

RURAL RESEARCH NOTE

HOUSING ASSISTANCE COUNCIL

The Housing Assistance Council (HAC) is a national nonprofit organization that supports affordable housing efforts in rural areas of the United States. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, and research and information services. HAC is an equal opportunity lender and provider.



November 2017

PROPOSED CHANGES TO THE MORTGAGE INTEREST DEDUCTION, AND WHAT THEY COULD MEAN FOR RURAL AMERICA

Recent legislative proposals to lower U.S. tax rates have included, among other elements, modifications to the mortgage interest deduction. The proposed limiting of the mortgage interest deduction to the first \$500,000 of a home loan, just half of the current \$1 million limit, has drawn the public's attention.ⁱ Questions on the potential cost to taxpayers associated with the more stringent deduction limits have naturally followed.ⁱⁱ The following discussion looks at the role of the mortgage interest deduction in rural areas.

Fewer Rural Households Take the Mortgage Deduction

According to Internal Revenue Service (IRS) Statistics of Income (SOI) data, the IRS received 148.98 million tax returns in 2015.ⁱⁱⁱ Approximately 22 percent of these tax returns, or one in five, claimed a mortgage interest deduction.^{iv} Tax filers more often used the mortgage interest deduction in certain areas. Counties with the highest percent of tax returns claiming mortgage interest deductions are found in major metropolitan areas, particularly those along the east and west coasts as well as Chicago, Minneapolis, Denver, and Atlanta (see Map 1).

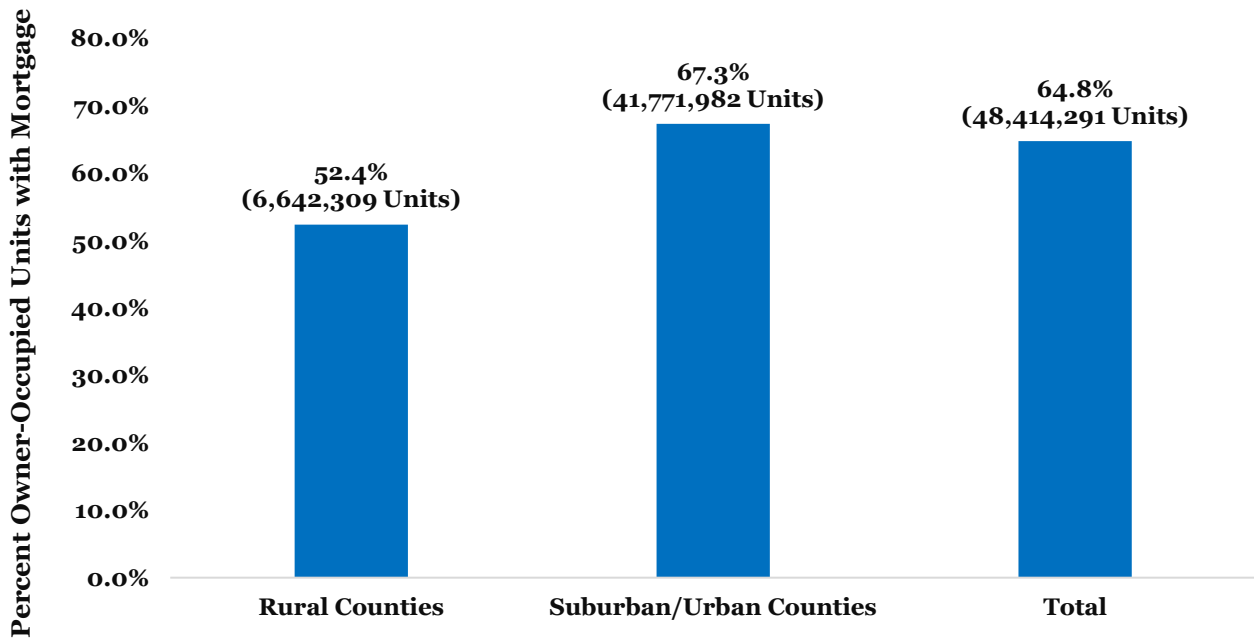
Taxpayers living in counties outside OMB-designated metropolitan areas (used here as a proxy for "rural," with metropolitan area counties considered "suburban/urban") filed 13.5 percent of all tax returns in 2015. These rural tax returns, however, included just 8.5 percent of tax filers claiming a mortgage interest deduction. This reflects the fact that the mortgage interest deduction is less commonly used in rural jurisdictions overall.

Low mortgage deduction claim rates – under 10 percent of tax returns claiming the deduction – were found in almost half (45 percent) of all rural counties, compared to 8 percent of suburban/urban counties. This more limited rural usage likely reflects the facts that in rural areas, fewer homeowners have mortgages – they own their homes free and clear of mortgage debt – and that both home values and incomes are lower, increasing the likelihood that the value of itemized deductions may be below what the filer would receive using the standard deduction.^v

Table 1. Select Characteristics Inside and Outside Metropolitan Area Counties

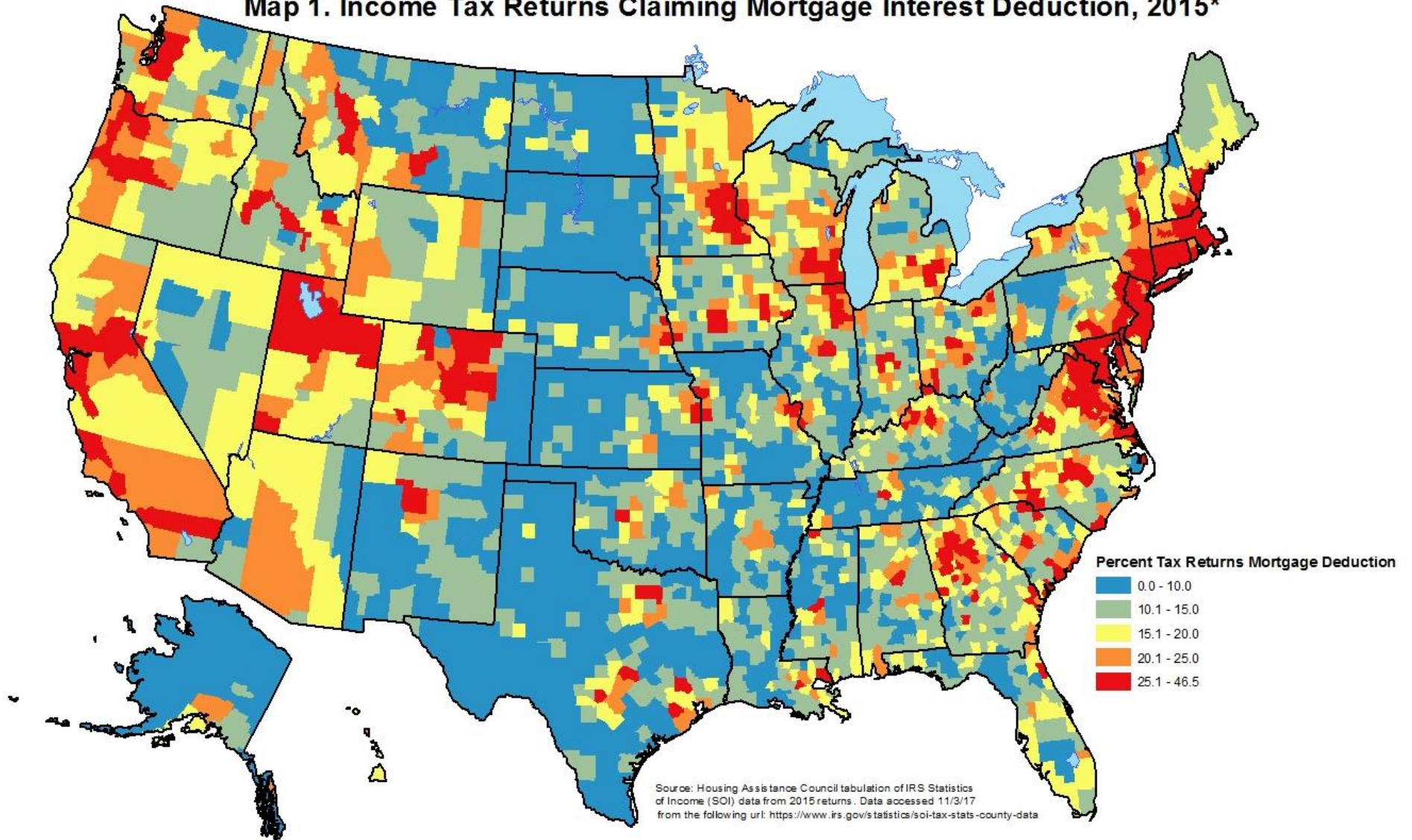
Geographies	County		ACS 2011-15 Population Estimate		2015 Tax Returns Filed		
	Total	Percent of All Counties	Total	Percent of Total Population	Total	With Mortgage Deductions	Percent of All Returns with Mortgage Deductions
Rural Counties	1,976	62.9%	46,215,516	14.6%	20,045,660	2,726,340	8.5%
Suburban/Urban Counties	1,165	37.1%	270,299,505	85.4%	128,932,650	29,509,970	91.5%
Total	3,141	100.0%	316,515,021	100.0%	148,978,310	32,236,310	100.0%

Figure 1. Owner-Occupied Units With A Mortgage



Source: Housing Assistance Council (HAC) tabulation of ACS 2011-15 occupied housing units by mortgage status. Rural counties are counties located outside OMB designated metropolitan areas, and metropolitan area counties are classified as suburban/urban.

Map 1. Income Tax Returns Claiming Mortgage Interest Deduction, 2015*



The Value of Rural Home Loans Impacts the Equation

Exploring home loan amounts through the Home Mortgage Disclosure Act (HMDA) data^{vi} helps provide an understanding of how many home borrowers might be impacted by a change in the cap on deductible loan amounts and where this might most likely occur. Approximately 6.8 percent of all home loan originations¹ (566,872 out of 8,292,826) in 2016 involved amounts of more than \$500,000. From these half-million dollars or more loans, only 2.7 percent were made in rural counties. In comparison, 9.9 percent of all mortgage lending in 2016 occurred in rural counties.

Table 2. County Lending Activity for Select Loan Amounts, HMDA 2016

Geographies	Total Loans		Loans Over \$500,000		Loans Over \$750,000	
	Number	Percent	Number	Percent	Number	Percent
Rural Counties	817,993	9.9%	15,465	2.7%	6,617	3.5%
Suburban/Urban Counties	7,474,833	90.1%	551,407	97.3%	180,291	96.5%
Total	8,292,826	100.0%	566,872	100.0%	186,908	100.0%

There is considerable variation between rural and suburban/urban counties for loans of more than \$500,000. Ninety percent of rural counties had fewer than 10 loans that exceeded \$500,000 in value, and 37 percent did not have a single loan reaching that threshold. In comparison, only 43 percent of suburban/urban counties had fewer than 10 loans meeting the half-million threshold and only 8 percent reported no such loans. There are some exceptions in rural areas, particularly those with high amenities. For example, 155 of the 369 loans originated in San Miguel County, CO, home to Telluride ski areas, exceeded \$500,000 in 2016. This is the exception to the rule, though. Similar to the patterns of 2015 tax return activity, there is a concentration of loans of more than \$500,000 on the coasts and near large metropolitan areas (see Map 2).

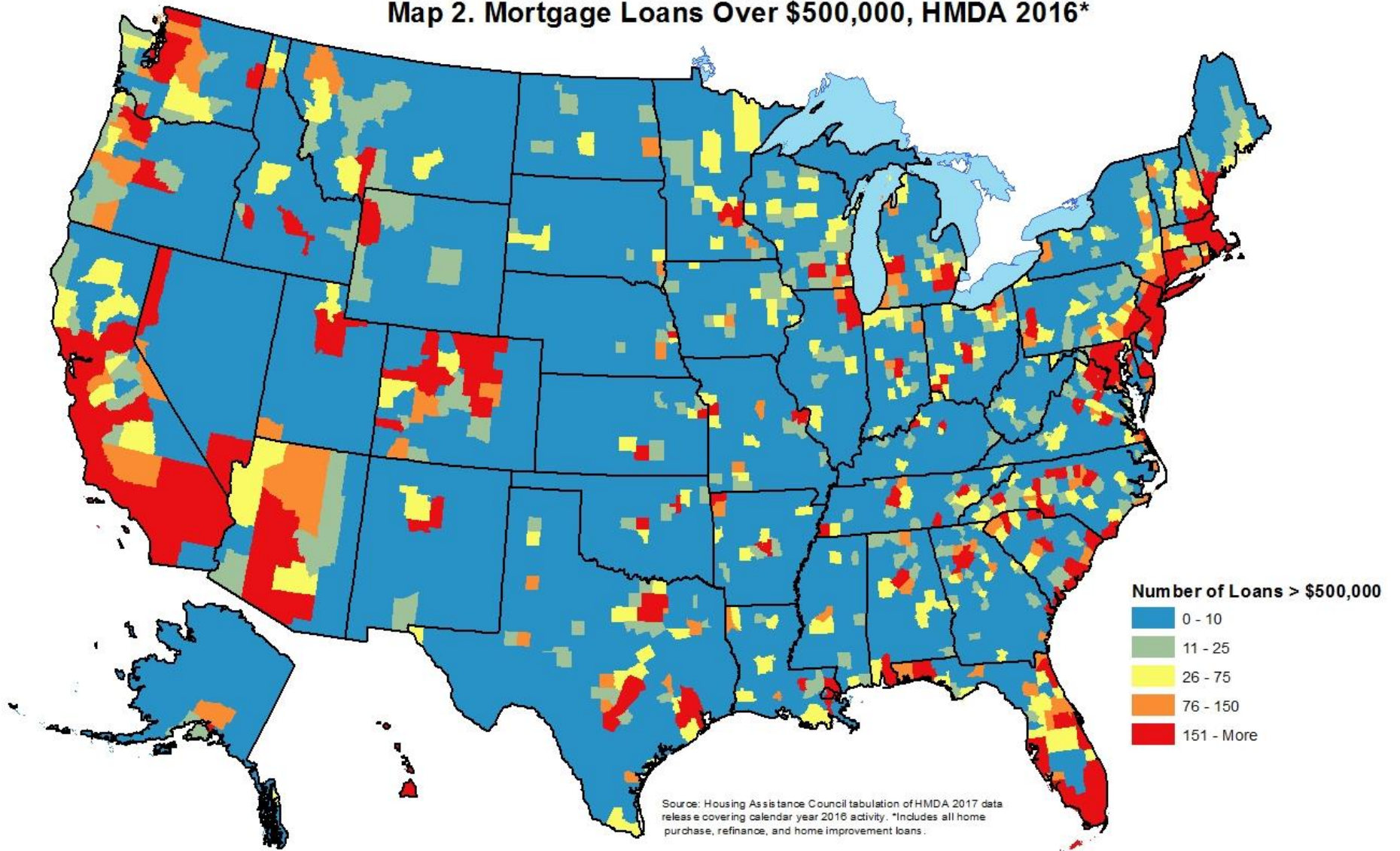
Discussion

The analysis indicates that the mortgage interest rate deduction plays a proportionally small role in most rural communities. Generally, tax returns reveal a smaller percentage of rural households claim a mortgage interest deduction compared to suburban/urban tax filers. This is, at least in part, related to the fact that almost half of all rural, owner-occupied units have no mortgage. In addition, taxpayers use the mortgage interest deduction more often around higher housing cost metropolitan centers, particularly those along the coasts.^{vii}

The potential tax policy change, as presented, will directly impact new mortgage loans greater than \$500,000. Rural counties are home to only 2.7 percent of these loans nationally. In 2016, 90 percent of rural counties had fewer than 10 mortgage loans greater than \$500,000. While there are exceptions, particularly in amenity rich rural areas, the overall lending pattern reflects the lower home values associated with most rural communities. The most likely result then is that the proposed \$500,000 mortgage interest deduction limit would have little impact on most rural counties. This preliminary analysis does not promote or recommend specific policy prescriptions, but rather highlights the potential impact for rural communities. In some instances, policy implications for rural communities and residents can be overlooked, but should be an important consideration.

¹ Loans include those involving home purchases, refinance, and home improvement.

Map 2. Mortgage Loans Over \$500,000, HMDA 2016*



ⁱ Paleta, Damian and Mike DuBois. November 2, 2017. GOP Tax Plan Would Shrink Mortgage Interest Benefit, Slash Corporate Tax Rate. *The Washington Post*. Article accessed 11/3/17 at the following url: https://www.washingtonpost.com/business/economy/republican-tax-plan-to-lower-cap-on-mortgage-interest-deduction-to-500000-loans/2017/11/02/cof594d6-bfd5-11e7-8444-a0d4f04b89eb_story.html?utm_term=.5688d6c2f420

ⁱⁱ Dougherty, Connor. November 2, 2017. Tax Changes on Mortgages Could Shake Up the Housing Market. *The New York Times*. Article accessed 11/3/17 at the following url: https://www.nytimes.com/2017/11/02/business/economy/tax-housing.html?rref=collection%2Fsectioncollection%2Fbusiness-economy&action=click&contentCollection=economy®ion=stream&module=stream_unit&version=latest&contentPlacement=7&pgtype=sectionfront&r=0

ⁱⁱⁱ Housing Assistance Council (HAC) tabulation of IRS, county SOI data for 2015. The data was accessed 11/7/17 at the following url: <https://www.irs.gov/statistics/soi-tax-stats-county-data>. HAC summed all county data for the figures presented in this report.

^{iv} A total of 32.24 million documented the payment of mortgage interest on Schedule A of their tax returns, which is the number used for those claiming itemized deductions. This 32.24 million number is in line with other reports. For example, Samantha Sharaf's *Forbes* April 26, 2017 article, entitled "What President's Trump's Tax Proposal Means for the Housing Market and the Value of Your Home," states that 32 million people (filers) claimed mortgage interest deductions in 2014 (accessed 11/3/17 at the following url: <https://www.forbes.com/sites/samanthasharf/2017/04/26/what-president-trumps-tax-proposal-means-for-the-housing-market-and-the-value-of-your-home/#c431f2169of7>). Similarly, in Clare Tarasco's *Realtor.com* April 27, 2017 article, entitled "Will Trump's Tax Plan Help or Hurt the Housing Market?," the author cites the National Association of Realtors' data that "about 32 million" claimed the mortgage interest deduction in 2014.

^v If the value of the itemized deductions is low relative to the standard deduction, homeowners would use the standard tax deduction. Itemized deductions are likely to be lower if home values are low and income is low. ACS 2011-15 median household income for inside metropolitan area counties was \$42,838 compared to \$56,330 for outside metropolitan area counties, while the median home value estimates were \$114,500 and \$196,100 respectively.

^{vi} This analysis evaluates Home Mortgage Disclosure Act (HMDA) data released in 2017 but covering calendar year 2016 lending. The analysis captures all home purchase, refinance, and home improvement originated loans with a viable state and county FIPs code. Loans in Puerto Rico were excluded for this analysis.

^{vii} It is important to note that this data does not address loan or deduction amounts; it provides only a picture of the overall level of use for an area.



Contact

HOUSING ASSISTANCE COUNCIL

1025 Vermont Avenue, Northwest

Suite 606

Washington DC 20005

202-842-8600

hac@ruralhome.org

www.ruralhome.org