MORTGAGE BANKERS ASSOCIATION

November 13, 2017

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

The Honorable Ron Wyden
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Hatch and Ranking Member Wyden:

On behalf of the Mortgage Bankers Association (MBA), I wish to offer the real estate finance industry's comments on the recently released Chairman's mark of the *Tax Cuts and Jobs Act*, which your committee is scheduled to mark up this week. MBA strongly supports the goal of enacting tax reform that spurs jobs and economic growth, and the introduction of this bill is an important milestone along that road.

We recognize and appreciate that the Chairman's mark would provide both owners and renters with more take home pay by lowering overall tax rates and nearly doubling the standard deduction. We are also pleased that the proposal preserves the mortgage interest deduction and retains the current $1 million cap. However, we are concerned the cumulative impact of the changes to mortgage interest and property tax deductibility will erode home affordability and eliminate important financing options for many Americans.

For example, home equity is a critical source of financing for low- and middle-income households for home improvements, college tuition, and other emergencies. MBA believes deductibility of a portion of home equity indebtedness should be retained. In addition, the deduction for property taxes helps families overcome affordability challenges in high cost and/or high tax jurisdictions. We believe these features should be preserved, and that the Finance Committee – and the Congress as a whole – should take this opportunity to think creatively about new homeownership incentives targeted more efficiently to low- to moderate- income borrowers.

We are pleased that the proposed changes to the portion of the tax code allowing homeowners to exclude a portion of the gains on the sale of a home includes exceptions for certain individual circumstances. However, we believe the longer hold period for the capital gains rollover will act as a disincentive for many homeowners to move up or for older homeowners to move down. This would further exacerbate the current lack of housing supply that has made it even more difficult for younger buyers to move into homeownership. As a result, we would strongly urge retention of the current law provision in this area.

MBA is also very pleased that the bill preserves business interest deductibility for real estate as well as Section 1031 like-kind exchanges for real property. Continued deductibility of business interest for real estate will ensure that the cost of financing remains affordable and real estate activity remains a vibrant portion of the economy. The current utilization of Section 1031 provides benefits that help promote ongoing investment patterns within local real estate

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markets, which, in turn, provides the foundation for economic growth. We are also very pleased that your proposal preserves other key real estate investment incentives, including the Low-Income Housing Tax Credit (LIHTC) and the tax-exempt status for private activity bonds (PABs), as these provisions help ensure the continued development of affordable multifamily housing, as well as access to affordable mortgage credit.

Finally, with respect to new treatment of pass through entities, we would recommend language clarifying that the definition of “specified services” companies for purposes of determining businesses that would be excluded from the application of the new tax deduction on certain income of pass through entities does not include a mortgage lending business. Many of our member firms are structured as pass throughs, and we would request more explicit clarification that mortgage banking companies organized as such are excluded from this definition.

As the tax reform debate unfolds in the coming weeks, we look forward to continuing to work with policymakers to find the right balance that both reduces the tax burden on American families and spurs economic growth. We stand ready to work with you 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

cc: The Honorable Mitch McConnell, Majority Leader
The Honorable Charles Schumer, Minority Leader
All Members, Senate Committee on Finance