MBa®

MORTGAGE BANKERS ASSOCIATION

October 12, 2017

The Honorable Paul D. Ryan
Speaker
United States House of Representatives
H-232, The Capitol
Washington, D.C. 20515

The Honorable Mitch McConnell
Majority Leader
United States Senate
S-230, The Capitol
Washington, D.C. 20510

The Honorable Steven T. Mnuchin
United States Treasury Secretary
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

The Honorable Gary D. Cohn
Director, National Economic Council
The White House
1600 Pennsylvania Avenue, N.W.
Washington D.C. 20500

The Honorable Orrin G. Hatch
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Kevin Brady
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Speaker Ryan, Leader McConnell, Secretary Mnuchin, Director Cohn, Chairman Hatch, and Chairman Brady:

On behalf of the Mortgage Bankers Association (MBA), I wish to express our support for the efforts you are leading to enact comprehensive tax reform. We firmly believe that Congress and the administration have a “once-in-a-generation” opportunity to overhaul the tax code in a manner that will spur long-term economic growth, create jobs, and place more money in the pockets of hard-working Americans. We believe these potential changes should be viewed holistically, and look forward to supporting you as a resource in your ongoing efforts.

We were specifically pleased that the recently-released “*Framework for Fixing our Broken Tax Code*” (the “Framework”) preserves current key incentives for investing in real estate, including the mortgage interest deduction (“MID”) and the Low-Income Housing Tax Credit (“LIHTC”). However, the possibility of limiting or eliminating other critical provisions of the tax code, such as the continued deductibility of business interest and the preservation of Section 1031 like-kind exchanges (“Section 1031”) for investment real estate, has raised significant concerns within our membership.

With respect to multifamily and rental housing, maintaining the LIHTC will continue to appropriately incentivize the use of private equity in the development of the majority of affordable housing units for low- to moderate-income American families. In an effort to maximize the program’s effectiveness, MBA believes that statutory changes should be made as part of the reform effort to expand the amount of LIHTC credits available and offset the impact of proposed lower tax rates on the valuation of the underlying credits themselves.

MBA is also concerned that an elimination or limiting of business interest deductibility would have far-reaching and damaging impact on many industries – including real estate finance – as changes of this sort will inevitably increase the cost of financing, make debt more expensive (for all businesses), and, in turn, limit real estate activity. We strongly advocate that the provision of current law that allows businesses to deduct interest payments be preserved in its entirety.

With respect to homeownership incentives, we were pleased that the Framework proposes to maintain the MID, though in combination with the near doubling of the standard deduction for individuals and households – a move that (while limiting the number of itemizers writ large, and in combination with lower overall rates) would provide renters and homeowners alike with additional "take home" pay. These proposed changes also provide policymakers with a tangible opportunity to pursue alternative homeownership tax incentives – and perhaps target those benefits more efficiently to low- to moderate-income borrowers. While not mentioned specifically within the Framework, MBA also continues to support current tax law that allows homeowners to exclude a portion of the gains on the sale of a home, as we believe this provision increases velocity within the residential marketplace by suitably incentivizing the "move-up" middle class homebuyer.

Additionally, MBA supports Section 1031 like-kind exchanges for investment real estate, and strongly believes that repeal or modification of Section 1031 would have a significant adverse impact on commercial real estate transactions. The current utilization of Section 1031 provides benefits that help to promote ongoing investment patterns within local real estate markets, which, in turn, is a boon to continued economic growth. Regardless of whether full and immediate expensing (or some variation thereof) becomes part of a reformed tax code, MBA will continue to support provisions that retain Section 1031 treatment for the value of investment real estate.

Finally, an additional consideration across all of these potential changes is that the legislation should be sure to carefully craft appropriate transition rules to minimize any market disruption, and to avoid any changes that would disproportionately impact one group of market participants relative to others. Our members would be quite interested in offering their perspectives on appropriate phase-ins and other treatments that would accomplish the ultimate goals of pro-growth tax reform while not causing near term market disruptions.

Again, we are pleased that Congress and the administration are tackling this historic opportunity to fix the U.S. tax code. We stand ready to work with you and your respective staffs to ensure that Americans, whether they own or rent, continue to have access to affordable and sustainable housing.

Sincerely,

David H. Stevens, CMB
President and Chief Executive Officer