

MORTGAGE INTEREST DEDUCTIBILITY

An Open Letter to President Obama and the U.S. Congress

Dear Mr. President and Members of Congress:

While “home is where the heart is” for millions of American families, it also is where our nation’s economic recovery resides. That is why we oppose any proposal that eliminates or attempts to alter in any way the mortgage interest deduction, as it undermines a century-old commitment to the American Dream of homeownership.

As you know, current law permits homeowners to deduct interest paid on mortgage debt of up to \$1 million on a primary residence and one additional residence, as well as interest paid on up to \$100,000 in home equity loan debt. In California, 59 percent of taxpayers who claimed this deduction in 2010 had an annual adjusted gross income (AGI) below \$100,000, and 89 percent had an AGI of less than \$200,000.

While current discussions involve reducing the limit to \$500,000 for a primary residence and eliminating it entirely for second homes, any attempts to reduce the mortgage interest deduction would not only have deleterious effects on homeownership, but also be tantamount to taking the first step toward a wholesale elimination of this long-standing deduction.

The mortgage interest deduction makes a substantial difference for lower- and middle-income families. If the deduction is taken away, it would cost the average California taxpayer \$3,940 annually; further, more than 694,000 California households would no longer be able to afford to buy a median-priced home.

Eliminating the mortgage interest deduction would have immediate and dire consequences. It would slam the brakes on America’s economic recovery by changing the fundamental economics of homeownership for more than 75 million Americans and slow or even reverse recent home price gains.

Homeowners – many of whom lost upwards of 50 percent of their equity during the recession – likely would see home prices decline once again. First-time homebuyers would be forced to delay a home purchase that no longer “pencils out.” Fewer home sellers and buyers mean fewer home loans, not to mention the other purchases that typically accompany a home sale. Already struggling local governments would see tax revenues fall. And since housing is widely

regarded as a key economic driver, as these repercussions occur, our country would face the prospect of being plunged back into a recession.

In high cost areas such as California, the damage would be even worse. California homeowners would lose \$356.8 billion in potential tax savings, and the recent recovery in home prices would be jeopardized. The state also could realize a loss of more than 40,000 home sales over time, which would cost the California economy \$2.4 billion in lost output.

Merely reducing the amount of the mortgage interest deduction allowed wouldn't be any less damaging. The tax liability for more than 1.19 million primary or secondary homeowners would be negatively impacted if the deductible interest were limited to \$500,000. Furthermore, should the mortgage interest deductibility be eliminated for second homes, the potential economic losses to the California economy would total more than \$557 million.

How do your constituents rate the importance of homeownership and the mortgage interest deduction? In a recent survey by the CALIFORNIA ASSOCIATION OF REALTORS®, 79 percent of home buyers said that mortgage interest and property tax deductions were “extremely important” in their decision to purchase a home. A Pew Research Center study last year found that 80 percent of Americans believe buying a home is the best long-term investment they can make – despite the real estate downturn.

We're asking the public to visit www.KeepTheMID.com to learn how they can contact their member of Congress and ask them to protect the mortgage interest deduction.

Finally, as you put into place fiscal policies that will guide our country for generations to come, we urge you to remember the wise words of President Franklin D. Roosevelt: “A nation of homeowners is unconquerable.” May that tenet continue to hold true.

Sincerely,

A handwritten signature in black ink that reads "Don Faught". The signature is written in a cursive style with a large, looped "D" and "F".

Don Faught
President
CALIFORNIA ASSOCIATION OF REALTORS®