Testimony of

Joe R. Robson

On Behalf Of the
National Association of Home Builders

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Hearing on

<u>Priorities for the Next Administration:</u>
<u>Use of TARP funds under EESA</u>

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On behalf of more than 200,000 members of the National Association of Home Builders (NAHB), I thank you for the opportunity to submit this statement on the issue of the Troubled Asset Relief Program (TARP) funding under the Emergency Economic Stabilization Act (EESA). My name is Joe Robson, and I am a builder and developer from Tulsa, Oklahoma, and the 2008 NAHB Chairman-elect of the Board.

NAHB was a strong supporter of the EESA, as well as TARP, as a means for addressing the dramatic deterioration in credit availability. Unfortunately, while the stated intent of the EESA was to expand the flow of credit to consumers and businesses on competitive terms, and to promote the sustained growth and vitality of the nation, the home building industry continues to experience severe credit problems since passage of the EESA. In addition, the TARP program does not adequately respond to the nation's foreclosure crisis, which must be addressed to keep people in their homes, help stabilize home prices and promote recovery of the housing market.

This statement focuses on three key areas, and with accompanying recommendations, to address the critical failings of the TARP program as it relates to the housing industry.

- Foreclosure Mitigation Efforts – NAHB supports the foreclosure mitigation proposal of the Federal Deposit Insurance Corporation (FDIC). Additionally, we are prepared to revisit our opposition to a temporary change to the bankruptcy code to allow bankruptcy judges to address the problems faced by some struggling homeowners who find themselves underwater on their mortgage and struggling with their monthly payments.

- Credit Liquidity – The nation's credit markets are still frozen. Banks who have received TARP funds have come under deserved criticism for not using the funds to expand credit liquidity. For the home building industry, the dramatic deterioration in credit availability has severely impacted the Acquisition, Development and Construction (AD&C) credit market. NAHB is cautioning banking regulators about the seriousness of the AD&C credit crunch and warning that further tightening of credit will only make matters worse by further depressing home prices and increasing the number of stressed properties on the market. Banks who receive TARP funds must increase lending and improve accountability through guidance on lending to creditworthy borrowers.

- Stimulate Housing Demand – Falling home values are at the core of the current economic crisis; driven by a record high supply of existing homes. Congress must pass temporary and targeted incentives to encourage Americans to buy homes again to stabilize the home prices, values and the market overall. In conjunction with foreclosure mitigation efforts, NAHB's recommendations focus on the other side of the inventory problem that is at the core of the economic crisis – demand for housing. NAHB's proposal to stimulate housing demand through an enhancement of the Home Buyer Tax Credit and a program to offer below market fixed-rate mortgages for home purchases will increase home purchases by 1.1 million homes in 2009 and create more than 539,000 jobs.

Foreclosure Mitigation Efforts

Finding ways to help those having trouble paying their mortgage is an essential component of any solution to the housing problems so adversely effecting local communities and economies. There are huge waves of problem loans on the horizon, and it is critical to take prompt and decisive action to prevent the failure of these loans and avoid further surges in the inventory of unsold homes. Reducing foreclosures is a vital element to success in stabilizing housing markets, housing prices and to fostering the overall economic recovery.

NAHB strongly supports the plan put forward by the FDIC to use of TARP funds in foreclosure mitigation efforts. This plan is a creative approach to efficient and effective loan modification. It contains features, including risk-sharing with current mortgage holders and enhanced compensation for servicers, which will facilitate a systematic process in reworking the terms on troubled loans. NAHB believes such an approach can produce a significant reduction in impending foreclosures.

FDIC Chair Sheila Bair has proposed using $24 billion of the funds Congress authorized for the TARP to provide loan guarantees to achieve greater success in foreclosure mitigation efforts. In the proposed program, mortgage investors who agree to modify mortgage terms to reduce a troubled borrower's monthly payment burden would receive a federal guarantee on repayment of a portion of the restructured loan. FDIC estimates that the program could result in 2.2 million loan modifications (out of 4.4 million problem loans) and, after allowance for an expected rate of default on the restructured loans, 1.5 million foreclosures could be avoided. The goal is to break the current adverse cycle of increasing foreclosures, which drives down home prices, places more homeowners in mortgage jeopardy and leads to further waves of foreclosures and price declines.

The FDIC initiative is an attempt to overcome impediments that have limited the success of existing foreclosure mitigation programs, where mortgage holders must agree to significant reductions in principal repayment. Under the FDIC plan, investors are not forced to accept principal haircuts. Instead mortgage holders can improve loan affordability by calibrating various loan terms -- reducing the interest rate, extending the term of the loan and/or deferring (but not forgiving) principal payments. The FDIC has employed these techniques in foreclosure mitigation efforts on mortgages that are held by IndyMac, which failed and is operating under FDIC control.

The FDIC plan focuses on improving the net present value of the loan modification option to make it preferable to foreclosure proceedings. TARP funds would be used to share the risk of loss in a subsequent default on the modified mortgages. Another difference between the FDIC initiative and other existing foreclosure reduction efforts is that mortgage servicers would receive additional compensation of $1,000 for each loan modified. Another distinction of the FDIC approach is the emphasis on a more standardized and systematic reworking of troubled mortgage portfolios. Under other programs, the approach is loan-by-loan, limiting activity and promoting adverse selection, where investors only offer the loans with the greatest likelihood of failure. The FDIC program would be limited to mortgages secured by owner-occupied properties. The loan modifications would be targeted to reducing the borrower's first lien mortgage payment to

as low as 31 percent of monthly income. Each loan would be subject to a net present value test to ensure that a modification is the least-cost option. For loans with loan-to-value (LTV) ratios above 100 percent, the government's repayment guarantee would be progressively reduced from 50 percent to 20 percent as the current LTV rises. No government guarantee would be available for loans with LTVs that exceed 150 percent. The loss-sharing provision would end eight years following the mortgage restructuring.

In light of the prolonged and severe nature of the housing downturn, NAHB urges Congress to explore a broad array of options to stabilize the housing market and assist struggling homeowners. NAHB recognizes that one of the tools Congress will consider is changing how primary residence mortgages are handled in bankruptcy court. As part of a comprehensive plan to address the housing downturn, NAHB is prepared to revisit its opposition to a change to the bankruptcy code to allow bankruptcy judges to address the problems faced by some struggling homeowners who find themselves underwater and struggling with ballooning monthly payments. NAHB believes that these changes should be temporary and, to avoid further damage to the credit markets, apply only to specific, existing mortgages.

Credit Liquidity

When Congress passed the EESA, and TARP, the stated intent of EESA was to expand the flow of credit to consumers and businesses on competitive terms to promote the sustained growth and vitality of the nation. In conjunction with EESA, the government has taken some very dramatic steps to address unprecedented credit market problems.

- The Federal Reserve has established a number of new credit facilities as a backstop for sectors where normal credit channels are frozen.
- The Fed has also pumped liquidity into the system and helped reduce mortgage borrowing costs, which is greatly appreciated by the housing industry.
- The Treasury Department has employed TARP funds to establish a Capital Purchase Program (CPP) that is injecting $250 billion into hundreds of banking institutions.
- The FDIC has increased the level of deposit insurance coverage to $250,000 and is backing newly issued senior unsecured bank debt through the Temporary Liquidity Guaranty Program (TLGP).

Despite these efforts, TARP funding has come under criticism for failing to expand credit liquidity. The feedback we get over and over from our members is – *"My bank has received bailout funds but still refuses to lend or consider viable loan workout options."* While NAHB is appreciative of the recent statement by the banking regulators urging banks to lend to creditworthy borrowers, we are confounded that institutions that receive taxpayer provided TARP funds are not <u>required</u> to extend such credit.

We understand that the FDIC is developing guidance to implement the statement on lending to creditworthy borrowers. NAHB wholeheartedly supports this effort, and we urge all the banking

regulators to adopt such guidance. Further, we believe the guidance should be enforced for all regulated depository institutions, not just those receiving TARP funds. Additionally, NAHB urges the regulators to adopt a process for monitoring the use of TARP funds within the supervisory process.

NAHB's greatest concern is that credit seemingly is being cut off indiscriminately for acquisition, development and construction (AD&C) loans to builders and developers. Construction lending for multifamily projects is also at a standstill, even though that part of our industry is not burdened by an inventory overhang. It seems that institutions have placed an "off limits" sign on their real estate lending operations and are not willing to give serious consideration to even very viable projects. As discussed below, this will have dire near-term and longer-term economic consequences.

AD&C Credit Problems

The housing sector is an industry made up mostly of small businesses. About four-in-five of NAHB's member firms build fewer than 25 homes a year in a normal year. Each year, NAHB's builder members construct about 80 percent of all new housing in America.

These small businesses depend almost entirely upon commercial banks and thrifts for housing production credit. Our surveys show that 90 percent of all loans for residential AD&C projects come from commercial banks and thrifts.

Residential AD&C loans are used to purchase land; develop lots; build a project's infrastructure such as streets, curbs, sidewalks, lighting, and sewer and utility connections; and construct homes. Loans extended to builder/developers are short-term obligations lent as progress payments, i.e., portions of the loan commitment are advanced as stages of the construction project are completed. The advances, or draws, are generally made over a six-to-18 month period. The principal and interest on the loans is repaid to the lender when the home is sold. Builders typically secure this financing through personal guarantees and/or offering other assets as collateral.

Current AD&C Financing Conditions

Home builders have struggled as much as other businesses during this credit crisis. Much focus has been given lately to expanding TARP funds for other credit markets, but no similar attention has been given to supporting distressed builders or projects. However, the problems facing NAHB's members parallel those in the home mortgage market. Home builders are having extreme difficulty in obtaining credit for viable projects. Builders with outstanding construction and development loans are experiencing intense pressure as the result of requirements for significant additional equity, denials on loan extensions, and demands for immediate repayment. The credit window seems to have been slammed shut for builders all over the country.

In many instances, the construction projects are solid projects that simply need to be built out for completion. Even builders who are current on their AD&C loan payments are facing bank demands for additional capital. Most builders have no alternative financing sources, and thus

those who would otherwise be able to complete and sell their project under the original terms of the loans, are being bankrupted because they lack the additional money the banks suddenly demand. Performing loans are therefore rendered non-performing as a result of these actions.

These trends are supported by NAHB's member surveys of the availability and cost of AD&C credit. Our latest survey, conducted in November, shows continued, severe deterioration in credit availability for all types of residential AD&C loans – for both new loans and outstanding credit. Key findings of the November survey are highlighted below.

- 74 percent of respondents stated that the availability of credit for new single family construction loans worsened in the August – October 2008 period compared to the June – August period as reported in the September 2008 survey. This continues a progressive rise over the past year in the proportion making such an assessment.

- 87 percent of those seeking land acquisition loans reported worse credit availability;

- this reading was 85 percent for those seeking land development credit and 86 percent for those trying to line up construction funds for multifamily housing.

- Of those reporting deterioration of credit availability, 80 percent noted lower loan-to-value limits, while 79 percent indicated a reduction in the amount lenders are willing to lend.

- Nearly 40 percent reported tighter loan terms for outstanding land development loans;

- 37 percent stated stricter terms on outstanding single family construction loans.

NAHB also has been collecting case studies of builder financing problems, which show the problems are no longer confined to the housing boom-bust states, but have spread to almost all parts of the country. The feedback we are getting over and over from our members is that banks are unwilling to provide credit for AD&C loans and are not providing reasonable flexibility on outstanding loans.

Appraisals are a major issue. Appraisers are using short-sales and distressed properties, including foreclosed homes, as comparables which is inappropriately driving down values. Some of the appraisals are well below replacement cost, which shows how dysfunctional the process has become. As a result of reappraisals, equity calls have become commonplace, even on current loans with underlying projects that are performing well.

Performing loans that have been extended routinely in the past are now being called. Many banks are refusing to consider viable loan workout options. Some lenders are abandoning the construction lending business, without regard to a builder's ongoing projects, and some institutions are auctioning off loans without negotiating with the builder. These actions have increased foreclosures on D&C projects which in turn have hurt communities by unnecessarily increasing the inventory of unsold or half-completed homes.

Of concern to NAHB is that the stress in the AD&C market is being exacerbated by the actions of banks and bank regulators. While the banking regulators have stated the importance for institutions to continue making loans on viable projects, that message seems to be getting drowned out by the intensified warnings on the risks of declining markets and portfolio concentrations. NAHB has cautioned banking regulators about the seriousness of the AD&C credit crunch and has warned that further tightening of credit will only make matters worse by further depressing home prices and increasing the number of stressed properties on the market.

The latest setback for home builder borrowers is the rising number of bank and thrift failures. Builders with outstanding loans that are placed under FDIC control are frequently unable to contact a decision maker to deal with routine, but time-sensitive, matters related to loan draws or extensions. We have recently discussed these receivership problems with FDIC Chairman Bair, and we look forward to working with her and the FDIC staff to improve their receivership processes and to develop information for builders affected by FDIC takeovers.

Economic Impact of the AD&C Credit Crunch

The credit crunch faced by home builders will exacerbate the current housing inventory problem, prolonging the downward spiral in home prices and the housing slump. Clearing out the overhang of unsold homes is a key factor toward stabilizing housing markets and prices. While the level of unsold homes varies significantly across markets, builders in depressed areas have slashed home production to levels well below that needed to meet longer-term demand. Lenders in these markets will not resume lending until a supply-demand balance is restored. The credit crunch is also contributing to slowing housing production in areas not impacted by excessive inventories.

The problems in the housing sector have had a significant impact on the nation's economy. The sharp decline in home building from the 2005 peak – a drop of one million units – has translated into 1.4 million lost jobs for construction workers and the loss of $70 billion in wages.

The housing plunge has also impacted industries that provide materials and services to home builders. Over 560,000 jobs have been lost in the manufacturing sector due to the housing decline as makers of products such as lumber, concrete, windows, doors, plumbing, flooring and appliances have slashed their workforce in response to slumping demand. This has produced a loss of $25 billion in wages.

Further, jobs have been lost by lenders, architects, real estate agents, lawyers, support staff and others who provide services to home builders and home buyers. There has been a loss of over 580,000 jobs and $32 billion in wages for these service providers.

The total impact of the housing slump has been the loss of over 3 million jobs and $145 billion in wages in all housing-related industries. Detailed tables on these economic effects, which also show losses in federal, state and local tax and fee revenue, are attached to this statement.

The ongoing credit problems for home builders will further inflate these totals. Home builders cannot keep their doors open and provide jobs in their communities if they cannot get credit to

build even pre-sold homes. And builders in the middle of viable projects cannot pay subcontractors and other materials and services providers if lenders will not grant routine loan extensions or if banks require payment-in-full before homes can be finished and delivered.

The credit crunch also will cause longer-term economic damage. The development process is lengthy, taking years from the acquisition of land to the completion of homes. With lenders refusing to finance lot development, the pipeline of ready-to-build-on land will drain dry. This will result in a major delay in meeting demand for new homes when consumers return to the marketplace in more significant numbers. In cases where federal permits are also required, expirations of these permits will force builders to start the approval process anew, adding at least several years to the pipeline. The effect will be most severe in markets that have not suffered the boom-bust extremes and would otherwise be poised for more rapid recovery.

Solutions to AD&C Lending Problems

NAHB urges the banking regulators to achieve more balance in their messages on safe and sound lending practices. We want ensure that the regulators encouragement to keep lending on sound projects is not overwhelmed and forgotten by efforts to focus on problem loans and portfolio concentrations. We also urge regulators to include monitoring the use of TARP funds within the supervisory/examination system.

As noted, most of NAHB's builder members are small businesses with limited resources; so requirements for additional equity, fees and/or interest payments can prove to be an unbearable burden. NAHB urges the Committee to encourage regulators and lenders to give leeway to residential construction borrowers who have loans in good standing by providing flexibility on re-appraisals and forbearance on loans to give builders time to complete their projects. Lenders should be encouraged to explore loan modifications and all prudent alternatives to foreclosure. We believe that in almost all cases the best outcome for the lender will result from working through market difficulties with the current builder. As in the end-loan mortgage market, foreclosure is usually the highest-loss outcome.

As discussed above, equity calls on well-performing AD&C loans are having a negative impact on builders and communities. Under the current economic and real estate climate, appraisers are having an extremely difficult job determining appropriate fair values on AD&C projects. They are often overwhelmed with the economic uncertainty and the volume of delinquent and underperforming loans. In our view, this has resulted in very inconsistent and overly conservative appraisals that have turned well performing AD&C loans into troubled assets or even non-performing loans.

For this reason, NAHB is seeking an allocation from TARP, explicitly allocated to AD&C lending, which would enable financial institutions to defer equity calls and allow builders to complete viable projects. NAHB has a detailed plan that could include builder contributions as part of a dedicated TARP allocation. We estimate the cost of such a program would be approximately $20 billion, or less based on the level of builder contributions. The goal is to avoid unnecessary and onerous equity calls by financial institutions on projects that are

bankrupting many small and medium sized builders that rely exclusively on bank funding. If this situation is not aggressively addressed, it will unnecessarily put more real estate-related loans into default, additional pressure on the banking system and the insurance fund, and create more hardship on already stressed communities.

Multifamily Credit Problems

The credit freeze is spreading to the multifamily market. Even though the fundamentals of apartment development remain strong and delinquencies on loans remain low, the multifamily sector is viewed as risky as other commercial and residential real estate.

NAHB multifamily members report that construction lending is at a standstill. Multifamily developers with construction loans on viable projects in good markets are having difficulty obtaining permanent take-out loans. Commercial bank lending has slowed dramatically, life insurance companies have reduced lending for commercial properties by 50 percent compared to last year, and the Commercial Mortgage Backed Securities (CMBS) market is dead.

Fannie Mae, Freddie Mac and the FHA Multifamily mortgage insurance programs have kept the multifamily market afloat. But the agencies' underwriting requirements have tightened considerably, and we expect this trend to continue. Equity requirements of 35 to 40 percent have become the norm, but investors are deploying their equity conservatively or not at all.

In addition, acquisitions of existing apartments have slowed substantially. With cap rates rising, valuation has become more difficult. Thus, the bid-ask expectations have widened, stalling transaction activity.

Also of alarm, over the course of 2008, interest rate spreads for Ginnie Mae multifamily construction loan securities have widened by 100 basis points, making them significantly higher than on Ginnie Mae permanent loan securities. Typically, the rates are the same. The impact of the spread is a higher mortgage note rate, making many FHA-insured new construction and substantial rehabilitation developments infeasible.

The reason for the higher construction loan securities rate is that there are few investors willing to buy and hold these securities until they convert to a permanent loan security. Many of the traditional Ginnie Mae investors are experiencing balance sheet issues and holding construction loans until they can be placed in a Real Estate Mortgage Investment Conduit (REMIC) as permanent loans. This creates additional balance sheet risk, which has created the widened spreads.

There is an industry proposal to address this issue as part of the economic stimulus package by expanding the Federal Reserve program that is purchasing Fannie Mae, Freddie Mac and Ginnie Mae securities backed by single-family loans. This program could also include the purchase of Ginnie Mae construction loan securities at the same rate as the private market is paying for Ginnie Mae permanent loan securities. The ready market for permanent loan securities would set a benchmark for the pricing and would allow a private market for construction loan securities to reemerge once investors' balance sheets allow their reentry into this credit risk-free market.

Once the construction/rehabilitation is completed on these projects (usually 18 to 24 months), the Fed could sell the permanent loan securities and potentially return a profit. A relatively small investment of Fed funds could have a significant positive impact on the ability of FHA to finance needed affordable multifamily housing. NAHB supports this proposal and urges the Committee to consider it.

NAHB also urges the Committee to consider ways to alleviate the liquidity issues for the broader commercial real estate market, which would further assist the multifamily market.

Low Income Housing Tax Credit – Investor Market

While not specifically in the jurisdiction of the Financial Services Committee, the Low Income Housing Tax Credit (LIHTC) is the single most important affordable housing production program in the Federal Government. This critical importance and the collateral damage done to the program by the troubles in the financial markets compelled us to include it in this statement. In the last six months, the credit crunch and financial troubles in the larger financial markets have spilled over into affordable housing where equity investment in the Low Income Housing Tax Credit (LIHTC) has deteriorated significantly. This is a serious problem for the nation's only significant affordable housing production program.

Equity prices for LIHTC investment are declining to levels at which it is extremely difficult to finance new affordable housing properties. One primary reason for this is the departure from the tax credit investor market of Fannie Mae and Freddie Mac, which at one time were almost 40 percent of the investor pool for tax credits. Together with the troubles in the banking and financial sectors (which also traditionally are the strongest source of equity financing through the LIHTC), the program's ability to produce affordable rental housing is significantly impaired. Additionally, should investors that currently hold credits, but are now unable to use them because of a lack of income to offset, decide to sell them at fire sale prices, the market for new credits will decline even further.

The LIHTC has been successful for many years in attracting investors and providing much needed housing for low- and moderate-income Americans. NAHB is confident the current environment is only a temporary condition. However, with the market not expected to improve for several years, and many people losing their homes to foreclosure, it is not a time to slow down the production of new affordable units. In short, the program needs a temporary stabilizer for investment to carry it through this economic crisis.

To improve the financial health of this important program, NAHB recommends several options.

1. Bring individuals back into the LIHTC investment market.

As part of *Housing and Economic Recovery Act (HERA),* Congress enacted changes allowing individuals to offset their alternative minimum tax (AMT) liability with low-income housing tax credits. This provision is one important step toward bringing individual taxpayers (as opposed to only corporate taxpayers) back into the LIHTC program; once a core constituency for the program. The second logical step is to change the passive loss rules, established as part of the

Tax Reform Act of 1986 but not revisited since that time. These rules are the most significant hurdle to individual investment with respect to the LIHTC program.

Currently, Section 469 of the Code establishes a $25,000 limitation on passive loss deductions, which include credits calculated as a deduction equivalent. In general, depending on marginal income tax rate, the credit amount individual investors are able to claim is approximately one third of that amount or $8,750 in LIHTCs per year without offsetting passive income. In other words, individuals who invest in LIHTCs may only apply those credits up to a maximum of $25,000 of ordinary income multiplied by the individual's tax bracket. With a marginal rate of 35 percent the maximum credit amount claimed would be $8750 in a given tax year. With this limitation, builders and syndicators must bring together many individuals for one deal; creating a costly and time consuming process and rendering individual taxpayer investment infeasible.

Historically, corporate investment in the LIHTC program was reliable and more than adequately filled any loss in the individual investor pool. However, it has also been difficult to attract corporate investor interest to small and rural deals, since corporate investors look for larger deals with higher amounts of tax credits to offset their federal tax liability. These kinds of transactions are more common in urban and suburban areas. The problem for the rural and small project is compounded by the current problems in the LIHTC investment market. Institutions investing in LIHTCs today have less competition and are therefore placing even greater focus on investments in urban areas, where the deals are larger and there is a larger pool of potential tenants.

As Congress considers ways to expand the pool of potential investors in LIHTCs or to increase the attractiveness of LIHTCs to investors, we believe it is important to consider limited changes to the passive loss rules to bring individual investors back into the program. One option is to suspend the passive loss rules for LIHTC investors, altogether. A second option is to increase the limitation on passive losses to an amount that makes individual investment viable again.

2. *Prevent "dumping" of existing LIHTCs back onto market by increasing the value of LIHTCs to existing investors*

    a. *Make the LIHTC a refundable tax credit*

        Investors increasingly find it difficult to predict their tax liability over the term of the LIHTC claim period. Without predictable tax liability, the value of the credit itself is reduced. Making the LIHTC a refundable tax credit would provide a tax refund for LIHTCs regardless of taxpaying status. This would help the current situation by stimulating investment and ensuring that existing credits are not resold in the syndication market, thus checking the decline in LIHTC prices.

    b. *Expand the LIHTC carry back rule from one-year to five-years*

        The carry back rule for Low-Income Housing Tax Credits is currently limited to one-year under the Section 38 General Business Credit rules. Expanding this carry back to five-years will ease the downward pressure on LIHTC

prices by allowing credits to be claimed by investors that may not have federal tax liability in the present year. This will reduce the incentive for some LIHTC investors to sell their credits. For those investors subject to the alternative minimum tax (AMT) in previous years, this proposal would require an expansion of AMT relief that was included in HERA for projects placed in service prior to December 31, 2007.

3. Enhance and diversify the pool of future LIHTC investors

In addition to bringing individual investors back into the LIHTC market, NAHB supports changes to the LIHTC that will enhance its overall attractiveness to new and existing investors. In 1990, Congress enacted legislation allowing investors to claim 150 percent of the otherwise allowable first year credit amount, with reductions in the remaining credit claim years by an equal amount of the enhanced credit. This temporary change was intended as a means of attracting new investors into the program. Technical changes, such as this or reducing the credit claim period, would make the LIHTC a competitive alternative to other investment options.

4. Gap Financing for LIHTC Projects

With investor demand for LIHTCs dramatically down from previous years' levels, the value of the credit has also declined creating significant funding gaps for these projects. Without the necessary equity, these affordable housing units will not be built at a time when many low-income Americans are losing their homes. NAHB recommends that funds be allocated to State Housing Finance Agencies to make up equity shortfalls in developments which have LIHTC allocations but have not generated sufficient equity for the developments to move forward.

Stimulate Housing Demand

Housing is central to the economic crisis that now affects the world economy. The declines in house prices, the surge in foreclosures, and the reduction in home building activity are historic in scope and threaten to generate the most severe recession in generations. In addition to focusing on foreclosure mitigation, policies that aim to improve the current economic environment must address conditions in the housing market on the demand side as well.

Under normal conditions, housing accounts for 16 percent of the U.S. economy. Housing, and jobs and economic impacts created by home building and its downstream and related industries, impacts every state, county, and Congressional District in the United States. However, home building has suffered the worst and sharpest decline in production in over 60 years. The intensity of the housing decline varies across states with the most significant impacts concentrated in about ten states. Importantly, the loss in household wealth from home value declines and the continued decline in home prices exacerbated by rapidly increasing foreclosures have left consumers with no confidence in buying a home. The weakened economy has added another nail in housing's coffin, further discouraging home purchases. As a result, the U.S. economy has lost over 3 million jobs in housing construction and related fields, and has over 6 million vacant homes on the market.

To bring consumers back to the market, reduce inventories of unsold homes and stabilize home values, NAHB is advocating for a two-pronged approach, focusing on temporary programs that will strengthen housing demand and promote economic recovery. Our plan combines the double spark of an enhanced home buyer tax credit and a mortgage rate buy down to help restore consumer confidence and stimulate demand for new homes by providing an incentive to drive new home purchases.

Specifically, our plan would enhance the Home Buyer Tax Credit passed as part of HERA by eliminating the current recapture requirement; increasing the credit amount and eligibility period; expanding the credit to all homebuyers; and making the credit available at the time of closing. Additionally, the interest rate buy down program would offer below market 30-year fixed-rate mortgages for the purchase of a primary residence by offering a 2.99 percent rate for contracts closed before June 30, 1009, and a 3.99 percent rate for contracts closed through the end of 2009.

This two-pronged housing stimulus approach is not new. In fact, this plan mirrors legislation passed by Congress in 1974 and 1975 to deal with the exact same problem. At the time, the Dow Jones Industrial Average was falling precipitously, the country was in the midst of a recession and unemployment rates were rising. At the end of 1974, the Consumer Confidence index was at its lowest point ever recorded – that is, until the new all time low in October 2008.

After the implementation of both the mortgage rate buy-down and new home buyer tax credit, the results came fast and were dramatic. Existing home sales increase by roughly 500,000 per year, reaching almost 4 million in 1978. Housing starts increased by roughly 400,000 per year and were back up to near 2 million by 1977. The impacts on the overall economy were equally dramatic. Real GDP growth rebounded to better than 5 percent the very next year. Unemployment also began to improve in 1976, although it took until 1978 for the rate to fall back into the neighborhood of 6 percent.

Based on our analysis, implementing this proposal will increase home purchases by 1.1 million homes in 2009, which would help soak up the excess supply and push house prices back in the positive direction. The economic stimulus created by established households moving into new homes, and the added construction necessary to answer demand where there is no excess supply, will create more than 539,000 jobs, $26 billion in wages and salaries, $21 billion in business income, $14 billion in federal tax revenues and $4 billion in state and local tax revenues. In short, the proposal will incentivize home buyers at a time when consumers remain uncertain about the future and energize our economy.

Housing demand and household formations are very positive for the future, but until a spark ignites demand, the pain from a lack of demand coupled with excess supply will cause further harm to all households and to the overall economy. The time is now to implement demand-side housing stimulus.

Conclusion

Thank you once again for this opportunity to provide the home builder perspective on the issue of TARP funding under ESEA. As I strong supporter of the EESA and TARP during

Congressional passage, NAHB was hopeful the program would address many of the critical issues facing our industry and nation. While the results of this legislation have been mixed at best, NAHB looks forward to working with this Committee to develop additional solutions aimed at addressing the critical issues of foreclosure mitigation, credit liquidity, and housing stimulus. I welcome any questions you may have for me.