illustrate the government's role in this sector; these estimates should be used with caution as it may take several years to determine how much subsidy they will ultimately convey. Click here to read more about risk transfers in the housing sector.

Regulations: Subsidy Costs Undetermined

The federal government subsidizes the housing sector through regulations, which can significantly affect particular producers or consumers. Unfortunately, there is no way to methodically identify and quantify these subsidies. Subsidyscope's regulations page describes some of the regulations that may create subsidies in the housing sector. Click here to read more about regulations in this sector.

Structure of Sector

In addition to the pages above, Subsidyscope broadly examines the size and scope of the housing sector in the United States and explains the economic rationale for government intervention here.

1. *Subsidyscope analysis of data in USASpending.gov and "Analytical Perspectives." See: Office of Management and Budget (OMB). "Analytical Perspectives Fiscal Year 2011." pp. 210, 212.*
2. *Subsidyscope analysis of data from the Federal Credit Supplement, FY2009 and FY2010. Tables 1 and 2.*
3. *The Federal Housing Finance Agency (FHFA) announced that it placed Fannie Mae and Freddie Mac into conservatorship on September 7, 2008. See: "Statement of FHFA Director James B. Lockhart." p. 5.*
4. *Congressional Budget Office (CBO). "An Overview of Federal Support for Housing." November 3, 2009. p. 1.*
5. *Subsidyscope analysis of data in USASpending.gov and "Analytical Perspectives." See: OMB. "Analytical Perspectives Fiscal Year 2011." pp. 210, 212.*
6. *Ibid.*
7. *Foote, Bruce E. Congressional Research Service (CRS). "USDA Rural Housing Programs: An Overview." May 11, 2006. pp. 3-4.*
8. *Subsidyscope analysis of data in "Analytical Perspectives." See: OMB. "Analytical Perspectives Fiscal Year 2011." pp. 210, 212.*
9. *Subsidyscope deems that a grant program is likely to contain a subsidy if it meets the criteria outlined here. For example, a program that provides grants for the removal of lead-based paints in homes or apartments would be considered likely to contain a subsidy to the housing sector.*
10. *Subsidyscope analysis of USAspending.gov.*
11. *Ibid.*
12. *Subsidyscope focuses on non-competed contracts because they are more likely to be priced at above fair market values. By contrast, competed contracts can result in lower costs and/or better quality goods and services.*
13. *Subsidyscope analysis of data in "Analytical Perspectives." See: OMB. "Analytical Perspectives Fiscal Year 2011." pp. 210, 212.*
14. *Subsidyscope analysis of data from the Federal Credit Supplement, FY2009 and FY2010. Tables 1 and 2.*
15. *Ibid.*
16. *CBO. "Assessing the Government's Costs for Mortgage Insurance Provided by the Federal Housing Administration." July 19, 2006. p. 1.*
17. *CBO. "CBO's Budgetary Treatment of Fannie Mae and Freddie Mac." January 2010. pp. 2-3, 13.*
18. *Subsidyscope analysis of data from the Federal Housing Finance Agency (FHFA). This amount nets out dividend payments made to Treasury totaling $4 billion (for a gross of $97 billion) in fiscal year 2009. See: Table 1: Quarterly Draws on Treasury Commitments to Fannie Mae and Freddie Mac per the Senior Preferred Stock Purchase Agreements and Table 2: Dividends on Enterprise Draws from Treasury in "Data as of October 1, 2010 on Treasury and Federal Reserve Purchase Programs for GSE and Mortgage Related-Securities."*
19. *CBO. "Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market." December 2010. p. 4. In CBO's update to "The Budget and Economic Outlook: Fiscal Years 2010 to 2020," the fiscal year 2009 outlays related to Fannie Mae and Freddie Mac reflect cash transfers from Treasury to the GSEs (rather than the subsidy cost of their guarantees adjusted for market risk). For more information, see: CBO. "The Budget and Economic Outlook: An Update." August 2010. pp. 18-19.*
20. *Subsidyscope analysis of data from the OMB and the FHFA. See: OMB. "Analytical Perspectives Fiscal Year 2011"; and FHFA. "Data as of October 1, 2010 on Treasury and Federal Reserve Purchase Programs for GSE and Mortgage Related-Securities." Tables 3, 4 and 5.*

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Structure of the U.S. Housing Sector

The Federal Role

Homeownership has long been viewed as a part of the American Dream, and the U.S. economy reflects that. Together, rental and owner-occupied housing encompasses a complex economic sector that contributed about 14 percent to the U.S. GDP in 2009.[1]

The U.S. government has long played a role in the availability and affordability of housing, intervening to support both supply and demand. In the early 1930s, the U.S. began building multi-family housing projects for use by low-income families.[2] In addition, The Federal Housing Administration (FHA), created in 1934, gave middle- and low-income families access to mortgage markets and helped spur a broad increase in homeownership.[3] Today, government housing programs have expanded and evolved to provide and maintain housing and house financing options for people at a variety of income levels.

This page provides a broad overview of the structure of the housing sector, with a focus on the federal government's role in producing, purchasing or renting housing. The government's assistance to the housing market can be broadly grouped into three categories: rental housing, homeownership and block grants. Housing block grants are typically distributed to state or local entities with the discretion to determine the mix of rental and homeownership spending appropriate for their communities.[4] Each of these three categories is described in more detail below.

Rental Housing Programs Help Millions

There is no single definition of "rental housing." The term generally refers to a unit of housing that is used as a primary residence by a household that does not own the unit.[5] Figure 1 shows that 86 percent of all housing units in the U.S. in 2009 were occupied. Of these occupied units, approximately 32 percent were home to renters.[6]

Figure 1: Characteristics of the U.S Housing Market in 2009

Type	Units (in millions)	Percent
Occupied by Owner	76.4	59%
Occupied by Renter	35.4	27%
Vacant Units	13.7	11%
Seasonal Units	4.6	4%
Total	**130.1**	**100%**

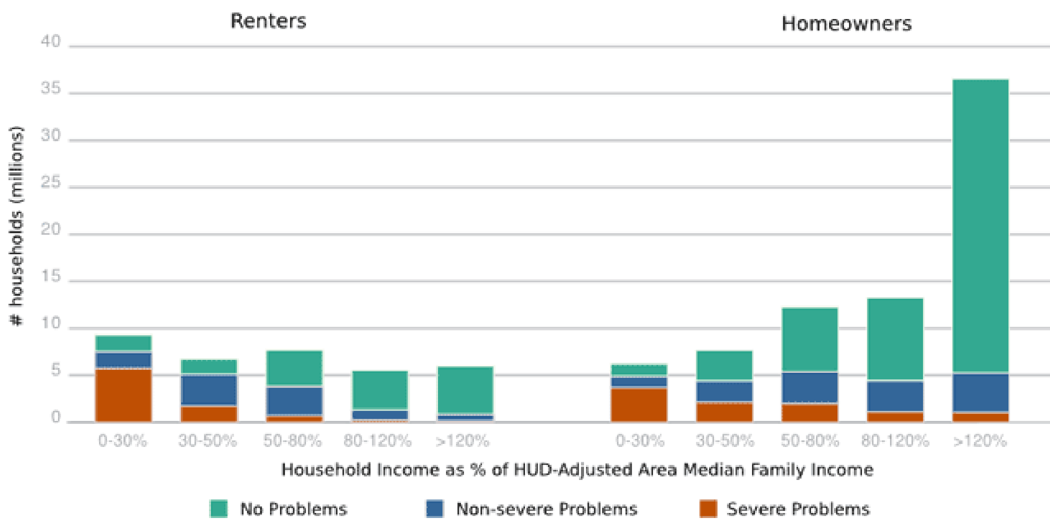
Source: Subsidyscope analysis of data in the 2009 American Housing Survey. See: U.S. Census Bureau. "American Housing Survey National Tables: 2009." Introductory Characteristics Table 1-1.

Many of the federal government's initial activities in the rental housing market took place in the midst of the Great Depression. Programs like those enacted under the U.S. Housing Act of 1937 were designed both to create jobs and to improve unsafe or unsanitary housing conditions.[7] The provision of decent housing, free of major physical problems related to heating, plumbing, electric or maintenance, remains a goal of many housing programs.[8]

According to a 2008 report from the Congressional Research Service (CRS), the largest housing problem today is a lack of affordability—housing that costs less than 30 percent of family income.[9] In 2007, 8.6 million households lived in severely inadequate conditions or spent more than half their incomes on rent (described as 'renters with severe problems' in Figure 2 below)—about 24 percent of all renters that year.[10] In that same year nearly 10 percent of rental units, on average, were vacant.[11]

The federal government employs a variety of programs to increase the supply of low-cost housing. In 2009, 73 percent of the $59 billion in federal grant funding in the housing sector went to rental programs; most of the remaining funding went to programs such as block grants that support both rental and homeownership activities (see Table 2 in Subsidyscope's direct expenditure page for more information).[12] In 2007, these and other funds went to an estimated 5.2 million households.[13]

Figure 2: Housing Conditions of Renter and Owner Households in 2007



Source: Subsidyscope analysis of data from "Worst Case Housing Needs 2007." See: David L Hardiman et al. HUD. pp. 55-56, Tables A–1a, A-1b.

Note: HUD defines 'severe problems' as a rent burden that is more than 50% of income, or severely inadequate housing (serious physical problems related to heating, plumbing, electric or maintenance). 'Non-severe problems' are defined as a rent burden between 30% and 50% of income, moderately inadequate housing, or crowded housing.

Subsidies to Renters

Federal rental assistance primarily targets low-income households, defined by the U.S. Housing Act of 1937 as households that earn at or below 80 percent of the area median income.[14] Several programs are specifically directed towards households with special needs, such as the elderly or persons with disabilities. For example, Shelter Plus Care funds programs that provide rental assistance payments to persons with serious mental illness or drug dependence.[15] In addition, funding is available for certain populations, such as veterans, Native Americans, Native Hawaiians, and renters in rural areas.

Many rental assistance programs, including the well-known Section 8 Housing Choice Voucher Program, generally provide subsidies to a renter or a rental housing project so that tenants do not spend more than 30 percent of their income on rent.[16]

Subsidies to Developers of Rental Housing

In addition to subsidizing the rent paid by households for existing housing, the government also supports the maintenance and production of affordable rental housing. Through the 1950s, the federal government financed the construction of housing that was owned and managed by public housing agencies.[17] Though government-owned civilian housing is no longer produced, some projects continue to receive operational support and are home to roughly 1.2 million families.[18]

In recent years, the production of low-income rental housing has been incentivized through programs that lower financing costs for private or nonprofit developers. Some programs directly lower costs through grants, such as the Section 202 program that provides funds to construct supportive housing for the elderly.[19] Other programs allow the developer to access below-market interest rates on loans, either through direct loans (for example, in the Section 515 program) or through loan guarantees.[20] Finally, tax provisions such as the Low Income Housing Tax Credit (LIHTC) or tax-exemption on housing revenue bonds provide incentives that ultimately lower the costs of developing affordable housing.[21]

In exchange for receiving assistance through these programs, developers are required to keep a certain portion of their rental units affordable to low-income renters.[22] In many instances these programs overlap, providing multiple forms of assistance to a single project; for example, LIHTC units are sometimes paired with Housing Choice Vouchers to make them affordable to tenants with very low incomes.[23]

In addition to the efforts described above, the federal government supports homelessness prevention through the creation and operation of emergency shelters, transitional housing and group homes.[24] HUD estimates that nearly 1.6 million people used an emergency shelter or transitional housing program during fiscal year 2009.[25] Although these homelessness prevention activities may not directly affect the wider housing market to the extent the other programs mentioned here do, they provide a platform from which otherwise homeless individuals or families can re-enter the housing market.

Rehabilitating Rental Housing

While the government supports the production of new rental housing, it also works to keep existing units in the stock of affordable housing. It accomplishes this through programs that provide capital funds for rehabilitation or renovation of public or private housing units. For example, LIHTCs can be used to update and convert an existing building into a building with affordable units.[26] In addition, the HOPE VI program funds the redevelopment of severely distressed public housing, often replacing it with mixed-income communities.[27] As is the case when producing new units, developers using housing preservation funds are required to make a certain number of affordable units available to renters for a period of time after the rehabilitation is complete.

Federal Programs Promote Homeownership

The term “homeownership” can refer to a variety of situations, such as one family that owns several homes; a person who owns a house, but rents another as their primary residence; or a person who holds a mortgage for a home but doesn’t have any equity in the home. However, government assistance in the area of “homeownership” generally refers to a household which owns, or holds a mortgage for, their primary residence.

Of the 112 million units of housing occupied in 2009, 76 million were occupied by their owner.[28] This contributed to an average homeownership rate in 2009 of about 67.4 percent.[29] Although homeowners are often thought of as living in detached single-family homes, homeownership can occur in a variety of structures. For example, in 2009 nearly 1.3 million homeowners lived in buildings with more than twenty units, and 5.4 million lived in manufactured or mobile homes.[30]

The majority of owner-occupied homes in the U.S. have some type of mortgage on the property. In 2009, only about 32 percent (or 24 million) owner-occupied homes were owned free and clear without a mortgage.[31] For the same year, the Federal Reserve estimated that the amount of outstanding home mortgage debt in the U.S. totaled $10.3 trillion dollars.[32]

Though the majority of homes in America are now owner-occupied, this was not always the case. The federal government began to support mortgage financing in the 1930s to promote homeownership, bolster lending institutions, and spur the economy.[33] In 1930, the homeownership rate was about 48 percent; by 1950 the rate had grown to 55 percent.[34] This increase in homeownership was assisted, among other factors, by government policies that helped build a national market for housing credit through the creation of entities like FHA, the Federal Homes Loan Banks (FHLB) and the Federal National Mortgage Association (Fannie Mae).[35]

Today, the government continues to support homeownership and mortgage markets through a variety of programs, with the additional goal of extending credit to underserved populations.[36] While there is some grant assistance for homebuyers and homeowners, the overwhelming majority of government activity in this area focuses on the availability and affordability of mortgages. In fact, the largest housing subsidy reported by the government—the mortgage interest deduction (MID)—is a tax expenditure intended to reduce the costs of financing a home through debt. In fiscal year 2009, the MID lowered federal revenues by an estimated $79.4 billion. The MID and other activities are discussed further below.

Grant Assistance to Homebuyers
The government operates a handful of grant programs which help homebuyers obtain the resources needed to build or buy a home. The Self-Help Homeownership Opportunity Program, for example, provides low-income households who contribute labor or ‘sweat equity’ with assistance in buying (or renovating) their home.[37] These grants are first awarded to nonprofits or other organizations, who in turn provide an average of up to $15,000 in assistance to recipient households.[38]

Widespread Government Efforts to Subsidize Mortgages
The vast majority of assistance to homebuyers and homeowners is conveyed through the tax code and through support of mortgage markets. For example, the First-Time Homebuyer Credit, first enacted with the 2008 Housing and Economic Recovery Act (HERA), encouraged homeownership by allowing a one-time tax credit of up to $7,500 to those buying their first home (it has since expired).[39] Many of these programs, like the MID mentioned above, are not specifically targeted to first-time homebuyers. Certain benefits, such as mortgage credit certificates derived from state sales of tax-exempt revenue bonds, are means-tested—allowing only low- or moderate-income families to participate.[40] However, the majority of tax breaks given to homeowners are based on the tax liability of the household, with some limitations. Thus, the higher the taxable income of the household, the more benefits they receive from the tax expenditure program.

The government operates multiple programs intended both to make mortgages more available and affordable, and to ensure liquidity in credit markets. The most visible of these are the government’s loan guarantee programs run by agencies such as the FHA, the Department of Veterans Affairs, and the Rural Housing Service. These programs guarantee certain types of mortgages sold to first-time or lower-income homebuyers, providing homeownership opportunities to many who can only provide a low downpayment and for whom financing would be too expensive or out of reach.[41] In fiscal year 2009, the FHA alone insured more than 1.9 million single-family mortgages.[42]

Another tool widely used to supply below-market interest rates to homebuyers are tax-exempt mortgage bonds. States use the proceeds of these bonds, which are exempt from federal income tax, to provide mortgages to homebuyers at reduced interest rates.[43] These loans are often made in conjunction with loan guarantees from programs like the FHA.[44]

The federal government also funds direct loan programs, such as that run by the Rural Housing Service, which provide mortgages at below-market interest rates directly to homebuyers.[45] While less prevalent than federal loan guarantee programs, the government made about $4.1 billion in direct loan obligations in 2009.[46]

In addition to supporting a supply of more affordable loans, the government devotes significant resources to ensuring liquidity in the wider mortgage market.[47] For example, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are privately owned companies chartered by the government to purchase mortgages and to create and guarantee mortgage-backed securities.[48] According to the Congressional Budget Office, "their federal charters have allowed the two entities to borrow at interest rates lower than those paid by comparable finance companies…. The lower borrowing costs enjoyed by the two entities flowed to participants in the housing market in the form of lower mortgage rates and to the entities' stockholders in the form of higher profits."[49]

In the wake of the 2008 financial crisis, the government placed Fannie Mae and Freddie Mac into conservatorship in order to stabilize their declining financial conditions.[50] According to the Federal Housing Finance Agency, the U.S. Department of the Treasury (Treasury) provided a net total of $135 billion to the through June 2010, with the cumulative amount projected to increase by a net $6 to $124 billion through 2013.[51] Other government agencies have also estimated the costs of taking on Fannie Mae and Freddie Mac. For more information about the costs of conservatorship, as well as other federal actions intended to strengthen the mortgage market and the wider financial market as a whole, visit Subsidyscope's risk transfers page.

Government support of the mortgage market is not limited to Fannie Mae and Freddie Mac. Other federal efforts to ensure liquidity include the Federal Home Loan Banks, which loan funds to financial institutions to ensure the banks have adequate resources to provide mortgages.[52] In addition, the Government National Mortgage Association (Ginnie Mae) guarantees pools of mortgages that are issued or guaranteed by the FHA and VA.[53] For more information about these entities, visit Subsidyscope's risk transfers page.

Helping People Keep Their Homes

The federal government operates programs that provide counseling and other assistance to homeowners in order to avoid foreclosure (as well as other services for homebuyers or renters).[54] In 2007, federal foreclosure prevention activities began to increase in response to concerns over rising foreclosure rates.[55] These programs are broadly intended to help homeowners keep their homes through loan modifications that, for example, reduce the interest rates or the principals on mortgages.[56]

Participation in these programs has varied.[57] For example, the HOPE for Homeowner program, which offers certain mortgage holders at risk of default the option to refinance with FHA backing, reportedly closed only 50 new mortgages in its first 9 months.[58] The program has since been modified, and it guaranteed $900 million in mortgages in fiscal year 2009 (see Table 2 in Subsidyscope's risk transfers page).[59] A report from HUD and Treasury on a selection of other foreclosure programs estimated that they began 3.5 million modification arrangements between April 2009 and August 2010.[60]

In addition to counseling services, there are several programs which enable homeowners to renovate their homes. For example, HUD administers multiple programs that help homeowners (and renters) minimize or remove health hazards, such as lead paint, so that residents can remain in their homes.[61]

Block Grants Support Homeownership and Rental Housing

Although most federal housing grants are funneled to recipients through specific programs, the government also provides 'block grants' to states and local entities. Instead of dictating a specific use for each dollar, HUD block grants allow recipient governments to determine the best use of the funds according to the needs of their communities. Block grants such as the HOME Investment Partnership and Community Development Block Grants are allocated through formulas based on factors such as population size or need. In turn, those governments spend funds on priority housing needs (approved by HUD) and report the outcomes of their activities.[62] HOME funds alone provided subsidies for 307,000 rental units over a fifteen year period ending in 2007.[63] Due to the flexible nature of these funds, Subsidyscope does not classify them as either rental housing assistance or homeownership assistance.

1. *Subsidyscope analysis of data from the Bureau of Economic Analysis (BEA). Calculated by summing "Housing and Utilities" consumption and "Residential" private investment from "Table 1.5.5. Gross Domestic Product, Expanded Detail" of BEA's NIPA tables. Utilities were excluded from this estimation by subtracting "Household Utilities" (found in "Table 2.4.5. Personal Consumption Expenditures by Type of Product"). See Bureau of Economic Analysis. "All NIPA Tables."*
2. *Maggie McCarty et al. Congressional Research Service (CRS). "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 2.*
3. *Government Accountability Office (GAO). "Federal Housing Administration: Decline in the Agency's Market Share was Associated with Product and Process Developments of Other Mortgage Market Participants." June 2007. p. 6.*
4. *For an example, see the Community Development Block Grant (CDBG) program or the HOME Investments Partnerships program.*
5. *See the U.S. Census glossary for one definition of "renter-occupied housing."*
6. *Calculated by dividing 35,378 renters by 111,806 occupied housing units. See the U.S. Census Bureau. "American Housing Survey National Tables: 2009." Introductory Characteristics Table 1-1.*
7. *Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. pp. 1-2.*
8. *David L. Hardiman et al. HUD. "Worst Case Housing Needs 2007." May 2010. p. 6.*
9. *Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. Summary. For more information about determining affordability, see: David L. Hardiman et al. HUD. "Worst Case Housing Needs 2007." May 2010. pp. 7, 91.*
10. *According to HUD, "severely inadequate housing includes a variety of serious physical problems related to heating, plumbing, electric, or maintenance." David L. Hardiman et al. HUD. "Worst Case Housing Needs 2007." May 2010. pp. 1, 55, Table A–1a.*
11. *Rental vacancy rate averaged from figures in Table 1 of the U.S. Census Bureau's "Housing Vacancies and Homeownership (CPS/HVS)." Based on 2007 data, HUD concluded that there is a mismatch between the number of renters with extremely low incomes and the supply of decent affordable housing available to those renters. HUD further estimates that, as of 2007, there are only 44.2 available, affordable units for every 100 extremely low-income households. Adequacy of housing is also an issue, with HUD noting that "if physically adequate units are required, only 37.4 are available per 100 extremely low-income households." See: David L. Hardiman et al. HUD. "Worst Case Housing Needs 2007." May 2010. pp. viii, 25.*
12. *Subsidyscope analysis of data from USASpending.gov*
13. *The number of renters receiving housing assistance includes those receiving federal, state and local assistance. See: David L. Hardiman et al. HUD. "Worst Case Housing Needs 2007." May 2010. p. 55, Table A–1a. For more information, see page 90.*
14. *Though this definition of 'low-income' is widely used to determine eligibility for government housing assistance, many programs target assistance to households earning at or below 80% of the area median income. See: David L. Hardiman et al. HUD. "Worst Case Housing Needs 2007." May 2010. p. 48. For an example, see the "Low-Income Housing Tax Credit program, described on page 14 of the "Overview of Federal Housing Assistance Programs and Policy." Maggie McCarty et al. CRS. July 22, 2008.*
15. *Catalog of Federal Domestic Assistance. "Shelter Plus Care."*
16. *David L. Hardiman et al. HUD. "Worst Case Housing Needs 2007." May 2010. p. 50.*
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18. *Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 9; and GAO. "Comparing the Characteristics and Costs of Housing Programs." January 2002. pp. 6-7. These estimates vary. HUD estimates that local public housing agencies provide housing for 1.1 million families. See: David L. Hardiman et al. HUD. "Worst Case Housing Needs 2007." May 2010. p. 50.*
19. *Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 12.*
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29. U.S. Census Bureau. "Housing Vacancies and Home Ownership (CPS/HVS)." Table 5: Home Ownership Rates for the U.S.: 1965-2009. The homeownership estimates are derived from CPS/HVS (rather than the American Housing Survey, AHS) as it is one of the principal purposes of that survey. The principal purpose of the AHS is to provide more information about size, composition and state of housing. For more information about these two data sources, see: U.S. Census Bureau. "Housing Topics." Last Updated: December 2, 2004.
30. U.S. Census Bureau. "American Housing Survey National Tables: 2009." Introductory Characteristics Table 1-1.
31. Ibid., Mortgage Characteristics Table 3-15.
32. The Federal Reserve estimates that outstanding mortgage debt includes mortgages on 1-4 family properties, including farm houses. It excludes multi-family residential debt, which is defined as "loans on structures of five or more units." See: FRB. "Flow of Funds Accounts of the United States." Debt growth, borrowing and debt outstanding tables. September 17, 2010. p. 9. For more information, see p. 96, Level Tables.
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36. GAO. "Federal Housing Administration: Decline in the Agency's Market Share was Associated with Product and Process Developments of Other Mortgage Market Participants." June 2007. p. 6; and Office of Management and Budget (OMB). "Analytical Perspectives Fiscal Year 2011." p. 349.
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38. Catalog of Federal Domestic Assistance. "Self-Help Home Ownership Opportunity Program."
39. The First-Time Homebuyer Credit was later expanded by legislation that increased the credit limit to $8,000, and enabled long-time homeowners buying new homes to qualify for the credit, among other changes. For more information, see: GAO. "Tax Administration: Usage and Selected Analyses of the First-Time Homebuyer Credit." September 2, 2010. pp. 1, 3.
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53. Government National Mortgage Association (Ginnie Mae). "About Ginnie Mae;" and CBO. "The Budget and Economic Outlook: An Update." August 2010. p. 90.
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55. HUD. "Report to Congress on the Root Causes of the Foreclosure Crisis." January 2010. p. 44.

56. *Webel, Baird and Edward V. Murphy. CRS. "The Emergency Economic Stabilization Act and Current Financial Turmoil: Issues and Analysis." October 31, 2008. p. 5.*

57. *For more information about these programs, see: OMB. "Analytical Perspectives Fiscal Year 2011." p. 347; and HUD. "Report to Congress on the Root Causes of the Foreclosure Crisis." January 2010. p. 45.*

58. *Jones, Katie. CRS. "Preserving Homeownership: Foreclosure Prevention Initiatives." August 28, 2009. pp. 12-14.*

59. *Jones, Katie. CRS. "Preserving Homeownership: Foreclosure Prevention Initiatives." August 28, 2009. p. 13; and OMB. "Federal Credit Supplement Fiscal Year 2010." p. 9.*

60. *This estimate includes trial modifications that have not yet been made permanent. See: HUD and U.S. Department of the Treasury. "The Obama Administration's Efforts to Stabilize the Housing Market and Help American Homeowners." October 2010. p. 1.*

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Last updated March 30, 2011.

Housing

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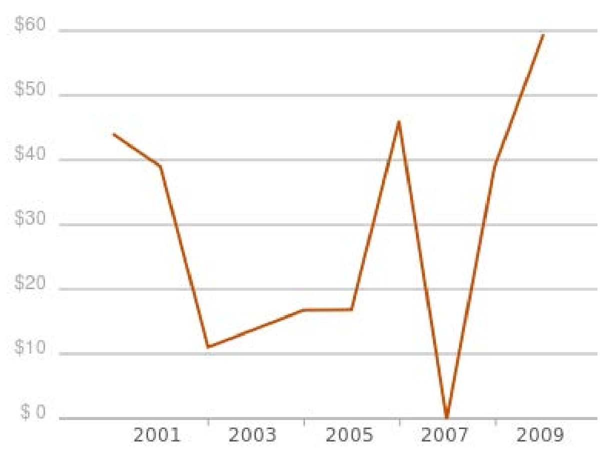
Direct Expenditures in the Housing Sector

The federal government spent approximately $59.1 billion in fiscal year 2009 on grant programs that may provide a subsidy to the housing sector. This funding, administered by four agencies across more than 60 active programs, accounted for over 8 percent of all government grants made that year ($716.8 billion). Also during fiscal year 2009, housing-related contracts totaled $1.5 billion, less than one percent of all government contracts ($523.8 billion). Of the $1.5 billion in housing contracts, $0.3 billion, or 20 percent, were not competed.[1] While not all contracts contain a subsidy, non-competed contracts are more likely to contain a subsidy than competed contracts.

It is important to note the distinction between *spending* on grants and contracts, and the *subsidies* conveyed through that spending. Not all of the money obligated to a grant or contract ends up subsidizing the housing sector; for example, some grant funds are devoted to administering the grants or other activities that do not affect housing availability or prices. Unfortunately, little data are available that would help estimate the subsidy portion of spending on housing-related grants and contracts. In the absence of this information, Subsidyscope reports the total amount spent on grants and contracts that are most likely to contain a subsidy. As stated above, not all the spending in these programs would properly be counted as a subsidy; thus, the spending estimates presented here constitute the upper bound of government subsidies in this sector.

The direct expenditure totals presented on this Web page are compiled using government data from USASpending.gov and the Catalog of Federal Domestic Assistance. This federal data can sometimes be of poor quality, particularly in the form of potential errors or omissions made by the reporting agencies. Users of this data should be aware that it is often updated over time. Subsidyscope reports the data as it appears at the time of our analysis (denoted by the time stamp at the bottom of each Web page).

Figure 1: Expenditures on Grant Programs in the Housing Sector, FY2000-2009 ($ billions)



Source: Subsidyscope analysis of data from USAspending.gov. Estimates are in nominal dollars and reflect the data as they appear in USAspending.gov at the time of this analysis.

Note: Data presented are obligations to programs that Subsidyscope deem likely to contain a subsidy. All grant programs in Subsidyscope's definition of the housing sector are included, with the exception of the National Foreclosure Mitigation Counseling Program which is not reported in USASpending.gov. Changes in government reporting methods during fiscal year 2007 make the estimates for that year highly unreliable. Further, Subsidyscope believes that some of the variation in obligation amounts prior to 2006 is due to incomplete reporting of Section 8 funding. It is not clear whether these omissions are due to reporting errors, or to changes in the way the Section 8 program was operated and funded over that period. For more information about the quality of these data sources, visit Clearspending.org, a Web site created by Subsidyscope's partners at the Sunlight Foundation.

Spending on Grants Jumps to Nearly $60 Billion in FY2009

Based on its review, Subsidyscope determined that all federal grant programs in the housing sector potentially contain a subsidy (see Section B. 4. of our methodology). As shown in Figure 1, these programs distributed $59.1 billion in housing-related spending in fiscal year 2009—a 54 percent increase over the $38.4 billion reported in fiscal year 2008. Much of this increase is attributable to stimulus funding and to a boost in obligations to the Community Development Block Grants program.[2] Unfortunately, as noted above, estimates of the actual subsidy provided by these programs are often not calculated or made available. These spending estimates constitute an upper bound of the actual subsidy conveyed to the housing sector.

The vast majority of housing grant funds are administered by the U.S. Department of Housing and Urban Development (HUD). The U.S. Departments of Agriculture, Justice and the Interior, among others, also operate housing-related programs (though not all were active in fiscal year 2009).[3] While the federal government funded 66 active housing programs in fiscal year 2009, much of the direct spending took place in a handful of large programs (described below). Most housing grant programs are relatively small, with nearly 40 programs in fiscal year 2009 reporting obligations of less than $50 million and several reporting no obligations at all (see Table 1 at the bottom of the page).

In many cases, these funds are first granted to state or local governments, which then administer the funds to the ultimate beneficiaries. In particular, HUD operates several large block grant programs that provide grants to state or local governments for a variety of housing-related activities, often through predetermined formulas that allocate the funds based on factors such as population or need.[4] For example, in fiscal year 2009, the Home Investment Partnership (HOME) Program distributed more than $1.8 billion to states, cities and counties that, in turn, distributed the funds locally to improve the supply of affordable housing.[5]

Unlike other types of government spending which focus on homeownership, such as tax deductions and government-backed mortgage guarantees, the majority of grant programs target rental housing. In fact, 73 percent of all grant spending is targeted solely at helping renters, with the remaining 27 percent helping a mix of both renters and homeowners. The five largest housing grant programs are described in more detail below, and the full list of programs is available in Table 1 at the bottom of the page. For additional information on grants to the housing sector, visit Subsidyscope's searchable database.

Although not reported by USAspending.gov (and thus not in Subsidyscope's grant database or grant totals), the government enacted multiple foreclosure prevention programs in response to the housing and financial crisis. For example, the Home Affordable Modification Program (HAMP) was created in 2009 with the goal of lowering monthly mortgage payments for struggling homeowners.[6] HAMP and several other assistance programs were funded in part through $50 billion in allocations from the Troubled Asset Relief Program (commonly known as TARP), though only about $710 million had been disbursed through the end of fiscal year 2009.[7] HAMP has funded permanent modifications for an estimated 500,000 homeowners as of October 2009. Other foreclosure prevention programs, such as HOPE for Homeowners, are discussed on Subsidyscope's risk transfers page.

The Five Most Costly Housing Grant Programs (FY2009)

Section 8 Housing Choice Vouchers: $16.3 billion
The Section 8 Voucher program is the largest housing-related grant program, receiving $16.3 billion in funding in fiscal year 2009—nearly 28 percent of all housing grants. These resources are

distributed to local public housing authorities (PHAs), who, in turn, provide payment vouchers to landlords on behalf of low-income renters. The voucher recipient pays 30 percent of their income directly to a landlord, and the PHA pays the difference between this and the fair market rent of the area.[8] Once a household is assigned a voucher, it is generally ‘portable,’ meaning that the household can apply it to any eligible unit in any area of the U.S. where a voucher program exists.[9] In 2009, the Section 8 Voucher program provided an estimated 2 million vouchers to households earning below 80 percent of the area median income.[10]

Section 8 Housing Assistance Payments (HAP) Program: $8.8 billion
Unlike the Section 8 Voucher program (which ties rental assistance to a household), the Section 8 HAP Program ties rental assistance to a unit of housing via a contract with HUD.[11] In fiscal year 2009, this program made $8.8 billion in rental assistance payments to existing owners of project-based Section 8 housing on behalf of eligible families.[12] This estimate includes $2.0 billion in funding from the 2008 American Recovery and Reinvestment Act (ARRA).[13] Though no new Section 8 HAP contracts have been signed since the 1980s, existing contracts with housing projects continue to provide assistance for at least 1.3 million units of affordable housing.[14]

Community Development Block Grants/Entitlement Grants (CDBG): $7.4 billion
In fiscal year 2009, nearly $7.4 billion were distributed through CDBG Entitlement Grants (including $667 million provided through ARRA).[15] The CDBG program, which aims to improve both housing and economic opportunities for low-income households, consists of several distinct programs, of which Entitlement Grants is only one (see Box 1 for additional information on CDBG programs).[16] The CDBG Entitlement Grants program is administered primarily to urban areas through a statutory formula.[17] In fiscal year 2008 (the latest year for which this data is available), approximately 30 percent of the funds supported activities directly related to housing, and another 24 percent supported public improvements such as new or refurbished fire stations, streets and sidewalks.[18] The remainder was spent on other public services like financial counseling or economic development.[19]

Box 1: Housing and Community Development Block Grants (CDBG)

Some government programs combine housing-specific activities with community development or even broader goals, such as energy conservation. The line between what is and is not a housing-related grant program is not always clear, especially in these broadly-defined programs. Subsidyscope has identified housing-related programs to the best of its ability given these circumstances, erring on the side of being inclusive.

Programs could be in the housing sector for two reasons: they affect housing directly by explicitly creating or preserving housing, and indirectly by creating conditions which materially affect the housing market. Thus, programs that appear primarily related to community development (rather than targeted specifically at housing) may be included in the housing sector.

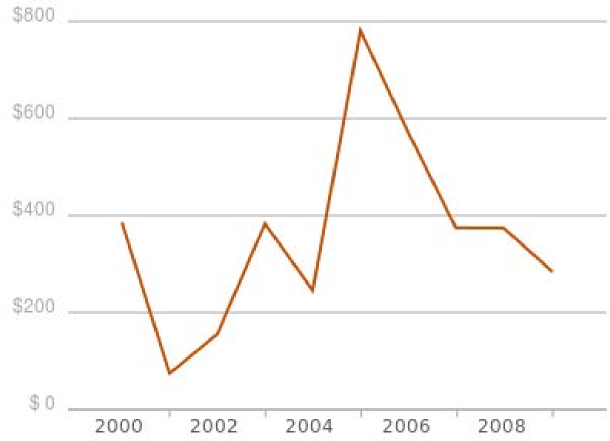
CDBG is a broad HUD-administered program that provides resources to address a range of community development needs. These needs are addressed through a variety of programs, such as “Entitlement Grants” or “State Programs and Non-Entitlement Grants,” all under the CDBG umbrella. Across all these programs, more than 25 percent of funding, on average, goes to housing-specific activities. Thus, most CDBG-related programs were considered a part of the housing sector.

Public and Indian Housing: $4.4 billion
HUD provided $4.4 billion in operating assistance to PHAs in fiscal year 2009.[20] Through more than 3,100 PHAs, these funds provided roughly 1.2 million units of publicly-owned housing to families generally earning below 80 percent of the area median income.[21] Similar to Section 8, these families pay 30 percent of their income towards rent with the balance paid by grant funds.[22]

Public Housing Capital Fund: $5.3 billion
In addition to the operating funds mentioned above, PHAs also received $5.3 billion through HUD’s

Public Housing Capital Fund to support capital improvements to public housing in fiscal year 2009.[23] This estimate includes funding from ARRA which, at $3.0 billion, comprised more than half of the funding for that program in 2009. These capital funds can be used for the development, financing or modernization of public housing.[24]

Figure 2: Expenditures on Non-competed Contracts in the Housing Sector, FY2000-2009 ($ millions)



Source: Subsidyscope analysis of data from USAspending.gov. Estimates are in nominal dollars and reflect the data as they appear in USAspending.gov at the time of this analysis.

Note: Subsidyscope believes that government spending on non-competed contracts is actually more consistent during this time period than the figure represents, and that the dips reflect poor data resulting from reporting variation, rather than actual decreases in housing-related contracts. See the text below for additional information.

Spending on Non-competed Contracts: About $280 Million in FY2009

In addition to awarding grants, the government directly contracts with organizations to provide housing-related goods and services, such as the management or sale of HUD-owned homes and apartment buildings, property appraisal, or program evaluation.[25] In fiscal year 2009, the federal government executed non-competed contracts totaling nearly $280 million in the housing-sector.

As noted above, Subsidyscope presents spending on programs deemed likely to contain a subsidy, rather than the subsidy amount itself. Under a contract, a subsidy occurs when the government pays more than fair market value for a good or service. In many cases it is difficult to determine when a subsidy is included, as the fair market value may be a matter of opinion. Therefore, Subsidyscope does not attempt to determine which specific contracts include a subsidy or measure the amount of the subsidy. We do presume, however, that competed contracts—contracts that are subject to an open bidding process—are generally less likely to have a subsidy component, even though the bidding process may include certain preferences.

Subsidyscope's focus on non-competed contracts reflects the fact that the federal government generally prefers agencies to compete contracts because competition is expected to result in lower costs and/or better quality goods and services. In contrast, non-competed contracts are generally assumed to be more likely to cost the government higher than the fair market value.[26]

In fiscal year 2009, some of the largest of these contracts relate to Management and Marketing (M&M) services. When an FHA-insured loan goes into default, HUD relies on local M&M contractors to manage and market the sale of the property.[27] Other contracts are directed toward the maintenance or construction of military housing; these military contracts are among the few related to new construction.[28]

The total amount of contracts reported is likely to underestimate the government's role in construction and other activities in the housing sector. As is apparent in the Grants section above, HUD and other agencies provide funds to nonprofits, states, or other entities, who in turn may contract or subcontract with other entities to construct or renovate housing.[29] These contracts and subcontracts are not reflected in the estimates presented here.

Subsidyscope has previously determined that there can be problems with the quality of the contracts data that are reported by agencies to USAspending.gov. In order to sort government contracts by economic sector, Subsidyscope uses the North American Industry Classification System (NAICS) codes to match contracts to the appropriate economic sector, or Product Service Codes if NAICS codes are not available. (See Section C of Subsidyscope's methodology for more on how contracts are organized by sector.)

Specifically, for the data presented in Figure 2 above, Subsidyscope found that there is significant variation in agencies' use of NAICS codes when reporting contracts to USAspending.gov over the ten-year period from fiscal year 2000 to 2010. This inconsistent application of NAICS codes as well as other reporting variations are likely responsible for the large drop in the reported number of non-competed contracts in the housing sector from fiscal year 2000 to 2001 and the spike in contracts in fiscal year 2005. Subsidyscope believes that levels of contracting were actually more consistent during this time period than Figure 2 represents.

To access Subsidyscope's search interfaces for direct expenditures data from the federal government’s USAspending.gov web site, click here for grants and here for non-competed contracts. The table below provides an aggregate summary of the grants made by each program in the housing sector in fiscal year 2009, retrieved from Subsidyscope's searchable database of grants.

Table 1: Housing Sector Direct Expenditure Programs, FY 2009

CFDA #	CFDA Program Title	FY 2009 ($ millions)
SUPPORTS HOMEOWNERSHIP ACTIVITY		
14.247	Self-Help Homeownership Opportunity Program	$60
10.420	Rural Self-Help Housing Technical Assistance	$27
10.417	Very Low-Income Housing Repair Loans and Grants	$12
14.171	Manufactured Home Construction and Safety Standards	$6
10.444	Direct Housing_Natural Disaster Loans and Grants	$4
15.141	Indian Housing Assistance	$0
n/a	Neighborhood Reinvestment Corporation	$277*
Subtotal		**$386**
SUPPORTS RENTAL ACTIVITY		
14.871	Section 8 Housing Choice Vouchers	$16,350
14.195	Section 8 Housing Assistance Payments Program	$6,770
14.850	Public and Indian Housing	$4,430
14.885	Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded	$2,972
14.872	Public Housing Capital Fund	$2,358
14.258	Tax Credit Assistance Program (Recovery Act Funded)	$2,250
14.317	Section 8 Housing Assistance Payments Program Special Allocations (Recovery Act Funded)	$1,984
14.257	Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	$1,485
14.231	Emergency Shelter Grants Program	$996
14.884	Public Housing Capital Fund Competitive (Recovery Act Funded)	$994

10.427	Rural Rental Assistance Payments	$873
14.157	Supportive Housing for the Elderly	$724
14.238	Shelter Plus Care	$405
14.181	Supportive Housing for Persons with Disabilities	$186
14.856	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation	$174
14.879	Mainstream Vouchers	$91
14.191	Multifamily Housing Service Coordinators	$46
16.805	Recovery Act Transitional Housing	$43
14.870	Resident Opportunity and Supportive Services - Service Coordinators	$39
14.197	Multifamily Assisted Housing Reform and Affordability Act	$34
10.405	Farm Labor Housing Loans and Grants	$18
16.736	Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	$14
14.318	Assisted Housing Stability and Energy and Green Retrofit Investments Program (Recovery Act Funded)	$12
14.314	Assisted Living Conversion for Eligible Multifamily Housing Projects	$8
14.910	Healthy Homes Technical Studies Grants (Recovery Act Funded)	$2
10.447	The Rural Development (RD) Multi-Family Housing Revitalization Demonstration Program (MPR)	$0
14.235	Supportive Housing Program	$0
14.249	Section 8 Moderate Rehabilitation Single Room Occupancy	-$14
14.149	Rent Supplements_Rental Housing for Lower Income Families	-$30
14.103	Interest Reduction Payments_Rental and Cooperative Housing for Lower Income Families	-$85
Subtotal		**$43,130**

SUPPORTS MIX OF RENTAL AND HOMEOWNERSHIP ACTIVITY

14.218	Community Development Block Grants/Entitlement Grants	$6,714
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	$4,111
14.239	Home Investment Partnerships Program	$1,857
14.253	Community Development Block Grant ARRA Entitlement Grants (CDBG-R)(Recovery Act Funded)	$667
14.867	Indian Housing Block Grants	$634
14.241	Housing Opportunities for Persons with AIDS	$318
14.255	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)	$288
14.882	Native American Housing Block Grants (Formula) Recovery Act Funded	$253
14.887	Native American Housing Block Grants (Competitive) Recovery Act Funded	$236
14.905	Lead Hazard Reduction Demonstration Grant Program	$117
14.907	Lead-Based Paint Hazard Control in Privately-Owned Housing (Recovery Act Funded)	$78
14.862	Indian Community Development Block Grant Program	$61
14.169	Housing Counseling Assistance Program	$50
14.401	Fair Housing Assistance Program_State and Local	$25
14.250	Rural Housing and Economic Development	$20
14.908	Healthy Homes Demonstration Grants (Recovery Act Funded)	$17

14.506	General Research and Technology Activity	$14
10.433	Rural Housing Preservation Grants	$10
14.873	Native Hawaiian Housing Block Grants	$10
14.883	Native Hawaiian Housing Block Grants (Recovery Act Funded)	$10
14.886	Indian Community Development Block Grant Program (Recovery Act Funded)	$9
14.903	Operation Lead Elimination Action Program (LEAP)	$8
14.901	Healthy Homes Demonstration Grants	$7
14.225	Community Development Block Grants/Special Purpose Grants/Insular Areas	$7
14.902	Lead Technical Studies Grants	$6
14.254	Community Development Block Grants/Special Purpose Grants/Insular Areas (Recovery Act Funded)	$6
14.866	Demolition and Revitalization of Severely Distressed Public Housing	$3
14.227	Community Development Block Grants/Technical Assistance Program	$3
14.909	Lead Hazard Reduction Demonstration Grant Program (Recovery Act Funded)	$3
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	$0
Subtotal		**$15,542**
NOT REPORTED		
10.410	Very Low to Moderate Income Housing Loans	not reported
10.442	Housing Application Packaging Grants	not reported
14.164	Operating Assistance for Troubled Multifamily Housing Projects	not reported
14.199	Multifamily Property Disposition	not reported
14.256	Neighborhood Stabilization Program (Recovery Act Funded)	not reported
14.311	Single Family Property Disposition	not reported
14.315	Emergency Capital Repair Grants for Multifamily Housing Projects Designated for Occupancy	not reported
14.408	Fair Housing Initiatives Program	not reported
14.875	Public Housing Neighborhood Networks Grants	not reported
64.024	VA Homeless Providers Grant and Per Diem Program	not reported
64.106	Specially Adapted Housing for Disabled Veterans	not reported
97.024	Emergency Food and Shelter National Board Program	not reported
Subtotal		**not reported**
Grand Total		***$59,058***

Source: Subsidyscope analysis of data from USAspending.gov. Table excludes loans and loan guarantees. Table includes ARRA funding, as reported by USAspending.gov. ARRA funding is separated by program and is shown as a separate line item; it is denoted by a “Recovery Act Funded” at the end of a program name.

Note: Individual estimates may not sum to reported totals due to rounding. Some programs report negative totals for FY 2009. This reflects a downward adjustment to obligations made in previous years. The type of activity supported was determined through program-specific information available in the CFDA, the HUD website and Recovery.gov.

**The Neighborhood Reinvestment Corporation, also known as NeighborWorks, is not recorded in USAspending.gov, and it does not have a CFDA program ID number. The obligation amounts are from the Census web site. According to the Congressional Research Service (CRS), "NeighborWorks is an independent, government-chartered nonprofit corporation that usually receives its own annual appropriation from Congress to use for a variety of community reinvestment activities. (NeighborWorks is not a part of HUD and is therefore not funded through the HUD budget, but it is usually funded as a related agency in the Transportation-HUD funding bill.)" See: Maggie McCarty et al. CRS. "The Department of Housing and Urban Development (HUD): FY2011 Appropriations." July 26, 2010. p. 25.*

1. *Subsidyscope analysis of USAspending.gov.*
2. *Some of the increase in Community Development Block Grant (CDBG) funding may be related to a provision of the Housing and Economic Recovery Act of 2008 (HERA) that created the "Neighborhood Stabilization Program." HERA appropriated $3.9 billion to this program. According to this U.S. Department of Housing and Urban Development (HUD) document, HERA directed HUD to "treat these funds as if they are CDBG funds." For more information see: Boyd, Eugene and Gonzales, Oscar R. Congressional Research Service (CRS). "Community Development Block Grants: Neighborhood Stabilization Program: Assistance to Communities Affected by Foreclosures." March 13, 2009. pp. Summary, 2.*
3. *Subsidyscope analysis of USAspending.gov.*
4. *Government Accountability Office (GAO). "A Glossary of Terms Used in the Federal Budget Process." September 2005. p. 60; and HUD. "Community Development Block Grant Program." Last Updated: November 19, 2010.*
5. *Catalog of Federal Domestic Assistance. "Home Investments Partnerships Program (HOME)."*
6. *U.S. Special Inspector General for the Troubled Asset Relief Program (SIGTARP). "Factors Affecting Implementation of the Home Affordable Modification Program." March 25, 2010. p. Summary.*
7. *According to CBO, "$50 billion was made available through the TARP, and the remaining $25 billion was to be provided through Fannie Mae and FreddieMac….The Treasury has committed roughly $8 billion of the HAMP funding provided through the TARP for grants to selected state housing finance agencies and another $8 billion for programs of the Federal Housing Administration. For more information, see: CBO. "Report on the Troubled Asset Relief Program—November 2010." November 2010. p. 7.*
8. *Maggie McCarty et al. Congressional Research Service (CRS). "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 8.*
9. *Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. pp. 8; and McCarty, Maggie. CRS. "Overview of the Section 8 Housing Programs." January 29, 2008. pp. 8-9.*
10. *McCarty, Maggie. CRS. "Overview of the Section 8 Housing Programs." January 29, 2008. p. 7; and Maggie McCarty et al. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 8.*
11. *McCarty, Maggie. CRS. "Overview of the Section 8 Housing Programs" January 29, 2008. pp. 6-7.*
12. *Subsidyscope analysis of data from USAspending.gov; and Catalog of Federal Domestic Assistance. "Section 8 Housing Assistance Payments Programs Special Allocations."*
13. *Subsidyscope analysis of USAspending.gov. As shown in Table 1 below, the regular Section Housing Assistant Payments Program received $6.77 billion in FY2009. The additional $1,984 billion in ARRA funding is reported in a separate line item entitled "Section 8 Housing Assistance Payments Program Special Allocations (Recovery Act Funded)."*
14. *McCarty, Maggie. CRS. "Overview of the Section 8 Housing Programs" January 29, 2008. pp. 6; and Maggie McCarty et al. CRS. "U.S. Department of Housing and Urban Development (HUD): FY2011 Appropriations." July 26, 2010. p. 16.*
15. *Subsidyscope analysis of USAspending.gov. As shown in Table 1 below, the regular Community Development Block Grants/Entitlement Grants Program received $6.714 billion in FY2009. The additional $667 million in ARRA funding is reported in a separate line item entitled "Community Development Block Grant ARRA Entitlement Grants (CDBG-R)(Recovery Act Funded)."*
16. *Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. pp. 15-16.*
17. *Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 15; and HUD. "Community Development Block Grant Entitlement Communities Grants." Last Updated: August 27, 2009.*
18. *HUD. "Use of CDBG Funds by Entitlement Communities Spreadsheet." See: CDBG Expenditure Reports on the HUD website.*
19. *Ibid.*
20. *Indian Housing Authorities were made ineligible for funding through this program by the 1996 Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) See: Catalog of Federal Domestic Assistance. "Public and Indian Housing." According to CRS, NAHASDA reorganized how federal housing assistance was conveyed to Native Americans, eliminating several programs and replacing them with a block grant. See: Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 7.*
21. *HUD. "Budget Fiscal Year 2011. p. 14; and Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 9.*
22. *Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 9.*
23. *Subsidyscope analysis of USAspending.gov. As shown in Table 1 below, the regular Public Housing Capital Fund Program received $2.358 billion in FY2009. The additional $2.972 billion in ARRA funding is reported in a separate line item entitled*

"Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded."

24. *Catalog of Federal Domestic Assistance. "Public Housing Capital Fund."*
25. *HUD. "Frequently Asked Contracting Questions." Last Updated: September 27, 2010.*
26. *U.S. Department of Energy (DOE). "Competition in Contracting Guide." p. 2.*
27. *HUD. "FHA REO Management and Marketing Contractors." Last Updated: November 29, 2010.*
28. *Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 9.*
29. *HUD. "General Information about HUD Contracting." Last Updated: November 19, 2008.*

Last updated March 30, 2011.

Housing

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Tax Expenditures in the Housing Sector

The housing sector is the recipient of some of the largest tax subsidies in the U.S. tax code. In fiscal year 2009, the estimated revenue lost by the federal government from housing-related tax expenditures topped $185 billion,[1] with the vast majority of these subsidies supporting homeownership.

Tax expenditures are government revenue losses resulting from provisions in the tax code that allow a taxpayer or business to reduce their tax burden by taking certain deductions, exemptions, exclusions, preferential rates, deferrals or credits. Tax expenditures reduce the payment of taxes that would otherwise have been collected by the government, and thus have a similar effect on the federal budget as a grant program. They can also benefit recipients in much the same way as direct spending. For example, in order to boost demand for owner-occupied housing, the federal government provided tax credits of up to $8,000 to first-time homebuyers in 2009.[2]

Tax expenditures in the housing sector confer benefits to homeowners and renters, as well as the construction sector, developers, realtors and more. Subsidyscope illuminates the budgetary costs of these programs; however, any use of these data for policy evaluation must weigh those costs against the benefits they provide.

The 13 Tax Subsidies for Housing

Subsidyscope identified 13 tax expenditures from the U.S. Department of the Treasury's (Treasury) tax expenditure budget that benefit the housing sector.[3] (Treasury categorized 12 tax expenditures in the housing sector, and Subsidyscope added “Exclusion of interest on veterans housing bonds,” based on its role in providing housing for veterans.) Subsidyscope further divided these tax subsidies into those that support homeownership and those that support rental housing. The five largest tax expenditures in the housing sector represent 91 percent ($168.7 billion) of all housing-related tax expenditures in fiscal year 2009. These five programs, all of which support homeownership, are described in more detail below. In addition, the largest tax expenditure for rental housing, “Exception from passive loss rules for $25,000 of rental loss,” is discussed below.

It is important to keep in mind that when a subsidy boosts the demand for housing, home prices may rise, especially in areas where the housing supply responds slowly to changes in demand.[4] As a result, at least part of the tax benefit is capitalized into the price at the time the tax was enacted. Thus, the homeowner at the time of enactment was the primary beneficiary of the tax subsidy; to the extent that future homebuyers pay higher prices, the benefits they receive from the tax subsidy are offset by the higher price they pay for housing. Further, any reduction in the tax subsidy would potentially reduce current housing prices or cause them to grow more slowly over time depending on the specifics of the policy and how quickly it is phased in.

Table 1: Housing Related Tax Expenditures for Individuals and Corporations, FY 2009

Tax Expenditure	FY 2009 ($ millions)

Deductibility of mortgage interest on owner-occupied homes	$79,400
Deductibility of State and local property tax on owner-occupied homes	$29,010
Exclusion of net imputed rental income	$27,040
Capital gains exclusion on home sales	$23,500
Credit for homebuyer	$9,730
Exception from passive loss rules for $25,000 of rental loss	$6,020
Accelerated depreciation on rental housing (normal tax method)	$3,860
Credit for low-income housing investments	$3,800
Exclusion of interest on owner-occupied mortgage subsidy bonds	$960
Exclusion of interest on rental housing bonds	$810
Deferral of income from installment sales	$720
Discharge of mortgage indebtedness	$360
Exclusion of interest on veterans housing bonds[1]	$20
Total	**$185,230**[2]

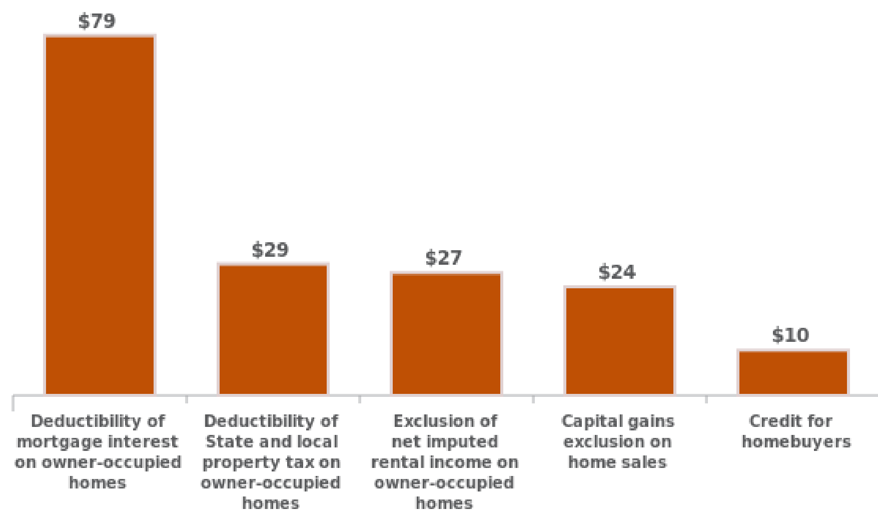
Source: Subsidyscope analysis of FY2009 data in Analytical Perspectives. OMB. Budget of the U.S. Government, Fiscal Year 2011. pp. 210-212. The estimates for 2009 tax expenditures vary based on the source used.

Notes:

1. *Treasury categorized this tax expenditure in the "Veteran's Benefits and Services" budget function. However, Subsidyscope deems this tax expenditure part of the housing sector based on the rationale that the exclusion is a housing subsidy for a particular group of citizens, and thus affects the housing market.*
2. *Summing tax expenditures often provides a reasonably good estimate for the total cost of groups of tax expenditures, though it does not capture the potential interactions among tax expenditures if any single one is changed or repealed.*

The Six Most Costly Housing Tax Subsidies (FY 2009)

Figure 1: Top Housing Tax Expenditures by Revenue Loss FY 2009 ($ billions)



Source: Subsidyscope analysis of FY2009 data in Analytical Perspectives. OMB. Budget of the U.S. Government, Fiscal Year 2011. pp. 210-212.

Owner-occupied home mortgage interest deduction: $79.4 billion
The largest tax expenditure in the housing sector for fiscal year 2009 was the mortgage interest deduction (MID) on owner-occupied homes, with an estimated revenue loss of $79.4 billion.[5] This tax subsidy allows homeowners to claim an itemized deduction on their taxes equal to the amount they pay in interest on their mortgage and a home equity loan (up to $1.1 million in mortgage debt).

Homeowners may also deduct interest on the first $1.1 million in mortgage debt and home equity indebtedness for a second residence.[6]

From an economic perspective, a home produces a stream of benefits to its owner in the value of the implicit rental income (what a homeowner could earn if they rented the home to someone else; see more below on imputed rent). This income is not taxed for various reasons, one being the administrative difficulties that would be involved in trying to calculate such a tax. If the implicit rental income were taxed, a homeowner would deduct any expenses they incurred to earn that income, such as interest on a mortgage or taxes on the property, but then neither the MID nor the property tax deduction would constitute a subsidy.[7] However, neither the interest on the mortgage nor the imputed rental income is taxed, therefore the MID constitutes a subsidy to homeowners.

Given that homeownership is considered part of the American Dream, the MID garners great support and popularity across the country.[8] In fact, it has been said to rival Social Security as the "third rail" of U.S. politics.[9] However, in recent years many have raised concerns over the effect of the deduction on the budget, and reform options have been discussed by the Congressional Budget Office,[10] the Urban Institute[11] and the President's National Commission on Fiscal Responsibility and Reform.[12] A forthcoming report by The Pew Fiscal Analysis Initiative and Subsidyscope will explore the implications of reform for households.

Deductibility of State and local property tax on owner-occupied homes: $29 billion
The second largest housing-related tax expenditure in fiscal year 2009 was the deduction for property taxes paid on owner-occupied residences, with an estimated revenue loss of $29 billion.[13] This provision allows certain homeowners who pay property taxes to state or local governments to claim an itemized deduction on their federal income taxes for those property taxes paid. The Congressional Research Service (CRS) notes that the rationale behind this deduction is that taxes paid to state or local governments reduce a taxpayer's ability to pay federal income tax, and therefore should be deducted before calculating the federal income tax owed.[14]

CRS states that this provision subsidizes homeowners as well as state and local governments.[15] Further, like the mortgage interest deduction and other tax expenditures targeted to homeowners, this tax subsidy reduces the cost of owning a home relative to renting.[16]

Exclusion of net imputed rental income: $27 billion
In addition to benefiting from the investment value of a home, the homeowner benefits financially from not having to pay rent (to themselves) because the home could have produced a stream of rental income if it were to be rented out. The value of this foregone rent is called 'imputed rental income.' A pure income tax would require a person to pay taxes on their imputed rental income (including any capital gains income) less the costs of owning and maintaining their home, such as mortgage interest and depreciation. There are various reasons why such income is not taxed in practice, including difficulties with implementation of such a tax. However, not taxing the net imputed rental income a person receives from living rent-free in their home is considered a tax expenditure by the Treasury.[17]

Capital gains exclusion on home sales: $23.5 billion
As previously noted, a pure income tax would apply to any capital gains that a homeowner earns on the home. However, a homeowner may exclude up to $250,000 ($500,000 for married taxpayers who filed jointly) of capital gains on the sale of a principal residence (no more than once every two years).[18] In fiscal year 2009, this exclusion represented an estimated $23.5 billion in lost tax revenue for the Treasury.[19] A 'capital gain' on a residence is the profit made on a house, or the increase in value from the time that a home was purchased to the time it was sold, less the value of improvements.

CRS notes that this exclusion "gives homeownership a competitive advantage over other types of investments, since the capital gains from investments in other assets are generally taxed when the assets are sold."[20] Combined with the other tax preferences for housing listed here, this makes homeownership a particularly attractive investment.

Credit for homebuyers: $10 billion

The Housing and Economic Recovery Act of 2008 established a tax credit for first-time homebuyers worth up to $7,500.[21] The American Recovery and Reinvestment Act of 2009 expanded the first-time homebuyer credit by increasing the credit amount to $8,000 for purchases made before December 1, 2009.[22] The Worker, Homeownership and Business Assistance Act of 2009 extended the purchase deadline to May 1, 2010 (with a closing deadline of July 1, 2010),[23] and legislation enacted in July 2010 extended the closing deadline for the purchase of a first home to September 30, 2010.[24]

Exception from passive loss rules for $25,000 of rental loss: $6 billion

The largest tax expenditure for rental housing is the exception from passive loss rules for rental loss. 'Passive activities' are "those in which the taxpayer does not materially participate . . . [T]here are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer."[25] Under the Internal Revenue Code, losses that result from passive activities are generally not allowed to be deducted from taxable income unless that income is also passive.[26] However, exceptions apply in certain cases, such as for rental losses. Although investments in rental properties are considered passive activities, the owner of such a property may deduct up to $25,000 of loss from non-passive taxable income as long as the taxpayer actively participates in the property and meets the income requirements of less than $100,000 a year.[27]

Homeownership Receives 92 Percent of Housing Tax Subsidies

The list of housing tax subsidies can be categorized to compare those that benefit homeownership and those that benefit rental housing. The chart below illustrates that nearly all (92 percent or $171 billion) of federal income tax subsidies for housing benefit homeownership. In addition, all four tax expenditures in the rental category go to the owners of rental property, but the assumption is that some of the tax benefits are passed on to renters. Tax subsidies to rental property owners benefit renters to the extent that the owners voluntarily, or as a condition of the subsidy, are compelled to lower rents or increase the stock of rental properties available.[28]

Table 2: Housing Tax Expenditures that Support Homeownership and Rental Activity, FY 2009

Tax Expenditure	FY 2009 ($ millions)
SUPPORTS HOMEOWNERSHIP ACTIVITY	
Deductibility of mortgage interest on owner-occupied homes	$79,400
Deductibility of State and local property tax on owner-occupied homes	$29,010
Exclusion of net imputed rental income	$27,040
Capital gains exclusion on home sales	$23,500
Credit for homebuyer	$9,730
Exclusion of interest on owner-occupied mortgage subsidy bonds	$960
Deferral of income from installment sales[1]	$720
Discharge of mortgage indebtedness	$360
Veterans Housing Bonds	$20
Total	**$170,740**
SUPPORTS RENTAL ACTIVITY	
Exception from passive loss rules for $25,000 of rental loss	$6,020
Accelerated depreciation on rental housing (normal tax method)	$3,860
Credit for low-income housing investments	$3,800
Exclusion of interest on rental housing bonds	$810

Total	**$14,490**
Grand Total	***$185,230***[2]

Source: Subsidyscope analysis of FY2009 data in Analytical Perspectives. OMB. Budget of the U.S. Government, Fiscal Year 2011. pp. 210-212.

Notes:

1. *The deferral of income on installment sales is not explicitly related to either homeownership or rental activity. The CRS notes that "the primary benefit probably flows to sellers of farms, small businesses, and small real estate investments." CRS. "Tax Expenditures: Compendium of Background Material on Individual Provisions." Prepared for the United States Senate Committee on the Budget. December 2008. p. 403.*
2. *Summing tax expenditures often provides a reasonably good estimate for the total cost of groups of tax expenditures, though it does not capture the potential interactions among tax expenditures if any single one is changed or repealed.*

1. *Subsidyscope analysis of data in "Analytical Perspectives." See: Office of Management and Budget (OMB). "Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2011." pp. 210, 212.*
2. *The credit was established in the Housing and Economic Recovery Act of 2008 and later expanded in various bills. See: Internal Revenue Service (IRS). "First-Time Home Buyer Credit." Last Updated: September 9, 2010.*
3. *Treasury reports a tax incentive for the preservation of historic structures that Subsidyscope does not include in this analysis. Under this provision, owners of historic buildings are encouraged to preserve or restore them with a tax credit of up to 20 percent of the expenditures used to convert the building. This tax credit, estimated to cost $430 million in fiscal year 2009, can be used to create both rental housing and commercial property; thus it cannot be wholly attributed to the housing sector. Because Treasury does not list it in the housing budget function, Subsidyscope has chosen to exclude this tax credit from its totals for the housing sector. See: Congressional Research Service (CRS). "Tax Expenditures: Compendium of Background Material on Individual Provisions." Prepared for the United States Senate Committee on the Budget. December 2008. p. 377*
4. *Carroll, Robert, John O'Hare and Philip Swagel. "Costs and Benefits of Housing Tax Subsidies." Pew Fiscal Analysis Initiative and Subsidyscope Paper. The Pew Charitable Trusts: Washington DC. Forthcoming. p. 7.*
5. *OMB. "Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2011." p. 210.*
6. *CRS. "Tax Expenditures: Compendium of Background Material on Individual Provisions." Prepared for the United States Senate Committee on the Budget. December 2008. p. 329.*
7. *This follows the broad principles of a comprehensive income tax in which one would deduct the costs or expenses of a business before the business income is taxed. However, neither the interest on the mortgage nor the net imputed rental income is taxed, constituting a subsidy to homeowners. See Carroll, Robert, John O'Hare and Philip Swagel. "Costs and Benefits of Housing Tax Subsidies." Pew Fiscal Analysis Initiative and Subsidyscope. The Pew Charitable Trusts: Washington DC. Forthcoming. p. 19*
8. *For example, the National Association of Home Builders' September, 2010 poll and CNN's November, 2010 poll showed significant support for the MID.*
9. *Toder, Eric, Turner, Marjery Austin, Lim Katherine and Getzinger, Lisa. "Reforming the Mortgage Interest Deduction." The Urban Institute. Washington, DC. April 2010. p. 2.*
10. *Congressional Budget Office (CBO). "Budget Options, Volume 2." August 2009. p. 187.*
11. *Toder, Eric; Turner, Marjery Austin; Lim Katherine; and Getzinger, Lisa. "Reforming the Mortgage Interest Deduction." The Urban Institute. Washington, DC. April 2010. p. 6.*
12. *The National Commission on Fiscal Reform and Responsibility. "The Moment of Truth." December 2010. p. 30.*
13. *OMB. "Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2011." p. 210.*
14. *CRS. "Tax Expenditures: Compendium of Background Material on Individual Provisions." Prepared for the United States Senate Committee on the Budget. December 2008. p. 337.*
15. *Ibid., p. 335.*
16. *Ibid.*
17. *Treasury began calculating this tax expenditure in 2004, according to this JCT report. The JCT does not consider imputed rent in its tax expenditure estimates.*
18. *OMB. "Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2011." p. 230.*
19. *Ibid., p. 210.*
20. *CRS. "Tax Expenditures: Compendium of Background Material on Individual Provisions." Prepared for the United States Senate Committee on the Budget. p. 351.*
21. *This first $7,500 credit had to be paid back to the Treasury. See: IRS. "First-Time Home Buyer Credit." Last Updated: September 9, 2010.*
22. *IRS. "The American Recovery and Reinvestment Act of 2009: Information Center." Last Updated: July 6, 2010.*
23. *IRS. "First-Time Home Buyer Credit." Last Updated: September 9, 2010.*

24. *Ibid.*
25. *OMB. "Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2011." p. 230.*
26. *IRS. "Passive Activity Loss ATG- Exhibit 2.6 Equipment Rentals IRC § 469 (c)(2) and Reg. §1.496-1T(e)(3)." Last Updated: March 10, 2008.*
27. *IRS. "Passive Activity Loss ATG- Chapter 2, Rental Losses." Last Updated: March 10, 2008.*
28. *Based on Subsidyscope analysis of CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 14.*

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Housing

Loans, Loan Guarantees and Other Risk Transfers in the Housing Sector

Housing-related activities in the U.S. are bolstered by federal government programs that, directly or indirectly, facilitate and broaden access to mortgage markets. Through loans, loan guarantees, and other risk transfers, the federal government assumes risks on behalf of taxpayers that would otherwise be borne by individuals, businesses or other investors. These efforts can improve the ability of homebuyers and developers to obtain financing to purchase, construct or renovate homes.

Through such risk transfers, the government has made a large financial commitment to housing. In 2009 (all years are fiscal years unless otherwise stated), more than $4 billion was directly loaned to individuals or companies for the purpose of financing homes (see Table 1 below). Also in 2009, federal agencies issued guarantees totaling $688 billion on loans for housing-related activities (see Table 2 below); this includes guarantees of securities backed by mortgages already carrying a federal guarantee. The ultimate subsidy cost of these loan and guarantee commitments is uncertain, as most are projected to be repaid by the borrowers and some federal sources project they may result in a profit to the government.[1] In addition, these estimates do not take into account administrative costs or market risk and are likely underestimates (see Box 1 below for more information).

In addition, the government provided a net $93 billion to Fannie Mae and Freddie Mac in fiscal year 2009 by purchasing preferred stock from these two housing-related government sponsored enterprises (GSEs).[2] On a fair value basis, the Congressional Budget Office (CBO) has estimated the subsidy cost of taking on their liabilities to be $291 billion through 2009.[3] Federal agencies also purchased more than a trillion dollars of mortgage-backed securities issued or guaranteed by GSEs, among other activities related to the government response to the financial crisis.[4] It is difficult to analyze the extent to which some of these actions contain subsidies specific to the housing sector. Subsidyscope presents these activities in order to illustrate the government's role in this sector; these estimates should be used with caution as it may take several years to determine how much subsidy they will ultimately convey.

The subsidy costs of housing loans and guarantee programs are uncertain and likely underestimates, and costs for Fannie Mae and Freddie Mac vary widely. Therefore, Subsidyscope does not add them to grants and tax expenditures.

Box 1: Estimating the Costs of Loans and Loan Guarantees

Although the amount of loan and guarantee commitments illustrates the breadth of the government's role in the housing sector, it does not measure the subsidy costs that will ultimately be incurred. The government does estimate the subsidy conveyed through such credit programs as the net cost to the government of a loan or loan guarantee, calculated by summing all the expected future cash flows to and from the government; this is the cost the [5] government is required to present under the 1990 Federal Credit Reform Act (FCRA). However, many argue that there is also an implicit subsidy—not measured by the government under FCRA—that results from excluding the costs of program administration and market risk (which arises from volatility in the economy).[6] This implicit subsidy is generally the difference between the terms the recipient would get in a competitive market and those offered by the government.Thus Subsidyscope does not present an aggregate total for the subsidy provided.

In Tables 1 and 2 below, Subsidyscope provides information about housing-related loan and loan guarantee programs. As is evident in the tables, the government usually reports a "subsidy rate" for these programs, as required by FCRA. This rate represents the projected net cost (in current dollars) to the government divided by the total exposure of the program.[7] A positive subsidy rate indicates there is a net cost to the government, and that a subsidy is being provided to the borrower. A negative subsidy rate by contrast means that the government predicts it will receive more money than it pays out in a particular program.

If these government-estimated subsidy rates are applied to the total volume of loans and guarantees in the housing sector, the direct loans ($4 billion) would be projected to cost under $0.3 billion, and the loan guarantees ($688 billion) would be projected to generate over $1 billion in earnings for the government.[8] As noted above, these rates do not include administrative costs or market risks, and thus likely underestimate the subsidy. For example, CBO reported that if these costs were factored into the government's FY2007 calculations of the Federal Housing Administration's Mutual Mortgage Insurance Program, the program would cost money rather than make money for the government.[9] For more information about subsidy estimates, please visit Subsidyscope's general discussion of risk transfers.

The data in Tables 1 and 2 are derived primarily from the Federal Credit Supplement (FCS) section of the President's Budget. While they are the best federal data available for specific programs, these estimates should be used with caution.[10] In particular, users of these data should be aware that the FCS omits some program activity. Further, while other budget documents provide estimates of actual budgets and, in some cases, subsidy amounts, they do not provide the program-level detail available in the FCS.[11] The loan and loan guarantee programs presented in Tables 1 and 2 are discussed further in the following sections.

Direct Loan Programs: Small Portion of Risk Transfers

In 2009, the federal government obligated $4 billion in direct loans for housing, a 90 percent increase over the $2.2 billion obligated in 2008.[12] Many of these commitments will be repaid by the borrowers; FCRA-required government-estimated subsidy rates indicate that these direct loans would cost under $0.3 billion, though this may be an underestimate (see Box 1 above). (These estimates exclude the "GSE MBS Purchases" program, which was listed in the 2009 FCS as a direct loan program. Subsidyscope discusses this housing-related program in the sections below.) These loans were distributed by three federal agencies through 15 programs. Although specific terms may differ from program to program, they generally enable lower income borrowers to finance the purchase or construction of homes at low interest rates or other favorable loan terms.

Nearly 70 percent ($2.9 billion) of the 2009 loan obligations was distributed through the U.S. Department of Agriculture's Rural Housing Service (RHS). Initially targeted to farmers,[13] the primary goal of RHS is to provide loans, grants and other financing for housing in rural areas.[14] In 2009, RHS pursued these goals through 11 credit programs. The largest of these, known as the Section 502 Single-Family Housing program, provided $2.6 billion in direct loans in 2009—more than double the amount loaned in 2008. These below-market-interest-rate loans are available to low-income borrowers for the purposes of buying or repairing homes in rural areas.[15]

Other direct loan programs in 2009 were administered through the U.S. Department of Defense and the U.S. Department of Veterans Affairs (VA). These programs generally work to improve the housing choices available to active service members or veterans. For example, the Family Housing Improvement Fund aims to enhance the quality of military housing by making direct loans to developers for construction of on- or off-base housing.[16] The largest defense housing program in 2009, the VA-administered Vendee Loans program, finances loans on foreclosed properties acquired by the VA through its other housing assistance programs.[17] In 2009, this program obligated nearly $1 billion in direct loans, more than three times the amount obligated in 2008.

Table 1: Direct Loans in the Housing Sector (excluding Treasury purchases of GSE MBS), Fiscal Years 2008 and 2009

Program	Agency	2008 Subsidy Rate %	2008 Obligations ($ millions)	2009 Subsidy Rate %	2009 Obligations ($ millions)
Single-Family Housing Credit Sales	USDA - Rural Housing Service	-1.15	10	-2.59	10
Multi-Family Housing Credit Sales	USDA - Rural Housing Service	37.14	1	36.12	1
Section 502 Single-Family Housing	USDA - Rural Housing Service	9.37	1,166	6.72	2,646
Section 504 Housing Repair	USDA - Rural Housing Service	28.27	56	26.87	54
Section 515 Multi-Family Housing	USDA - Rural Housing Service	42.61	70	41.16	70
Section 523 Self-Help Housing	USDA - Rural Housing Service	2.84	5	1.65	5
Section 524 Site Development	USDA - Rural Housing Service	-0.79	5	-1.84	5
Section 514 Farm Labor Housing	USDA - Rural Housing Service	43.26	33	42.14	32
Multi-Family Housing Relending Demo	USDA - Rural Housing Service	46.39	14	44.98	15
Multi-Family Housing Revitalization Seconds	USDA - Rural Housing Service	N/A	N/A	85.51	4
Multi-Family Housing Revitalization Zero	USDA - Rural Housing Service	N/A	N/A	60.59	16
Family Housing Improvement Fund Direct Loans	Department of Defense - Family Housing	23.86	457	31.31	171
Acquired Loans	VA - Benefits Programs	8.84	69	3.04	81
Vendee Loans	VA - Benefits Programs	-1.59	268	-3.29	996
Native American Veteran Housing Loans	VA - Benefits Programs	-14.48	12	-10.07	15
Transitional Housing for Homeless Veterans	VA - Health Administration	......	......	N/A	N/A
Total Obligations			**2,166**		**4,122**

Source: Subsidyscope analysis of data from the Federal Credit Supplement (FCS). 2008 figures are from the FCS FY2009, Table 1; 2009 figures are from the FCS FY2010, Table 1.

Note:
This table excludes the "GSE MBS Purchases" program, which was listed in the FCS as a direct loan program. Subsidyscope discusses this housing-related program in the sections below. This table also excludes the "Energy Retrofit Loans" program, listed in the FCS under the Department of Housing and Urban Development. The program was deemed by Subsidyscope to be an

energy-related program and is included in its analysis of the energy sector. In FY2009, the program reported $92 million in obligations, with an 89.82 percent subsidy rate.

Loan Guarantees: Government Backs $688 Billion in Mortgages (FY2009)

In 2009, the federal government committed $688 billion in loan guarantees through about 30 housing sector programs; this volume includes guarantees of securities backed by mortgages on single- and multi-family homes already carrying a federal guarantee.[18] Many of these commitments will be repaid by the borrowers; FCRA-required government-estimated subsidy rates indicate these guarantees would generate over $1 billion in earnings for the government, though this may underestimate the cost to the government (see Box 1 above).

The volume committed in 2009 is nearly three times more than the nearly $230 billion committed in 2008 (see Table 2). The majority of this increase occurred in two programs: the Mutual Mortgage Insurance Program operated by the Federal Housing Administration (FHA), and Guarantees of Mortgage-backed Securities made through the Government National Mortgage Association (Ginnie Mae).

The FHA, an arm of the U.S. Department of Housing and Urban Development (HUD), administered nearly two dozen loan guarantee programs in 2009. Though each program is distinct, they share the primary function of insuring mortgages made by private lenders.[19] By guaranteeing mortgages against default, FHA programs (like other loan guarantee programs) allow lenders to make riskier loans than they otherwise would. This, in turn, enables higher risk borrowers with fewer resources or limited credit history to obtain financing for housing.[20]

FHA programs issued a total of $321 billion of loan guarantees in 2009. The Mutual Mortgage Insurance Program is the largest, committing $285 billion in loan guarantees—nearly four times more than committed in 2008 (see Table 2 below). To qualify for this single-family mortgage insurance, a borrower must be purchasing a home with fewer than four housing units, within loan limits set by Congress.[21] The borrower must also have a down payment of at least 3.5 percent and meet minimum credit requirements.[22]

In the years preceding the 2008 financial crisis, the demand for this type of insurance was steadily dropping—FHA's market share of home purchase mortgages declined from 16 percent in 1995 to 3 percent in 2005 and 2006.[23] Generally lower interest rates, the increasing availability of alternative mortgage products and rising home prices led homebuyers and lenders to other types of financing. In the wake of the financial crisis, tightened credit limited the availability of these alternatives, and FHA has again become a popular option for borrowers.[24]

Ginnie Mae has experienced similar growth in recent years—it has nearly quadrupled its volume of mortgage-backed securities (MBS) guarantees, from $77 billion in 2008 to $300 billion in 2009 (see Table 2 below). Ginnie Mae, a government-owned corporation within HUD, guarantees the MBS created from qualifying FHA, VA, and RHS loans.[25] As the volume of loans guaranteed by these agencies has increased, so has the supply of Ginnie Mae guarantees. Moreover, Ginnie Mae MBS guarantees provide retail lenders with ready access to secondary financing markets, as both the securities themselves and the mortgages comprising them are backed by the full faith and credit of the federal government.[26] This ability to easily package and sell government-guaranteed loans as mortgage-backed securities further enhances the popularity of programs like the FHA.[27]

Upheavals in the mortgage market starting in 2007 greatly increased losses on outstanding federal loan guarantees.[28] For example, in 2009, FHA's losses in its Mutual Mortgage Insurance (MMI) Fund reduced its reserve balance with the U.S. Department of the Treasury (Treasury) below the two percent minimum that it is statutorily mandated to maintain.[29] The MMI Fund comprised 89 percent of FHA's total insurance-in-force in 2009.[30] Though the amount of outstanding loan guarantees issued by the Fund increased 54 percent between 2008 and 2009 (from $448 billion to $691 billion), the estimated future costs of those loan guarantees grew by 65 percent (from $17 billion to $28 billion).[31] The reserve ratio of this Fund is not projected to exceed two percent again until 2013.[32]

Like FHA, many participants in the mortgage market have incurred significant risk and costs associated with mortgage defaults in recent years.[33] In a 2008 report entitled *Defaulting on the Dream*, the Pew Center on the States noted that as of December 2007, 1.6 million loans were in foreclosure or 90 days past due—a 55 percent increase from a year earlier.[34] The government has initiated several programs broadly intended to help homeowners keep their homes through loan modifications that, for example, reduce the interest rates or the principals on mortgages.[35] Counseling and other loss mitigation programs are discussed further below.

Table 2: Loan Guarantees in the Housing Sector, Fiscal Years 2008 and 2009

Program	Agency	2008 Subsidy Rate %	2008 Commitments ($ millions)	2009 Subsidy Rate %	2009 Commitments ($ millions)
Guaranteed 502 Single Family Housing, Purchase	USDA - Rural Housing Service	1.20	5,730	1.27	18,416
Guaranteed 502, Refinance	USDA - Rural Housing Service	0.81	269	0.98	42
Guaranteed 538 Multi-Family Housing	USDA - Rural Housing Service	9.40	141	15.68	64
Indian Housing Loan Guarantees	HUD - Public and Indian Housing Programs	2.42	367	2.52	420
Title VI Indian Housing Guarantees	HUD - Public and Indian Housing Programs	12.12	17	12.34	17
Native Hawaiian Housing Loan Guarantees	HUD - Public and Indian Housing Programs	2.42	41	2.52	42
Community Development Loan Guarantees (Section 108)	HUD - Community Planning and Development	2.25	200	2.26	307
Multifamily Development	HUD - Housing Programs (FHA)	-0.83	900	-1.10	1,450
Section 221(d)(3) Cooperatives	HUD - Housing Programs (FHA)	5.67	10	5.84	10
Tax Credit New Construction	HUD - Housing Programs (FHA)	-3.20	700	-3.20	450
Section 238(c) Military Impact Area	HUD - Housing Programs (FHA)	N/A	N/A	-0.04	75
Apartment Refinance	HUD - Housing Programs (FHA)	-2.75	1,500	-3.29	1,350
Section 241 Supplemental Loans	HUD - Housing Programs (FHA)	2.99	10	1.97	8
Multifamily Operating Loss Loans	HUD - Housing Programs (FHA)	15.43	15	22.18	12
Housing Finance Authority Risk Sharing	HUD - Housing Programs (FHA)	-1.25	120	-1.17	180
GSE Risk Sharing	HUD - Housing Programs (FHA)	-1.42	15	-1.43	5
Health Care and Nursing Homes	HUD - Housing Programs (FHA)	-0.68	500	-0.74	275
Health Care Refinance	HUD - Housing Programs (FHA)	-1.58	1,150	-2.09	1,600

Other Rental	HUD - Housing Programs (FHA)	-1.82	15	-2.14	40
Section 234 Condominiums[1]	HUD - Housing Programs (FHA)	-0.88	3,657	N/A	N/A
Section 203(k) Rehabilitation Mortgage	HUD - Housing Programs (FHA)	1.89	538	N/A	N/A
Home Equity Conversion Mortgages[1]	HUD - Housing Programs (FHA)	-1.90	28,990	N/A	N/A
Title I Property Improvement	HUD - Housing Programs (FHA)	0.52	54	-0.52	54
Title I Manufactured Housing	HUD - Housing Programs (FHA)	0.13	71	-0.14	71
Mutual Mortgage Insurance Program	HUD - Housing Programs (FHA)	-0.51	72,172	-0.04	285,000
Mutual Mortgage Insurance Program—HECM (Legislative Proposal in 2008)	HUD - Housing Programs (FHA)	......	......	-1.37	30,000
Mutual Mortgage Insurance Program—Seller Financed Down Payment Assistance	HUD - Housing Programs (FHA)	......	......	6.35	......
HOPE for Homeowners Loan Guarantees	HUD - Housing Programs (FHA)	N/A	N/A	13.38	......
HOPE for Homeowners Loan Guarantees (Legislative Proposal in 2009)	HUD - Housing Programs (FHA)	N/A	N/A	23.27	900
Guarantees of Mortgage-Backed Securities	HUD - Government National Mortgage Association (Ginnie Mae)	-0.21	77,400	-0.21	300,000[2]
Guarantees of Mortgage-Backed Securities - HOPE for Homeowners	HUD - Government National Mortgage Association (Ginnie Mae)	N/A	N/A	-0.21	900[2]
Housing Guaranteed Loans	VA - Benefits Programs	-0.37	34,761	-0.66	45,346
Guaranteed Loan Sale Securities	VA - Benefits Programs	2.14	436	2.19	993
Total Commitments			**229,781**		**688,026**[2]

Source: Subsidyscope analysis of data from the Federal Credit Supplement (FCS). 2008 figures are from the FCS FY2009, Table 2; 2009 figures are from the FCS FY2010, Table 2.

1. *The FHA Modernization Act of 2008 amends some aspects of the FHA. Among other provisions, it moved the Section 234 Condominium and Home Equity Conversion Mortgages programs into the Mutual Mortgage Insurance fund. See the 2009 FHA Annual Management Report (page 7) and the CRS summary of the FHA Modernization Act of 2008 (page 4) for more information.*
2. *The Government National Mortgage Association (Ginnie Mae) provides guarantees for mortgage-backed securities which usually contain loans already guaranteed through other federal programs such as the FHA and VA.*

Fannie, Freddie and Others Play Large Role in Mortgage Markets

In addition to providing loans on below-market terms through its loan and loan guarantee programs, the government devotes significant resources to facilitating liquidity in the mortgage market.[36] Companies known as 'government-sponsored enterprises' (GSEs) operate under government charter to assure an active and deep market for home mortgages.[37]

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), now operating under federal conservatorship, both purchase and [38] guarantee MBS. They also invest in MBS issued by themselves and others, as well as individual mortgages. The Federal Home Loan Banks System (FHLB) borrows money which it subsequently lends to banks and other institutions that issue mortgage loans.[39]

The missions of all three GSEs include the promotion of affordable housing in addition to their housing finance and liquidity goals.[40] The Congressional Research Service (CRS) notes that "these institutions are widely credited with lowering the cost of home mortgages."[41] They are also among the largest financial institutions in the U.S.[42] According to the Office of Management and Budget, "together these three GSEs currently are involved, in one form or another, with more than one half of the $11 trillion residential mortgages outstanding in the U.S. today [2010], not including indirect investments through advances of the FHLBs."[43]

Though privately owned, they receive the benefit of many privileges through their status as GSEs, some of which may result in subsidies to the housing sector.[44] According to the Congressional Budget Office (CBO), the federal charters of Fannie Mae and Freddie Mac "have allowed the two entities to borrow at interest rates lower than those paid by comparable finance companies…. The lower borrowing costs enjoyed by the two entities flowed to participants in the housing market in the form of lower mortgage rates and to the entities' stockholders in the form of higher profits."[45]

The financial crisis proved to be catastrophic to the GSEs, particularly Fannie Mae and Freddie Mac. Both were taken into government conservatorship under authority granted in the 2008 Housing Economic and Recovery Act (discussed further in the following section).[46] The cost of Fannie and Freddie became more apparent when the government seized the companies in 2008 and put them in conservatorship. This and other federal actions intended to stabilize U.S. mortgage and financial markets are discussed further below.

Housing Fallout Leads to Government Bailout

The high level of government support for housing rose as a result of the 2008 financial crisis. As the prices of homes declined in 2007, Congress and the Federal Reserve began to adopt a series of policies designed to minimize the resulting losses to homebuyers, banks and the financial system as a whole.[47] Below, Subsidyscope describes several of the actions related to risk transfers that were undertaken in the wake of the crisis. For a more exhaustive look at these actions, please see HUD's "Report to Congress on the Root Causes of the Foreclosure Crisis."

In July 2008, Congress enacted the Housing and Economic Recovery Act (HERA).[48] This Act, as noted by CRS, "is likely to affect most owner-occupied housing in the United States through a variety of channels."[49] In response to the eroding financial conditions of Fannie Mae and Freddie Mac and their roles in maintaining a functioning mortgage market, HERA reorganized and strengthened the regulation of the GSEs.[50] HERA also authorized the Treasury to provide assistance to the GSEs and other financial institutions in order to stabilize financial and credit markets, as well as the overall economy.[51]

Under this authority, Treasury began to lend directly to Fannie Mae and Freddie Mac through purchases of senior preferred stock. These investments, for which Treasury receives dividend payments, were intended to ensure that each GSE maintained a positive net worth.[52] The Federal Housing Finance Agency (FHFA), a regulatory agency created by HERA to oversee the GSEs, reported that the GSEs received a net $93 billion in fiscal year 2009, (for a net total of $135 billion through June 2010).[53] The net cumulative investment in Fannie Mae and Freddie Mac is projected by the FHFA to grow by an additional $6 to $124 billion through 2013.[54]

Other government agencies have also estimated the costs on the liabilities of Fannie Mae and Freddie Mac. Like FHFA, the Office of Management and Budget (OMB) reports the preferred stock purchase agreements made by Treasury; OMB counts this cash flow as an outlay to a nongovernmental entity.[55] In contrast, CBO treats Fannie and Freddie as governmental entities.[56] CBO estimated that on a fair value basis the liabilities of these two GSEs cost the government $291 billion in fiscal year 2009.[57] For more information, see Box 2.

The Treasury also began making purchases of MBS issued by the Fannie Mae and Freddie Mac.[58] The FHFA reported that these purchases totaled $189 billion during fiscal year 2009.[59] In addition, Treasury also established a short-term line of credit under the Act, which neither enterprise had used by the time its authority expired in December 2009.[60]

CBO notes that the aid given to Fannie Mae and Freddie Mac under conservatorship enabled them to continue operating when private financial institutions were struggling. In 2009, the two GSEs financed about 75 percent of new mortgages originated in that year. If loans insured by agencies like the FHA also are included, the CBO reports that "more than 90 percent of new mortgages made in 2009 carried a federal guarantee."[61]

In addition to the Treasury's activities, the Federal Reserve announced that it would purchase up to $1.25 trillion of MBS guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae.[62] The purchase program also extended to the FHLB.[63] The Federal Reserve noted that "the goal of the program was to provide support to mortgage and housing markets and to foster improved conditions in financial markets more generally."[64] As of October 2010, the Federal Reserve had purchased all but $2.9 billion of the amount to which it committed.[65]

Analyzing actions such as those taken by the Federal Reserve in response to the financial crisis presents challenges: many of them were intended to stabilize not only the housing market, but the economy as a whole. This makes it difficult to analyze the extent to which some actions contain subsidies specific to the housing sector. Subsidyscope presents these activities in order to illustrate the government's role in this sector; these estimates should be used with caution as it may take several years to determine how much subsidy they will ultimately convey.

While the government worked to stabilize the mortgage credit markets, it also created programs to help prevent individual homeowners from defaulting. For instance, the HOPE for Homeowners program, listed as a loan guarantee program in Table 2 above, authorizes the FHA to guarantee up to $300 billion in loans intended to replace mortgages with interest rates too high for the borrowers to service.[66] Although the program initially struggled to attract participants (CRS reports that it closed only 50 new mortgages in its first 9 months),[67] the program has since been modified and it guaranteed $900 million in mortgages in 2009.[68] A report from HUD and the Treasury on a selection of other foreclosure programs estimated that they began 3.5 million modification arrangements between April 2009 and August 2010.[69]

In addition to the risk transfers described above, HERA enacted many other provisions intended to support housing-related activities, some of which are described elsewhere on Subsidyscope's web site. For example, the Act established a tax credit for first-time homebuyers originally worth up to $7,500, described in more detail on Subsidyscope's tax subsidy page.[70] The Neighborhood Stabilization Program provides funding to state and local governments for the redevelopment of foreclosed or abandoned homes.[71]

Box 2: Public or Private? Calculating the Costs of Conservatorship

There are alternate methods for quantifying the cost of the government's conservatorship of Fannie and Freddie. The way in which one calculates the impact of these two entities on the federal budget depends on whether one assumes they are governmental entities. CBO treats Fannie and Freddie as governmental entities for budgeting purposes, and thus considers their operational costs as subsidy costs to the federal government.[72] CBO estimated (and

Subsidyscope itself reported) that on a fair value basis, the operations of Fannie and Freddie cost the government $291 billion in fiscal year 2009.[73] This estimate included expected losses from transactions made before conservatorship, as well as losses on new commitments made in 2009.[74]

In contrast, the Office of Management and Budget (OMB) treats Fannie and Freddie as nongovernmental entities for budgeting purposes.[75] As such, it considers the preferred stock cash infusions into Fannie and Freddie (rather than their operational costs) as outlays—an estimated $95.6 billion in fiscal year 2009.[76]

CBO notes that "one can think of the infusion estimates as capturing only the expected cash shortfalls between the entities' fees and losses. The subsidy estimates, in comparison, incorporate both the expected cash shortfalls and the risk premium that a private investor would demand for bearing the risk that those shortfalls could be much larger than expected."[77] Thus, CBO treats all of Fannie and Freddie's liabilities, as well as their potential costs and risks, as government liabilities. OMB reports the Treasury's cash infusions, only measuring the current gap between Fannie and Freddie's assets and liabilities.

In its update to "The Budget and Economic Outlook: Fiscal Years 2010 to 2020," CBO adopts OMB's method of accounting for Fannie and Freddie costs for fiscal years 2009 and 2010. Starting in 2011, CBO reverts to estimating the subsidy cost of new loans and loan guarantees made by those two entities, adjusted upward for market risk. For 2011-2020, CBO estimates subsidy costs of Fannie and Freddie operations will be $53 billion.[78] Both CBO's projections of subsidy costs and OMB's and FHFA's projections of stock cash infusions are subject to assumptions about economic conditions, house prices and other variables.

1. *Subsidyscope analysis of data from the Federal Credit Supplement (FCS) Fiscal Year (FY) 2010.*
2. *Subsidyscope analysis of data from the FHFA. This amount nets out dividend payments made to Treasury totaling $4 billion (for a gross of $97 billion) in fiscal year 2009. See: Table 1: Quarterly Draws on Treasury Commitments to Fannie Mae and Freddie Mac per the Senior Preferred Stock Purchase Agreements and Table 2: Dividends on Enterprise Draws from Treasury in "Data as of October 1, 2010 on Treasury and Federal Reserve Purchase Programs for GSE and Mortgage Related-Securities."*
3. *Congressional Budget Office (CBO). "Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market." December 2010. p. 4. In CBO's update to "The Budget and Economic Outlook: Fiscal Years 2010 to 2020," the fiscal year 2009 outlays related to Fannie Mae and Freddie Mac reflect cash transfers from Treasury to the GSEs (rather than the subsidy cost of their guarantees adjusted for market risk). For more information, see: CBO. "The Budget and Economic Outlook: An Update." August 2010. pp. 18-19.*
4. *Subsidyscope analysis of data from the Office of Management and Budget (OMB) and the FHFA. see: OMB. "Analytical Perspectives Fiscal Year 2011"; and FHFA. "Data as of October 1, 2010 on Treasury and Federal Reserve Purchase Programs for GSE and Mortgage Related-Securities." Tables 3, 4 and 5.*
5. *CBO. "Assessing the Government's Costs for Mortgage Insurance Provided by the Federal Housing Administration." July 19, 2006. p. 4.*
6. *Ibid., p. 1.*
7. *CBO. "Subsidy Estimates for Direct and Guaranteed Student Loans." November 2005. p. 9. For more information on the calculation of subsidies under the Federal Credit Reform Act of 1990, see p. 10, Box 2.*
8. *Subsidyscope analysis of data from the FCS FY2009 and FY2010. Tables 1 and 2.*
9. *According to a 2007 letter to the U.S. House of Representatives, CBO notes that "the subsidy scosts translate to between 2 percent and 5 percent of the amount of the insured mortgages. If FHA insures $60 billion in new single-family mortgages each year, a subsidy rates of 3.5 percent would mean that the cost of the program is about $2 billion annually." See: CBO. "Assessing the Government's Costs for Mortgage Insurance Provided by the Federal Housing Administration." July 19, 2006. p. 8.*
10. *See our page on data quality for a description of some of the errors Subsidyscope has found in federal data.*
11. *For an example of other budget documents with loan and loan guarantee estimates, see: OMB. "Analytical Perspectives Fiscal Year 2011." pp. 364-375.*
12. *Subsidyscope analysis of data from the FCS FY2009 and FY2010. Tables 1 and 2.*

13. *Another government-sponsored enterprise (GSE), Farmer Mac, was established within the Farm Credit System in 1988 to enhance credit for the agricultural sector and rural areas in general. It was expanded in 1996 to not only guarantee securities backed by loans pools, but to also directly purchase mortgages. According to the OMB, Farmer Mac's total activity as of September 30, 2009 was $10.8 billion—a 10 percent increase from the previous year. See OMB. "Analytical Perspectives Fiscal Year 2011." pp. 356-357.*
14. *Foote, Bruce E. Congressional Research Service (CRS). "USDA Rural Housing Programs: An Overview." May 11, 2006. p. 1.*
15. *Foote, Bruce E. CRS. "USDA Rural Housing Programs: An Overview." May 11, 2006. pp. 2-3.*
16. *Government Accounting Office (GAO). "Military Housing[:] Privatization Off to a Slow Start and Continued Management Attention Needed." July 1998. p. 17.*
17. *GAO. "Whether a Department of Veterans Affairs Memorandum is a Rule Under the Congressional Review Act." May 19, 2003.*
18. *Subsidyscope analysis of data from the FCS FY2009 and FY2010. Tables 1 and 2.*
19. *Maggie McCarty et al. CRS. "Overview of Federal Housing Assistance Programs and Policy." July 22, 2008. p. 20.*
20. *OMB. "Analytical Perspectives Fiscal Year 2011." p. 346.*
21. *Federal Housing Administration (FHA). "Annual Management Report Fiscal Year 2009." pp. 5-7; and GAO. "Federal Housing Administration Decline in the Agency's Market Share was Associated with Product and Process Developments of Other Mortgage Market Participants." June 2007. p. 7.*
22. *U.S. Department of Housing and Urban Development (HUD). "203(b) Mortgage Insurance." Last Updated: February 16, 2010; and HUD. "Let FHA Loans Help You." Last Updated: July 16, 2009.*
23. *GAO. "Federal Housing Administration Decline in the Agency's Market Share was Associated with Product and Process Developments of Other Mortgage Market Participants." June 2007. p. 4; and Foote, Bruce E. CRS. "The FHA Modernization Act of 2008." February 25, 2009. p. 2.*
24. *OMB. "Analytical Perspectives Fiscal Year 2011." p. 346.*
25. *Government National Mortgage Association (Ginnie Mae). "About Ginnie Mae."*
26. *OMB. "Analytical Perspectives Fiscal Year 2011." pp. 346-347.*
27. *Ibid., p. 346.*
28. *Ibid., pp. 346-347.*
29. *Ibid., p. 347.*
30. *FHA. "Annual Management Report Fiscal Year 2009." p. 6.*
31. *OMB. "Analytical Perspectives Fiscal Year 2011." p. 364.*
32. *Ibid., p. 347.*
33. *Ibid.*
34. *Pew Charitable Trusts. "Defaulting on the Dream[:] States Respond to America's Foreclosure Crisis." April 2008. p. 4.*
35. *Webel, Baird and Murphy, Edward V. CRS. "The Emergency Economic Stabilization Act and Current Financial Turmoil: Issues and Analysis." pp. 4-5.*
36. *OMB. "Analytical Perspectives Fiscal Year 2011." p. 346.*
37. *Ibid., p. 349.*
38. *OMB. "Analytical Perspectives Fiscal Year 2011." pp. 349-350; and CBO. "The Budget and Economic Outlook: An Update." August 2010. p. 69.*
39. *OMB. "Analytical Perspectives Fiscal Year 2011." p. 349.*
40. *Ibid., pp. 349-350.*
41. *Kosar, Kevin R. CRS. "Government-Sponsored Enterprises (GSEs): An Institutional Overview." January 28, 2009. p. 4.*
42. *Ibid., p. 5.*
43. *OMB. "Analytical Perspectives Fiscal Year 2011." p. 349.*
44. *Kosar, Kevin R. CRS. "Government-Sponsored Enterprises (GSEs): An Institutional Overview." January 28, 2009. p. 4; and Slivinski, Stephen. "House Bias: The Economic Consequences of Subsidizing Homeownership." Fall 2008. p. 14.*
45. *CBO. "CBO's Budgetary Treatment of Fannie Mae and Freddie Mac." January 2010. p. 4.*
46. *OMB. "Analytical Perspectives Fiscal Year 2011." p. 350.*
47. *OMB. "Analytical Perspectives Fiscal Year 2010." p. 60.*
48. *N. Eric Weiss et al. CRS. "Housing and Economic Recovery Act of 2008." August 19, 2008. p. 19.*
49. *Ibid., p. Summary.*
50. *Ibid., p. 1.*

51. OMB. "Analytical Perspectives Fiscal Year 2011." p. 350.
52. Ibid.
53. Subsidyscope analysis of data from the FHFA. These amounts net out dividend payments made to Treasury totaling $4 billion (for a gross of $97 billion) in fiscal year 2009 and $12.8 billion (for a gross of $148 billion) through June 2010. See: Table 1: Quarterly Draws on Treasury Commitments to Fannie Mae and Freddie Mac per the Senior Preferred Stock Purchase Agreements and Table 2: Dividends on Enterprise Draws from Treasury in "Data as of October 1, 2010 on Treasury and Federal Reserve Purchase Programs for GSE and Mortgage Related-Securities."
54. Subsidyscope analysis of data from the FHFA. These amounts net out additional dividend payments projected to be made to Treasury totaling between $67 and $91 billion (for a gross between $73 and $215 billion) through 2013. See: "FHFA Releases Projections Showing Range of Potential Draws for Fannie Mae and Freddie Mac." October 21, 2010. p. 10. CBO and Treasury also estimate the projected cost of preferred stock purchases or "cash infusions." See CBO. "CBO's Budgetary Treatment of Fannie Mae and Freddie Mac." January 2010. p. 13.
55. CBO. "CBO's Budgetary Treatment of Fannie Mae and Freddie Mac." January 2010. p. 13.
56. Ibid., pp. 2-3.
57. CBO. "Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market." December 2010. p. 4. In CBO's update to "The Budget and Economic Outlook: Fiscal Years 2010 to 2020," the fiscal year 2009 outlays related to Fannie Mae and Freddie Mac reflect cash transfers from Treasury to the GSEs (rather than the subsidy cost of their guarantees adjusted for market risk). For more information, see: CBO. "The Budget and Economic Outlook: An Update." August 2010. pp. 18-19.
58. OMB. "Analytical Perspectives Fiscal Year 2011." p. 350.
59. Subsidyscope analysis of data from the FHFA. See: Table 3: Treasury Purchases of GSE MBS in "Data as of October 1, 2010 on Treasury and Federal Reserve Purchase Programs for GSE and Mortgage Related-Securities."
60. OMB. "Analytical Perspectives Fiscal Year 2011." p. 351.
61. CBO. "Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market." December 2010. pp. VIII-IX.
62. FHFA. "Data as of October 1, 2010 on Treasury and Federal Reserve Purchase Programs for GSE and Mortgage Related-Securities." p. 1.
63. FHFA. "Data as of October 1, 2010 on Treasury and Federal Reserve Purchase Programs for GSE and Mortgage Related-Securities." Table 5: Federal Reserve Purchases of GSE Debt.
64. Federal Reserve Bank (FRB) of New York. "FAQs: MBS Purchase Program." Last Updated: June 28, 2010.
65. On November 4, 2009, the Federal Reserve lowered its target level of purchases of GSE debt to $175 billion from $200 billion. See: FHFA. "Data as of October 1, 2010 on Treasury and Federal Reserve Purchase Programs for GSE and Mortgage Related-Securities." Table 5: Federal Reserve Purchases of GSE Debt.
66. N. Eric Weiss et al. CRS. "Housing and Economic Recovery Act of 2008." August 19, 2008. p. Summary.
67. Jones, Katie. CRS. "Preserving Homeownership: Foreclosure Prevention Initiatives." pp. 12-14.
68. OMB. "Federal Credit Supplement Fiscal Year 2010." Table 2 Loan Guarantees: Subsidy Rates, Commitments, and Average Loan Size.
69. This estimate includes trial modifications that have not yet been made permanent. See: HUD and U.S. Department of the Treasury. "The Obama Administration's Efforts to Stabilize the Housing Market and Help American Homeowners." October 2010. p. 1.
70. Internal Revenue Service (IRS). "First-Time Homebuyer Credit." Last Updated: September 9, 2010.
71. HUD. "Neighborhood Stabilization Program Grants." Last Updated: November 1, 2010.
72. CBO. "CBO's Budgetary Treatment of Fannie Mae and Freddie Mac." January 2010. pp. 2-3.
73. CBO. "Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market." December 2010. p. 4. In CBO's update to "The Budget and Economic Outlook: Fiscal Years 2010 to 2020," the fiscal year 2009 outlays related to Fannie Mae and Freddie Mac reflect cash transfers from Treasury to the GSEs (rather than the subsidy cost of their guarantees adjusted for market risk). For more information, see: CBO. "The Budget and Economic Outlook: An Update." August 2010. pp. 18-19.
74. CBO. "CBO's Budgetary Treatment of Fannie Mae and Freddie Mac." January 2010. pp. 2-3.
75. Ibid., p. 13.
76. Ibid.
77. Ibid., p. 14.
78. CBO. "The Budget and Economic Outlook: An Update.." August 2010. pp. 18-19, footnote "f."

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Housing

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Regulations in the Housing Sector

The federal government shapes the housing sector through regulations that range from environmental restrictions to mortgage disclosure requirements.[1] These regulations have material impacts on the way in which housing is constructed, financed and maintained. Below, Subsidyscope provides an overview of the types of regulations that affect housing and several examples of how specific regulations affect the sector.

Unfortunately, there is currently no systematic or comprehensive identification and quantification of regulatory subsidies. Since 1981, federal regulations expected to have an economic impact of more than $100 million are required to undergo a “regulatory impact analysis” (RIA).[2] Although RIAs examine the costs and benefits of a regulation, their effects on housing costs are not always reported.[3] In the absence of such studies, it can be very difficult to discern whether a specific regulation poses a net benefit or loss to the housing sector, particularly if the rule prompts indirect or unforeseen changes in behavior.

Given these limitations, this Web page provides several examples of housing-related regulations. The regulations presented here are not exhaustive of all those that shape the housing market or may provide housing subsidies; they are intended to illustrate how regulations may impact the supply and/or demand for housing. Further, these regulations may not clearly convey a subsidy to the sector. The rule may impose costs on some, in exchange for providing a benefit for others, which would be a cross-subsidy within the sector. For more information about federal housing regulations and the estimation of costs associated with them, review this report from the U.S. Department of Housing and Urban Development (HUD) on housing impact analyses.

The Many Ways Housing Is Regulated

Whether a single-family home or a multi-unit apartment building, housing must be designed and built in accordance with laws and regulations. Some of these include the federal Environmental Protection Agency's limits on stormwater runoff and the Occupational Safety and Health Administration's protections against lead contamination.[4] These requirements are often implemented at the state or local level. HUD maintains a “Regulatory Barriers Clearinghouse” to address the consequences that regulations, such as those related to building codes and zoning rules, may have on the production of affordable housing.

Once a home is occupied, property owners are responsible for operating or maintenance costs, many of which are initiated or changed by regulations. For example, regulations that affect utility prices can change the affordability of a home.[5]

Finally, the ways in which homes are bought, sold or rented are often subject to regulation. In particular, regulations governing mortgage financing have the potential to significantly shape the housing sector in some localities. In 2009, nearly 47 million homes, or about 61 percent of all owner-
[6]

occupied homes in the U.S., had a mortgage on the property. As such, the ability to own a home is greatly affected by the rules governing banking and finance. Several examples of laws that include regulatory requirements that may affect the purchase, sale and finance of a home are discussed in detail below.

A Few Examples of Federal Housing Regulations

The Community Reinvestment Act (CRA): Encouraging Credit for those with Low- and Moderate-Incomes

The Community Reinvestment Act of 1977 is intended to encourage banks to address the credit needs in their communities, including those of low- and moderate-income neighborhoods.[7] Under the CRA, banks must document the activities they undertake to meet the credit needs of low- and moderate-income constituents in their communities; these records are used by regulators in assessing banks' applications for opening or moving a branch or merging with another bank.[8] While originally enacted to meet perceived needs for house financing in inner cities, the CRA has evolved also to cover consumer and business lending, community investments and deposit services.[9] The four regulating agencies that implement the CRA are the Office of the Comptroller of the Currency, the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision. Each agency's implementing regulations can be found here.

As the Congressional Research Service (CRS) explains, proponents of the CRA hold that it stimulates credit for those with low- and moderate-incomes, that it generates a significant amount of loans for home mortgages and small businesses in central cities,[10] and that its costs are justified by the large community benefits it provides.[11] In terms of the costs, CRA requires extensive paperwork and incurs other expenses on banking institutions.[12] CRS also points out that some financial competitors of banks are not subject to CRA.[13]

In recent years the CRA has undergone various changes. For instance, new rules promulgated in 2005 require banks to assess the outcomes or effectiveness of their CRA activities rather than solely evaluating whether they met "arbitrary targets."[14] In addition, in 2006, the regulating agencies issued guidance that discouraged subprime lending and offered help in mitigating "the subprime lending turmoil."[15]

Home Mortgage Disclosure Act: Supporting Equal Access to Housing

The Congressional Budget Office (CBO) notes that the Home Mortgage Disclosure Act (HMDA) and the Fair Housing Act both generally "support equal access to rental housing and homeownership opportunities."[16] HMDA was passed by Congress in 1975 to provide public loan data by census tract. It allows assessments of whether financial institutions are meeting community housing needs. HMDA data also helps public officials distribute public sector investments to areas where private investment is falling short, and allows for the identification of potential patterns of discriminatory lending.[17]

Fair Housing Act: Prohibiting Discrimination in Housing

The Fair Housing Act (the Act), originally enacted in 1968, prohibits housing discrimination on the basis of race, religion, sex, physical or mental handicap or familial status. Many different activities are subject to the law, including selling or renting housing, making or purchasing loans, conducting appraisals and advertising housing to potential renters or buyers. The Act applies to almost every type of private and public housing, including apartments, mobile homes and rental housing owned by public housing authorities. However, there are some exceptions to the law, such as homes being sold by their owner and certain housing activities undertaken by religious groups.[18]

The Act affects the housing market, though it is not always clear the extent to which these effects convey subsidies to producers or consumers of housing. Under the law, landlords are required to permit reasonable changes to a unit in order to accommodate persons with disabilities.[19] Further, any multi-family housing built after 1991 must meet certain design specifications that make them
[20]

accessible and usable by those persons. State and local zoning requirements are also affected by the Act, which prohibits such requirements from discriminating against group homes for persons with disabilities.[21]

In addition to outlawing direct discrimination, the federal courts have agreed that some activities can violate the Act by having discriminatory effects, even if those effects were not intended. An example of this is a practice known as "redlining," in which lenders avoid providing financing or insurance for homes because of characteristics of the neighborhoods in which they are located. The CRS notes that while redlining is "rarely intentionally directed at individual members of a minority group, [it] may have a disparate impact on such persons."[22] Thus, courts consistently find this practice to be in violation of the Act.[23]

Housing discrimination complaints can be filed with HUD, and are investigated by its Office of Fair Housing and Equal Opportunity.[24] Civil actions can also be brought in state or federal courts.[25] HUD operates several programs, such as the "Fair Housing Initiatives Program," that assist local organizations in conducting outreach, training and enforcement of the Act.[26]

1. *See Section B.1 of Subsidyscope's methodology for a brief description of regulatory subsidies. Some argue that a government subsidy occurs when the government fails to correct problems through regulations resulting in certain goods or services being under-priced. For instance, they argue that a government's failure to adequately regulate peeling lead paint in apartment buildings results in a subsidy to landlords who don't maintain safe buildings. Subsidyscope does not take this approach. In practice, identifying and quantifying under-regulated market failures would be very difficult.*
2. *Harrington, Winston, Lisa Heinzerling and Richard D. Morgenstern, eds. "Reforming Regulatory Impact Analysis." Resources for the Future. Washington, DC. April 2009. p. 10; and Dacquisto, David J. and David T. Rodda. "Housing Impact Analysis." Prepared for the U.S. Department of Housing and Urban Development (HUD). January 2006. p. 1.*
3. *Dacquisto, David J. and David T. Rodda. "Housing Impact Analysis." Prepared for HUD. January 2006. pp. Foreword, 1.*
4. *Ibid., pp. 8-9.*
5. *Ibid., pp. 4-5.*
6. *U.S. Census Bureau. "American Housing Survey National Tables: 2009." Table 3-15.*
7. *Federal Financial Institutions Examination Council (FFIEC). "Community Reinvestment Act." Last Updated: November 23, 2009.*
8. *Federal Reserve (FRB). "Regulation BB: Community Reinvestment 12 CFR 228."Last Updated: April 21, 2010; and "Definitions." U.S. Code 12, Section 2902. 2010 ed.*
9. *Eubanks, Walter. Congressional Research Service (CRS). "Community Reinvestment Act: Regulation and Legislation." July 17, 2008. pp. 1-2.*
10. *Eubanks, Walter. CRS. "Community Reinvestment Act: Regulation and Legislation." July 17, 2008. p. 6.*
11. *Ibid., p. 1.*
12. *Ibid.*
13. *Ibid., p. 5.*
14. *Ibid., p. 8.*
15. *Ibid., p. 9.*
16. *Congressional Budget Office (CBO). "An Overview of Federal Support for Housing." November 3, 2009. p. 8.*
17. *FFIEC. "Home Mortgage Disclosure Act: Background & Purpose." Last Updated: September 22, 2010.*
18. *Garvey, Todd. CRS. "The Fair Housing Act (FHA): A Legal Overview." January 15, 2010. pp. 1, 4.*
19. *Ibid., p. 7.*
20. *Ibid., p. 8.*
21. *Ibid., p. 9.*
22. *Ibid., p. 4.*
23. *Ibid.*
24. *HUD. "Fair Housing--It's Your Right." Last Updated: October 15, 2009.*
25. *Garvey, Todd. CRS. "The Fair Housing Act- A Legal Overview." January 15, 2010. p. 14.*
26. *HUD. "Fair Housing Initiatives Program (FHIP)." Last Updated: November 8, 2007.*

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