

October 19, 2009

The Honorable Timothy F. Geithner
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Shaun Donovan
Secretary of Housing and Urban Development
451 7th Street S.W.
Washington, DC 20410

The Honorable Lawrence H. Summers
Chair of the National Economic Council
The White House
1600 Pennsylvania Avenue, NW
2nd Floor, West Wing
Washington, DC 20500

Subject: Request for Support for the Extension of First-time Homebuyer Tax Credit

Dear Secretaries Geithner and Donovan and Dr. Summers:

The undersigned trade associations have supported the first-time homebuyer tax credit as an effective housing stimulus during the current economic crisis. Congress established the homebuyer credit as part of the Housing and Economy Recovery Act of 2008 and it was subsequently expanded in the American Recovery and Reinvestment Act of 2009. The Internal Revenue Service (IRS) recently reported that over 1.4 million taxpayers have benefited from the tax credit as of August 2009¹.

The current global credit crunch and economic recession began in the U.S. housing market, and recovery will not be complete until the housing market returns to economic health. In normal times, housing represents approximately 15% of U.S. gross domestic product, with numerous spillover benefits into other parts of the economy. Although we are seeing some improvement in the housing market, it is essential that the favorable impact of the first-time homebuyer credit be sustained beyond the upcoming expiration date of November 30, 2009.

The undersigned trade associations request your support for the extension of the first-time homebuyer tax credit for twelve more months.

Economic Impacts of Housing

As the housing markets began to falter, the economic ripples were felt across a number of industries. This highlights that housing is a pillar of our economy, and emphasizes the need to ensure we do not jolt today's very fragile housing market just as we are starting

¹ <http://www.irs.gov/newsroom/article/0,,id=213375,00.html>

to see signs of stabilization. As the housing market recovers, so do a number of other businesses, including small businesses that rely on family expenditures that accompany home purchases.

NAR has estimated that the first-time homebuyer tax credit program has generated approximately 355,000 home sales above what would have occurred in the absence of a credit. The credit has also allowed greater mobility among sellers. Existing homeowners are able to relocate (or simply move to a different home) because their current home has been sold to an eligible tax credit buyer. These entry-level, credit-eligible purchases have helped to reduce the glut of homes presently for sale on the market.

This increased housing activity leads to other benefits as well. A December 2008 report by the National Association of Home Builders (NAHB) examined the spending behaviors of those who recently purchased a home. The study showed that buyers of newly-constructed homes spent an average of \$12,332 on additional goods and services. Those who purchased an existing home spent an average of \$8,927. The report indicated that this money is spent in three main areas: property repairs and alterations, appliances, and furnishings. NAHB has estimated that this spending, in addition to other economic benefits connected to housing activity stimulated by the tax credit program, has produced 187,000 jobs.

Importantly, the tax credit has produced tangible effects with respect to the imbalance between supply and demand in the housing market. New home inventory has continued to fall due to dramatic declines in construction. In addition, a welcome pickup in sales has also reduced inventory. Consequently, months-supply currently stands at 7 months, down from 12.4 months in January 2009. A healthy housing market ideally has 5 to 6 months-supply. Likewise, months-supply of existing homes on the market has fallen to 8.5 months, down from its high of 10.6 in November 2008.

Achieving equilibrium between supply and demand for housing is critical to stabilizing housing prices, and therefore household wealth. An extended homebuyer tax credit is a critical policy for achieving this goal.

Conclusion

The undersigned trade associations believe that the first-time homebuyer tax credit has had a stimulative impact on our economy. We support extending and even expanding it so the credit can help more buyers and sellers. As we approach the sunset date of the current \$8,000 tax credit, we urge Congress to expand the program to include all purchasers of principal residences, increase the credit, make the funds available for closing, and extend the overall program by at least 12 months.

Our fragile economy is just beginning to show signs of recovery. We should not jeopardize that recovery by letting this tax credit expire. The homebuyer tax credit is

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helping hundreds of thousands of Americans realize the American dream, and it is creating thousands of jobs that rely on housing. Problems in the housing industry led us into a global recession, and housing incentives can help lead us out of the recession.

Our members greatly appreciate the efforts that the current administration has made by helping troubled homeowners to stay in their homes, providing Treasury support to the secondary market for mortgages, and shoring up the housing industry through the first-time homebuyer tax credit. We encourage you to finish the job already started by extending and expanding the current first-time homebuyer tax credit.

Most sincerely,

Mortgage Bankers Association
National Association of Home Builders
National Association of Realtors