FULL COMMITTEE HEARING ON THE HOUSING CRISIS: IDENTIFYING TAX INCENTIVES TO STIMULATE THE ECONOMY

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

JUNE 5, 2008

Serial Number 110-97

Printed for the use of the Committee on Small Business

Available via the World Wide Web: http://www.access.gpo.gov/congress/house

U.S. GOVERNMENT PRINTING OFFICE

42–524 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
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CONTENTS

OPENING STATEMENTS

WITNESSES

APPENDIX

FULL COMMITTEE HEARING ON THE HOUSING CRISIS: IDENTIFYING TAX INCENTIVES TO STIMULATE THE ECONOMY

Thursday, June 5, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10 a.m., in Room 1539, Longworth House Office Building, Hon. Nydia M. Velázquez [Chair of the Committee] Presiding.

Present: Representatives Velázquez, Gonzalez, Altmire, Ellsworth, Akin, Davis and Fallin.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

Chairwoman VELÁZQUEZ. Good morning. I now call this hearing to order on The Housing Crisis: Identifying Tax Incentives to Stimulate the Economy.

Today our Nation is faced with serious threats to its economic stability. In recent months we have witnessed skyrocketing gas prices, rising food costs and a weakened U.S. dollar. This and other factors have combined to put a strain on America's ability to make ends meet in an uncertain economic environment.

One area of our economy enduring particularly harsh challenges is the housing sector. Housing starts are down more than 60 percent since 2005. There has been a sharp decline in buyers, and there is now an 11-month supply of newly constructed homes on the market, almost double the normal amount. As a result, following more than 13 years of increases, home values are declining. In the last quarter prices fell by an annual rate of nearly 7 percent. And with the subprime crisis persisting, there is little hope of a quick turnaround. All of these factors have led to record foreclosures and could cost some 3 million American families their home.

The situation poses a great threat to the Nation's housing sector, a vital part of our economy. Some estimate that it comprises as much as 10 percent of the U.S. gross domestic product. As a result, it is not hard to see the drag it can put on our Nation's overall growth.

Just yesterday Fed Chairman Bernanke stated that until the housing market, and particularly housing prices, show signs of stabilizing, growth will remain to the down side.

As the housing industry is dominated by small firms, this Committee has a particular interest in these issues. Home building, realty, lending and other related businesses are all proven job creators. However, with the drop in sales and little construction, many small employers have been forced to reduce staff or go out of business altogether. In fact, since February of 2006, the homebuilding sector has lost almost 500,000 jobs.

One of the best avenues to boost this sector is through targeted tax relief. Tax incentives for affected industries could provide immediate benefits to millions of small businesses. This hearing will give the Committee the opportunity to evaluate some of these tax measures and how they can best assist the struggling housing sector.

As this is a multifaceted problem, it is critical to look at all angles in identifying solutions. For the current crisis there needs to be an examination of how policies will affect the consumers, lenders and the homebuilding industry. Today the Committee will look specifically at a number of tax reforms included in legislation passed by the House and the Senate. These include the first-time home buyers tax credit, increasing the low-income housing tax credit, and extending the years companies can carry back losses. Each of these proposals tackles the problems in a different way. We will consider how and if these policies can lead to a more robust housing market while avoiding the pitfalls that created the problem in the first place. This approach can play a significant role in halting job losses and creating high-paying jobs. In the end it can not only help small businesses and homeowners, but the economy as a whole.

I would like to thank all the witnesses for taking time out of your busy schedule to be with us this morning, and I now yield to the Ranking Member—representing Mr. Steve Chabot, Mr. Davis, for his opening statement.

OPENING STATEMENT OF MR. DAVIS

Mr. DAVIS. Thank you, Madam Chairwoman. Ranking Member Chabot will join us shortly, and he will give his opening statement at that time. In the meantime I have a brief opening statement.

Madam Chairwoman, I appreciate you holding this hearing on tax incentives to stimulate the housing sector. We are in an economic downturn, and the economic market is lagging, we all know that. Housing prices are down, and sales volumes are depressed. Although Congress has passed economic stimulus legislation, it is useful for us to consider other incentives to help the housing industry and its related sectors.

I look forward to hearing the testimony from our witnesses today. And again, Madam Chairwoman, I thank you for holding this hearing, and Ranking Member Chabot will be with us soon. Thank you. I yield back.

Chairwoman VELÁZQUEZ. Thank you, Mr. Davis. And now it is my pleasure to welcome Mr. Dale Leppo. Mr. Leppo is the Chairman of Leppo, Inc., from Ohio. Leppo, Inc., has six company construction equipment dealerships located throughout northeast Ohio. Mr. Leppo will be testifying on behalf of Associated Equipment Distributors. AED is an international trade association representing 750 companies involved in the distribution, rental and support of equipment.

Welcome, and you will have 5 minutes for your opening statement.

STATEMENT OF MR. DALE LEPPO, CHAIRMAN, LEPPO RENTS/ BOBCAT OF AKRON, TALLMADGE, OHIO, ON BEHALF OF THE ASSOCIATED EQUIPMENT DISTRIBUTORS

Mr. LEPPO. Good morning, and thank you, Chairwoman Velázquez and Congressman Davis and other distinguished members of the House Small Business Committee. My name is Dale Leppo, and it is my pleasure to come before you today both in my capacity as a small business owner and as a spokesman for my industry.

As the Chairwoman mentioned, I am Chairman of Leppo Rents/ Bobcat of Akron. We are a third-generation family-owned company that sells and rents construction equipment in northeast Ohio. I am also the 2008 chairman of the Associated Equipment Distributors Governmental Affairs Committee. We have, as the Chairwoman mentioned, hundreds of members across the country, and approximately 48 percent of our distributor members report annual revenues of under $10 million, so we are a small-business organization.

Since mid-January, AED has urged Congress to enact a home purchase tax credit to stimulate the residential real estate market. We are pleased that both the House and Senate have passed legislation in this area; however, given signs that the residential real estate crisis is getting worse, AED is urging that the tax credit be expanded in conference beyond what has passed the House and Senate.

Specifically we recommend that Congress adopt a $7,000 home purchase tax credit for individuals and couples regardless of income level who purchase any primary residence between June 30th and December 31, 2008. Why? Because the excess housing inventory on the market today has to be sold before the residential construction industry can resume its normal activity level.

I would like to emphasize three points from my written testimony. First, the housing crisis is getting worse, not better. Last week the Bureau of Economic Analysis reported that home purchasing fell 25.5 percent in the first quarter of 2008. Consumer confidence has fallen to a 16-year low, and analysts have cited the housing market along with higher food and fuel prices as a primary cause of consumer pessimism.

My second point is that in addition to the overall impact on the national economy, the downturn of the housing market is also having a direct effect on the small-business-dominated construction and construction equipment distribution industries. Ninety-three percent of AED's members say that the housing slump has had an impact on their companies, and close to half saying that it has had a major impact. For example, in northeast Ohio, compact equipment sales have dropped 46 percent since 2005, and over the last year alone the skidster market is off 31 percent, and the miniexcavator market is off 41 percent.

From the ground it is easy to see that the cause of the sharp decline in these equipment markets is a slowdown in residential construction. The fact that too many houses are sitting empty without buyers has led to a significant drop in new housing starts. As a result my customers, homebuilders and others, are going out of business, equipment distributors are closing branches, we are having to repossess equipment from nonpaying customers, and overall business activity in the construction industry is down.

Based on discussions with my colleagues around the country, I believe that every one of you on this Committee has small construction industry companies in your districts facing the same challenges that we are.

My third and final point is that a temporary broadly based home purchase tax credit is an effective way for Congress to address the housing market crisis. It would stimulate demand and slow the decline in home values, thus addressing a major economic worry and contributor to consumer pessimism. It would bring stability and confidence to the housing market, thereby speeding economic recovery. It would help make homes more affordable by effectively putting cash in the pockets of home purchasers, and the benefit of a home purchase tax credit would go directly to the individuals and families who buy homes.

America is facing an economic crisis unlike any in a generation. While other recent economic slowdowns have been the result of one or two factors, the U.S. economy is now facing a number of challenges at once: a residential real estate slump, escalating oil and food prices, consumer credit prices and a weak dollar. Of all these, Congress is best positioned to address the residential real estate crisis, and we feel the most effective way to do so is through a home purchase tax credit. I therefore urge you on behalf of the construction industry and small businesses throughout the country to work with your colleagues to expand the home purchase tax credit in conference and enact it quickly into law.

Thank you for holding this hearing on such an important issue, and we look forward to working with you and your colleagues.

[The prepared statement of Mr. Leppo may be found in the Appendix on page 29.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Leppo. Our next witness is Mr. John Puffer, III. He is chairman and president of Pilot Bank, a community bank in Tampa, Florida. Founded by Mr. Puffer in 1987, the bank's core customers are small business owners and their employees.

Mr. Puffer will be testifying on behalf of Independent Community Bankers of America. ICBA is the Nation's voice for community banks with nearly 5,000 members.

Welcome.

STATEMENT OF MR. JOHN PUFFER, III, CHAIRMAN AND PRESIDENT, PILOT BANK, TAMPA, FLORIDA, ON BEHALF OF THE INDEPENDENT COMMUNITY BANKERS OF AMERICA

Mr. PUFFER. Good morning. My name is John Puffer, and I am chairman and president of Pilot Bank in Tampa, Florida.

Chairwoman Velázquez, Ranking Member and members of the Committee, I am pleased to be testifying today on behalf of the Independent Community Bankers of America. ICBA applauds the Committee for examining the tax changes, can help the troubled housing sector and boost small business and the economy. ICBA represents 5,000 community banks throughout the country with 180 community bank members in Florida. Since Pilot Bank was started in 1987, it has grown to more than $240 million in assets and currently serves more than 15,000 customers. We pride ourselves on small business relationships and are proud to support our local communities in the Nation's economy.

Housing market woes still plague the entire U.S. economy. The housing troubles are particularly acute in my State of Florida. Restoring confidence in the housing market is vital to restoring economic growth.

While it is true that some regions of the country witness unsustainable price appreciation and speculative buying, the weakness in housing is widespread. Recent official data showed home prices dropping in 43 States in the first quarter of 2008. Nationwide nearly 1 in every 194 households received a foreclosure filing in the first quarter. In my home State of Florida, the State recorded more than 87,000 properties in some state of foreclosure, or 1 of every 97 households in the first quarter of this year. This is 178 percent higher than the same period a year ago.

Large financial institutions in general have already experienced $379 billion in asset write-downs and credit losses since the start of 2007. This is impairing lending to small business and exacerbating the economic downturn.

Community banks represent the other side of the financial story. Community bankers live and work in towns they serve and do not put their customers or neighbors in loan products they could not possibly repay. Community banks did not cause the current turmoil in the housing sector, but are well positioned, well capitalized and willing to help. At Pilot Bank we are currently looking at additional mortgage opportunities as homeowners seek loans in a difficult credit market.

While economists debate the chances of the Nation slipping into recession, severe housing market declines have already caused a recession in many States. Notably States like California, Nevada, Florida, Michigan and Ohio have all witnessed dramatic declines in their housing markets and associated economic decline.

Responding to a slowing economy, ICBA was out front in early January with a nine-point economic stimulus plan focused on communities and small business needs. Because the troubles in the subprime mortgage markets quickly spread to the entire housing sector and broad credit markets, the ICBA included a targeted home buyer tax credit as the first item in its proposed stimulus plan. The ICBA's economic stimulus plan recommends a $5,000 first-time home buyer Federal tax credit for 1 year in order to jump start home sales, reduce unsold inventories and stabilize home prices and foreclosures. A first-time home buyer's tax credit would provide a reasonable incentive for potential qualified buyers to get off the sidelines and to take advantage of low interest rates and the temporary tax break to purchase a home. Stabilizing home prices will lower mortgage refinancing qualification hurdles as well and help to keep more people in their homes. ICBA is pleased to see a home buyer tax credit advancing in both the House and the Senate.

We commend recent House and Senate legislation to address the foreclosure problem with a voluntary program. ICBA supports the additional tax provisions in H.R. 3221, including allowing the Federal home loan banks to guarantee community bank letters of credit to enhance local government bonds; an additional standard deduction for State real property taxes; allowing a temporary increase in State mortgage revenue bond authority. ICBA also supports proposals for increasing the GSE conforming loan limit for high-cost housing areas. All these targeted housing incentive proposals would help to stem the ongoing decline in the housing sector.

Housing activity had peaked nearly 3 years ago, and since home sales have fallen nearly 40 percent, housing starts more than 60 percent, and home prices some 15 percent, it is urgent that more be done on the fiscal policy front to address housing. ICBA believes a sharp decline in real estate values must be addressed before genuine stability can be achieved in the broad credit markets and economy. The road to economic recovery must go through housing. Community banks like Pilot Bank are well positioned and prepared to help.

I appreciate the opportunity to testify today on behalf of the Independent Community Bankers of America. Thank you.

[The prepared statement of Mr. Puffer may be found in the Appendix on page 35.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Puffer. Our next witness is Mr. Joe Robson. He is the founder and president of Robson Companies. Robson Companies are developers of residential communities and commercial properties in Tulsa, Oklahoma. He is also the 2008 first vice president of the 235-member National Association of Home Builders. NAHB is a trade association that helps to promote the policies that make housing a national priority.

Welcome.

STATEMENT OF MR. JOE ROBSON, ROBSON COMPANIES, BROKEN ARROW, OKLAHOMA, ON BEHALF OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. ROBSON. Thank you, Chairwoman Velázquez, Congressman Davis and other distinguished members of the Committee. My name is Joe Robson, and I am a builder and developer from Tulsa, Oklahoma, and, again, the 2008 first vice president of the National Association of Home Builders.

And, Madam Chairwoman, what you said in your opening statement is absolutely true. The housing crisis is at the core of the Nation's economic struggle and places increasing stress on homeowners, State and local governments, and those industries connected to housing. Unfortunately, small businesses, which comprise the majority of the homebuilding industry, are particularly hard hit by this downturn. Housing starts are down by more than 60 percent from 2005, job losses are accelerating, and many homebuilders are reporting substantial financial losses.

NAHB testified in front of this Committee previously about the drastic steps that small business owners are taking to generate capital and to keep their businesses solvent, including laying off workers, and, despite the tax consequences, accessing personal retirement funds. For the broader economy, if housing prices continue to fall, household consumption will decrease as household wealth declines. Mortgage accessibility will continue to be a challenge, and mortgage foreclosures will continue to surge.

America's small business owners are struggling to keep their heads above water. The time for targeting housing stimulus has come. NAHB appreciates the efforts by this economy and Congress to address the housing crisis and economic downturn; however, we respectfully ask you to go further. Both the House and Senate have taken important steps towards crafting a stimulus package targeting at housing, and we urge Congress to finish the work as soon as possible.

As we outline in our written statement, we believe a home buyer tax credit is a key ingredient in any final housing stimulus compromise between the House and the Senate. NAHB applauds the House for including a temporary home buyer tax credit in H.R. 3221. Under this model first-time home buyers would receive a $7,500 refundable tax credit for the purchase of any home to be used as a principal residence. A tax credit of this nature would reduce excess inventory and relieve pressure on falling home prices by ending the waiting strategy of some potential buyers. Furthermore, it would go a long way to restore confidence in the housing market for homeowners, home buyers and financial institutions, mitigating many elements of the current crisis. We estimate that this credit could increase housing sales by hundreds of thousands of units.

H.R. 3221 also includes a special allocation of mortgage revenue bonds. By expanding the MRB program and permitting States to use MRB proceeds to refinance troubled mortgages, as well as for new lending, communities across the Nation could see reduced numbers of foreclosures and stabilize local property prices.

NAHB believes that modernizing the Nation's largest affordable-housing production program, the low-income housing tax credit, is an important additional component for economic stimulus. Additionally, construction of affordable housing has a direct stimulative effect in terms of job creation, local taxes, and wages and salaries paid.

Finally, the ability of homebuilders, large and small, to have the ability to claim and carry back net operating loss deductions to years when significant taxes were paid is very important. Without this additional financial tool, businesses will be forced to increase borrowing or liquidate land and homes, only compounding the existing inventory problem and prolonging the housing crisis.

On behalf of NAHB's members, thank you for your efforts to stimulate the housing sector and help turn around our struggling economy. We look forward to working with this Committee as the process continues, and I thank you for the opportunity to testify today.

[The prepared statement of Mr. Robson may be found in the Appendix on page 44.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Robson. Our next witness is Mr. James L. Helsel. Mr. Helsel is a partner with RSR Realtors, a full-service real estate company in Harrisburg. He also serves as 2008 treasurer of the National Association of Realtors. Founded in 1908, NAR is America's largest trade association, representing more than 1.3 million members involved in all aspects of the residential and commercial real estate industries.

Welcome.

STATEMENT OF MR. JAMES L. HELSEL, JR., RSR REALTORS, LEMOYNE, PENNSYLVANIA, ON BEHALF OF THE NATIONAL ASSOCIATION OF REALTORS®

Mr. HELSEL. Thank you, Madam Chairman and other distinguished members of the Committee. My name is Jim Helsel, and I am here in my capacity as the elected treasurer of the National Association of Realtors®. NAR has 1.25 million members engaged in every aspect and facet of the real estate industry. I am also a partner in the full-service real estate brokerage known as RSR Realtors in Lemoyne, Pennsylvania. Thank you for this opportunity.

The ugly dimensions of the housing crisis have been covered extensively in the media. Despite today's challenges, it is still true that more than 90 percent of homeowners are current on their mortgages. Generally their mortgages are not under water. Home values continue to appreciate in about one-third of the U.S. markets and in even more neighborhoods.

The decline in property values has not changed Americans' basic perception that home ownership is good for families and good for communities. Our members continually report that traffic at open houses and property showings have been steady enough, but that a "no thanks, just looking" mentality dominates. The "just looking" comment is really a code for how low will prices go and how long will it take before they decide to make a decision.

In February, some of NAR's current and former tax committee leaders met to explore approaches that might help to create a floor on the market prices. Their discussion included property tax holidays, special property tax deductions, tax-exempt bonds, investor incentives and a home buyer tax credit. They easily agree that the most beneficial incentive will be a temporary tax credit that will change a "just looking" mood to "I am ready to buy." Part of the support for a home buyer credit was based on the success of a 1975 temporary tax credit designed to clear an oversupply of newly constructed homes during an economic downturn back then.

We note three critical features for an optimal home buyer tax credit. First, it would apply to all residential real estate, not solely foreclosed properties. Second, a temporary credit would assure that prospective purchasers would have to act within a relatively short time. Third, the House-imposed income limits should be increased, particularly for single individuals. After all, there is no difference between the purchasing power of a single individual or a married couple with the same amount of income. Moreover, housing policy seems inconsistent when current law offers higher FHA or conforming loan limits to borrowers in high-cost housing areas, but then makes them ineligible for a tax credit because of income limits.

We urge Congress to move quickly to conference and to final passage of this tax incentive. Failure to act quickly could further stall the market as prospective purchasers wait to see if they will qualify for the benefit.

More information and further detail about the tax credits are provided in a chart attached at the end of our written testimony.

The housing crisis is not limited to homeowners and buyers and sellers. It also affects individuals who work in any facet of the real estate business. We want to note for the record that many of our own members and other self-employed folks, such as carpenters, landscapers and other construction workers, will not receive the $600 stimulus package check this year.

NAR's real estate sales agent members are compensated solely by commission, so when the number of sales declines along with the prices of properties, and commission income drops, by the time sales agents have to deduct their allowable expenses for 2007 real estate sales revenues, many had no net income in their 2007 1040 form. These folks won't get the kick of the $600 rebate until they file their 2008 tax returns in 2009.

We also want to talk about the small investor for a moment. The so-called small investor is a class of real estate owners that has all but disappeared. We need to bring these people back to the market. These are individuals who might own one or two single-family homes or condos that they offer for rent.

Their reason for disappearance traces back to the 1986 Tax Reform Act. In 1986, Congress enacted the so-called passive loss rules to shut down abusive, syndicated, tax-shelter projects that were marketed for their tax benefits rather than for the appreciation and income stream these investments provided. The passive loss rules included an exemption to assure that individuals with moderate incomes could continue to invest in real estate as individual owner-landlords. The exception criteria were expressed in dollar amounts that were not indexed to inflation. Individuals earning less than $100,000 qualified to take advantage of this exception.

In 1986, the median price for a home was $72,000, much less than the $100,000 investor threshold. Today the median price for homes hovers at about $200,000, but the investors' income threshold is still $100,000. Had the limits for the small investor exception been indexed for inflation, individuals with an income of nearly $185,000 could more readily invest in residential real estate. NAR urges Congress to adjust these thresholds for the passive loss exception and index them for inflation. The return of the small investor will no doubt help shrink the current overabundance in the real estate inventory.

Our written testimony provides additional information on each of these matters. Thanks again for the opportunity to provide these thoughts. I look forward to answering your questions. Thank you.

[The prepared statement of Mr. Helsel may be found in the Appendix on page 54.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Helsel. And our next witness is Dr. Gary V. Engelhardt. Dr. Engelhardt is an associate professor in the economics department of the Maxwell School of Citizenship and Public Affairs at Syracuse University. Dr.

Engelhardt's specialties are in the economics of aging, household savings, employer-provided pensions, Social Security taxation and housing markets.

Welcome.

STATEMENT OF DR. GARY V. ENGELHARDT, PROFESSOR OF ECONOMICS, MAXWELL SCHOOL OF CITIZENSHIP AND PUBLIC AFFAIRS, SYRACUSE UNIVERSITY, SYRACUSE, NEW YORK

Dr. ENGELHARDT. Thank you for inviting me. My views are my own and not those of Syracuse University.

The current housing market challenges have led to call for new Federal legislation to stabilize the housing sector in the short run. The American Housing Rescue and Foreclosure Prevention Act, H.R. 3221, would expand housing tax incentives through a number of elements, the most important of which I view as being the refundable first-time home buyer tax credit, expanded temporary financing for the long-term housing tax credit for developers of affordable rental housing, and provisions for business income averaging through net loss carrybacks.

My written testimony analyzes the desirability of each of these elements in detail, but let me give you my overall assessment, and that is because of the interplay between financial markets and financial market regulatory policy and Federal Reserve policy which result in economic adjustments that occur with greater speed than most tax-based policies, my overall assessment is that new tax incentives for housing are not an attractive solution to problems in the housing sector in the near term.

In particular, tax changes are best designed to promote long-run growth. Effort is probably better spent on considering tax changes that would broaden the tax base, level the playing field, reduce tax rates and reduce complexity, allowing for improved long-run functioning of the economy and future revenue needs. To the extent that a definite need for additional preferences for housing is identified, new tax incentives should be specifically targeted to those that generate new investment and personal saving.

Now, for the remainder of my time, I want to focus my comments on the first-time home buyer credit, which everyone seems to be very interested in. And this credit, which would be available to first-time home buyers with adjusted gross income of $70,000 or less if single, or $140,000 or less if married, is an important employment of this package. We know relatively little about the potential impact of these credits, so what I have done is I have analyzed a similar policy, which is the Federal tax credit for first-time home buyers in the District of Columbia that was first enacted in 1997.

The D.C. Credit has had an important impact on the housing market in the District. Estimates suggest that housing capital gains were almost 5 percentage points higher in the District relative to five comparison areas. Those comparison areas are Arlington and Fairfax Counties in Virginia, Prince George's in Montgomery County in Maryland, and Alexandria City. In addition, it has had important effects in the short run, defined as the first 4 years of the program, in the construction sector in the District. In particular, the number of business establishments in the construction sector rose 20 percent. Total employment in the construction sector rose 30 percent. The average annual pay for individuals employed in the construction sector in the District rose 9 percent. And importantly, most of the gains in business establishments were among small businesses. Finally, building permits more than doubled. So it appears that the D.C. Credit was an unqualified success in terms of promoting the housing market and construction sector activity here in D.C.

That said, I think there are reasons to be somewhat less optimistic about the impact of a national credit. In particular, a national credit may be less effective in bringing home buyers into the market for a number of reasons. First, home buying is not a snap decision. It involves a set of long-run trade-offs, some of which are not credit-related, including things like prospects for future income growth and uncertainty about job stability. And secondly, the tax credit is designed to be temporary, and this might actually exacerbate problems in the medium term.

The idea is as follows. First of all, if you give a temporary credit now, you will bring buyers into the market, but who are those buyers? Some of those buyers might have been individuals who were going to buy a couple years down the road. So all you have done is you have shifted the total number of home purchases towards the present so that the current stimulus comes at the cost of future growth.

Finally, and this is very important, is that the Federal credit of $7,500 sounds like a lot of money, but it is actually only one-quarter as generous as the District credit, and it is available to a smaller segment of the market. This substantial reduction in generosity and breadth of the credit will result in far less take-up of the credit on a national basis and hence far less housing sector stimulus.

Thank you.

[The prepared statement of Dr. Engelhardt may be found in the Appendix on page 69.]

Chairwoman VELÁZQUEZ. Thank you. I would like to address my first question to Mr. Robson. In your testimony you mention the importance of a first-time buyer's credit. And out of all the problems facing your industry, from excess inventory to declining home values, to increased foreclosures, what specifically about the first-time home buyers credit will motivate people to buy a home and boost consumer spending?

Mr. ROBSON. I think there are a couple of reasons. One, sitting in a sales office in Tulsa, Oklahoma, we see people coming in all the time that are just waiting. They are ready to buy a house. They just need that extra push to get them to do it. Part of it, frankly, is they read every day in the paper that maybe Congress is doing something, that maybe there will be a credit out there, there may be a special program. And I think there are people that are sitting on the sidelines, frankly, that are doing that.

Secondly, even discounting that part of it, in a lot of markets there is simply no bottom to the market because of foreclosures, because of the overhang in inventory, and there needs to be a solidifying of the bottom of the market, otherwise there just continues to be—I think the tax credit, frankly, will go a long way to doing that, and it happened in the mid-1970s very successfully.

Chairwoman VELÁZQUEZ. We have two different versions; the one in the Senate, the one in the House of Representatives. Is there a magic number that you think will really motivate more buyers?

Mr. ROBSON. I am not sure I have a magic number. I think there are three main principles for it to work: One, having as large a tax credit as possible, as far as a dollar amount; having the broadest pool of homes that would qualify; and thirdly, it needs to be temporary so that there is some sort of incentive to get people back into the market. I think with those three it would be successful.

Chairwoman VELÁZQUEZ. Mr. Helsel, we know that the membership in the real estate realtors have increased by almost 500,000 from the year 2002 to 2006, and we know that many real estate companies and agents are small businesses. How has the housing crisis affected entrepreneurial opportunities for those in your industry? And is it fair to say that many real estate agents have either lost their job or taken a second job to make ends meet?

Mr. HELSEL. It is actually very fair to say that, Madam Chairwoman. And I can tell you in my own company, and we are roughly a 60-agent company, we have lost about 15 or 17 people who have either literally gone out of business or who have taken a second job to supplement their income, because the housing market has slowed down to the point where they just can't support themselves the way they thought they could before. So that is very true.

Chairwoman VELÁZQUEZ. Mr. Leppo, could you tell me the effect that is felt by communities and other small companies if businesses like the one that you represent experience a slowdown? Can you talk about the domino effect of other businesses that rely on the housing industry?

Mr. LEPPO. I can think of two right off the top of my head. One is—and I will just use our company as an example—we have significantly reduced our advertising spending this year. That is money that comes out of something you really wouldn't think is associated to housing, but it reduces the income of a lot of those advertising companies in our area. And another kind of ancillary effect is we normally buy between two and six pick-up trucks a year for our own transportation needs, and so far in 2008 we have bought zero and plan to buy zero. So then that ripples through both the local truck dealer, but also through the manufacturers and the people who provide product support for those vehicles.

Chairwoman VELÁZQUEZ. Mr. Puffer, along with the housing boom, there was also a tremendous growth in home equity lines, and homeowners took out loans for everything from home improvements to paying bills. Can you talk about the trends that the lending industry has seen in the demand for these loans, and how have declining home prices affected the ability of homeowners to secure home equity lines of credit?

Mr. PUFFER. I will be happy to, Chairwoman Velázquez.

With respect to what has occurred in the ability to provide home equity lines of credit, the decline in house prices has had a tremendous negative effect, because it has in many case eliminated equity, particularly for homeowners who purchased in recent years. And the regulatory structure is such that it is not possible for banks to loan money without equity.

The second factor is that there have been two approaches to home equity lines of credit, and I am proud to say that community banks have always used good underwriting standards and not encouraged homeowners to borrow more than is appropriate. You don't see community banks lending 125 percent of the value of the homes and increasing the economic turmoil.

Chairwoman VELÁZQUEZ. Thank you.

Dr. Engelhardt, you noted that home buyers will simply not be enticed to purchase a home because of the first-time buyer credit. However, when this country was faced with excess housing inventory during the mid-1970s, a $2,000 credit was passed, and nearly 500,000 people used the tax credit. Doesn't this provide evidence that such a tax credit could incentivize certain individuals?

Dr. ENGELHARDT. 1975 was a long time ago.

Chairwoman VELÁZQUEZ. 1970.

Dr. ENGELHARDT. 1970. Even longer. So first of all, I think that evidence is probably a little bit dated. The housing market was quite different. The financial markets were extremely different in terms of the ability to get mortgage credit. So I am not sure that that experience translates to what we would see today.

Chairwoman VELÁZQUEZ. I am sorry, you said that the economic environment was different?

Dr. ENGELHARDT. Absolutely.

Chairwoman VELÁZQUEZ. But if I recall, or based on what I have read about the 1970s, we faced high inflation, didn't we, gas prices, and we had an excess housing inventory? So is there some similarities?

Dr. ENGELHARDT. Yes, there are some similarities, but there are a lot of differences on the financial side. And a lot of the current problems are propagated by problems in the financial sector, so there are some important differences.

I think one of the key differences is you have to ask yourself do we really think that there is a large pool of potential first-time home buyers out there who already haven't bought homes in the last decade through all the other initiatives that have gone on, Federal initiatives especially? Is there a large army out there of potential buyers? It is not clear to me that there are.

I think the long-run demographics are quite favorable actually for the housing and construction sector, because you have got the baby boomers aging into older housing needs that will need to be addressed, and then you have got their children who are currently in college that will be aging into the first-time buyer market in the next decade. I think those demographics are very favorable.

But right now it seems to me that it is unlikely that there is a large army out there of potential individuals that would come in that are in addition to those who would otherwise come in in a couple of years, so that, again, short-run stimulus might come at the cost of medium-run or long-run growth in the first-time home buyer market.

Chairwoman VELÁZQUEZ. Mr. Robson, I would like to hear your comments on this matter.

Mr. ROBSON. Well, actually about 40 percent, or at least our analysis show about 40 percent of all new homeowners every year are first-time home buyers. So I think that kind of flies in the face of Dr. Engelhardt's comments. I am not sure whether the realtors have that data, but they are simply not in the market right now. As someone that goes to a sales office every day, and we do sell to some first-time home buyers, they are waiting, they are waiting on the sidelines.

Chairwoman VELÁZQUEZ. Dr. Engelhardt, do you think that or would you agree that there will be some buyers on the margins who will purchase a home because of the credit?

Dr. ENGELHARDT. Yes, there will be some. The question is whether there will be enough. The key is what fraction of the total number of homeowners are first-time buyers. It is true that of the fraction of buyers, first-time buyers are a large fraction. But of all homeowners, first-time buyers are a very small fraction. And if these housing market problems are widespread, there are marketwide problems that are affecting all homeowners, or at least all homeowners with mortgages. That is a much, much larger group than just the narrow slice of first-time buyers. And the question is can the activity of just the first-time buyers, that narrow slice, be enough to support or prop up what seems to be a very strong marketwide phenomenon?

You are talking about a situation, and you have to ask yourself, in places like—nationally prices have declined 14 percent in the last year, and in hard-hit areas like California and Florida, do we really believe that a small slice of the market coming in, like first-time buyers, will really prop up price declines at 14 percent or more? I just don't think that that is a realistic scenario. It is going to help, but will it help enough? And what are the trade-offs, what are the other things that can be done? And those are the key questions.

Chairwoman VELÁZQUEZ. Mr. Davis.

Mr. DAVIS. Thank you, Madam Chairwoman.

Mr. Robson, I would like to start with you. NAA economist David Sodders has said that the biggest economic boost for the buck would be to provide a temporary home buyer tax credit. Would you elaborate on why you think this credit provides the most positive effect?

Mr. ROBSON. I think it kind of relates to my earlier answer. When you look at the markets, because of foreclosures, and every time a foreclosure happens, there is about a 30 percent discount that happens because of the whole process. So you have got just this multilayer of foreclosure and overhanging inventory, and simply nobody knows when to get in. They don't want to buy a house today if they can buy it cheaper a month from now or 2 months from now, and that is the psychology that is going into the market right now.

There are a lot of people that can qualify for homes and are looking. Actually, people coming through sales offices are up in a lot of markets, but their sales are down. So people are looking. It is simply a matter—and that is what the tax credit would do. If it is a limited time, it gets people off the dime and gets them possibly to buy a home.

Mr. DAVIS. So you think a limited tax credit so people know you have got to do it between now and now so you get into the market, you make the decision and sign your name?

Mr. ROBSON. Right. Yes, sir. And frankly, it ought to be long enough to go into kind of next year's prime selling season in the spring.

Mr. DAVIS. Okay. How would the opportunity to carry back net operating losses to years as soon as taxes were paid help the homebuilders?

Mr. ROBSON. Well, it would help everybody. I think there is a lot of misconception about that, that this is just something for the big guys or big business or small business. But the fact is if you look at IRS analysis, most losses that are filed are on individual returns from pass-throughs through small business, sole proprietorships, partnerships and that sort of thing. And what we are really doing is—I mean, there is ways of kind of stretching those out for a long period of time as far as losses going forward.

This simply goes back in the years when they were paying taxes. It actually lets them recapture some of those, because frankly, especially on builders and that sort of thing, they have been having capital calls. I mean, there is a huge need for capital, and this is a source that they would be able to use to survive until they can start making profits again.

Mr. DAVIS. If the Federal Government holds onto that money that you paid in in the good years, then in effect you would have to go back over to Mr. Puffer and borrow that money to continue to stay in business or go out of business; is that what I hear you saying?

Mr. ROBSON. That's correct, sir.

Mr. DAVIS. There is some talk in Washington about increasing the budget and suspending here in Washington. If that takes place, there is the potential that the 2001, 2003 tax cuts would be eliminated, and that would put an extra burden of $2,000 per family in new taxes. What effect would that have on housing, in your opinion?

Mr. ROBSON. Well, I think any new taxes in a down economy would probably not be very good. I haven't heard that particular proposal, and I am not an economist and a tax advisor, but as a businessman I don't think I would like it much right now. Of course, if you are not making any money, it doesn't matter, so—

Mr. DAVIS. You don't pay taxes if you are not making it.

Mr. ROBSON. That's right.

Mr. DAVIS. Thank you.

Mr. Puffer, I have been a small-business owner myself, and I have actually put my home up to start a small business. Can you tell me the effect that lowering equity in a home will have on small-business owners to go out there and take a risk and start new businesses to create the jobs that keep the American economy going?

Mr. PUFFER. Congressman Davis, it creates a real challenge for small-business owners. The focus of community banks is on lending to small businesses, and we often have the opportunity to make loans to relatively new businesses and certainly even start-up businesses, and good credit techniques require that lenders have collateral. And often equity in a home is the only collateral that someone has that is starting a business. So it is absolutely essential for the overall welfare of the economy to do something that stimulates the purchases of homes and turns around the decline in the housing industry.

Mr. DAVIS. That independent Community Bankers Association has strongly supported a temporary, targeted first-time home buyer tax credit to jumpstart the home sales and stimulate our overall economy. As you noted in your testimony, there is a difference in the House version and in the Senate version. Can you tell me which would be best?

Mr. PUFFER. I am not sure that it is one or the other. A witness stated that there is magic to the number. I think the number has to be significant enough to be meaningful to encourage folks to buy. I am not an economist, but my observation is that so much of economics is psychological, and people need to have a reason in a down economy to consider to think that the opportunity is right, and one of the ways to do that is to have a targeted tax incentive. I also, and the ICBA agrees, that it should be of limited duration, long enough so that people can make buying decisions, but not so long that people will think that it is always available to them.

Mr. DAVIS. Thank you.

Mr. Helsel, I want to let you follow up on that, if you would. You say in your testimony that you think it should be temporary. Could you tell me why you think it needs to be temporary and how long temporary means to you?

Mr. HELSEL. First I would say, Congressman, that temporary to me would be probably not less than a year and probably not more than 18 months. For some of the similar reasons that have already been mentioned, we want it to stimulate the market; we don't want this to be an ongoing tax incentive. I don't think that solves the problem. The intent is to stimulate home buying. It is not to do anything more than that from a practical standpoint. If you leave it going forever, it doesn't stimulate people that get into the marketplace now, which is really what we want them to do.

It is an interesting problem that we all have right now. If you really back up into things, it is a whole economic stabilization of the country. The housing market has led the economy for the past 7 or 8 years. And now we are at the lower end of that, and my own members are at the lower end of that, and we need to do something to restimulate not just the housing market, but the economy as well, and this does all of that.

So the tax incentive is what I think everyone here at the table seeks. We may not all agree on how, Dr. Engelhardt has a different view, but I don't think anybody will disagree that the tax incentive is the right way to go. Short term is better than long term; 12, 15, 18 months. We want people to see it, know they have a short time to get in, begin the process and move forward from there.

Mr. DAVIS. Thank you.

Mr. Leppo, I am going to have you follow up on that. You said in your written testimony that the window of opportunity is narrow for enacting the first-time home buyer credit. Why do you believe it is essential to act now?

Mr. LEPPO. Well, this is an anecdotal piece of evidence, but last night I met a couple for the first time. The question was, why are you in town? I told them why I was in town; to promote this tax credit for home buying. And they said, we are poster children for what you are talking about. We want to buy a house, we are sitting on the sidelines, we are waiting to see a bottom, we are waiting to have a reason to buy a house.

And to the message that several of other people have put out here, the market just continues to spiral in the wrong direction, and we need to create a bottom. And by bringing some of those people who are sitting on the sidelines in, I think we can create that bottom and then build up from that point.

Mr. DAVIS. I think indeed it is important as a first-time home buyer credit that it is available to all regardless of income and applicable status of the home, new, existing, foreclosure, in order to maximize the credit's effectiveness. Please amplify on the need to have this credit applied broadly.

Mr. LEPPO. I will use another example of another tax incentive that has had a significant positive effect on our business, and that is the depreciation bonus. The depreciation bonus, when that was in effect earlier in this decade and now has been reinstituted in 2008, we have seen purchasing decisions by our customers driven by that tax incentive. And in the first pass of the depreciation bonus, we were concerned that when it was over, that buyers would be gone and there wouldn't be any buyers left. That is not what happened. It actually accomplished what both the Congress and we had hoped it would, which was to bring buyers into the marketplace, have them buy more equipment, increase the efficiencies of their companies, make them more productive. And so we think that it is a good way to create a stimulus for the entire economy.

Mr. DAVIS. I asked a question earlier to one of the other witnesses about the potential for the 2001, 2003 tax cuts to go away and the potential for each family to have a burden of an extra $2,000. What effect do you think that would have on your business in particular and on the economy as a whole?

Mr. LEPPO. One of my concerns is that our costs of running our business are going up fairly significantly, and our revenues and ability to generate margin aren't. And that means that that is putting pressure on some of our coworkers from our ability to look at wage increases. My coworkers are seeing increased cost of fuel, increased cost of food, increased costs on them. One of the effects I see is that if we continue with the current economic slowdown for an extended period, they are buying—their discretionary income is going to significantly decrease, and that will just make the spiral continue because we can't raise their wages right now.

Mr. DAVIS. Thank you.

And, Dr. Engelhardt, in your written testimony you mention several guiding principles for any discussion of tax reform, including reducing complexity and generating stability. In your view, why are these principles so important?

Dr. ENGELHARDT. Well, because Tax Code complexity imposes very substantial costs in terms of compliance and in terms of just understanding the Tax Code.

Secondly, stability is very important. There has just been a tremendous increase in the reliance on sunsetting, and I think a lot of that has been driven by revenue concerns, and many of the provisions in H.R. 3221 would be sunset as well. And what sunsetting does is it creates uncertainty about where the Tax Code is going, and that uncertainty has some costs. Because a certain Tax Code that is stable provides a good environment for individuals and businesses to make wise decisions. And just even the questions you were asking about the previous tax cuts, that just creates a lot of uncertainty. So I would—you know, I would advocate for a decreased reliance on sunsetting and thinking more about permanent tax changes that make sense.

Mr. DAVIS. Okay. One last question. Generally, what are the best short- and long-term solutions to help small businesses affected by the housing slowdown, in your opinion?

Dr. ENGELHARDT. Well, I think the key is there are a number of things that the government can do. I am not saying the government should do nothing, but the question is whether tax policy is the right response. If a lot of the problems are caused because of problems in the financial markets, okay, why do we have—then maybe this should be addressed through financial market policies.

For example, if we have a large inventory of homes that have been foreclosed upon, there are a couple ways to get rid of it. One is to have a home buyer tax credit or get more buyers in the market. The other is to just to try to prevent foreclosures, and there are a whole set of options on the financial side that could address that. And that would be probably much more widespread than targeting the thin part of the first-time home buyer market.

Chairwoman VELÁZQUEZ. Would the gentleman yield?

Mr. DAVIS. I yield back.

Chairwoman VELÁZQUEZ. Would you support a regulation as a way to prevent foreclosure?

Dr. ENGELHARDT. Changes on the financial side—

Chairwoman VELÁZQUEZ. Other side, let's put it that way.

Dr. ENGELHARDT. Right.

Chairwoman VELÁZQUEZ. Better oversight.

Dr. ENGELHARDT. Better oversight and changes on the regulatory side that would allow individuals to stay in their homes longer would I think provide a more effective bottom to the market in places that have been really hard hit and probably should have been done earlier in retrospect than it is now. But to prevent further damage I think that is potentially a better way in the short run to address the problem than through tax-based policies.

Like I said in my testimony, tax-based policies are great, but they are kind of like the tortoise. They win in the long run. They are just not very good for managing short-run economic fluctuations.

And I might add I am somewhat perplexed about the support for just a temporary home buyer tax credit. If a temporary home buyer tax credit is going to be so stimulative to bring home buyers in the market, why isn't there support for a permanent home buyer tax credit and just bring even more people in the market in the long run?

So I think it is better if you use other policy tools to address these problems. These problems are real. I am not saying that they are not. But I think there are other tools available, and I think that tax policy is not the best tool.

Chairwoman VELÁZQUEZ. Thank you for yielding.

Mr. DAVIS. I yield back.

Chairwoman VELÁZQUEZ. Mr. Gonzalez.

Mr. GONZALEZ. Thank you very much.

I apologize for getting here so late, and I apologize to the witnesses. But thanks to the Chair for having this hearing.

Our concern is always going to be the impact on small businesses. Dr. Engelhardt, I think you pointed out why are we doing this short-term if it is good? Why shouldn't we do it long-term? You are making way too much sense for Washington. There is a lot of truth to what you are saying.

I guess my concern has always been that when it comes to vulnerability and such in economic downturns, it is all going to be small businesses that generally will not have the resources to last longer than, let's say, some of the bigger operations. It is just the way it is. And then you are caught in the middle of what has been basically the meltdown of our credit markets. When that happens, it is just not Bear Stearns, it is just not Citigroup, we are really talking about everyone that wants to go out there and borrow money and loans. So it is small businesses that have always had a hard time when it comes to access to capital that is really aggravated. And now it is crunch time, they probably need an infusion of resources, money and such to get over the hump with reduced sales, reduced products and services.

Because the housing market is not what it used to be. We don't have the construction and all of that that it encompasses in the way of small businesses being very active, and what really propped up our economy for so long is no longer there.

I will say this about the independent bankers: if our commercial and investment bankers had followed the good philosophies of our community and independent bankers, we wouldn't be in the situation that we are in.

I am going to lead up to something, but we are trying to come up with something here, looking at the big picture. And hopefully it will pay dividends to the small businessman and woman in freeing up monies so that there are monies to be borrowed and loaned and such so they can survive the downturn.

So some of this is somewhat temporary. And I guess what I wanted to—this is the way Representative Frank has characterized it, and I love the way he said it and I hope this does not offend anybody—the economy has been taken hostage by people that made some very bad decisions. The answer is to pay as little ransom as possible to the least ill-deserving people we can find. But that is the reality, I mean, and it is a sad state of affairs. But I think Chairman Frank and I think his piece of legislation is the best.

I don't know eventually what we will end up with, but what we are trying to do is restore some value to people holding a bunch of paper out there. The administration believes it be can be done voluntarily. I don't think that is going to happen. Dr. Engelhardt, and I believe, is it Mr. Puffer, is that correct?

Mr. PUFFER. Correct.

Mr. GONZALEZ. The bankers, not that the others wouldn't know the situation, but you are probably not just looking at reduction of interest, you are looking at reduction of principal. And are we going to have people willing to do that? And the legislation we are proposing is totally different from some voluntary plan that the President has attempted to do. So you are going to see a legislative fix.

But the whole question to all of you is how do you see the credit markets and what we refer to as the meltdown impacting small businesses? Is it, first of all, the availability of this thing about access to capital? I mean, we always think in terms of start-ups. Well, it does impact start-ups, but ongoing small businesses, when there is a downturn, how do you see this impacting their ability to withstand and get over this hump when the credit markets are in the state that they are? And I know we are talking about tax incentives and such, but I like to think that we really need to be doing something on the availability of capital.

And so I will just go down the line of the witnesses and what is your opinion as far as the impact?

Mr. LEPPO. The biggest impact we see, Congressman, is on our essentially first-time buyer for a piece of construction equipment, the guy who wants to get in business, the landscaper, the concrete contractor who wants to get started, he is struggling to get approved to buy equipment. That means you don't get the ball rolling on the new business starting and all the good that comes from that. That is where we see the biggest impact is on the new entry start-up businesses. The credit companies have tightened their requirements on people borrowing who are relatively new in business.

Mr. GONZALEZ. Thank you.

Mr. Puffer.

Mr. PUFFER. Quite frankly, Congressman Gonzalez, one of the concerns that bankers have is that there will be regulatory overreaction to the crisis. For example, there is a strong focus now on evaluating the worth of the collateral that banks currently hold, and that has required examiner pressure comes even when loans are performing. And if that is taken to its extreme, the result will be to discourage community banks from lending because of the regulatory constraint just based on artificial concern about appraised values and that would have a significant impact on lending.

In the current environment, the community banks are the ones that are available and willing to provide capital to the small businesses in their communities; and we hope that the regulatory environment will be such that that ability is not reduced.

Mr. GONZALEZ. Yes, sir. And I do want to tell you that we are sensitive to who created the situation and the practices that we have to address without going in and having the collateral damage to the innocent bystanders.

Mr. Robson.

Mr. ROBSON. Well, I think you really hit it on the head. We are in falling collateral valuations. And I am speaking primarily from the Home Builders Association, but even in some of those markets there are viable projects because of some of the guidelines, new guidelines that the bank regulators have come out with. They aren't lending. So, you know, part of the problem is how do you get out of a business situation if you can't borrow the money even on a good project that cash flows, even with some history, where, you know, bankers are pulling in even commitments halfway through a project?

It is a very tough situation. And, you know, that is why we have got to have some sort of stabilization of the actual values of homes and land and the collateral that the banks are taking so that we can start moving forward again. Because until that happens, we are not going to get there.

Mr. GONZALEZ. Mr. Helsel.

Mr. HELSEL. Thank you, Congressman.

I hate to be fourth in this line because I don't want to repeat the same thing that the fellows to my right said, so I will say it a little bit differently but kind of the same thing.

The real estate industry touches so many other industries across the country. It touches almost every type of small business that there is. So every small business that is being hurt right now affects the real estate industry and affects the National Association of Realtors' members and affects each of us on a daily basis. We see things like Mr. Robson said, where commitments are pulled when a project is somewhere in the middle. I mean, it is very difficult to work in an industry when you are not sure whether the people you are working with, who have to be able to borrow money, can't borrow money. Because it ends up affecting my own members and my own association.

But the credit crunch has trickled down to us from so many places ahead of us that I am not sure where I would say it hasn't affected our industry or any of the other industries, because the credit crunch has touched so many different people.

The lending requirements and the regulatory processes that are being used now make it difficult for anyone to borrow money when credit scores have to be higher even at the individual purchase level. Credit score ratings have to be so much higher now, it goes down to the individual purchaser of a home, the people who build the homes, the people who sell the equipment to build the homes, all of the things that go along with it. It just goes on and on and on.

Mr. GONZALEZ. Dr. Engelhardt.

Dr. ENGELHARDT. Yeah, these credit effects are real. And I guess what I would say again, it is about trade-offs, if you are thinking about tax policy, to get back to Mr. Leppo's comments.

One alternative to things like net loss carry-backs, which are not a targeted form of tax incentive for new investment, would be something like expensing, the temporary—basically, temporary expensing. Expensing is quite effective in generating new capital purchases and investment and would help individuals along the lines that Mr. Leppo said but is targeted towards new investment and does not change tax liability paid in the past. It affects cash flow, which is going to be, of course, the primary source of financing when there is a credit crunch for these small businesses, but it does it in a way that promotes new capital purchases. And I think that is probably a better way to go.

Mr. GONZALEZ. Well, thank you all very much.

Again, I apologize for my tardiness; and I yield back, Madam Chair. Thank you.

Chairwoman VELÁZQUEZ. Ms. Fallin.

Ms. FALLIN. Thank you, Madam Chair. I appreciate recognition here today and say welcome to all of you. Sorry I didn't get to hear some of your testimony, but I have your testimony in writing here.

I want to welcome my Oklahoman here, Mr. Robson, who has joined us here today, and appreciate all you do for the National Home Builders Association.

I had a question for you, Joe. You talked in your testimony about collateral damage and some of the trickle-down effects of some of the policy that we are looking at here in Washington, D.C.; and you talked about the issue of allowing home prices and the home market to self-correct versus taking action here in Congress. Could you explain what you mean by the collateral damage and some of the trickle-down effect that self-correction in the market could have upon the housing market?

Mr. ROBSON. I guess, if nothing is done, you know, what is my vision? It is not very good. Congressman Fallin, you were in the Oklahoma in the '80s; and that was the oil bust days. And when you look around the country, it is really kind of the rest of the country upside down, as we were in the '80s. We didn't have congressional help; and we had values that fell 40, 50, 60 percent. You know, it wiped out people's savings. And it wasn't people that were involved, it was people that were innocent bystanders that lost everything. And they just went to work every day. They were small businesses. They were people that worked with their hands. They lost everything because of a spiraling devaluation of real estate values and general business conditions.

You know, and, fortunately, we were a pretty small geographic group at the time. But it is on a much larger scale today. I mean, this is really national in scope. And even where Oklahoma is okay today, we are starting to see value declines just because of perception. We are at 2.9 percent unemployment, and we are starting to see value declines. And so it is a consumer confidence aspect. I mean, people look and read the paper every day, and unless we do something and kind of set the bottom of it, it is going to continue to spiral down.

Ms. FALLIN. So do you see this time period being even worse than the 1980s, when we had the oil crunch and—

Mr. ROBSON. I see it as that. If you look at our numbers, this is the largest downturn since the Great Depression as far as housing starts are concerned.

Ms. FALLIN. Okay. Let me ask you one other question. You talked about the excess inventory problem and how it could be compounded if you didn't have the—if you had the inability to carry back net operating losses. Would you talk just a few more minutes about that, how that affects investment and—

Mr. ROBSON. Well, I think it is simply a lifeline. It is a lifeline to small businesses. You know, is it going to stimulate the economy? It will keep people in businesses maybe long enough for the economy to turn around. I mean, that really is what it is. Because they don't have anywhere else to go. And all of us answered the credit crisis question, you know, if you are not making much money, if there are capital calls with the new criteria that community banks are looking at borrowing money or lending money, there is nowhere else to go. And so, you know, being able to go back and tap taxes you paid a couple of years ago could give you the lifeline to stay in business to keep people employed, to pay down creditors, and keep you alive until the market turns.

Ms. FALLIN. All right. Thank you so much.

Let me ask Dr. Engelhardt one question, if I can. In your testimony, your conclusion, you stated that new tax incentives should be targeted towards promoting new investment and personal savings. Can you elaborate on that? And what would you recommend?

Dr. ENGELHARDT. Well, in general, you want a tax system that has a broad base, low tax rates, and is not terribly complex. We really have none of that currently. But that is a slightly different topic.

I would say if you are going to have preferential tax treatment—by the way, the housing sector has the most preferential tax treatment of any sector in the economy. The biggest tax expenditure in the Federal budget is for the housing sector. So it is not as if it is like the forgotten stepchild here of the tax system.

The question is, do we need additional incentives on top of that? And my view, and I think this is the consensus view of economists, is new incentives should be targeted just to activities that substantially and demonstrably increase new business capital formation and saving and because those are the engines of long-run growth in the economy.

Ms. FALLIN. Okay. Thank you, Madam Chairman. I think my time has ran out. Thank you.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Helsel, you mentioned how increasing the threshold for the passive loss exception will shrink the overabundance of real estate inventory. This will be targeted to investors, some of whom have been blamed for the current crisis. Can you talk about how this provision balances the interests of small investors, while not artificially increasing real estate values?

Mr. HELSEL. Congresswoman, a couple thoughts on that, I guess.

First, I would want to make sure that the regulatory process and that the funding processes, the financing processes were held at a level that made sure that the people that came in under the passive loss rules did so—were true small investors. Because if we go to larger groups, it compounds the problem and doesn't fix it.

And if you read my testimony the whole way through, my written testimony, you will see that I speak specifically of the small private individual investors, not the large investment groups that I think to some degree didn't do us any good with the way things were done. If the passive loss rules are applied and if the dollars are indexed to inflation both in terms of the dollar amount of the person's income as well as the dollar amount of the property being involved in the process, it will stimulate people who can't right now get into it because of the difference in their income levels.

Chairwoman VELÁZQUEZ. Okay. Thank you.

Dr. Engelhardt, the Low Income Housing Tax Credit has been praised as an efficient means of raising capital for affordable housing. However, in your testimony, you note that it could be better targeted if it were limited to poor neighborhoods. How would this type of change be structured?

Dr. ENGELHARDT. Right. So the evidence is that the Low Income Housing Tax Credit basically substitutes for residential investment that otherwise would have been done in higher-income neighborhoods but does provide substantial stimulus to construction in lower-income neighborhoods that otherwise wouldn't have been done.

It could be targeted that way quite easily. There are already provisions in the law that give basically different generosity levels, depending upon whether it is a higher-income or a lower-income neighborhood. Those could be expanded, strengthened. There are a number of ways to do it. It is very doable.

Chairwoman VELÁZQUEZ. Okay. Any other member wishes to ask any other questions? Mr. Gonzalez?

Well, again, I want to thank all of you; and, hopefully, we could get the House and Senate to come together and reach a compromise. I know that is the right thing to do.

I want to take this opportunity once again to thank all the witnesses for being here.

I ask unanimous consent that Members will have 5 days to submit a statement and supportive materials for the record. Without objection, so ordered.

This hearing is now adjourned.

[Whereupon, at 11:24 a.m., the Committee was adjourned.]

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

STEVE CHABOT, OHIO
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0515

STATEMENT
Of the Honorable Nydia M. Velazquez, Chairwoman
United States House of Representatives, Committee on Small Business
Full Committee Hearing: "*The Housing Crisis—Identifying Tax Incentives to Stimulate the Economy.*"
June 5, 2008

Today, our nation is faced with serious threats to its economic stability. In recent months we have witnessed skyrocketing gas prices, rising food costs, and a weakened U.S. dollar. These and other factors have combined to put a strain on Americans' ability to make ends meet in an uncertain economic environment.

One area of our economy enduring particularly harsh challenges is the housing sector. Housing starts are down more than 60% since 2005. There has been a sharp decline in buyers, and there is now an 11 month supply of newly constructed homes on the market—almost double the normal amount.

As a result, following more 13 years of increases, home values are declining. In the last quarter, prices fell by an annual rate of nearly 7 percent. And, with the subprime crisis persisting, there is little hope of a quick turnaround. All of these factors have lead to record foreclosures and could cost some 3 million American families their homes.

The situation poses a grave threat to the nation's housing sector—a vital part of our economy. Some estimate that it comprises as much as 10% of the U.S. Gross Domestic Product. As a result, it is not hard to see the drag it can put on our nation's overall growth. Just yesterday, Fed Chairman Bernake stated that "until the housing market—and, particularly housing prices—show signs of [stabilizing], growth risks will remain to the downside."

As the housing industry is dominated by small firms, this committee has a particular interest in these issues. Homebuilding, realty, lending and other related businesses are all proven job creators. However, with the drop in sales and little construction, many small employers have been forced to reduce staff or go out of business altogether. In fact, since February of 2006, the home building sector has lost almost 500,000 jobs.

One of the best avenues to boost this sector is through targeted tax relief. Tax incentives for affected industries could provide immediate benefits to millions of small businesses. This hearing will give the Committee the opportunity to evaluate some of these tax measures and how they can best assist the struggling housing sector.

As this is a multifaceted problem and it is critical to look at all angles in identifying solutions. For the current crisis, there need to be an examination of how policies will affect the consumers, lenders and the homebuilding industry.

Today, the committee will look specifically at a number of tax reforms included in legislation passed by the House and the Senate. These include the first-time homebuyer's tax credit, increasing the low-income housing tax credit, and extending the years companies can carry-back losses.

Each of the proposals tackles the problems in a different way.
We will consider how—and if—these policies can lead to a more robust housing market, while avoiding the pitfalls that created the problem in the first place.

This approach can play a significant role in halting job losses and creating high paying jobs. In the end, it could not only help small businesses and homeowners, but the economy as a whole.

U.S. House of Representatives
SMALL BUSINESS COMMITTEE
Representative Steve Chabot, Republican Leader

Thursday, June 5, 2008

Opening Statement of Ranking Member Steve Chabot

The Housing Crisis: Identifying Tax Incentives to Stimulate the Economy

Madam Chairwoman, thank you for holding this hearing on how tax incentives for the housing sector benefit small firms. I would also like to thank our panel of witnesses for being with us today.

According to the Department of Commerce, sales of existing single family homes fell 20% in the first four months of the year compared to a year ago. Monthly sales volume is down almost 17% from a year ago in my hometown of Cincinnati, and down 22% in the state of Ohio. While the Department of Commerce reported that the gross domestic product grew more in the first quarter than originally estimated, the housing sector continues to struggle. And economists have predicted that the housing slowdown may continue into next year.

Falling home prices can be detrimental to nearly every sector of the economy. Individuals who, in a stronger economy, would be purchasing a new home, or improving an existing one, are putting off those purchases. The housing sector's weakness affects not only home builders, realtors, mortgage brokers and others directly involved in home sales, but also the related firms that provide landscaping services, furniture and appliances, and home improvement stores, many of which are small firms.

Today, the Committee turns its attention to tax incentives that benefit small firms in the housing sector. Our panel of witnesses will help us to determine which options would best assist small companies in recovering from the downturn.

Again, I thank the Chairwoman for holding this hearing.

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Statement of Rep. Jason Altmire
Committee on Small Business Hearing
"The Housing Crisis – Identifying Tax Incentives
to Stimulate the Economy"
June 5, 2008

Thank you, Chairwoman Velazquez, for holding today's hearing to discuss tax incentives to stimulate the economy and bring relief to those impacted by the current housing crisis. The stability of our country's economy is facing a serious threat due to a weakened U.S. dollar, rising food and gas costs and the subprime housing crisis. Research has shown that the housing sector comprises as much as 10 percent of our Gross Domestic Product which leads many to believe that our economy will not show signs of growth unless the housing market begins to rebound.

The housing industry is comprised mainly of small firms, including homebuilding, realty and lending, which in the past have been effective job creators. However, many small employers have been forced to cut back on staff or close their business because of the drop off in sales and few opportunities for construction. Since February of 2006, the homebuilding sector alone has lost nearly 500,000 jobs.

Today we will discuss one avenue to boost the housing sector – targeted tax relief. Tax incentives have proven in the past to bring immediate relief to millions of small businesses. The House and Senate have already passed legislation that include tax reforms such as the first-time homebuyer's tax credit and an increase in the low-income housing tax credit. I look forward to the testimony today's panel will provide and I hope we can use their insight as we begin conference on these critically important housing bills.

Chairwoman Velazquez, thank you again for holding this important hearing today. I yield back the balance of my time.

# # #

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THE HOME PURCHASE TAX CREDIT: A PRESCIPTION FOR ECONOMIC RECOVERY

TESTIMONY OF DALE LEPPO
CHAIRMAN, LEPPO RENTS-BOBCAT OF AKRON
ON BEHALF OF THE ASSOCIATED EQUIPMENT DISTRIBUTORS
BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS

JUNE 5, 2008

Good morning Chairwoman Velazquez, Ranking Member Chabot, and other distinguished members of the House Small Business Committee.

My name is Dale Leppo and it is my pleasure to come before you today both in my capacity as a small business owner and as a spokesman for my industry. I am the chairman of Leppo Rents-Bobcat of Akron, a family-owned company that sells, rents, and services Bobcat, Gradall, and JLG construction products from six locations throughout northern Ohio. I am also the 2008 chairman of the Associated Equipment Distributors' (AED) Government Affairs Committee and served as the national chairman of AED in 2006. For those of you not familiar with it, AED is the national trade association the represents authorized, independent distributors of construction, mining, forestry, and agricultural equipment. AED has more than 1,000 members and approximately 48 percent of our distributor members report annual revenues of $10 million or less.

Executive Summary:

- **Economic data released last week suggests that the residential real estate crisis is getting worse.**
- **The downturn in the residential real estate market is hurting consumer confidence, worker mobility, and small construction industry companies.**
- **Both the House and Senate have passed home purchase tax credit legislation. However, given new evidence of the scale of the residential real estate crisis, the home purchase tax credit should be dramatically expanded in conference and quickly enacted into law.**
- **To revitalize the real estate market and stimulate demand, AED urges adoption a $7,000 home purchase tax credit for individuals and couples (regardless of income level) who purchase any primary residence (regardless of value, loan status, etc.) by Dec. 31, 2008.**

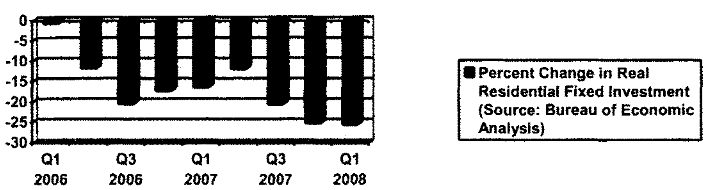
Since mid-January, AED has been urging Congress to enact a home purchase tax credit to stimulate the residential real estate market. Last month the House of Representatives approved a housing stimulus bill that includes a refundable $7,500 tax credit for first-time homebuyers. The tax credit would have to be repaid over 15 years and would be phased-out for individuals and couples earning more than $70,000 and $140,000 respectively. A housing stimulus bill that passed the Senate on April 10 would provide a $7,000 tax credit over two years for buying a home that is in foreclosure.

Testimony of Dale Leppo/Leppo Rents-Bobcat of Akron
On behalf of the Associated Equipment Distributors
Before the U.S. House of Representatives Committee on Small Business
June 5, 2008
Page 2 of 6

We are pleased that the both the House and Senate have passed legislation in this area. We now urge that Congress act quickly to finalize home purchase tax credit legislation and, given signs that the residential real estate crisis is getting worse, we further urge that the tax credit be expanded in conference beyond what has passed the House and Senate to ensure maximum impact and benefit. Specifically, we recommend that Congress adopt a $7,000 home purchase tax credit for individuals and couples (regardless of income level) who purchase a primary residence (regardless of value, loan status, etc.) between June 30 and Dec. 31, 2008.

The Effect of the Housing Market Downturn on the Economy and Consumer Confidence
The downturn in the residential real estate market has had a dramatic impact on the U.S. economy over the last two and half years. The Bureau of Economic Analysis (BEA), which has consistently cited the housing market as a major drag on the economy, reported on May 29 that real residential fixed investment (i.e., home purchasing) decreased 25.5 percent in the first quarter of 2008.[1] BEA data show that real residential fixed investment has fallen in every quarter since the beginning of 2006 and that the decline in the first quarter of this year was the biggest yet. In other words, although we have been weathering this storm for quite some time, the residential real estate market is getting worse, not better.

Home Purchasing 2006-2007



Other data support this assertion. The Office of Federal Housing Enterprise Oversight (OFHEO) reported on May 22 that U.S. home prices fell 3.1 percent over the last year - the largest decline in the past 17 years.[2] The figures were part of OFHEO's seasonally adjusted purchase-only house price index. The index, which is based on data from home sales, was 1.7 percent lower on a seasonally-adjusted basis in the first quarter of this year than in the fourth quarter of 2007. According to OFHEO, the first quarter of 2008 saw the largest quarterly price decline on record. OFHEO also reported that home prices fell in 43 states, with the largest decline - eight percent - in California and Nevada.

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1 "Gross Domestic Product: First Quarter 2008 (Preliminary) – Corporate Profits: First Quarter 2008 (Preliminary)", Bureau of Economic Analysis, May 29, 2008 <http://www.bea.gov/newsreleases/national/gdp/2008/pdf/gdp108p.pdf>.

2 "Decline in House Prices Accelerates in First Quarter", Office of Federal Housing Enterprise Oversight, May 22, 2008 < http://www.ofheo.gov/newsroom.aspx?ID=435&q1=1&q2=None>.

The Conference Board reported on May 27 that the consumer confidence index had fallen to a 16-year low[3] and analysts have cited the housing market (along with higher fuel and food prices) as a primary cause of consumer pessimism.[4] *The Economist* recently suggested another pernicious consequence of the residential real estate crisis that has henceforth received little attention: "A downturn centered on housing ... constrains one of the biggest safety valves in America's economy: people's ability to move." In other words, whereas in past economic downturns, Americans have been able to migrate from depressed areas to parts of the country where the economy is stronger, "This time, that mobility is hampered by people's inability to sell their homes."[5]

The Effect of the Housing Market Downturn on Equipment Industry Small Businesses
In addition to the overall impact on the national economy, the downturn in the housing market is also having a direct impact on construction equipment distributors around the country.

The construction equipment industry is dominated by small- and medium-size family-owned businesses. The home construction process involves such diverse activities as land clearing and grading, road construction and paving, sewer and drinking water line installation, home site excavation, and landscaping. Thus, the housing market is one that impacts equipment distributors in almost every market category. Traditionally, industry analysts have monitored housing starts data as important indicator of the health of the equipment industry.

In an attempt to document the impact of the housing downturn on our members, AED conducted a member survey in late March and early April. An overwhelming 93 percent of the equipment distributors who responded to AED's 2008 Government Affairs Survey said that the housing slump has had an impact on their companies, with close to half (46 percent) saying that it has had a major impact.[6]

That is the national picture from 30,000 feet. Now let me explain more specifically how the downturn has affected us in northern Ohio. The Association of Equipment Manufacturers (AEM) compiles data for retail equipment sales and new units put into rental fleets in every county in the United States. The data are broken up by category of machine. Two of the biggest unit volume categories are skid steer loaders and mini excavators (often lumped together as "compact equipment"). One of the primary applications in which compact equipment is used is residential construction. Compact equipment is a big part of my company's business.

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3 "The Conference Board Consumer Confidence Index Declines", The Conference Board, May 27, 2008 <http://www.conference-board.org/economics/ConsumerConfidence.cfm>.

4 Catherine Clifford, "Consumer Confidence: Worst Since '92 - Conference Board's Measure Falls More Than Expected in May Amid Concerns About a Weak Labor Market and Poor Business Conditions", CNNMoney.com, May 27, 2008 <http://money.cnn.com/2008/05/27/news/economy/consumer_confidence/?postversion=2008052713>.

5 "The Geography of Recession", *The Economist*, Feb. 9, 2008 <http://www.economist.com/world/na/displaystory.cfm?story_id=10650727>.

6 "Housing Downturn Has Had Big Impact on Equipment Industry, But Depreciation Bonus Already Helping, AED Survey Shows", *Washington Insights*, Associated Equipment Distributors, April 2008, <http://www.aednet.org/government/aed-washington-insights.cfm?id=04/01/2008&show=yes#ref3>.

Table 1 below quantifies what has happened in the market for skid steer loaders and mini excavators in 18 counties in northeast Ohio (including Akron, Canton, Cleveland, Wooster, Youngstown) and three counties in western Pennsylvania (including Mercer) during the last four years for the months of January through April. Simply put, compact equipment sales have dropped 46 percent since 2005. Over the last year alone, the skid steer market is off 31 percent and the mini excavator market is off 41 percent.

Table 1 –Northern Ohio and Western Pennsylvania Compact Equipment Sales
(Jan. through April)
Source: Association of Equipment Manufacturers

Type of Equipment	2005	2006	2007	2008	Percentage Change 2005 to 2008	Percentage Change 2007 to 2008
Skid Steer Loaders	286	255	215	149	-48 percent	-31 percent
Mini Excavators	104	108	107	63	-39 percent	-41 percent
Total Compact Equipment	390	363	322	212	-46 percent	-34 percent

From the ground, it is easy to see that the cause of the sharp decline in these equipment markets is the slowdown in residential construction. The fact that too many houses are sitting empty without buyers has led to a significant drop in new housing starts. As a result, my customers (homebuilders and others) are going out of business, equipment distributors are closing branches, we are having to repossess equipment from non-paying customers, and overall business activity in the construction industry is down. My company has survived because commercial and industrial markets offset the residential slowdown for us in 2007, but to be quite candid, keeping up in 2008 is proving to be a challenge.

Based on discussions with my colleagues around the country, I can say with a high degree of confidence that every one of you on this committee has small construction industry companies in your districts facing the same challenges I am.

The Case for a Home Purchase Tax Credit

It is for all the foregoing reasons that AED has played a leading role in advocating for a home purchase tax credit since the beginning of the year. In the past, temporary tax incentives have helped to influence consumer behavior and speed economic recovery. The best recent example is the depreciation bonus. During the economic slowdown of 2000 and 2001, business purchasing dropped off dramatically. However, after Congress created the depreciation bonus in early 2002, business capital investment immediately began to turn around. An AED study supports the notion that the depreciation bonus was at least part of the reason.[7] We therefore believe that a temporary, broad-based home purchase tax credit that incentivizes residential real estate purchasing would dramatically improve conditions in the housing market. As I noted earlier, the tax credit proposals recently passed by the House and Senate are narrowly tailored. We believe that given the scale of

7 Christian A. Klein, "Capital Investment Incentives Work: A Study of the Past and Future Impact of the Depreciation Bonus and Small Business Expensing Level Increases On Utility Contractor Equipment Purchasing", May 12, 2003 <http://www.depreciationbonus.org/pdf/NUCA_AED_Tax_Study.pdf>.

the crisis and the fact that conditions have continued to worsen since the House and Senate passed their bills, the tax credit should be expanded in conference. To ensure maximum impact, the tax credit should:

- Be available to taxpayers of any income level and regardless of whether the taxpayer has previously owned a home;
- Apply to any primary residence purchase;
- Not discriminate based on the status of the house (i.e., whether it is new, in foreclosure, etc.); and
- Not require taxpayers to repay the benefit.

AED specifically proposes that Congress enact a $7,000 tax credit for individuals and couples (regardless of income level) who purchase a primary residence (regardless of the home's loan status, value, etc.) between June 30 and Dec. 31, 2008.

This approach has a number of advantages:

- It would stimulate demand and slow the decline in home values, thus addressing a major economic worry and contributor to consumer pessimism.

- It directly targets the housing market which, as indicated by BEA, has been a major drag on the economy.

- It would help bring stability and confidence to the housing market, thereby speeding economic recovery.

- It would provide benefits to taxpayers of all income levels; however, the proposal is progressive because homebuyers would receive the same tax credit regardless of income or the value of the home being purchased. Thus, it would disproportionately benefit those at the lower end of the income spectrum.

- It would help make homes more affordable by effectively putting cash in the pockets of home purchasers, thereby helping homebuyers ease into their new mortgages.

- The benefit would go directly to individuals and families who buy homes, not to developers, realtors, mortgage companies, or banks.

Based upon projections that 5.66 million homes will be sold in the United States in 2008[8], the cost of providing a $7,000 tax credit for each home purchased for six months would be less than $20 billion given that not every transaction involves a primary residence.

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[8] "Stable Existing-Home Sales Expected in Early 2008, then Gradual Rise", National Association of Realtors, Jan. 8, 2008, <http://www.realtor.org/press_room/news_releases/2008/pshi_jan08_stable_existing_home_sales.html>.

Conclusions

America is facing an economic crisis unlike any in a generation. While other recent economic slowdowns have been the result of one or two factors (e.g., the decline in business purchasing that led to the 2000-2001 downturn), the U.S. economy is now facing a number of challenges at once: a residential real estate slump, escalating oil and food prices, a consumer credit crisis, and a weak dollar. Of all of these, Congress is best positioned to address the residential real estate crisis and the most effective way to do so is through a home purchase tax credit.

I therefore again, on behalf of AED members and small construction industry companies throughout the country, urge Congress to act quickly to enact a broad-based, temporary home purchase tax credit to stimulate residential real estate purchasing for the remainder of 2008. If enacted before the end of June, a home purchase tax credit could significantly improve the housing market as we enter the height of the buying season. However, the window of opportunity is extremely narrow and any delay in enacting the proposal will only postpone our recovery.

Thank you for holding this hearing on such an important issue. We look forward to working with you and your colleagues in the House and Senate in the coming weeks to make a home purchase tax credit a reality.

For questions regarding this testimony or for more information, please contact:

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INDEPENDENT COMMUNITY
BANKERS *of* AMERICA

Testimony of

John W. Puffer, III
Chairman and President
Pilot Bank

On behalf of the

Independent Community Bankers of America

Before the

Congress of the United States
House of Representatives
Committee on Small Business

Hearing on

"The Housing Crisis: Identifying Tax Incentives to Stimulate the Economy"

June 5, 2008
Washington, D.C.

Good morning. My name is John Puffer and I am Chairman and President of Pilot Bank in Tampa, Florida. Chairwoman Velazquez, Ranking Member Chabot, and members of the committee, I am pleased to be testifying today on behalf of the Independent Community Bankers of America[1] on tax incentives for the housing sector to stimulate the economy.

ICBA represents 5,000 community banks throughout the country, with 180 community bank members in Florida. Community banks are independently owned and operated and are characterized by personal attention to customer service and lending to small business.

Pilot Bank was formed in 1987 and is a locally owned community-oriented bank in Tampa, Florida. Since 1987 we have grown to more than $240 million in assets and we currently serve more than 13,000 account holders. We pride ourselves on small business relationship banking and are proud to support our local communities and the nation's economic growth by supplying capital to individuals and small businesses.

Summary of Testimony

Housing market woes still plague the U.S. economy. The sharp decline in the housing and housing finance sector remains at the heart of our nation's weak economy and troubled credit markets. The weak housing sector continues to have a ripple effect throughout the entire nation and is putting severe stress on households and small businesses nationwide. Restoring confidence in the housing market is vital to restoring economic growth.

The current turmoil in our housing and financial markets is also jeopardizing the availability of credit for small business. Some of the nation's largest lenders and money-center banks tripped up on aggressive subprime lending and toxic investments and are now forced to pull in their lending across-the-board, write down losses, and rebuild capital.

Community banks represent the other side of the financial story. Community banks rely on relationships in their communities, not on relationships with investment banks or hedge funds. Common sense community bankers largely avoided the subprime debacle. Community bankers live and work in the communities they serve and do not put their customers and neighbors in loan products they could not possibly repay. Community banks did not cause the current turmoil in the housing sector but are well-positioned, well-capitalized and willing to help.

[1] *The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 268,000 Americans, ICBA members hold more than $908 billion in assets, $726 billion in deposits, and more than $619 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

Despite the aggressive monetary easing by the Federal Reserve Board and the enactment of a fiscal "stimulus" package, the housing sector continues to decline. This warrants additional targeted policy action to address the collapse in the housing sector and the economic damage it is causing. ICBA recommends and supports additional incentives, such as a temporary first-time homebuyer tax credit, and property tax relief to help struggling homeowners, jumpstart home sales, and strengthen the housing sector, credit markets, and small businesses.

Housing Market in Turmoil

Homeownership is the building block of our neighborhoods, communities and nation. Homeownership makes people stakeholders in their communities. Unfortunately, recent economic data continues to paint a troubling picture for the housing and housing finance sector and homeownership is in a protracted decline. Home values continue to fall sharply. The S&P/Case-Shiller home price index in March dropped 14.4 percent from a year earlier, the most since the figures were first published in 1988. The Commerce Department reported that April sales of new homes were down 42 percent from year-ago levels, the largest year-over-year drop in nearly 27 years. There was a 10.6 month supply of unsold homes on the market at the end of April, representing 456,000 unsold homes.

Nationwide, RealtyTrack reported that default notices, auction sale notices, and bank repossessions were reported on 649,917 properties during the first quarter of 2008, a 23 percent increase from the previous quarter and a 112 percent increase from the first quarter of 2007. The report also showed that one in every 194 households received a foreclosure filing in the first quarter of 2008. In my home state of Florida, the state recorded 87,893 properties in some state of foreclosure, or one for every 97 households in the fist quarter of this year, and 178 percent higher than the same period a year ago.

While it is true that some regions of the country witnessed unsustainable price appreciation and speculative buying, the weakness in housing is nationwide. The Office of Federal Housing Enterprise Oversight (OFHEO) home price index showed home prices dropping in 43 states and *all* census divisions in the first quarter of 2008. Notably, California, Florida, Nevada, and Arizona had the largest declines. These areas typically had a large share of subprime, jumbo, and investor loans.

Broad Economy Plagued By Housing Decline

The housing market remains in decline, foreclosures are rising, and a growing number of homeowners are falling into negative equity positions in their homes. The delinquency rate on mortgages hit a record high 3.68 percent in the first quarter of this year according to the Mortgage Bankers Association. The largest underlying problem plaguing the economy remains the declining housing sector. Plunging home values are putting record numbers of borrowers' underwater and fueling record foreclosures.

The housing markets' continued woes have been a big factor drowning consumer confidence. The Conference Board's gauge of consumer sentiment has dropped by almost half since July, when housing troubles triggered the most severe credit crisis in at least a decade. The Conference Board consumer confidence index fell in May to its lowest level since October 1992, hitting a 15-year low. Buying plans for homes fell sharply to their lowest level since October 1982 according to the Conference Board. Household net worth has declined for the past two quarters in a row largely due to the sharp drop in home values according to Federal Reserve data.

The recent release of the minutes from the April 29-30 Federal Reserve Board's Federal Open Market Committee meeting confirms the concern and risk emanating from the ongoing decline in the housing sector:

> *"The housing market had continued to weaken since the previous meeting, and participants saw little indication of a bottoming out in either housing activity or prices. Housing starts and the demand for new homes had declined further, house prices in many parts of the country were falling faster than they had towards the end of 2007, and inventories of unsold homes remained quite elevated. A small number of participants reported tentative signs that housing activity in a few areas of the country might be beginning to pick up, and a narrowing of credit risk spreads on AAA indexes of sub-prime mortgages in recent weeks was also noted. Nonetheless, the outlook for the housing market remained bleak, with housing demand likely to be affected by restrictive conditions in mortgage markets, fears that house prices would fall further, and weakening labor markets. The possibility that house prices could decline by more than anticipated, and that the effects of such a decline could be amplified through their impact on financial institutions and financial markets, remained a key source of downside risk to participants' projections for economic growth."*

Housing Crisis Impairs Labor Markets and Growth

The ongoing stress in the housing sector is damaging the labor markets and the entire economy. Housing and household related spending accounts for nearly 20 percent of the nation's Gross Domestic Product. U.S. GDP growth registered an anemic 0.6 percent in the fourth quarter of 2007 and 0.9 percent in the first quarter of 2008. This marks the first time the U.S. has experienced two consecutive quarters of sub-1% growth in GDP since the recession of 1990-1991.

The decline in housing construction has subtracted 1.25 percentage points off GDP growth in the fourth quarter of 2007 and 1.17 percentage points off 2008 first quarter growth. Associated construction-related job losses exceed 400,000 according to the Department of Labor. Housing activity had peaked nearly three years ago and since, home sales have fallen nearly 40 percent, housing starts more than 60 percent, and home prices some 15 percent. Yet no clear sign of the housing decline bottom is visible. Rising mortgage defaults have caused lenders to tighter up on credit and potential buyers have been sitting on the sidelines even as interest rates are at historically attractive levels. With the unsold inventory of homes at record highs, additional policy incentives for home sales would go a long way in addressing the root cause of the ongoing weakness in the U. S. economy.

Further Economic Stimulus Still Needed

Responding to a slowing economy, ICBA was out front in early January with a "9-point Economic Stimulus" package (attached) focused on communities and small business needs. Because the troubles in the subprime mortgage market quickly spread to the entire housing sector and broad credit markets, ICBA included a targeted homebuyer tax credit as the first item in its proposed economic stimulus plan. Despite aggressive Federal Reserve Board monetary policy easing and a fiscal stimulus package, ICBA believes severe and ongoing problems in the housing sector warrant additional policy action.

Housing-Triggered Recession in Many States

While economists debate the chances of the nation slipping into recession, severe housing market declines have already caused a recession in many states. Notably, states like California, Nevada, Florida, Michigan and Ohio have all witnessed dramatic declines in their housing markets and associated economic decline. The freefall in housing is causing a vicious downward cycle and economic weakness. As home sales and prices decline, foreclosures mount, unsold housing inventory rises and prices decline further.

Additionally, the broad credit markets have been severely damaged by the sharp decline in housing prices and the decline in the collateral real-estate represents. Some 45% of small business loans outstanding are collateralized by some type of real estate asset. Small business owners in particular often rely on the equity in their homes for collateral and widely use home equity loans and lines of credit. Small business access to capital is vital to the strength of our economy and employment. Small businesses represent a whopping 99% of all employer firms and employ half of the private sector workers. There are more than 26 million small businesses in the U.S. Small businesses have created 70 percent of the net new jobs over the past decade. Without further fiscal policy assistance to address the struggling housing sector, further declines in the credit availability for small businesses will jeopardize their ongoing viability.

Foreclosure Fiasco

The U.S. housing market is currently stuck in a downward spiral. When home values continue to drop sharply and people owe more on their mortgages than their homes are worth, foreclosures become a growing economic problem. Higher unemployment levels and sharp increases in food and energy prices are putting additional stress on mortgage holders and potential home buyers. Current economic conditions and elevated adjustable-rate mortgage resets suggest homeowners will continue to face a growing number of foreclosures.

Financial institutions in general have already experienced some $379 billion in asset writedowns and credit losses since the start of 2007. When the largest lenders lack capital, they are unable to lend to small business and consumers, exacerbating the economic downturn. Additionally, declining home values and rising foreclosures increase stress in the credit markets by jeopardizing the value of mortgage-backed securities and crimping liquidity.

The vicious downward cycle in the housing sector must be broken. Fortunately, Congress is advancing additional proposals to help address the troubled housing sector and its negative impact on the economy. The ICBA respectfully recommends a number of economic stimulus items (attached) to help the credit markets, small businesses, and job growth.

Homebuyer Tax Incentives Can Help

The ICBA's economic stimulus plan recommends a $5,000 first-time homebuyer federal tax credit for one year in order to jumpstart home sales, reduce unsold inventories, and stabilize home prices and foreclosures. A first-time homebuyer tax credit would provide a reasonable incentive for potential qualified buyers to get off the sidelines and to take advantage of low interest rates and the temporary tax break to purchase a home. Stabilizing home prices will lower mortgage refinancing qualification hurdles as well and help to keep more people in their homes. ICBA is pleased to see a homebuyer tax credit advancing in both the House and Senate as part of a housing and economic stimulus package effort.

The ICBA-recommended first-time homebuyer tax credit would allow a federal income tax credit up to $5,000 for the purchase of a primary residence. To qualify for the credit, the purchaser may not have owned a primary residence in the previous 12 months prior to the purchase of the home. The credit would be temporary and available for one year from the date of enactment. The credit is not a "bailout" and would directly benefit individuals by giving them a tax cut incentive to purchase a first-time home.

Homebuyer Credit Should be Simple

A $5,000 first-time homebuyer tax credit already exists in the tax code for the District of Columbia and is a proven success. A study of the D.C. first-time homebuyer tax credit found that it substantially increased the demand for owner-occupied housing, raised home values and stabilized home prices.[2] Similarly, Congress successfully enacted a temporary tax credit for the purchase of a new home in 1975 to reduce the then-record housing inventory and to restore stability to the housing market.

The implementation of a temporary, one-year nationwide tax credit could and should be simple if modeled on the existing D.C. credit. The forms, procedures and instructions already exist for D.C. and would simply have to be updated to apply nationally.

Local Infrastructure Needs

Tax incentives can help stimulate the troubled housing sector and local infrastructure needs should also be addressed in the tax code to help boost economic activity. To more efficiently finance local projects, ICBA recommends an immediate increase in the annual issuance limitation for qualified-tax-exempt muni-bond obligations from $10 million to $30 million. This would create greater credit availability and expedite low-cost funding for local projects such as school construction, water treatment plants, and other municipal projects. The cost of municipal projects have increased dramatically over the years while this annual bond limitation threshold has not been increased in 22 years and has not kept pace with inflation. An increase would help assist financially struggling state and local governments finance their infrastructure needs with lower cost financing, creating more small business opportunities and local jobs.

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[2] Tong, Zhong Yi. 2005. "Washington, D.C.'s First-Time Home-Buyer Tax Credit, An Assessment of the Program." Special Report, Fannie Mae Foundation, March.

ICBA Commends Congressional Housing Proposals

ICBA continues to advise lawmakers that common sense community bank lenders did not cause the current housing crisis and that they are well positioned and ready to help bolster the troubled housing sector. ICBA is encouraged by the major congressional housing packages designed to address the troubled housing markets that have cleared the full House and the Senate Banking Committee. Notably, ICBA commends the American Housing Rescue and Foreclosure Prevention Act of 2008 (H.R. 3221) that passed the full House on May 8 and the Federal Housing Finance Regulatory Reform Act of 2008 that cleared the Senate Banking Committee on May 20. The centerpiece of both proposals would address the foreclosure problem by establishing a Federal Housing Administration program to insure up to $300 billion in refinanced mortgages for struggling borrowers after loan holders reduce principal.

ICBA believes growing foreclosures can impact not only the borrowers and lenders, but entire communities and towns by depressing property values and eroding the local tax base. The legislation provides a *voluntary* means for qualified borrowers to remain in their homes and will help ameliorate the broader negative consequences of the wave of foreclosures. Community bankers believe that these are important features and hope that they can use this program to assist borrowers with loans from other lenders who need to refinance into more affordable loans.

ICBA also supports the House and Senate Banking proposals for increasing the GSE conforming loan limit for high-cost housing areas. This would greatly assist homebuyers in communities along the coasts and in larger cities where the median home price is relatively high and would help community banks manage the risk of originating these larger loans. The House bill sets the conforming loan limit for high-cost areas at 125% of area median home price, capped at 175% of $417,000. The Senate bill limits it to the area median home price capped at 132% of $417,000.

ICBA supports additional tax provisions in H.R. 3221 including:

- Allowing the Federal Home Loan Banks to guarantee community bank letters of credit issued to enhance the credit rating of local government bonds. This would help ensure that municipal bonds guaranteed in this manner are tax-exempt just like bonds guaranteed by private bond insurers. (Included in House passed H.R. 3221.)

- Granting an additional standard deduction for real property taxes for homeowners that claim the standard deduction. This would allow up to a $350 deduction ($700 joint return) for State real property taxes paid in 2008. (Senate version's property tax deduction is $500 individual / $1,000 joint return.)

- Allowing a temporary increase in State mortgage revenue bond authority to allow for the issuance of an additional $10 billion of tax-exempt bonds to refinance subprime loans, provide loans to first-time homebuyers, and to finance low-income rental housing.

Notably, the House-passed housing bill (H.R. 3221) also incorporates the ICBA-backed tax provision for a homebuyer tax credit. This credit would work as an interest free loan giving new homebuyers a $7,500 tax credit (repayable over 15 years) to help jumpstart home sales and stabilize declining prices. ICBA also supports the Senate-passed version that includes a similar tax credit, but limits it to the purchase of foreclosed properties. The Senate credit would allow a $7,000 tax credit for the purchase of a home in foreclosure to be claimed over two years.

All these targeted housing incentive proposals would help to stem the ongoing decline in the housing sector that is rippling through the entire economy and hurting individuals and small businesses. Small business optimism is plummeting and credit availability is a genuine concern. In March, the National Federation of Independent Business index of small-business optimism dropped to its lowest level since it began this survey in 1986. Housing incentives can be an important key to unlocking greater confidence and economic growth. The ICBA strongly supports additional targeted housing tax incentives to break out of the downward spiral in the housing market.

Conclusion

ICBA believes the ongoing sharp decline in real estate values must be addressed before genuine stability can be achieved in the broad credit markets and economy. America's small businesses are facing difficult economic times and acquiring credit is getting more problematic due to the turmoil in the housing sector. The road to economic recovery must go through housing. As policymakers work on ways to stimulate the housing market, small business would benefit from many of the housing tax incentives advancing in Congress. Community banks like Pilot Bank are well-positioned and prepared to help. I appreciate the opportunity to testify today on behalf of the Independent Community Bankers of America. Thank you.

Summary of ICBA-Proposed Economic Stimulus Package Measures

- First-Time Homebuyer Tax Credit. One-year, $5,000 federal tax credit for first-time home purchase. Proven incentive that will help sales of 10-month supply of unsold homes and will boost the housing and housing-finance sectors. (Note: Both House and Senate tax committees have passed version of homebuyer tax credit which is advancing as part of "housing" package.)

- Extend Work Opportunity Tax Credit. Enhances and extends the employers' WOTC through 2009 to create jobs by encouraging greater hiring of new workers.

- Super SBA Small Business Loan Program. A "low-doc," expedited SBA 7(a) loan program with 85% government guarantee for small business loans up to $250,000 and reduced lender and borrower fees. Will provide greater small business capital in expedited manner to start, or grow a small business and create jobs. (Advanced by Reps. Bean, Velázquez, others in H.R. 1332 passed by House.)

- Immediate AMT Relief. Immediate individual AMT relief for tax years 2008, 2009. Will provide tax certainty and prevent additional taxpayers from being swept into punitive Alternative Minimum Tax calculations and payments and increase their after-tax incomes. Notably, AMT relief can be rebated in advance directly to taxpayers. (Note: Senate Finance Committee Chairman Max Baucus (D-MT) and Ranking Member Chuck Grassley (R-IA) advanced AMT fix legislation 4/2008.)

- Immediate Increase in Muni-Bond Threshold. Updates from $10 million to $30 million the annual issuance limitation for qualified-tax-exempt-obligations. Will create greater incentives and expedite low-cost funding for local projects such as school construction and other municipal projects. Will assist financially struggling state and local governments.

- Small Business Subchapter S Tax Relief. There are more than 3.5 million Subchapter S businesses in U.S. Will increase the ability to start S corporations or raise needed capital by increasing the shareholder limit to 150 from 100.

- Enhanced Small Business Section 179 Immediate Expensing. Increases allowable Sec. 179 small business immediate expensing base to $250,000 and investment limitation to $800,000 for tax year 2008. Will boost small businesses capital investment in equipment and software and free-up needed cash flow. (Note: Enacted into law as part of first "stimulus" package 2/13/08.)

- Increase SEC Registration Threshold. Immediately increase the SEC registration threshold from 500 to 1,000 shareholders. Will help lift the tremendous dead-weight regulatory cost and burden of SEC registration for the nation's smallest companies. Will prevent costly public-to-private conversions.

- Short Form Call Report. Permit highly-rated, well-capitalized banks with assets of $1 billion or less to file a short form Call Report in two non-sequential quarters for each year. Will free up community lenders' time and resources to focus on community needs.

Written Statement for

Joe Robson

On Behalf of:

The National Association of Home Builders

To The

United States House
Small Business Committee

Hearing On

"The Housing Crisis – Identifying Tax Incentives to Stimulate the Economy"

June 5, 2008

I. Overview

On behalf of the approximately 235,000 members of the National Association of Home Builders (NAHB), thank you for the opportunity to testify before the House Small Business Committee for the hearing entitled, *"The Housing Crisis – Identifying Tax Incentives to Stimulate the Economy."* My name is Joe Robson and I am a homebuilder from Tulsa, Oklahoma and NAHB's 2008 National Vice President.

The housing crisis and its contribution to the overall economic downturn are having severe effects on homeowners, state and local governments, and other stakeholders in the housing sector, including businesses connected to housing. The residential construction sector and its related-businesses have been particularly hard hit. This is acutely true for small businesses of which there is great concentration in the housing sector. For example, home building, due to its real estate character and local nature, is dominated by small, regional firms. According to data collected before the downturn, nearly 70% of NAHB's builder-members construct fewer than 25 homes a year. Over two-thirds of NAHB's members have total annual revenue of less than $1 million a year, with 88% generating less than $5 million in total annual revenue.

The recently enacted *Economic Stimulus Act of 2008* may limit the severity of the recession this year and NAHB applauds Congress for passing this important legislation. However, by its nature, this stimulus package is short-lived and does not address the deep problems posed by the housing contraction that are at the root of today's economic and financial market problems. Congress can, and should, do more.

Some have argued that the best way to bring the housing market into balance is to permit housing prices to fall in an uncontrolled fashion over a period of time. However, this path of adjustment would most likely cause substantial collateral damage to the economy, to financial markets, state and local governments, and to America's homeowners. Policymakers should not take that risk. A second round of housing-targeted economic stimulus is urgently needed to complement the *Economic Stimulus Act of 2008* and the monetary policy actions of the Federal Reserve.

Both the House and Senate have taken important steps towards crafting a second stimulus package to address the housing crisis. NAHB urges Congress to finish that work as soon as possible.

The longer that potential solutions linger, the greater the housing crisis will deepen and the more damage that will be done to the nation's economy. This statement presents recommendations for polices that should be incorporated in final housing stimulus legislation to provide the most impact on the housing crisis and to the small businesses of our nation's housing industry.

II. The Housing Crisis and the National Economy

The U.S. housing market now is in the contraction phase of the most severe housing cycle since the Great Depression. Housing construction starts are down by more than 60 percent from 2005, with single-family starts down more than 66 percent since the peak in early 2006. This dramatic contraction has exacted a heavy toll on economic growth and employment during the past two years. Whether or not the economy is in an official recession, there is no doubt that the economy has slowed and the resulting impacts are strongly negative.

Growth of U.S. economic output (real Gross Domestic Product) was estimated at a meager 0.9 percent annual rate in the first quarter of 2008, according to the Commerce Department. Declines in home building directly subtracted 1.17 percentage points from the final GDP number. That is, if home building activity had been flat, GDP growth would have been greater than 2 percent. Due to these declines, home building in 2005 was 6.2% of GDP. Today it is less than 4% of GDP.

Due to the slowing of economic growth, job losses have begun to accelerate. In the residential sector alone, 31,100 jobs were lost in April 2008 according to the Labor Department. Since the peak of total employment in February 2006, 478,000 net jobs have been loss, with more expected due to low levels of home building activity. In general, many home builders are now reporting substantial financial losses when only a few years ago they were generating jobs, providing local development and paying taxes.

The adverse economic impacts of the housing contraction involve not only sharp declines in home sales and housing production, but also involve the depressing effects of falling home prices on household wealth and mortgage credit quality. These events have provoked an alarming surge in mortgage foreclosures that have decreased the homeownership rate, which has fallen from 69.2% in the second quarter of 2004 to 67.8% in the first quarter of 2008.

For homeowners, the accelerating declines in housing prices are the most immediate effect of the current crisis. Housing wealth is the primary source of savings for most households and a key driver of consumer spending. If housing prices fall, homeowners' wealth decreases and consumer spending is negatively affected. As a result, households may decrease current consumption to offset the lost wealth. For these reasons, home prices are an important indicator of the state of the housing market and the potential direction of the overall economy. Home prices are also a base for state and local government property tax revenues.

According to the most recent S&P/Case-Shiller National Home Price Index data, housing prices are falling at annualized rate of 30%. These are historic and unprecedented declines in the value of the assets most American households rely on as the most important source of their families' wealth. The Case-Shiller data reveal that national prices are now down more than 16% from the peak in July 2006, with most economists expecting continuing declines over the coming year.

These future price declines are expected due to the large excess inventory of new and existing homes in the for sale market. Home builders have cut production and inventories of new homes for sale have fallen from approximately 550,000 in the summer of 2006 to approximately 450,000 today according to Census Department data. However, these numbers are likely understated due to cancelled sales that are removed from inventory estimates. Until recently, cancellation rates for builders were well in excess of historical norms. Nonetheless, current Census data indicate that the month-supply estimate of new homes now stands at 10.6 months. In contrast, a healthy new home market would have a number around 5 to 6 months-supply.

Furthermore, events in the housing market have seriously damaged financial institutions holding mortgage assets, as well as companies that provide mortgage credit enhancement. The decline in mortgage credit quality first became evident in the subprime mortgage sector last year. Concerns about subprime mortgages resulted in an overall reevaluation and repricing of risk for all investment assets. For a time, this process essentially shut down or seriously damaged a wide range of securities markets, including major components of the mortgage securities markets in the U.S. The result of these events in the financial markets has been reduced mortgage accessibility for potential homebuyers, which further reduces housing demand and results in additional price declines.

III. The Need for Housing Stimulus and Recommendations

The case for housing stimulus is strong at this time. The record volume of vacant homes on the for-sale market inevitably will continue to put persistent downward pressure on home prices for some time. If housing prices continue to fall significantly, as many economists expect, then households spend less because they feel (and are) less wealthy. One key reason for reduced consumer spending is that housing wealth is the primary source of savings for most households. If housing prices fall, then homeowners' wealth decreases. As a result, households may decrease current consumption to offset the lost wealth.

According to a January 2007 report from the Congressional Budget Office (CBO), a 10 percent decline in housing prices from peak to trough – a conservative estimate of what many economists expect – would reduce consumption and ultimately subtract 0.4 to 2.2 percentage points from Gross Domestic Product (GDP) growth. Given that many economists expect meager growth in GDP for this year, the CBO estimates indicate that falling housing prices can easily push the economy into recession. In dollar terms, the CBO report estimates that a 10 percent housing price decline would subtract $55 to $316 billion from GDP.

Continued downward pressure on home prices also further reduces the quality of outstanding mortgage credit, making it even more difficult to refinance or restructure adjustable-rate mortgages that have encountered or are facing payment resets. These effects, in turn, will worsen the alarming upsurge in mortgage foreclosures; move even more homes onto the for-sale market, put even more downward pressure on house prices and mortgage quality; and stretch out the contraction in new housing production even further. This vicious circle can create the conditions under which the housing market will overcorrect on the downside, imposing huge costs on our nation's homeowners, state and local governments, financial institutions, housing- and construction-related small businesses, and other stakeholders in housing.

In this environment, businesses small and large would benefit from targeted tax stimulus to the benefit of the short-term economic picture and the long-term recovery. In the case of home builders, who are largely small businesses, many are struggling to even stay solvent in the current economic environment. They are taking drastic steps to minimize costs, generate capital and keep their businesses afloat, including laying off workers and raiding personal retirement accounts, just to name a few. Job losses and lost business activity in home building not only harms the economy today, but it significantly weakens the industry's ability to meet the housing need of the nation in the long-term.

A. Homebuyer Tax Credit

With the above in mind, NAHB's foremost recommendation is that Congress create a temporary homebuyer tax credit. House prices and inventories obviously are central to the outlook for the economy and the financial markets. Policies that stimulate home purchases in the immediate future can pay huge dividends and a temporary homebuyer tax credit provides the most bang for the buck. Indeed, the recent revival of interest among prospective buyers suggests that temporary credits could stimulate a wave of home buying that could quickly reduce excess supply in housing markets and halt the dangerous erosion of house prices and mortgage credit quality.

NAHB applauds the work by the House and Senate to include some kind of homebuyer tax credit in their respective housing stimulus packages. Today, I would like to particularly address the model adopted by the House of Representatives in H.R. 3221, the *American Housing Rescue and Foreclosure Prevention Act of 2008*. This approach parallels several principles regarding a homebuyer credit that are of importance to NAHB.

Temporary

A homebuyer tax credit will be effective as a stimulus measure if and only if the credit period were limited, such as a period of twelve months and certainly overlapping the Spring selling season of 2009. If the credit's effective period was too long, or if homebuyers believed the credit may be extended, the stimulative impact the market requires would not be generated. Congress can look to the example of the 1975 homebuyer tax credit for evidence of how a temporary model worked effectively.

Congressional discussion of a homebuyer tax credit could "stall" the housing market as buyers delay purchase in order to receive a possible, future benefit. Thus, it is imperative that sales during the discussion period being retroactively rewarded AND that Congress act with haste. A long policy debate with no action would have negative effects on the housing market.

Credit Large Enough to be Effective

Simple economics dictates that the larger the credit amount, the larger the stimulus. Considering the changes in downpayment requirements and the prices of homes, the House model of $7,500 meets this requirement. Of course, as the process of deliberation on the final form of the credit, NAHB would urge Congress to consider options for increasing the size of the credit to maximize its impact and effectiveness.

Refundable

NAHB analysis of 2005 IRS data indicates that the average first-time homebuyer had an adjusted gross income of $65,000 and tax liability of $5,000. Given this information, an effective tax credit, as described above, must be refundable to have maximum economic impact.

Principal Residences Only

The credit established in H.R. 3221 would only apply for all owner-occupied housing units used as a principal residence, as defined by Section 121 of the tax code. The credit should not be used by speculators or flippers, but rather, should be used to reduce housing inventory, stabilize housing prices, and address housing affordability issues. All housing units used as a principal residence should qualify, including single-family homes, condominiums, cooperatives, and townhouses. NAHB also urges the Congress to ensure that whatever final homebuyer tax credit model is adopted contains a level playing field for purchases of new and existing homes.

First-Time Homebuyers

The homebuyer tax credit model in H.R. 3221 is limited to first-time homebuyers; an approach which NAHB supports. First-time homebuyers constitute approximately 40% of all homebuyers in a given year according to the Census Bureau's American Housing Survey data, although this number has likely fallen recently due to changes in the mortgage markets. Nonetheless, targeting the credit to first-time homebuyers is effective for stimulating housing demand and stabilizing prices because these buyers do not have to sell a home to purchase a home. Moreover, a first-time homebuyer purchase of a starter home frees the seller to purchase a home as well, thereby yielding multiplier effects in the for-sale housing market.

Outstanding Issues - Monetization

Monetizing the tax credit for the purposes of helping a first-time homebuyer accumulate a downpayment is a critical element to maximizing its effectiveness. The most attractive option for monetization would be to allow the taxpayer to file a special return with the IRS upon closing, thereby allowing the tax credit to be used as part of the actual home purchase. If this can not be administratively accomplished, Congress should establish rules or otherwise indicate that third-parties, such as title companies, should be permitted to advance the tax credit, as some tax preparers do today for tax refunds. NAHB supports establishing rules to ensure that monetization occur as quickly and efficiently as possible, with a minimum of administrative expense for the homebuyer.

In conclusion, an effective homebuyer tax credit would increase housing demand, reduce excess inventory of new and existing homes, and stabilize housing prices. NAHB believes that the homebuyer credit model in H.R. 3221 would increase housing sales by several hundred thousand housing units. Due to this increase in housing demand, inventories would fall, housing prices would stabilize, the secondary mortgage market would gain confidence and certainty, and many elements of the current crisis would be successfully addressed.

B. Expansion of the Net Operating Loss Deduction Carryback

Home builders, like many businesses, are now reporting financial losses when a few years ago they were generating jobs, providing local development and paying taxes. For home builders large and small the importance of the ability to claim and carry back net operating losses (NOL) deductions to years when significant taxes were paid cannot be overstated. The inability to do so will result in the need to either increase high-cost borrowing or further liquidate land and homes, which will only compound the existing inventory problem. The additional supply of homes and land on market for sale, of course, will put even more downward pressure on prices and further add to the housing crisis. Ultimately, the result of this will be more layoffs of workers and reduced development of communities.

Current law allows for a two-year carryback of NOLs, however, home builder losses began in 2006. Expanding the carryback of NOLs beyond two to years when significant taxes were paid provides financial resources to the home building sector as well as all businesses to weather the economic downturn. Further, this will help all businesses, including financial institutions and manufacturers, facing difficult economic decisions concerning employment. Finally, an expansion of the NOL carryback simply allows businesses to accelerate their claim of NOL deductions that under present law would be claimed in the future. The need for these deductions today is critical where they can help all businesses with losses weather the economic downturn and emerge from this recession in a position to grow.

C. Temporary Expansion of State Allocations of Mortgage Revenue Bonds

Congress can also help address the current crisis by expanding and modifying the Mortgage Revenue Bond (MRB) program, which uses tax-exempt bonds to finance below-market interest rate mortgages for low- and moderate-income first-time homebuyers. NAHB supports expanding the cap for MRBs by an additional $10 billion, as well as modifying the rules so that state housing finance agencies may use the proceeds of MRBs to refinance troubled mortgages, thereby reducing the number of foreclosures, helping homeowners stay in their homes, and protecting local property prices. NAHB applauds the inclusion within H.R. 3221 of a provision to provide for additional MRG authority.

D. Modernization of the Low Income Housing Tax Credit

The crisis in housing also has impacts on the rental sector, particular that part of the industry that provides affordable housing. The nation's largest affordable housing production program is the Low-Income Housing Tax Credit (LIHTC). Established in 1986, the program has helped finance approximately 80,000 newly constructed affordable housing units annually. However, given the two decades that have elapsed since the program was enacted by Congress, it is important, particularly at this moment, to make a series of technical modifications to modernize the program to ensure its ability to respond to current and future affordable housing needs.

Especially important to NAHB is fixing the method by which area median income (AMI) is determined in order to overcome a set of data and methodological changes that threaten the financial viability of many LIHTC properties. Further, NAHB recommends that the credit percentages of the program be fixed at 9% and 4% respectively in order to provide additional certainty for LIHTC investors and building owners. NAHB strongly supports additional steps taken as part of H.R. 3221 to enhance the LIHTC program.

III. Conclusion

I, and all of the members of NAHB, thank you again for the opportunity to testify today. We appreciate the continued efforts of Congress to address the nation's housing crisis and more importantly to craft effective, workable solutions. Important steps have been taken already and we urge you to move quickly to complete a final bipartisan package that can be signed into law. NAHB looks forward to working with this Committee and the Congress as a whole to meet that objective.

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HEARING BEFORE THE

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS

ENTITLED

HOUSING CRISIS: IDENTIFYING TAX INCENTIVES TO STIMULATE THE ECONOMY

WRITTEN TESTIMONY OF

JAMES L. HELSEL
TREASURER
NATIONAL ASSOCIATION OF REALTORS®

JUNE 5, 2008

Oral Testimony

Madame Chairman and Members of the Committee: My name is Jim Helsel. I am here in my capacity as the elected Treasurer of the National Association of REALTORS®. NAR has 1.25 million members engaged in every facet of the real estate industry. I am also a Partner in the full service real estate brokerage known as RSR Realtors, located in Lemoyne, Pennsylvania. Thank you for this opportunity.

The ugly dimensions of the housing crisis have been covered extensively in the media. Despite today's challenges, it is still true that more than 90% of homeowners are current on their mortgages. Generally, their mortgages are not underwater. Home values continue to appreciate in about one-third of U.S. markets and in even more neighborhoods. The decline in property values has not changed Americans' basic perception that homeownership is good for families and good for communities.

Our members continue to report that traffic at open houses and property showings has been steady enough, but that a "No, thanks, just looking" mentality dominates. The "just looking" comment is really a code for "How low will prices go and how long will it take?"

In February, some of NAR's current and former Tax Committee leaders met to explore approaches that might help to create a floor under market prices. Their discussion included property tax holidays, special property tax deductions, tax-exempt bonds, investor incentives and a homebuyer tax credit. They easily agreed that the most beneficial incentive would be a temporary tax credit that would change the "Just looking" mood to "I'm ready to buy." Part of their support for a homebuyer credit was based on the success of a 1975 temporary tax credit designed to clear an over-supply of newly-constructed homes during an economic downturn.

We note three critical features for an optimal homebuyer tax credit. *First*, it would apply to ***all*** residential real estate, not solely foreclosed property. *Second*, a *temporary* credit would assure that prospective purchasers would have to act within a relatively short time. *Third*, the House-imposed income limits should be increased, particularly for single individuals. After all, there is no difference between the purchasing power of a single individual and a married couple with the same amount of income. Moreover, housing policy seems inconsistent when current law offers higher FHA or conforming loan limits to borrowers in high-cost housing areas but then makes them ineligible for a tax credit because of income limits.

We urge Congress to move quickly to conference and final passage of this tax incentive. Failure to act quickly could further stall the market as prospective purchasers wait to see if they will qualify for the benefit. (Further detail about the tax credit is provided in a chart attached at the end of our written testimony.)

The housing crisis is not limited to homeowners and buyers and sellers. It also affects the individuals who work in any facet of the real estate business. We want to note for the record that many of our members and other self-employed folks (such as carpenters, landscapers and other construction workers) will not receive the $600 stimulus check this year.

NAR's real estate sales agent members are compensated solely on a commission basis, so when the number of sales declines along with the prices of the properties sold, commission income also drops. By the time sales agents deducted their allowable expenses from their 2007 real estate sales revenues, many had no net income to reflect on their 2007 Form 1040. These folks won't get the kick of the $600 rebate until they file their 2008 tax returns next year.

Bringing Back the Small Investor: The so-called "small investor" is a class of real estate owners that has all but disappeared. ***We must bring them back***. These are individuals who might own one or two single family homes or condos that they offer for rent. The reason for their disappearance traces back to the 1986 Tax Reform Act.

In 1986, Congress enacted the so-called "passive loss" rules to shut down abusive, syndicated, tax-shelter projects that were marketed for their tax benefits rather than for the appreciation and income stream from the investment. The passive loss rules included an exception to assure that individuals with moderate incomes could continue to invest in real estate as individual owner-landlords. The exception criteria were expressed in dollar amounts that were not indexed for inflation. Individuals who earned less than $100,000 qualified to take advantage of the exception.

In 1986, the median price of a home was $72,000 – much less than the $100,000 investor threshold. Today, the median price of a home hovers around $200,000, but the investor income threshold still is $100,000. Had the limits for the small investor exception been indexed for inflation, individuals with income of nearly $185,000 could more readily invest in residential rental real estate. NAR urges Congress to adjust the thresholds for the passive loss exception and index them for inflation. The return of the small investor would no doubt help shrink the current over-abundance of real estate inventory.

Our written testimony provides additional information on each of these matters. Thank you again for this opportunity to provide our thoughts. I look forward to answering your questions.

Written Testimony of the National Association of REALTORS®

Madame Chairman and Members of the Committee: My name is Jim Helsel. I am here in my capacity as the elected Treasurer of the National Association of REALTORS®. NAR has 1.25 million members engaged in every facet of the real estate industry, including brokerage, sales, leasing, development, professional education and property management. I am also a Partner in the full service real estate brokerage known as RSR Realtors, located in Lemoyne, Pennsylvania. Thank you for this opportunity.

The ugly dimensions of the housing crisis have been covered extensively in the media: home prices declining, foreclosures at unprecedented levels, community distress, high food and energy costs pinching the mortgage payment. The institutions that specialize in housing finance are in disarray as they struggle to clear the wreckage of subprime lending. Capital for new mortgages is suddenly in short supply and lenders are now combing loan applications with rigorous care. State and local governments have been hard hit as property tax revenues and service and permit fee income have declined. The scope of government services has diminished too, as their costs have increased but revenue has declined.

Despite today's challenges, it is worth noting that more than 90% of homeowners are current on their mortgages. Generally, their mortgages are not underwater. Home values continue to appreciate in about one-third of U.S. markets and in even more neighborhoods. The decline in property values has not changed Americans' basic perception that homeownership is good for families and good for communities.

<u>Breaking the Fall: A Homebuyer Tax Credit:</u> Our members continue to report that traffic at open houses and property showings has been steady enough, but that a "No, thanks, just looking" mentality dominates. The "just looking" comment is really a code for "How low will prices go?" and/or "How long will it take?" Currently, no one can answer those questions because today's combination of nationwide falling prices and tight credit are without precedent in the post-World War II economy.

In February 2008, some of NAR's current and former Tax Committee leaders met to explore tax proposals that can help to create a floor under market prices. In the current environment, they have viewed new tax incentives as playing a supporting, but nonetheless important, role in the housing market. At a threshold level, the problems in the housing market are principally financial and the corrections needed are primarily financial and regulatory. Nonetheless, providing tax incentives and correcting the operation of punitive tax provisions can offer many individuals a very consumer-friendly benefit.

The Tax Committee leaders' discussion included property tax holidays, special property tax deductions, tax-exempt bonds, investor incentives and a homebuyer tax credit. They easily agreed that the most beneficial incentive would be a temporary tax credit that would change the "Just looking" mood to "I'm ready to buy." Part of their support for a homebuyer credit is based on the success of a 1975 provision that was designed to clear an over-supply of newly-constructed homes during an economic downturn.

One of the deeper recessions of the past 40 years occurred from 1974 – 1975. At the beginning of that period, home construction had been booming, but the sluggish economy had resulted in a glut of newly-constructed homes. To help clear that inventory, a $2000 homebuyer tax credit for the purchase of newly-constructed homes (but not existing homes) was enacted. That credit was temporary, with a twenty-month duration between March 1975 and January 1, 1977. The credit was available to all purchasers who bought homes that had been constructed within the specified eligibility period. The tax credit incentive worked: New home sales rose as a result to 549,000 in 1975 from 519,000 in the prior year. Momentum and confidence continued the following year and new home sales rose to 646,000 in 1976.

By mid-February this year, work had begun on crafting a homebuyer tax credit that could attract buyers – not just browsers – into the market. Our members believed that if a tax credit could be enacted swiftly, the market might rebound during the spring and summer. Those are typically the most active quarters for residential sales.

Congress had corrected a serious problem for distressed homeowners at the end of 2007 with the enactment of mortgage cancellation relief. The 2007 legislation provided that individuals who either lost their homes through foreclosure or sold at a loss would not be required to pay income tax on any debt that their lenders had forgiven (see discussion below). That relief was a critical first step. That relief, however, was not a tool designed to keep people in their homes or to bolster slumping sales.

As the spring sales season began this year, existing home sales did not demonstrate their usual spurt and have not yet, as of this date, rebounded. The softness in the market was apparent when members of Congress visited their districts in late March during the spring district work period. When Congress returned from the work period, lawmakers initiated a quick and useful response. The Senate passed its version of a homebuyer tax credit in April 2008; the House passed its version in May. As of today, the two versions of H.R. 3221 have not moved to conference. A chart that compares the House and Senate versions of H.R. 3221, a major housing policy bill, is attached as Appendix A.

We note three critical features for an optimal homebuyer tax credit.

First, it would apply to *all* residential real estate, not solely foreclosed property. The Senate version applies only to foreclosed property. This limitation will distort prices in the neighborhoods that have foreclosed properties. Individuals who are trying to sell their homes and who have kept current in their payments would be at a price disadvantage compared with lenders trying to sell off their foreclosed properties. Moreover, the economic benefit of selling a foreclosed property will accrue to the lender who took the property back. A tax incentive for acquiring a foreclosed property from the lender does nothing to soften the loss to the individual who did not or could not make the mortgage payments. Thus, in order to treat all *sellers* fairly, it is critical that all prospective *buyers* be permitted to choose from among all available properties.

Second, a *temporary* credit would assure that prospective purchasers would have to act within a relatively short time. We believe that a homebuyer credit should be available for at least one year, but probably for no longer than 15 to 18 months. The virtue of a temporary provision is that it would force activity. As consumers perceive additional sales activity, they may feel some comfort that the floor for price declines has been reached. There is no way to guarantee such a result, of course, but a tax credit does seem the most efficient mechanism for generating transactions. Market activity is the best way to stabilize prices.

Third, the House-imposed income limits should be increased, particularly for single individuals. After all, there is absolutely no difference between the purchasing power of a single individual and a married couple who have the same amount of income. Moreover, housing policy could presently be viewed as inconsistent. For 2008, Congress has significantly increased the size of loans that the Federal Housing Administration (FHA) can insure and that can be acquired by Fannie Mae and Freddie Mac (the government-sponsored entities, or GSEs.) (NAR urges Congress to make those loan limits permanent.) Under these 2008 provisions, loans of up to as much as $729,000 will qualify under the FHA and GSE rules. We believe that it is inappropriate that current law offers higher FHA or conforming loan limits to borrowers in high-cost housing areas but then makes them ineligible for a tax credit because of income limits. Income limits that apply to the proposed tax credit will make many borrowers in high-cost housing ineligible for the tax credit. NAR believes that this is punitive and will unduly burden high cost areas.

Other Tax Credit Issues: The House version of the tax credit proposal includes a novel repayment feature. The economic effect of this feature is that it converts the credit into what amounts to an interest free loan. Buyers who qualify for the $7500 credit would be required to repay the credit over 15 years, or roughly $500 a year. No mechanism is provided specifying who will collect this payment. Currently, the tax laws have no comparable mechanism that suggests how the IRS will monitor or assure compliance with the repayment feature.

Critics of the repayment provision argue that utilizing the tax credit would actually have the odd result of impairing the cash flow of the new buyers in subsequent years. They argue that the repayment feature turns an incentive on its head because a benefit given in one year is lost in subsequent years. These critics are met with a response that the repayment requirement is a way of assuring that the tax credit is not perceived as a type of bailout provision.

NAR finds the repayment provision odd and complex. While it is not a "deal breaker" for us, we do believe that for the proposed tax credit to act as an incentive, it should be structured as an incentive, not a loan. In addition, the income limits in the House bill make it clear that the House intends for the credit to assist moderate income taxpayers. The policy of limiting the utility of the credit and then also asking for repayment could be burdensome for that group of taxpayers. We therefore are hopeful that the conferees will carefully review this provision.

Some have criticized the homebuyer tax credit proposal because they believe it will provide a perverse incentive. These critics argue that a tax credit will bring additional unqualified borrowers into the market. To those critics NAR would respond: The subprime market is dead. Underwriting standards have gone from ridiculously lax to rigorous almost overnight. Individuals who purchase homes today will be subject to careful scrutiny.

The purpose of a homebuyer tax credit is to shore up a lagging market. Nine of the past eleven months have shown declining existing home sales. We are not advocating a return to the recent market that was characterized by as much as 20% annual appreciation and by something like a feeding frenzy. The total sales volume of 2005 (both new and existing homes) was 8.3 million. That is not sustainable and we do not seek a return to that market. We do, however, aspire to a pre-2002 market volume. Today, we project existing home sales of less than 5 million units. This is somewhat lower than the pre-boom (pre-2002) level. We believe that a homebuyer tax credit can help restore home sales to their pre-boom, i.e., more "normal," level.

Time is of the essence. We urge that Congress move quickly to conference and final passage of this tax incentive. Failure to act quickly could further stall the market as prospective purchasers wait to see if they will qualify for the benefit.

Other Tax Incentive Proposals: When NAR's Tax Committee leaders met in February to discuss tax incentives, several other worthwhile proposals were on the agenda. NAR would likely support any of them, given the opportunity. Our leadership group chose a homebuyer tax credit as the most efficient, but not the exclusive, incentive that could help create a floor for declining housing prices. A summary of the discussion about the remaining proposals follows.

Property Tax Holiday: Property taxes are solely the domain of local governments (and, rarely, of state governments.) The group operated from the premise that they were discussing only Federal remedies that could be considered and enacted through the Congressional tax-writing committees. Accordingly, NAR could see no Federal role in creating a property tax holiday. In addition, our leaders were mindful of the growing fiscal pressures on both state and local governments as a result of the subprime crisis, so did not want to advocate any property tax policy changes that might have different types of impact on different communities.

Special Property Tax Deduction or Special Mortgage Interest Deduction: Both the House and Senate versions of H.R. 3221 include a special property tax deduction. This deduction would be available to individuals who do not otherwise itemize their deductions on Schedule A of Form 1040. The special deduction would be in addition to the standard deduction. (The standard deduction for 2007 was $10,700 on a joint return, $5,350 on a single return.) The House bill provides a so-called "above the line" deduction of up to $350 ($700 on a joint return) for property taxes paid in 2008. The Senate version allows a special deduction of $500 ($1000 on a joint return), but only if state and local taxes are not increased after April 2, 2008 or before January 1, 2009.

NAR certainly shares the view that any special deduction will serve the beneficial purpose of putting more cash into people's pockets. In this instance, property tax amounts are easily ascertainable and the deduction would impose no new compliance burden. This proposal did, however, generate some policy questions that remained unresolved in the group.

The standard deduction is probably one of the most taxpayer-friendly provisions of current law. It is a significant tax simplification device. Indeed, in any particular year, only about 28 – 33 % of taxpayers itemize their deductions. The others use the standard deduction. (Note that the composition of the universe of itemizers changes from year to year, depending on variables like health care expenditures, size of mortgage and amounts of charitable contributions and fixed circumstances like living in a high- or low- tax jurisdiction.) In any particular year, nearly all the individuals who qualify to itemize their deductions do so. Those individuals who use the standard deduction when they could have itemized would have paid more tax than "required." Thus, for most taxpayers, the standard deduction gives them the "best" tax result possible.

The efficiency and simplification of the standard deduction generated the policy questions our members posed. They perceived the proposed "special" property tax deduction as an imprecise tool for targeting distressed homeowners. Some also believed that the special deduction could be seen as contrary to longstanding policy against so-called "double dipping." If the standard deduction is a proxy for deductions such as property tax or mortgage interest, then it was not clear why any special additional deduction for those items would not be equivalent to double dipping. Thus, NAR tax leadership chose not to seek this approach as their preferred option for a housing incentive. NAR does not oppose the provision; the provision merely seems a less direct incentive than a homebuyer tax credit.

Note that several members of Congress suggested that some portion of mortgage interest be deductible in addition to the standard deduction. While no legislation to create such a deduction was considered, similar policy questions would arise. As with the property tax deduction, a special mortgage interest deduction does not target distressed homebuyers. In addition, homeowners who have paid off their mortgages would not receive a cash flow benefit comparable with a special property tax deduction.

Tax-exempt Bonds: The House and Senate versions of H.R. 3221 provide that state housing agencies be given new authority to issue tax-exempt mortgage revenue bonds (MRBs) and use the proceeds from them to help individuals refinance their subprime loans. The provision would allow $10 billion of new MRBs to be issued for this purpose. This would be the first time that MRB proceeds could be used for refinancing.

NAR supports this provision and believes that it is an efficient mechanism for providing capital to serve a particularly bereft class of borrowers. State housing agencies have significant expertise both with the mechanics of issuing bonds and in working with borrowers of modest means. Local housing authorities are knowledgeable about their communities and the housing options within them. In addition, many of these local agencies have important capacity to provide counseling for borrowers. The constituency for mortgages funded with MRBs has always been first-time homebuyers who are often somewhat less knowledgeable about mortgage products and the duties of having a mortgage. Subprime borrowers attempting to refinance will share some of those characteristics and could be well served by these housing authorities.

<u>Bringing Back the Small Investor</u> One of the best ways to help clear the current over-supplied inventory of residential property is to look toward investors. The so-called "small investor" is a class of real estate owners that has all but disappeared. These are individuals who might own a duplex or one or two single family homes or condos that they offer for rent. The reason for their disappearance traces back to the 1986 Tax Reform Act.

In 1986, Congress enacted the so-called "passive loss" rules to shut down abusive, syndicated, tax-shelter projects that were marketed for their tax benefits rather than for the appreciation and income stream from the investment. These stunningly complex rules were designed to deter large partnerships and developer groups from syndicating these large projects. Their target was not the small investor. Thus, to protect individual investors, the passive loss rules included an exception to assure that individuals with moderate incomes could continue to invest in real estate as individual owner-landlords. Under the exception, an individual with less than $100,000 of adjusted gross income (AGI) could deduct up to $25,000 of losses from rental real estate from other non-real estate income. The $100,000 income threshold was phased out at $150,000.

This exception was not indexed for inflation. Accordingly, fewer small investors enter the rental real estate marketplace today. Just as the failure to index *increased* the number of taxpayers caught up in the Alternative Minimum Tax, the failure to index the passive loss exception has the effect of *diminishing* the pool of likely real estate investors who would operate as "small" real estate investors or part-time landlords. The table illustrates what the value of the exception would be today if it had been indexed for inflation.

The $25,000 cap on allowable losses, if indexed for inflation, would be $45,624.

The $100,000 income limitation, if indexed for inflation, would be $182,495.

The $150,000 phase-out cap, if indexed for inflation, would be $273,742.

Some context is also useful in suggesting the relationship between housing prices and inflation. The median price of a home has increased much faster than inflation. This has the effect of increasing the cost of investment while diminishing the allowable tax benefit, thus further freezing small investors out of residential real estate. Note the following median price information.

In 1986, the median price of a single family home, stated in 1986 dollars, was $80,300. Indexed for inflation and stated in 2007 dollars, that median price would be $151,787. *In reality, the median price of a single family home in mid-2007 was actually $217,900.*

In 1986, the median price of a condo, stated in 1986 dollars, was $72,600. Indexed for inflation and stated in 2007 dollars, that price would be $137,232. *In reality, the median price of a condo in mid-2007 was actually $226,300.*

NAR urges Congress to adjust the thresholds for the passive loss exception and index them for inflation. The return of the small investor is essential to the marketplace.

Mortgage Cancellation Tax Relief: At the end of 2007, Congress passed important legislation that provided an incentive mechanism for distressed borrowers and lenders to re-configure existing mortgages and that granted important tax relief to borrowers who had sold their homes for less than they owed (the so-called "upside-down" mortgage) or who had lost their homes through foreclosure. We believe the legislation was based on sound policy objectives and that it was very well crafted.

Before this legislation passed, if a lender did not require a borrower to pay some portion of a mortgage debt (i.e., forgave part of the debt), the borrower was treated as having received income up to the amount of the forgiven debt and to pay income tax at ordinary rates on that phantom income, even though no cash had been received. In the context of the loss of a home, subprime mortgages and record foreclosures, the taxation of this phantom income seemed remarkably unfair.

The relief that Congress provided was a model of fairness. NAR does not seek additional relief now, nor are we likely to seek additional relief in the foreseeable future. We do wish for the Committee to understand, however, that this very important relief does not cover all situations and that there are still individuals who will pay tax on phantom income.

First, the relief is limited to principal residences only. Owners of second homes that find themselves with underwater mortgages or who are foreclosed will not receive any relief from the tax on phantom.

A second problem that arises for some borrowers is that they have refinanced their properties for amounts that exceeded their original acquisition debt (the amount used for the initial purchase) plus the cost of any improvements. The 2007 relief provision *does* apply to a refinanced mortgage *that does not exceed* acquisition debt plus the cost of improvements, but the relief *does not* extend to so-called "cash out" refinancing by means including a new, larger first mortgage, a second mortgage or a home equity line of credit (HELOC).

We believe this treatment is fair. We do note, however, that this limitation has created administrative problems for both borrowers and lenders when they attempt to restructure an existing mortgage and either a second mortgage or HELOC. In those cases, Congress has applied the general policy that applies to most cancelled debt: if the mortgage debt or HELOC debt exceeds the acquisition and improvements cost limit, then the tax laws assume that the excess funds have been consumed and that relief is inappropriate.

Finally, some owners of rental properties have been concerned because the 2007 relief extends only to a principal residence. They have no cause for alarm. In 1993, Congress provided relief for debt discharge on mortgages secured by commercial and investment property. While the 1993 relief is not a complete elimination of tax liability, any tax liability can be deferred until the future sale of other investment property the investor might own.

Commission-based and Self-employment Income: Our final comment applies to the individuals who work within the housing industry. We wish to make the Committee aware that many of our members and many other self-employed individuals, including construction workers, will not receive the $600 stimulus check this year.

Unfortunately, some real estate sales agents had no net income in 2007. Real estate sales agents are compensated solely on a commission basis. Thus, when both the number of sales declines along with the prices of the properties sold, commission income also declines. This does not mean that some of our members had no income; it simply means that by the time they deducted their allowable expenses from their real estate sales revenues, there was no net income to reflect on their 2007 Form 1040.

Similarly, many self-employed construction tradesmen such as carpenters and landscapers will not receive the rebate checks this year. All these groups will receive the economic benefit of the $600 rebate when they file their 2008 tax returns next year. We can all hope that by then the real estate market will be back on more solid footing.

Questions related to this testimony can be addressed to Linda Goold, Tax Counsel, National Association of REALTORS®, 500 New Jersey Ave., N.W. Washington, DC 20001. Ms. Goold can be reached at 202 383 1083 or at lgoold@realtors.org.

Tax Provisions – Mortgage Protection and Foreclosure Relief Legislation – H.R. 3221

Provisions in House and Senate Bills

Home Buyer Tax Credit – Both bills create a temporary tax credit that would be available to some individuals who purchase a principal residence.

Feature	**House-passed HR 3221** Passed full House May 8, 2008 Tax Title – 322 – 94 Full Bill – 256 - 160	**Senate-passed HR 3221** Passed full Senate 84 – 12 April 10, 2008
Amount of credit	$7500 in year of purchase	$7000 over 2 years ($3500 each year)
Eligible Property	Any single-family residence (including condos, co-ops) that will be used as a principal residence.	Foreclosed residences or previously unsold property being constructed on or before September 1, 2007. Must be used as buyer's principal residence.
Refundable	Yes	No. Carryforward permitted.
Income limit	Yes. Full amount of credit available for individuals with adjusted gross income of $70,000 ($140,000 on a joint return). Phases out above those caps.	None
First-time homebuyer only	Yes. May not have owned residence in previous 3 years.	No. All purchasers eligible.
Recapture	Yes. Portion (6.67 % of credit) to be repaid each year for 15 years ($500 a year). If home sold before 15 years, then remainder of credit recaptured.	Credit recaptured if property is sold within two years of purchase or if property not used as principal residence.
Impact on DC credit	DC credit not available if purchaser uses this credit.	Same as House
Effective Date	Purchases on or after April 8, 2008	Date of enactment (when President signs final legislation)
Termination	April 1, 2009	One year from date of enactment
Interaction with Alternative Minimum Tax	Can be used against AMT, so credit will not throw individual into AMT.	Same as House

<u>Mortgage Revenue Bonds:</u> State housing agencies are granted an additional $10 Billion (to be allocated among the states as under current law) for the purpose of refinancing specified subprime mortgages.

Feature	**HR 3221 -- House**	**HR 3221 -- Senate**
Use of Proceeds from Issue of Mortgage Revenue Bonds (MRB)	Proceeds from mortgage revenue bonds (MRBs) may be used to refinance certain subprime mortgages. (Current law does not permit proceeds to be used to refinance mortgages.)	Same as House
Eligible Mortgages	Eligible subprime mortgage: (1) Existing mortgage must have an adjustable rate (2)Balance within existing mortgage limits of MRB program (based on local criteria) (3)Eligible borrower need not have been first-time buyer (4) Loan originated between December 31, 2002 and January 1, 2008 (5) State housing agency must find that borrower will experience hardship if loan not refinanced	Same as House
Interaction with AMT	No provision	Tax-exempt interest from MRBs, Veterans Mortgage Bonds and facility bonds used for rental housing will not be included in AMT base
Effective Date	Proceeds from bonds issued after date of enactment may be used for refinancing. All proceeds must be used before December 31, 2010.	Same as House

Property Tax Deduction: Both bills provide an additional deduction amount for individuals who do not itemize their deductions.

Feature	HR 3221 -- House	HR 3221 -- Senate
Additional Standard Deduction for property tax payments	Up to $350 of property tax may be deducted in addition to the standard deduction. ($700 on a joint return.)	Up to $500 of property tax may be deducted in addition to the standard deduction. ($1000 on a joint return.)
Duration	Tax year 2008	Tax year 2008 only, and only if state and local taxes are not increased after April 2, 2008 or before January 1, 2009

Provisions in Senate Bill Only:

Net Operating Losses: The Senate bill provides that operating losses from tax years 2008 or 2009 may be carried back to offset taxes from the four previous years. (Current law limits carryback to 2 years.)

Provisions in House Bill Only

Feature	HR 3221 -- House
Low-income Housing Tax Credit	Legislation increases amount of tax credit each state may receive as an allocation. Includes numerous technical provisions to modernize the credit. Assures that neither this credit nor other housing-related credits and bonds generate AMT liability.
FIRPTA Reporting Requirements	Current law provides that a seller of any real property interest must provide disclosures to buyers that the seller is a US person. This generally requires the seller to provide his/her Social Security number to the buyer. Concerns about possible identity theft led the Committee to include a provision that would allow the seller to provide the necessary information to the real estate settlement officer (usually a title company or attorney who has fiduciary responsibilities to safeguard the information).
Real Estate Investment Trusts	Technical changes for taxable REIT subsidiaries, dealer rules.
Rehabilitation Tax Credit	Technical changes to interaction of historical rehabilitation tax credit and tax-exempt entities.

Revenue Raisers: No real estate provisions are used to "pay for" changes.

Revenue Raiser	**HR 3221 -- House**	**HR 3221 -- Senate**
Basis Reporting for Securities Dealers	Dealers are required to report not only the amount of gain (loss) on securities, but also the owner's basis in the security.	No provision: Senate package is treated as temporary "emergency" legislation, so no revenue raisers needed.
Multi-national Corporation Accounting Rule	Deferred effective date.	No provision.

NATIONAL ASSOCIATION OF REALTORS®
Government Affairs Division

Testimony of

Gary V. Engelhardt

Maxwell School of Citizenship and Public Affairs

Syracuse University

Before the

U.S. House of Representatives

Committee on Small Business

Hearing on

The Housing Crisis: Identifying Tax Incentives to Stimulate the Economy

June 5, 2008

Chairwoman Velazquez, Ranking Member Chabot, and other committee members:

Thank you for the opportunity to testify at this hearing. While I will focus my remarks on how tax incentives for the housing sector affect economic activity and small businesses, there are a set of basic principles that should guide any discussion of changes to the tax system and will help frame my comments below:

- **Tax policy should promote long-term growth**—Design tax changes with long-term growth in mind. Tax policy is typically not well suited to manage short-term economic fluctuations.
- **Broaden the tax base; level the playing field; lower tax rates**—Eliminating loopholes and preferential tax treatment, and simultaneously lowering marginal tax rates will increase economic efficiency and maintain revenue.
- **Reduce complexity**
- **Generate stability**—A stable tax structure allows individuals and businesses to make good economic decisions without having to the face the uncertainty about whether the system will change in the near term. Reduce the current reliance on sun-setting.
- **Target tax preferences to promote new investment, saving, and increased work effort**—After base broadening, any remaining special preferences should be targeted to those businesses and individuals who, in response, would demonstrably and substantially increase new business capital formation (investment), personal saving, and work effort.

1. The Current State of the Housing Sector

In the recent boom, home buyers in many markets took out adjustable-rate (ARMs) and sub-prime mortgages far beyond their means, many with little to no down payment and deferred repayment schedules, in the anticipation of either further strong gains in house prices or growth in future earnings. As many housing and labor markets have cooled and house prices leveled off, delinquencies and foreclosures have risen, especially for homeowners with ARMs and sub-prime mortgages. This has led to downward pressure on house prices in markets with a large percentage of this type of homeowner, such as in Florida and California. However, not all markets have been affected in this manner.

What has made the problems in the housing sector more problematic is that most mortgages were packaged and sold to investors as mortgage-backed securities, the purchases of which were heavily leveraged. The rise in delinquencies and foreclosures has resulted in a sharp decline in the value of mortgage-backed securities that, in turn, has spilled over into broader financial markets. The tightening of general credit markets has not only reinforced the downward pressure on house prices in many markets, but also made borrowing difficult for households and firms in the non-housing sectors of the economy.

While much of the shake-out for financial companies has already occurred in the form write-downs, housing markets have yet to stabilize. In particular, prices will not stabilize until the large unsold inventory of houses in many markets has been flushed out.

2. Analysis of Recently Proposed Tax Incentives

These challenges have led for calls for new federal legislation to both stabilize in the short run and promote growth in the long run in the housing sector. In particular, the American Housing Rescue and Foreclosure Prevention Act of 2008 (H.R. 3221) would expand tax incentives targeted to housing through a new refundable first-time home buyer tax credit, a new standard deduction for property taxes paid, a temporary increase in existing tax-exempt mortgage bond authority, and a temporary increase in the existing low-income housing tax credit for developers of affordable rental housing. Additional proposals would allow for tax relief for all businesses in the form of income averaging through net loss carry-backs. I briefly discuss the most important of these incentives.

2.1. Net Loss Carry-Backs

Traditionally, the tax system has allowed entities to average their income across years through net loss carry-forwards, in which losses in the current year can be used in part to offset taxable income in a future year. This type of income averaging can be thought of as a form of insurance that allows businesses to smooth taxable income across future years and is potentially very valuable to businesses, big and small.

A net loss carry-back works in the opposite way: losses in the current year can be used in part to offset taxable income from a *prior* year. Whereas carry-backs obviously provide reduced tax payments for businesses with current net operating losses, they are not elements of good tax policy for two reasons. First, because carry-backs apply to decisions made and income earned *in the past*, they are tax preferences that do not generate new investment. Consequently, they will not generate any new long-term growth opportunities. Second, because there is some discretion as to the year in which to claim losses for tax purposes, some businesses will use carry-backs strategically to claim losses now and receive tax benefits in way that would not otherwise occur in the absence of carry-back provisions. This is distortionary and economically inefficient. The proposed temporary nature of carry-back provisions will only exacerbate this.

2.2. Low-Income Housing Tax Credits

The Low-Income Housing Tax Credit (LIHTC) is a place-based subsidy to developers who construct new, affordable rental housing. The LIHTC has grown rapidly. Now, more is spent on this program than on public housing projects. H.R. 3221 would raise LIHTC funding temporarily, by roughly 10%, in an effort to increase affordable housing construction.

The extent to which this increase stimulates construction depends on the extent to which LIHTC-financed projects substitute for, or "crowd out," private low-income construction that would have otherwise occurred in the absence of the LIHTC program. Economists who have studied public-housing subsidies in general and the LIHTC in particular have arrived at a wide range of crowd-out estimates. Sinai and Waldfogel (2005) estimated for all place-based federal housing subsidies (including, but not limited to, the LIHTC) that crowd-out was 70%. More recent studies by Eriksen and Rosenthal (2007) and Baum-Snow and Marion (2008) of the LIHTC specifically found that crowd-out was 60-100% for affordable multi-family rental housing in higher-income neighborhoods, but 0-20% in poor neighborhoods.

Crowd-out of 60-100% means that the LIHTC generates little, if any, new rental housing investment in higher-income neighborhoods. It simply finances construction that would have been done anyway by the private market. Roughly two-thirds of LIHTC funds are spent in higher-income neighborhoods.

For poor neighborhoods, the story is different. Crowd-out of 0-20% means the LIHTC generates substantial new rental housing investment. LIHTC-funded developments would not have occurred otherwise in these neighborhoods. Therefore, the currently proposed increase in LIHTC funding could be better targeted if it were limited to construction in poor neighborhoods. Because the construction industry is dominated by smaller establishments, this would help to promote small business activity in the housing sector.

2.3. First-Time Home-Buyer Tax Credits

Refundable tax credits for first-time home purchase represent a new tax preference for investment in owner-occupied housing that has found its way into recent proposals for tax reform. For example, H.R. 3221 includes a provision for a refundable credit equal to the lesser of 10 percent of the purchase price of the home or $7500 and fully available to first-time home buyers with adjusted gross income of $70,000 or less ($140,000 if married, filing jointly). For those with income above these thresholds but less than $90,000 ($160,000 if married, filing jointly), the credit is gradually phased out. The label "credit" is something of a misnomer, as the $7500 would be repaid without interest over a 15-year period (commencing the second year after home purchase), so that this so-called "credit" is really an interest-free loan of $7500 from the government to first-time home buyers.

The rationale for the credit, which sunsets in 2010, is to provide temporary short-run stimulus to the demand for owner-occupied housing, helping to stabilize prices and generate additional economic activity in the housing sector.

2.3.1. Evidence from Washington, DC

Unfortunately, little is known about the potential impact of a federal first-time home buyer on the national housing sector, as such a credit does not currently (or did not recently) exist. Therefore, I discuss the impact of a similar policy, the $5000 federal tax credit for first-time home buyers available to residents of the District of Columbia, to help provide some basic evidence on the potential impact of a national credit on economic activity in the housing sector.

Beginning in 1997, the credit was available to DC residents who were first-time buyers and was phased out for higher-income households. In fact, the income limits for the proposed national credit were based on the limits for the DC credit. Unlike the currently proposed credit, the DC credit was truly a credit against taxes paid and not an interest-free loan.

Zhong Yi Tong, an economist at Fannie Mae, has studied the impact of the DC credit. From 1997-2001, the credit was claimed on almost 22,000 federal tax returns, and just under $77 million was disbursed under the program (Tong, 2005). The bulk of participants had adjusted annual gross income of $30,000-$75,000. In particular, Tong examined the impact of the credit on house price appreciation in the District relative to four neighboring counties (Arlington, VA; Fairfax, VA; Prince George, MD; Montgomery, MD) and Alexandria City, after versus before the enactment of the credit in 1997. He found that the credit had a substantial impact on house price appreciation: housing capital gains were 4.9 percentage points higher per year in DC relative to the five comparison areas after relative to before the adoption of the credit. In addition, the program generated an estimated $2 billion in additional housing wealth and about $50 in new District property tax revenues.

Tong's analysis did not examine the impact on business activity from the adoption of the credit. So, in preparation for this testimony, Michael Eriksen of Syracuse University and I have analyzed the short-run impact of the adoption of the DC credit on four broader economic outcomes—total number of establishments, total employment, average annual pay, and the establishment-size distribution of businesses—for the construction sector, using data from 1994-2001 drawn from the Census Bureau's *County Business Patterns* database. In particular, in a manner similar to what Tong did, we compared these outcomes for the construction sector relative to all other sectors, after relative to before the enactment of the credit in 1997, for DC relative to the four neighboring counties (Arlington, VA; Fairfax, VA; Prince George, MD; Montgomery, MD).[1] We also examined county-level building-permits data.

While the details of our study are available upon request, the short-run impacts on the construction sector, defined as over the first four years of the program, can be summarized as follows:

- The credit raised the total number of business establishments in the construction sector in DC by 21%;
- Total employment in the construction sector in DC rose by 32%;
- Average annual pay for those employed in the construction sector rose by 9%;
- The bulk of the increase in business establishments in the construction sector occurred in small businesses; and,
- Building permits more than doubled.

However, for the District economy *as a whole*, the impact of the DC credit program was negligible in terms of total number of business establishments and employment. This means that the gains in the construction sector listed above came in the short run at the expense of other sectors in DC economy.

2.3.2. Potential Implications for the Newly Proposed Federal Credit

Although the DC credit appears to have been a success in promoting the housing sector in the District, there are a number of reasons to be less optimistic about the ability of a *temporary* national credit to stimulate housing sector activity in the short run. First, a credit at the national level is not a well-suited policy to bring a substantial number of new home buyers into the market in the very near term. This is because home buying is not a snap decision. It depends on a range of long-term non-housing factors, including employment stability and income growth, over which there is substantial uncertainty. The DC credit was enacted during a period of substantial earnings growth across all segments of the labor market that is not the case currently.

Second, new buyers will not enter markets in decline, taking immediate capital losses. While the period prior to the enactment of the DC credit (1994-6) was toward the end of the trough of a real estate cycle, prices were much more stable than today—and certainly not declining 15%, as is now the case. As mentioned above, prices will not stabilize nationally until

[1] Unfortunately, complete data were not available for Alexandria City.

the large unsold inventory of houses in many markets has been flushed out. Any benefits of a credit likely will not accrue until the medium term. Moreover, the proposed credit is temporary, sun-setting in 2010, potentially altering the timing of some home purchases, but over the long-run not raising the total number of new home buyers in the market.

Third, the recently proposed national credit has a maximum of $7500, which is far less generous than the DC credit. In particular, the proposed credit is really an interest-free loan of $7500, repaid over a 15-year "recapture" period. At a 3 percent real rate of return, the present value of the recapture payments is $5625, so that the actual tax subsidy from the "credit" is $1875 (i.e., $7500-$5625=$1875). In contrast, a $5000 credit in 1997 (when the DC credit was enacted) is equivalent to $7000 in today's dollars because of inflation. This means that the proposed national credit is only 27% as generous as the DC credit expressed in today's prices. This substantial reduction in generosity will result in far less take-up of a national credit than the DC credit, and, hence, far less housing-sector stimulus.

Finally, a maximum tax benefit of $1875 is a larger subsidy as a percentage of the purchase price in lower-priced housing markets. Hence, a national credit would provide a larger stimulus in cheaper markets. However, the markets with the greatest price declines and policy challenges are *relatively expensive* markets that saw substantial price run-ups. If such a credit is being proposed as an economic stabilization tool, it paradoxically would be targeted in a manner exactly opposite to what would be desired.

The appendix table illustrates the generosity of the tax benefit from the credit expressed as a percentage of area median house prices in the committee members' home districts. The subsidy ranges from 0.4% to 1.94% of the purchase price in the most expensive (Brooklyn) and least expensive (Buffalo) districts. New underwriting guidelines at Fannie Mae require conforming loans with 5% down payments. Therefore, the subsidy from the credit would cover between one-twelfth and two-thirds of down payment, depending on the housing market examined.

3. Concluding Remarks

Because financial markets and Federal Reserve policy result in economic adjustments that occur with greater speed than most tax-based policies, new tax incentives for housing are not an attractive solution to problems in the housing sector in the very near term. As indicated in my opening comments, tax changes are best designed with long-term growth in mind. Effort is probably better spent on permanent tax changes that seek to broaden the tax base, reduce tax rates, and reduce complexity, allowing for improved long-run functioning of the economy and future revenue needs to meet forecast obligations in social insurance and other programs. To the extent that a definite need for additional preferences for housing is identified, new tax incentives should be specifically targeted toward promoting new investment and personal saving.

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Appendix: Proposed Tax Credit Subsidy as a Percentage of Home Area Median House Price

Member	Home Area	Median House Price	Subsidy as a Percent of Price
Chairwoman Nydia Velázquez of New York	Brooklyn	$445,400	0.42%
Congressman Heath Shuler of North Carolina	Asheville, NC	$192,700	0.97%
Congressman Charlie Gonzalez of Texas	San Antonio, TX	$149,800	1.25%
Congressman Rick Larsen of Washington	Everett, WA	$372,300	0.50%
Congressman Raúl Grijalva of Arizona	Tucson, AZ	$221,000	0.85%
Congressman Mike Michaud of Maine	Bangor, ME	$234,000	0.80%
Congresswoman Melissa Bean of Illinois	Lake County, IL	$249,600	0.75%
Congressman Henry Cuellar of Texas	Laredo, TX	$142,400	1.32%
Congressman Daniel Lipinski of Illinois	Chicago, IL	$249,600	0.75%
Congresswoman Gwen Moore of Wisconsin	Milwaukee, WI	$204,400	0.92%
Congressman Jason Altmire of Pennsylvania	Allegheny, PA	$111,600	1.68%
Congressman Bruce Braley of Iowa	Dubuque, IA	$130,000	1.44%
Congresswoman Yvette Clarke of New York	Brooklyn	$445,400	0.42%
Congressman Brad Ellsworth of Indiana	Evansville, IN	$107,300	1.75%
Congressman Hank Johnson of Georgia	Dekalb County, GA	$154,000	1.22%
Congressman Joe Sestak of Pennsylvania	Delaware County, PA	$237,000	0.79%
Congressman Brian Higgins of New York	Buffalo, NY	$96,600	1.94%
Congresswoman Mazie Hirono of Hawaii	Honolulu, HI	$620,000	0.30%
Ranking Member Steve Chabot of Ohio	Cincinnati, OH	$128,500	1.46%

Congressman Roscoe Bartlett of Maryland	Frederick, MD	$192,700	0.97%
Congressman Sam Graves of Missouri	Kansas City, MO	$139,500	1.34%
Congressman Todd Akin of Missouri	St Louis, MO	$121,400	1.54%
Congressman Bill Shuster of Pennsylvania	Somerset County, PA	$111,600	1.68%
Congresswoman Marilyn Musgrave of Colorado	Loveland, CO	$223,500	0.84%
Congressman Steve King of Iowa	Sioux City, IA	$147,900	1.27%
Congressman Jeff Fortenberry of Nebraska	Lincoln, NE	$134,000	1.40%
Congressman Lynn Westmoreland of Georgia	Coweta County, GA	$154,000	1.22%
Congressman Louie Gohmert of Texas	Tyler, TX	$142,400	1.32%
Congressman David Davis of Tennessee	Greene County, TN	$146,000	1.28%
Congresswoman Mary Fallin of Oklahoma	Oklahoma City, OK	$124,900	1.50%
Congressman Vern Buchanan of Florida	Sarasota, FL	$262,300	0.71%