



HOME BUILDERS ASSOCIATION
of Dayton

The Importance of Housing

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Since the news is official and we have been in a recession that began last year, and the economy seems to be on everyone's mind, it's important to realize that the impact on the national economy of home building, and housing in general, in good times and bad, should not be underestimated. The historic increase in foreclosures, tightened mortgage qualifying criteria, and general declining economic conditions have significantly cut demand for housing. Housing wealth is the primary source of savings for most households and a key driver of consumer spending.

As housing has slowed, so has the national economy. In recent quarters, the decline in home building activity has subtracted a percentage point or more from annualized GDP growth. These facts suggest that the recovery from the current economic crisis must begin in the housing sector. Without addressing the crisis in home prices and residential construction, no recovery effort will be successful. Key to this effort is stimulating housing demand.

Earlier in 2008, Congress adopted a measure providing first-time home buyers with a tax credit of up to \$7,500. While well intentioned, the legislation failed to stimulate or stabilize the housing market. The measure's disappointment can be attributed to three main factors: the tax credit is really a loan that has to be recaptured; the tax credit is only available to first-time home buyers; and \$7,500 is not enough to entice people to buy.

Because housing has historically lead the country out of very challenging economic times, home builders across America propose to fix this problem by building upon the foundation of the homebuyer tax credit by perfecting its structure and scope. First, eliminate the repayment requirement. Second, make the credit larger by increasing the credit amount on a sliding scale between \$10,000 and \$22,000. Third, make the credit available to all homebuyers. Finally, extend the eligibility period for the credit to December 31, 2009.

In addition to an enhanced homebuyer credit, the National Association of Home Builders (NAHB) is advocating for a short-term mortgage subsidy for purchases made in 2009. As you may have seen, the Treasury Department is reportedly considering a program to provide 4.5 percent, below-market rate mortgages. While this program is a welcome first-step, the depth of the recession demands a more aggressive response. Specifically, NAHB proposes a federally-subsidized, 30-year fixed rate 2.99 percent mortgage for homes purchased before June 30, 2009, and a 3.99 percent mortgage rate for homes purchased before December 31, 2009. The rate subsidy would only apply to principal residences. This dual strategy of a homebuyer tax credit and a mortgage subsidy was used successfully during the 1970's housing crisis, which was fed by excess inventory and falling home prices.

Learning from history and putting effective programs in place to incentivize homebuyers to purchase a new home will be major components to getting our country on a better economic foundation.