



Statement of

Mortgage Bankers Association

For the

Small Business Committee

United States House of Representatives

Hearing on

**“The State of the Nation’s Housing Sector:
An Examination of the First Time Buyer’s Credit and
Future Policies to Sustain Recovery”**

October 7, 2009

The Mortgage Bankers Association¹ (MBA) appreciates the opportunity to provide this statement for the record for the Small Business Committee's hearing titled "The State of the Nation's Housing Sector: An Examination of the First Time Buyer's Credit and Future Policies to Sustain a Recovery."

The current global credit cycle and recession began in the U.S. housing market, and recovery will not be complete until the current oversupply of houses on the market has dramatically decreased. MBA has supported the first-time homebuyer tax credit since it first passed Congress as part of the Housing and Economy Recovery Act of 2008 and was expanded in the American Recovery and Reinvestment Act of 2009.

The Internal Revenue Service (IRS) recently reported that over 1.4 million taxpayers have benefited from the tax credit.² Although MBA is seeing some improvement in the housing market, it is essential that the favorable impact of the first-time homebuyer credit be allowed to continue beyond the upcoming expiration date of November 30, 2009.

Economic Impact of Homeownership

As the housing markets began to falter, the economic ripples were felt across a number of industries. This highlights that homeownership is a pillar of our economic stability, and emphasizes the need to ensure we do not jolt a very fragile housing market just as we are starting to see signs of stabilization. As the housing market recovers, so do a number of other businesses, including small businesses that rely on home purchases.

A December 2008 report³ by the National Association of Home Builders (NAHB) found that a buyer of a new single-family home spends an average of \$7,400 more in the first two years of homeownership than a similar homeowner who has not moved. The report compared the spending behaviors of those who bought new single-family homes, existing single-family homes and non-movers.

New home buyers spent an average of \$12,332 on housing expenditures, nearly 2.8 times than non-movers, and those who purchased existing homes spent an

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

² <http://www.irs.gov/newsroom/article/0,,id=213375,00.html>

³ Natalia Siniavskaia, Ph.D (December 2008), "Spending Patterns of Home Buyers", found at: http://www.nahb.org/fileUpload_details.aspx?contentTypeID=3&contentID=106491&subContentID=180736

average of \$8,927 on expenditures, which was two times that of non-movers. The report indicated that this money is spent in three main areas: property repairs and alterations, appliances, and furnishings. The NAHB study asserts that this consumer spending would not have been spent in other areas.

MBA Position

MBA recognizes that we have an excessive inventory of available homes in many parts of the country. This glut of existing homes will continue to put downward pressure on home values, which impacts the surrounding communities and perceived homeowner wealth, which is a driver of consumer spending. In simple terms, demand is not keeping up with the current supply. MBA supports tax initiatives that would encourage home purchase activity.

Specifically, MBA recommends the following changes to the current tax credit:

- **Expand eligibility to ALL homebuyers** – While the tax credit has proven to be effective in helping first-time homebuyers, a large number of Americans are thinking about moving from their current home for various reasons and might be incented by a tax credit to do it now, when the economy needs it the most.
- **Increase the tax credit to a maximum of \$15,000** – Increase the tax credit to up to 10 percent of the home purchase price up to a maximum of \$15,000. The credit may include a phase-out based upon adjusted gross income as reported on a borrower's most recent tax returns.
- **Require the tax credit to be repaid in certain instances** – The borrower should repay the tax credit only if the residence is sold within the first three years (exception for employment-related moves) or in the event of a taxpayer default on any other mortgage that existed at the date the tax credit is claimed. This would discourage “buy and bail” behavior, where a borrower uses the tax credit for his or her advantage and walks away from an existing mortgage obligation.
- **Tax credit should be available for settlement** – If practical, facilitate the Internal Revenue Service (IRS) sending funds claimed by the taxpayer directly to the settlement agent of the property transaction for a downpayment
- **Enhancements effective immediately** – Any enhancements to the program should be effective on the date of enactment and should be in effect for at least 12 months to ensure the greatest economic stimulus.

Conclusion

MBA believes the first-time homebuyer tax credit has had a stimulating impact on our economy, and MBA supports extending and expanding it so it can help more buyers and sellers. As we approach the end date of the current \$8,000 tax credit, we urge Congress to expand the program to include all homebuyers, increase the credit up to \$15,000, make the funds available for closing, and extend the overall program by at least 12 months.

Our fragile economy is just beginning to show signs of stabilizing. We should not jeopardize our recovery by letting this tax credit expire. The homebuyer tax credit is helping hundreds of thousands of Americans realize the American dream, and it is creating thousands of jobs that rely on homeownership. Problems in the housing industry led us into a global recession, and housing stimuli can help lead us out of the recession.