



THE NEED FOR HOUSING STIMULUS  
**Executive Summary**

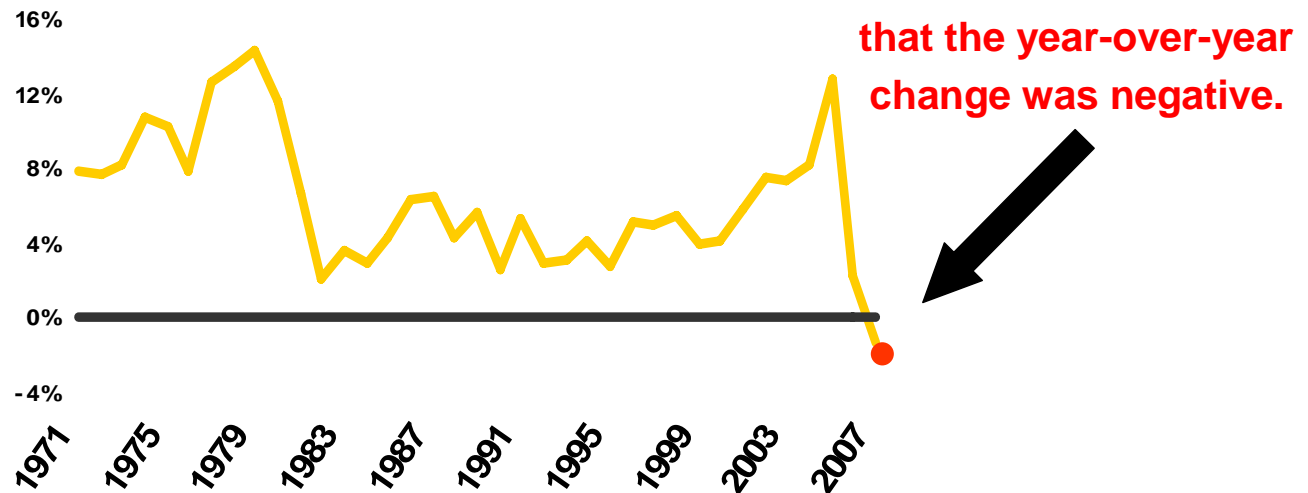
**The Problem:** Falling home values are at the core of the current economic crisis, driving consumption down and depleting the balance sheets of our financial institutions

- ◆ 70% of U.S. families own a home.
- ◆ Home prices and property values continue to dramatically decline.
  - Reduces consumer confidence which, in turn, reduces National overall consumption.
  - Leads to more foreclosures.
  - Mortgage backed securities are fueling the Wall Street crisis.
- ◆ All sectors of the economy are affected – not just housing.
- ◆ Over a million jobs have been lost and many more at risk.
- ◆ Existing inventory is nearing an all-time high and is only increasing as foreclosures flood the market.

**The Problem:** Falling home values are at the core of the current economic crisis, driving consumption down and depleting the balance sheets of our financial institutions

## Historical Home Prices

YOY % Change in the Median Price of Existing Homes:  
1971 – 2007



Source: National Association of Realtors

# The Solution: Foreclosure prevention, coupled with short-term targeted incentives, will encourage Americans to buy homes again

	EXISTING	REQUESTED
TAX CREDIT	<ul style="list-style-type: none"> <li>10% of Purchase price capped at \$7,500</li> <li>Based on Income qualifications</li> <li>15 year repayment</li> <li>Limited to first time buyers</li> <li>Applies to closings on or before June 30, 2009</li> </ul>	<ul style="list-style-type: none"> <li>Expand cap to 3.5% of FHA, Fannie or Freddie conforming loan limits</li> <li>Change to Loan Limit qualifications</li> <li>Only repayable if home is sold within first 3 years of purchase</li> <li>Expand to all Primary Residences</li> <li>Expand to closings on or before Dec 31, 2009</li> </ul>
DOWN PAYMENT	<ul style="list-style-type: none"> <li>Claimable on filing of Tax Return</li> <li>Unclear as to whether tax refund anticipation loans, or the tax credit itself, are acceptable sources of down payment</li> </ul>	<ul style="list-style-type: none"> <li>Claimable at the time of Closing</li> <li>Create explicit statutory language permitting the tax credit or a refund anticipation loan to be acceptable source of down payment</li> </ul>
INTEREST RATE	<ul style="list-style-type: none"> <li>Rates established by the secondary mortgage market</li> <li>Low rate mortgages have limited secondary market appeal; interest rate spreads over Treasury yields at all time highs</li> </ul>	<ul style="list-style-type: none"> <li>Create a temporary 30-year, fixed rate mortgage               <ul style="list-style-type: none"> <li>&gt; 2.99% through 6/30/09, and</li> <li>&gt; 3.99% through 12/31/09</li> </ul> </li> <li>Allows FNMA/FHLMC to purchase these low rate, FHA insured loans from lenders at full price and then resell them at lower market prices, thus subsidizing the difference</li> </ul>

## The Effects: Reviving demand positively affects the global economy

- ◆ Helps families stay in their homes.
- ◆ Stops the fall in home values.
- ◆ Encourages people to buy NOW, instead of later.
- ◆ Restores consumer confidence and gets them spending again.
- ◆ Enhances the hard work that has been done to shore up our financial system.
- ◆ Creates job opportunities across the country in every sector.
- ◆ **Energizes the economy!**

**Decrease  
Supply**



**Increase  
Demand**



## **Experts:** Housing is at the root of today's economic crisis

*"This is the worst financial crisis that the U.S. and other advanced economies have experienced since the Great Depression. A stimulus package legislated only in February or March of next year ... will be too late."*

– **Nouriel Roubini, New York University (served on White House Council of Economic Advisers during Clinton Administration)**

*"Indeed, a necessary condition for this crisis to end is a stabilization of home prices in the US."*

– **Alan Greenspan, former Chairman of the Federal Reserve Board**

*"At the heart of the economic issue is housing."*

– **Treasury Secretary Henry Paulson**

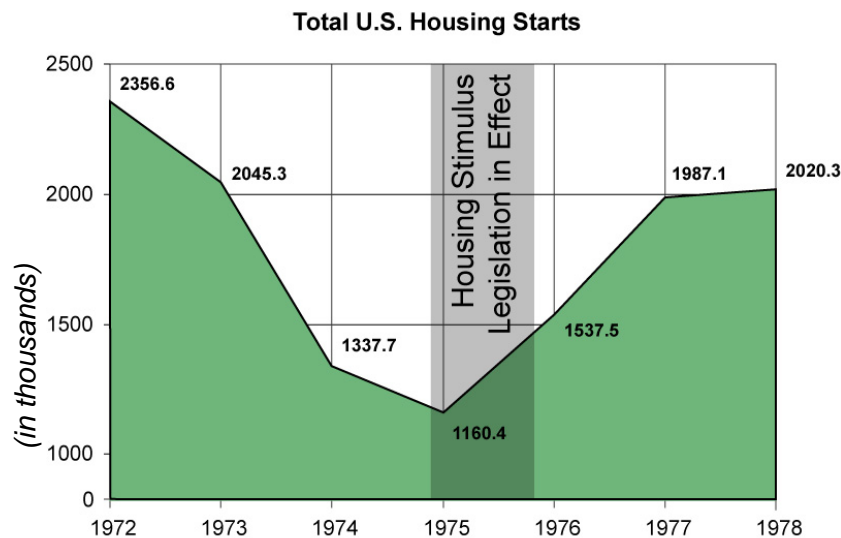
*"The government now needs to tackle the elephant in the room, the continuing decline of housing prices."*

– **R. Glenn Hubbard, Dean - Columbia Business School**

*"A successful plan to stabilize the U.S. economy... must address the fundamental cause of the crisis: the downward spiral of house prices that devastates household wealth and destroys the capital of financial institutions."*

– **Martin Feldstein, former Chairman, Council of Economic Advisors**

## 1975 Case Study: Stimulus jump-started the depressed economy and the effects continued long after measure expired



Source: U.S. Census Bureau.

### 1975 STIMULUS

- ◆ Congress passed a bill for \$2,000 tax credit for all new homes (\$12,000 adjusted for today's dollars).
- ◆ Tax credit coupled with subsidized mortgage rates 1 ½% from 9% to 7 ½%.



Fix the problem, not the symptom.