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Debate leaves some taxing questions about housing unresolved

Commentary: Obama and Romney need to provide more details on their positions

BY KEN HARNEY



WhiteHouse.gov

Mitt Romney and Barack Obama images via MittRomney.com and

Anybody who watched it knows that Mitt Romney scored a technical knockout of President Obama in last week's debate. But are there some potential future costs and concerns for housing that have to be looked at in the wake of that victory?

On the one hand, Romney surprised Obama with sharp criticism over an issue that has plagued homebuyers and refiners: the super-strict underwriting and documentation that banks are requiring for home loans, in part because they're worried about forthcoming "qualified mortgage" federal rules under the Dodd-Frank financial reform legislation.

"It's been two years," Romney said to Obama at the Denver debate, "We (still) don't know what a 'qualified mortgage' is. So banks are reluctant to make mortgages ... It's hurting the housing market."

There's no question that regulators have proceeded at a frustratingly glacial pace since the passage of Dodd-Frank in July of 2010, and we don't know what the Consumer Financial Protection Bureau will come out with on this issue in early 2013.

Will the bureau, which took over the project from the Federal Reserve in mid-2011, create a straightforward "safe harbor" for lenders -- a set of basic bright lines defining an applicant's "ability to pay" within which banks can originate loans without fear of litigation every time a borrower goes seriously delinquent?
Or will regulators instead open the door to nitpicking, costly lawsuits and thereby make lenders even more gun-shy about originating new mortgages?

The wrong answers could wreck mortgage lending for years to come.

Obama had no response to Romney's critical shot on qualified mortgages and maybe wasn't even aware of the problem. In fact, it's possible even Romney hadn't heard much about it until the previous week, when his team was briefed by David H. Stevens, CEO of the Mortgage Bankers Association, who's also the former FHA Commissioner and former head of Long and Foster Realtors.

Qualified mortgage (QM) was a well-prepared debate zinger, and put the spotlight on an undeniable failing of this administration: lackluster response times to urgent housing needs, plus unworkable regulatory proposals that have delayed needed guidance on mortgages even longer. (Remember "QRM" -- the [proposed](#) mandatory 20 percent down payment plan? It's still [nowhere to be seen](#).)

But Romney's good stuff on qualified mortgages was not the most important matter involving real estate that came up in the debate. Romney's tax plan -- the one that Obama charged repeatedly would add trillions to the deficit -- never was addressed in terms of its specific potential impacts on homeowners.

Romney never said the words "mortgage interest deduction" during the debate, but the MID, along with most other longstanding and popular write-offs, is at the core of his tax reform concept.

In order to pay for the estimated \$4.8 trillion in tax revenue reductions he proposes -- starting with a 20 percent across-the-board cut in tax rates, elimination of the alternative minimum tax, the estate tax and other revenue-losing measures -- Romney needs to eliminate or downsize trillions in tax deductions, credits and subsidies. That's how his plan is supposed to achieve revenue neutrality, i.e., it wouldn't raise the deficit.

Two days before the debate, he told Denver TV station KDVR that he's open to limiting the MID along with a long list of other write-offs as part of an overall reform of the tax code.

"As an option," Romney told his interviewer, "you could say everybody's going to get up to a \$17,000 deduction. And you could use your charitable, home mortgage deduction or others -- your health care deduction, and you can fill that bucket, if you will, that \$17,000 bucket, that way."

Earlier this year, at a private fundraising meeting, Romney told supporters that among other options on taxes, he would consider eliminating the mortgage interest deduction for second homes outright.

Tax reform proponents, such as the bipartisan, nonprofit Committee for a Responsible Federal Budget, praised Romney's concept of capping or eliminating popular write-offs as "very significant and progressive" following the debate. "Progressive" in tax lingo means: It siphons off more money from higher-income taxpayers than it does from lower- and middle-income folks.

The committee noted that just 30 percent of all U.S. taxpayers itemize at all, yet "almost all higher earners currently itemize more than \$17,000 in deductions." In fact, the committee added, the average itemizer in 2011 wrote off \$26,000, and the top 1 percent of earners wrote off an average \$174,000.

Absent additional details about the tax reform plans from Romney, large numbers of homeowners would be forced to choose which write-offs went into their capped deduction "buckets." Do we take deductions for the mortgage interest we paid, or do we write off what we donated to charities?

During the debate, Romney said he was open to higher numbers on caps, but that all of this would have to be worked out in negotiations with Congress after he took office. Hmmm.

Make no mistake: When it comes to housing-related write-offs, we are talking big, big numbers that could solve a multitude of revenue-raising problems.

According to the Joint Congressional Committee on Taxation's latest projections, the home mortgage interest deduction will save homeowners -- and cost the federal Treasury -- nearly half a trillion dollars (\$484 billion) during fiscal years 2010-2015. Local real estate tax deductions for homeowners will save owners -- and cost the government -- about \$121 billion. The capital gains exclusion for home sales alone comes in at \$86 billion.

Though the main housing lobbies have been quiet about Romney's tax plans -- preferring to wait for more details -- the fact remains: For the first time in years, we have a Republican presidential candidate who is willing to put some of housing's most sacrosanct tax code preferences on the cutting block. Obama talks about limiting MID write-offs for people who make \$250,000 or more. Romney is talking about much bigger limitations.

Sure, it's campaign rhetoric, and sure, the deduction cutbacks have to be seen in the context of significant reductions in tax brackets that would lower taxes elsewhere. But the crucial question is: What would this all do to housing values, sales, building and homeownership?

We could really use some details.

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