

# Tax Stimuli Should Be Used to Reduce Vacant Real Estate Inventory and Stimulate the Economy

## MBA RECOMMENDS

Congress should consider expanding the existing new homebuyer credit to all homebuyers and improving credit by increasing the amount, making it non-repayable, and making it immediately available to homebuyers at closing. Congress should also allow a home mortgage interest deduction for those who otherwise use a standard deduction. Further, Congress should consider a temporary accelerated depreciation for single family rental properties, extend the net operating loss carryback period to five years, and establish regionally targeted business incentives and new job credits.

## BACKGROUND

During 2003 through 2006, home prices increased at a pace that far exceeded inflation. During that time, many mortgages were written with adjustable interest rates and/or negative amortization features. In 2007, this rapid appreciation slowed and even began to reverse in some locations, resulting in record borrower defaults. The resulting glut of foreclosed properties coming on the market helped swell the homes for sale nationwide in 2008 from a normal 2.6 million units to 4.6 million units. This one year backlog of homes for sale has fueled a further decline in real estate prices in some parts of the country. The reset of adjustable rate mortgages (ARMs) coupled with the number of homes where the mortgage balance exceeds the home value has limited borrowers' options to manage their financial needs or sell their properties. The end result will be elevated levels of foreclosures again in 2009, which will continue to negatively impact housing prices.

The problems in the housing and mortgage markets have spilled over to the rest of the credit and capital markets, resulting in the most dangerous global financial crisis since the Great Depression. The United States has been in a recession since late 2007, and the unemployment rate continues to climb.

## PRINCIPLES OF REFORM

In designing a comprehensive economic stimulus plan, Congress and the Administration should use tax incentives to target specific economic ills. In designing a comprehensive fiscal policy for 2009, MBA urges Congress to consider the following core principles:

- The problem had its start in the housing market, and tax stimuli to improve the housing and mortgage banking markets could lead the economy out of recession.
- The current glut of homes for sale on the market are a result of three underlying problems that should be considered in designing 2009 fiscal incentives:
  - » Speculators and investors primarily in the "Sunbelt" areas including the Southeast and Southwest.
  - » Job losses in specific geographic regions like the "Rustbelt" and, more recently, Florida and Nevada.
  - » Glut of houses on the market from record foreclosure volumes.
- As a result of the collapse of the Subprime and Alt A markets, there is an emerging "underserved" population where homeownership is no longer an available option. Fiscal incentives should be targeted for encouraging rental housing for this emerging underserved market segment.

- In addition to fixing housing, broader corporate tax incentives would be stimulative.

## PROPOSED 2009 TAX INCENTIVES

The following are recommended tax strategies to help mitigate the current housing glut:

- Expand and improve the \$7,500 first time homebuyer credit:
  - » Extend eligibility to ALL homebuyers for purchase of principal residence.
  - » Increase the amount of credit to up to 10 percent of median housing price for taxpayer's market area. The credit should include a phase out based upon adjusted gross income as reported on most recent tax returns.
  - » Amount would not have to be repaid unless residence is sold within the first three years or in the event of a taxpayer default on any other mortgage that existed at the date tax credit is claimed (the latter is to discourage "buy and bail" behavior).
  - » Allow taxpayers to claim immediately instead of waiting for annual tax return filing.
  - » IRS to send funds directly to the settlement agent for the property transaction to ensure that funds are used for intended purpose.

- For taxpayers who claim only a standard deduction but have mortgage interest, allow for a home mortgage deduction in addition to the standard deduction.
- To encourage sellers to take vacant properties off the market and rent them and to provide housing for the emerging "underserved" market, provide a special program for accelerated depreciation for single family rental properties.

The following are recommended corporate tax provisions to stimulate the economy:

- Extend the net operating loss carry back period from two years to five years for all companies, not just small businesses. This would provide needed liquidity and capital to many companies experiencing pain in the current economic cycle. An expansion of the net operating loss carryback allows businesses to accelerate their claim of net operating loss deductions that under present law would be claimed in the future. Businesses are in critical need of these deductions today.
- To assist areas of the country most impacted by unemployment, establish regionally targeted incentives and new jobs credits.



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