

Homebuyer Tax Credit Best Tool for Sustaining Housing Recovery

The best available tool for sustaining the still-fragile housing market is the \$8,000 homebuyer tax credit, and it is essential that Congress extend the credit into 2010, according to the National Association of REALTORS® (N.A.R.). The tax credit expires November 30. N.A.R. testified October 7, 2009, to the U.S. House Small Business Committee.

N.A.R. Regional Vice President Joseph L. Canfora, also told the panel that a major stumbling block for consumers has been the implementation of appraisal processes spurred by the Home Valuation Code of Conduct (HVCC), which is causing delays in closings, as well as cancelled sales that led to artificially low existing-home sales numbers for August.

“The credit is working,” Canfora said, pointing out that the 355,000 to 400,000 transactions directly attributable to the credit made a significant dent in the housing inventory and will help to stabilize home prices. Further, the credit has provided a huge indirect benefit to local governments, shoring up property tax bases in particularly hard-hit areas.

Further, N.A.R. data has estimated that every home purchase pumps into the recovering economy about \$63,000—the equivalent of one new job added to the employment figures.

But, Canfora said, the threat of more foreclosures coming to the market caused by mortgage rate resets, job losses, and by lender’s unburdening themselves of additional properties to take advantage of today’s more stabilized prices could disrupt the fragile recovery.

In a “normal” market, optimal housing inventory is about six to seven months, he said. When the tax credit was enacted in February, inventory was 9.1 months. Because of the spurt in homes sales since then due to the tax credit, inventory declined to 8.2 months in August, closer to “normal” than at any time since 2007.

In urging Congress to extend the credit, Canfora said, “The more robust the credit and the greater its duration, the greater the chance that the housing market can perform its traditional role of helping the economy move out of a recession.”

“But problems arising from the implementation of the HVCC may reverse the market’s positive momentum at a time when the real estate industry is just starting to show signs of a rebound in many markets,” Canfora said. According to an N.A.R. survey of its members, approximately 40 percent of Realtors® report having lost at least one sale since May 1 because of appraisal problems due to the HVCC rules. Twenty percent say they have lost more than one sale.

The culprit, he said, was that appraisal management companies, which have gained prominence because of the HVCC, have assigned appraisers to areas where they lack geographic competence. That has resulted in unreliable appraisals. It is not uncommon that second and third appraisals have to be done to ascertain fair market value. Appraisal fees have also risen and are being passed on to consumers.

Both Fannie Mae and Freddie Mac have issued guidance on appraisals, but N.A.R. is calling upon the mortgage giants and the Federal Housing Administration to issue a consolidated guidance that should be codified and incorporated into the existing policy to ensure proper information on appraisals is available to the real estate industry.

FHA Commissioner David H. Stevens has asked FHA staff to explore that recommendation with Fannie and Freddie. Last month, Stevens reaffirmed FHA appraisal policy, taking into consideration the unintended consequences that have burdened Fannie and Freddie, and issued two Mortgagee Letters focusing on appraisal changes. The policy reaffirms appraiser independence and geographic competence.

The FHA announcement also included timely steps to protect taxpayers: implementing credit policy changes to enhance risk management; hiring a chief risk officer for the first time in the agency's history; and shifting responsibility for mortgage brokers away from taxpayers to the lenders who use mortgage brokers.

Canfora told the committee that FHA has performed remarkably well through the housing crises, compared to Fannie and Freddie. "That's because FHA has never strayed from the sound underwriting and appropriate appraisals that have traditionally backed up their loans."

"The reason the FHA capital reserve ratio fell below 2 percent had nothing to do with FHA's current business activities. It is simply a reflection of falling housing values in their portfolio." Canfora cited an FHA announcement that a 2009 audit will show that even if FHA does nothing, the cap reserves are expected to rise back to that required level within a few years. He also pointed out that FHA total reserves are not in as dire straits as some have reported since the cap reserve fund is not the only FHA reserve fund—FHA also has a separate cash reserve that is higher than it has even been—and the combined assets total \$30.4 billion.

Information provided by N.A.R.

Beverly Scott, President

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