March 11, 2009

The Honorable Judd Gregg
393 Russell Senate Office Building
Washington, DC 20510

Dear Senator Gregg:

In every small town and big city in America, the interests of homeowners and financial services companies intersect and, together, form the backbone of communities and the businesses that serve those communities. Indeed, the current economic crisis underscores the reality that housing and financial services are not only the engines of growth in the economy, but are also the foundation on which growth and prosperity have been built. The economy can recover only as fast as the housing market recovers.

Thus, we were surprised at the recommendation in the Administration's FY 2010 budget that proposes limitations on all itemized deductions, including the deductions for mortgage interest, mortgage insurance and real estate taxes. We oppose the recommendation that would reduce the benefits of these deductions for many taxpayers. While the proposal purports to target only "the rich," such a limitation would have a negative impact on all homeowners and would have a chilling effect on prospective homebuyers.

We have learned through sad experience that *all* real estate investments respond to changes that, in theory, have been designed to have limited application. The Tax Reform Act of 1986 provided ample evidence that when the tax benefits associated with existing real estate investments are curtailed, the value of *all* real estate declines – not just the real estate owned by the targeted individuals. We believe changing rules in midstream would place significant downward pressure on the value of *all* homes, not solely the homes of the affected taxpayers.

Those who would defend this limitation on homeowner deductions assert that the proposed transition for the proposal through 2011 would "soften" the impact of the new rule. In fact, we believe that this transition proposal announces to all that appreciation in some categories of homes – and thus in all categories of homes – will be curtailed. Therefore, we believe that the Budget Proposal encourages ongoing instability in housing values.

The housing market, while large, is a fragile, delicate instrument. Moreover, the federal policy choice to support homeownership has been in the Internal Revenue Code since its inception. We see no valid reason to undermine that foundation, particularly at this time. We urge you to oppose any limitations to the income tax deductions presently available to homeowners.

FINANCIAL SERVICES ROUNDTABLE
MORTGAGE BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF HOME BUILDERS
NATIONAL ASSOCIATION OF REALTORS