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HOME BUYER TAX CREDIT WON'T FIX THE FORECLOSURE CRISIS AND WON'T KEEP PEOPLE IN THEIR HOMES  
Congress Should Focus on Restructuring Mortgages, Not on Housing Oversupply  
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WASHINGTON, DC -- Lawmakers under political pressure to "do something" to fix the current foreclosure crisis must act carefully and reject proposals that will do more harm than good, including pending legislation that would create a new tax credit for people who buy a new house or a house in default or foreclosure. The following is a statement by Jim Arbury, Senior Vice President of Government Affairs for the National Multi Housing Council and the National Apartment Association Joint Legislative Program.

"We understand efforts to help those who can reasonably afford their houses to stay in them, but a home buyer tax credit does nothing to help people stay in their houses. The real problem in the housing market is not the oversupply problem, which the home buyer tax credit targets, but the liquidity problem. Investors have lost confidence in the mortgage market securitization process and until that confidence is restored, the housing market will continue to suffer.

"If Congress wants to address the problems in the housing sector, we would encourage them to start with measures targeting the mortgage market instead of the sales market.

"Proponents argue that the tax credit is needed to stimulate house sales, but a taxpayer-financed solution to oversupply problems is neither necessary nor fiscally responsible. The marketplace can, and should, correct it just as it has corrected past oversupply problems in housing and other sectors.

"The unintended consequences of a home buyer tax credit should cause any lawmaker to pause and reconsider. In short, such a credit could actually increase foreclosures and accelerate house price declines.

"It would increase foreclosures because it creates an incentive for lenders to foreclose so that they can entice a buyer to use the government subsidy to take the house off their balance sheet. In essence, the credit would bail out lenders who made bad decisions by making risky mortgages.

"It would also accelerate the decline in house prices, specifically the house prices of fiscally responsible owners. If these responsible owners want or need to sell their houses, they are now competing with new and foreclosed properties that come with a \$15,000 taxpayer subsidy (the value of the proposed home buyer credit). These responsible owners will be forced to lower their sales prices by \$15,000 in order to compete. Should the government be using taxpayer dollars to erode the equity of hardworking, responsible homeowners?

"If buyers need a \$15,000 incentive to come back to the market, then home builders and lenders should absorb that cost, not taxpayers. Moreover, leading economists say house prices will continue to fall and could drop another 10 to 20 percent. Why would the government want to use taxpayer dollars to encourage

people to buy an asset that is expected to fall in value in the future?

"The truth of the matter is that millions of people were pushed into unsustainable homeownership. The fact that many of these foreclosures are among households whose adjustable mortgages have not even reset yet is further evidence that there are a lot of people in houses that they simply cannot afford and could not afford on the day they bought them.

"We should help those homeowners who can afford their mortgages through some restructuring, but we should also recognize that a sizeable number of foreclosures are unavoidable. These are the real costs of a failed 'homeownership at any cost' housing policy that convinced people house prices would always go up. It was exacerbated by the lack of oversight and by the failure of investors to conduct proper due diligence. Hardworking taxpayers should not be asked to reward that kind of failure.

"We recognize that the 'cost' of this correction may push the economy into a recession. Our focus should be on measures that stimulate the general economy and that help those most in need and not on industry-specific bailouts.

"If Congress has \$9 billion to invest in a home buyer tax credit, we should reconsider our priorities and instead invest that to create more affordable housing for the people who are going to be displaced from their single-family houses in this market downturn. More Americans are hurt by our shortage of affordable housing than by the subprime crisis. As of 2005, more than 4.5 million working families pay more than half their income for housing. That figure has increased 87 percent since 1997.

"This housing downturn is just reinforcing the degree to which we need a completely new approach to our housing policy. For decades, we have focused on single-family housing, but changing demographics and housing preferences are driving more people away from the typical suburban house. According to Professor Arthur C. Nelson, director of the Metropolitan Institute at Virginia Tech, the U.S. will have a likely surplus of 22 million large-lot homes (houses built on a sixth of an acre or more) by 2025. That's roughly 40 percent of the large-lot homes in existence today.

"In the short-term, we need to focus on the mortgage market and enact policies that keep people who can afford their houses in those houses. In the long-term, we need a new housing policy that tackles our affordable housing shortage and that catches up with the changing demographics that are driving new housing choices. In other words, we need a more balanced housing policy."

EDITOR'S NOTE: On January 29, Senator Johnny Isakson (R-GA) introduced a bill (S. 2566) to create a one-time \$15,000 tax credit for taxpayers who purchase a primary residence that is certified by the seller to meet one of the following requirements: (1) a new home for which a building permit was issued and construction began on or before September 1, 2007; (2) an owner-occupied home for which the first mortgage loan is in default; or (3) a single-family home owned by a mortgagor or its agent as a result of a foreclosure. Senate Republican leaders have also included a home buyer tax credit proposal in a housing stimulus bill currently under development.

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NMHC and NAA operate a Joint Legislative Program and represent the nation's leading firms participating in the multifamily rental housing industry. NMHC/NAA's combined memberships are engaged in all aspects of the development and operation of apartment communities, including ownership, construction, finance and management. Together, the organizations operate a federal

legislative program and provide a unified voice for the private apartment industry. Nearly one-third of Americans rent their housing, and more than 14 percent of all U.S. households live in an apartment home. For more information, contact NMHC at 202/974-2300, e-mail the Council at [info@nmhc.org](mailto:info@nmhc.org), or visit NMHC's web site at [www.nmhc.org](http://www.nmhc.org).