NATIONAL ASSOCIATION of REALTORS®
REALTOR®

Ron Phipps
ABR, CRS, GRI, GREEN, e-PRO, SFR
2011 President

Dale A. Stinton
Chief Executive Officer

GOVERNMENT AFFAIRS DIVISION
Jerry Giovaniello, Senior Vice President
Gary Weaver, Vice President
Joe Ventrone, Vice President
Jamie Gregory, Deputy Chief Lobbyist

500 New Jersey Ave., NW
Washington, DC 20001-2020
Ph. 202-383-1194 Fax 202-3837580
www.REALTOR.org

October 21, 2011

The Honorable Jeb Hensarling, Co-Chair
The Honorable Patty Murray, Co-Chair
Joint Select Committee on Deficit Reduction
825B Hart Senate Office Building
Washington, DC 20510

Dear Representative Hensarling and Senator Murray:

The National Association of REALTORS® (NAR) represents more than one million individuals engaged in a variety of real estate activities including residential and commercial sales, leasing, brokerage, property management and appraisal. *On their behalf, and on behalf of the 75 million homeowners in America, I urge you not to change the tax rules that undergird homeownership and real estate investment during this tumultuous time for our nation's housing market.*

While some progress has been made recently in stabilizing the housing market, recovery has been very slow. The housing market is far too fragile to sustain any tax increases. Over the course of the current recession, home prices have already fallen by as much as 30%. Today, as many as 25% of American homeowners are considered "underwater:" the outstanding balance on their mortgages is more than the fair market value of the home itself. Worse yet, RealtyTrac, the leading data source on foreclosures, announced on October 12 that foreclosure filings are once again on the rise.

While REALTORS® understand the essential role of deficit reduction in restoring the nation's long-term fiscal health, we must nonetheless urge Congress to do no harm to housing, a building block of a sound economy. Raising taxes on America's homeowners by changing the tax rules that apply to homeownership now or in the future will further stall the housing recovery and critically erode home values. Moreover, current owners purchased their homes with the expectation that the interest on their mortgages would be deductible. To change the rules now is patently unfair, and changing the rules for the future undermines confidence and would further depress home values. We therefore urge you to leave the Mortgage Interest Deduction (MID) intact.

Even economists who have consistently favored reducing the value of the MID oppose a change right now. On October 6, 2011, the Senate Finance Committee held a hearing entitled "Tax Reform: Incentives for Homeownership." While each witness expressed a different perspective about how or whether to modify the MID, *all* five witnesses, even those who thought the MID should be completely restructured, were unequivocal: ***now is not the time to change the MID or any other housing incentives.*** Each witness cited the weakness of the housing market and the further damage that would follow if longstanding incentives were eroded at this time. Similarly, they all agreed that even a gradual MID reduction that might be deferred to a future time would send the wrong signal to the fragile housing market today.

Some have argued that Congress could make "targeted" changes to the Mortgage Interest Deduction (MID) that would raise revenues while having only limited impact on the economy as a whole. We reject that view. The most widely discussed of these changes were included in the Bowles-Simpson deficit reduction plan. One proposal would be to lower the cap on MID so that interest on up to $500,000 of outstanding mortgages would be deductible. Currently that cap is $1 million. The $1 million figure was adopted in 1987 and was not indexed for inflation. The second proposal would eliminate the deduction for second homes. Both proposals would have wider-reaching implications than many realize. The comments that follow are illustrative only; these proposals are simply examples of a variety of mechanisms that would *all* have the effect of reducing the value of the deduction and increasing taxes on homeowners.

Lowering the cap on MID to $500,000 of outstanding mortgages would not affect just "the rich." In fact, under such a scenario, 86% of affected taxpayers have income of less than $250,000 a year. Further, these homeowners tend to be taxpayers who live in higher cost housing markets who already pay a large share of their income toward housing costs. These same homeowners also pay substantial state and local taxes, including property taxes. Congress should not penalize working families simply because they live in an area where both the initial and monthly costs of home ownership are substantial. Moreover, our research shows that reducing the cap to $500,000 would further reduce the value of homes. Further erosion in home values is unthinkable when combined with the 30% reduction in value that has already occurred.

Another widely reported proposal is to eliminate the MID for second homes. While Congress might be tempted to satisfy some political objectives by raising taxes on families who invest in vacation homes, the reality is that such a tax increase could dramatically undermine the *communities* where these homes are found. The *communities* rely on those very homes and homeowners for their economic lifeblood. Nearly one-third of the counties in the United States have 10% or more of their housing stock in second homes. Forty-nine of the fifty states have at least one of these areas. The tax base and the jobs in the local economy in second home communities depend on the owners of these homes for their sustenance. Undercutting investment in second homes serves only to reduce a local tax base, eliminate jobs and harm the communities where second homes are found. While the owners of the second homes would pay more taxes, Congress would in reality impose an even greater harm on jobs and local economies.

Just as curtailing the MID for principal residences sweeps in a broad array of taxpayers, so also would eliminating the second home deduction harm many more families than "the rich." The average price of a second home in 2010 was $150,000 and the average owner's income was $100,000. Both the home price and the average income of second home owners have actually *declined* since 2003. Further, the average second home owner is nearly 50 years old. At least 34% of them indicate that they plan to use the second home as a principal residence in the future. Clearly many Americans view a second home not just as a recreation opportunity, but also as part of a retirement strategy. Congress should weigh carefully the negative impact that tax changes would have on these individuals against the very small amount of deficit reduction that would result from repealing the second home deduction.

Any proposal that would change the tax incentives for homeownership should be evaluated against the reality that an economic recovery cannot occur until housing markets have stabilized. Recovery is progressing very, very slowly, and has been accompanied by a substantial loss of family wealth, a widespread loss of jobs and an erosion of confidence in both housing markets and the housing finance system.

While long-term deficit reduction would likely improve our nation's fiscal health, deficit reduction that raises taxes on homeowners and harms housing markets will not improve the financial health of America's 75 million homeowners or instill confidence in the millions of Americans hoping to one day own a home. Any deficit reduction that harms housing will only impair our future and further mortgage our children's future.

Sincerely,

Ron Phipps, ABR, CRS, GRI, GREEN, e-PRO, SFR
2011 President, National Association of REALTORS®