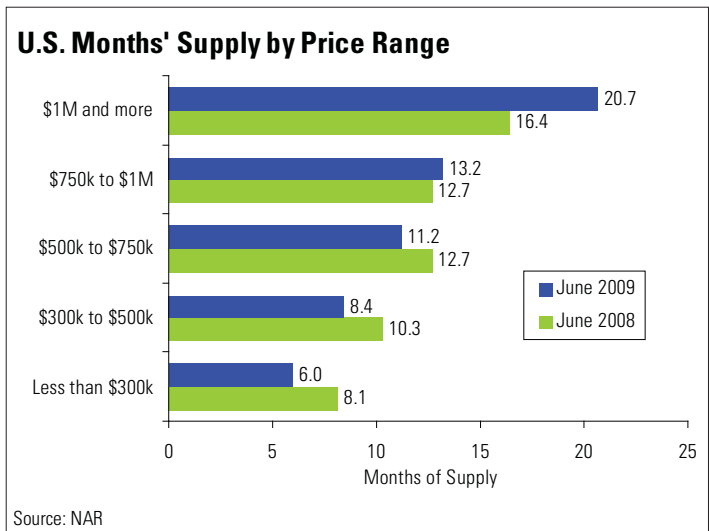
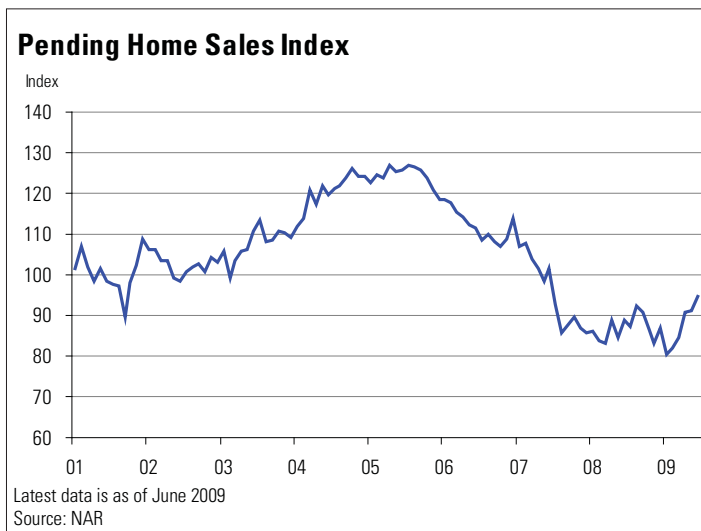


Examining the First-Time Homebuyer Tax Credit – Executive Summary

Rosen Consulting Group (RCG) was retained by the Fix Housing First Coalition to evaluate the effectiveness of the 2009 first-time homebuyer tax credit and the potential need for an extension of the program. RCG is uniquely qualified to examine this issue and has extensive experience in analyzing the national and local housing markets and economic conditions. Dr. Kenneth T. Rosen, Chairman of RCG, has authored numerous articles and books on real estate and real estate finance. He is the leading expert on housing economics and originated the premise for the 1974-1975 homebuyer tax credit while at the Joint Center for Urban Studies of MIT and Harvard University. He is a special real estate advisor to the World Economic Forum and Chair of the Fisher Center for Real Estate and Urban Economics at the Haas School of Business, University of California, Berkeley.

Extraordinary Response to an Unprecedented Problem

Facing the most significant economic crisis since World War II, Congress and the White House passed the Housing and Economic Recovery Act of 2008 in an effort to provide support to the contracting economy and beleaguered housing market. With housing facing the greatest decline since the Great Depression, the federal government looked back to the 1970s housing crisis for a tool that would promote homeownership and return stability to the market and enacted the initial \$7,500 repayable homebuyer tax credit. As the for-sale housing market continued its freefall, the American Recovery and Reinvestment Act of 2009 amended the tax credit by increasing the maximum amount to \$8,000 and eliminated the repayment of the credit. The tax credit has served to stimulate demand for homes, particularly among low- and middle-income families. However, household finances are under greater pressure as macroeconomic conditions have deteriorated significantly since the passage of the aforementioned acts and the tax credit's expiration threatens the nascent recovery.



Credit is Proving Effective in Reducing the Supply of Homes

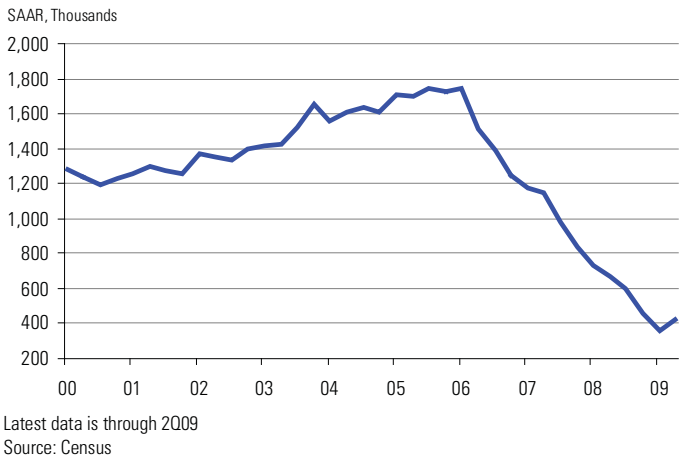
The non-repayable first-time homebuyer tax credit has been the primary cause of the recent return of buyers to the for-sale housing market. Since the beginning of the year, the tax credit and increased housing affordability have spurred demand by families, particularly for homes at the lower end of the housing market. The seasonally adjusted annual average rate of existing sales reached nearly 4.9 million homes in June, 8.9% higher than the trough in January 2009. Further indicative of the change in buyer sentiment, the National Association of Realtors' Pending Home Sales Index reached 94.6 in June, 17.7% higher than the low in January. Many of these purchasers are first-time homeowners, responding to the tax credit and improved affordability.

The effectiveness of the tax credit among low- and middle-income households is clearly depicted by analyzing the for-sale inventory data. For-sale inventory is often measured by the number of months it would take to absorb all of the homes currently available for sale at the current rate of sales. In June 2009, the months of supply of homes priced less than \$300,000 fell to 6.0 months, down from 8.1 one year earlier, an improvement of 25.9%. In the \$300,000 to \$500,000 price range, the months of supply fell to 8.4 months from 10.3 months in June 2008, 18.4% better than the previous year. On the opposite end of the pricing spectrum, between June 2008 and June 2009, the months of supply for homes priced between \$750,000 and \$1 million increased by 3.9% while the months' supply of homes priced greater than \$1 million increased 26.2%.

Credit Has Not Caused an Increase in New Home Construction

Typically, increased demand spurs new home construction; however, this is not the case currently as housing starts remain very low. In the second quarter, starts totaled 423,000 homes on a seasonally

U.S. Housing Starts



adjusted annual average basis, approximately 60% lower than the long-term average of 1.1 million units. This was the second-lowest quarterly figure on record, following the first quarter which was the lowest level of construction activity since the data began in 1959.

Conditions in the Housing Market Remain Very Challenging

Despite the low level of construction activity, available supply is under upward pressure from a high rate of foreclosure and a significant demand shortfall, even with the current credit. In the first six months of 2009, foreclosure proceedings began on more than 1.5 million homes, in addition to the more than 2.3 million properties in the foreclosure process in 2008. As many of these foreclosures become lender-owned, these homes are added to the number of properties for sale and increase available supply. The large number of foreclosures is the primary contributor to the increasing number of vacant homes, not new construction activity. If the tax credit expires, it is likely that lender-owned properties will quickly increase available supply as buyer demand retracts, particularly among low- and middle-income families.

Monthly Foreclosure Filings



Extension is Needed to Sustain Existing Demand

The current contraction in the housing market is as unprecedented as the preceding bubble, and the collapse helped push the United States into the current recession. In recent months, there have been signs of recovery in the housing market. Many of these “green shoots” are a direct result of the first-time homebuyer tax credit. Without demand stimulated by the tax credit, sales activity can be expected to return to the low levels of earlier in the year as households struggle with the threat of job loss and consumers remain unconvinced of a rebounding economy. The for-sale housing market was in the midst of the worst decline since the Great Depression and the budding recovery is not a certainty. As the housing market is currently in the early stages of a slow recovery, it is imperative that the credit be extended in order to maintain the positive signs of a recovering housing market.

Expanding the Credit to All Purchasers Would Accelerate the Housing Recovery

Home purchases by low- and middle-income families, who typically face the largest down payment constraint, are directly a result of the tax credit and improved level of affordability. If sales activity were evenly distributed, this disparity in activity by price range would not exist, further highlighting the effectiveness of the tax credit in generating buyer demand among first-time homeowners. Expanding the tax credit to existing homeowners is likely to spur a similar increase in demand by the trade-up market, helping to refresh the supply in the starter-home category.

Similarly, expanding the income limits beyond the current thresholds would enable more households to take advantage of the tax credit and spur additional demand. Particularly in higher cost areas such as the coastal markets, families require greater incomes in order to afford to buy a home. As such, many households do not qualify for the tax credit as currently legislated. By increasing the income phase outs to \$125,000 for individuals and \$250,000 for a married couple, levels typically cited by the White House as the boundary for the middle class, more middle-class families will be able to purchase homes and help to stabilize the market sooner.

A Housing Recovery is a Prerequisite for a General Economic Recovery

A recovery in the residential market has led the nation out of recession in nearly every economic recovery of the past 40 years. Without an improvement in housing, we believe the economy will continue to stagnate. Most of a family’s wealth is tied to its home, and stabilizing values will go a long way in boosting consumer confidence. Additionally, halting the free-fall in home prices will help to prevent additional foreclosures. The ancillary benefits of homeownership are well-documented and we believe that extending the first-time homebuyer tax credit through 2010, allowing for monetization and expanding the credit to existing homeowners are likely to stimulate a more immediate economic recovery.