

Testimony of

Gregory M. Nelson

Vice President and Assistant Secretary

PulteGroup, Inc.

Bloomfield Hills, MI

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Hearing on

Tax Reform Options: Incentives for Homeownership

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Thank you, Mr. Chairman, ranking Member Hatch, and members of the Committee for inviting me to testify here today. My name is Greg Nelson, and I serve as Vice President with responsibility for taxes and corporate real estate for PulteGroup in Bloomfield Hills, Michigan. Over its 60-year history, PulteGroup has delivered more than half-a-million homes and is currently one of the nation's largest homebuilders.

My testimony focuses on the mortgage interest deduction ("MID"), although many of the observations included apply also to the other incentives for homeownership the Committee is considering, such as the deduction for state and local property taxes.

Today's hearing takes place at a time when the nation's housing industry is mired in the sixth year of the worst housing crash since the Great Depression. Annual new home sales have crumbled from a recent peak of 1.3 million to less than 300,000 homes currently, while home prices have dropped to 10-year lows, erasing an estimated \$7.4 trillion of wealth from the American people. The collapse of U.S. housing has, in turn, wiped out millions of construction jobs. Yet, even with this severe economic downturn, survey after survey demonstrates that the American Dream of homeownership remains very much alive and well.

While this committee's work to reform the federal tax code is certainly to be applauded, it is not hyperbole to say that eliminating the MID could, and likely would, have a cascading and disastrous impact on the country, the economy and the American people.

Home prices have dropped; mortgage interest rates are approaching record lows; and the job market is stabilizing; and yet would-be homebuyers remain on the sidelines for fear that a home bought today will be worth less tomorrow. Eliminating the MID would quickly turn that fear into reality and send us into another negative feedback loop of falling house prices, hundreds of thousands of mortgages sinking underwater, and more house foreclosures hitting banks' balance sheets and the resale market. This would in turn result in more pressure on home prices, which would then feed back into the loop and cause the economy to further contract. The end result: more stress throughout the economy and likely the double-dip recession the government has fought so consistently to avoid.

The MID did not contribute to the housing bubble. It has been part of our tax code for nearly 100 years and has helped to ensure a strong homeownership rate among American families. These incentives remain important factors in making the lifetime decision of buying a home.

The MID allows families to become homeowners, to build wealth, and to support their communities. It is vital to restoring stability to the American housing market and the overall economy, since it facilitates homeownership by reducing the carrying costs of owning a home. To millions of hard-working, middle-class families, these savings can make the difference between achieving or not achieving their dream of homeownership.

The obvious flipside of this coin is that reducing or eliminating the MID equates to a tax increase on homeowners at a time when they can least afford it. Homeowners already pay 80-plus percent of U.S. federal income tax, but if the MID is eliminated that number could quickly rise to 95 percent. The MID is a tax deduction aimed squarely at the middle-class, as almost two-thirds of those who claim it are middle-income earners. We should continue to encourage such homeownership with our tax policies, not penalize it.

The homebuilding industry has led this country out of every recession but for one. We may say that this time it will be different -- it never is. We need to put construction workers back to work and get the economy back on track. The way to do this is to reduce uncertainty, build confidence and support housing. I would strongly encourage this committee to reaffirm its commitment to homeownership and leave this important tax provision in place. We should not change the rules of the game for those who have already made the decision to purchase a home in reliance on the MID, and we should tell those potential homebuyers currently sitting on the fence that it's safe to buy a home.

We face a "chicken or the egg" dilemma: can housing get better without a recovery in the economy, or can the economy get better without first seeing a rebound in housing? Either way, there is growing acceptance that the U.S. housing industry must get healthier as a part of a robust and self-sustaining economic recovery.

In order to put Americans back to work, the Administration and the Congress have been considering various ways of putting more money into the hands of consumers, including helping homeowners to refinance at historic low interest rates. Eliminating or significantly reducing the MID will do just the opposite and take away discretionary spending from homeowners. Government decision-makers should ask themselves, do they wish to decrease or to increase the cost of homeownership at this precarious time? The Administration's refinancing initiative is aimed directly at decreasing that cost -- particularly the cost of monthly mortgage payments -- largely for the purpose of stimulating consumer expenditures on other purchases. The MID proposals under consideration, on the other hand, would increase the effective cost of ownership, forcing homeowners to reduce their consumption of other things. This anti-stimulative behavior is exactly the sort of conduct Government should be discouraging at this time.

While I appreciate the daunting task this committee has before it to reform the nation's tax code, I'd urge you to remember just how bleak the current housing market is for American families before considering reductions in the MID. A further erosion of home values now, six years into the worst housing recession in more than seven decades, could have devastating effects on the broader economy. I know that you intend to fully consider the consequences of all current tax expenditures during your tax reform deliberations. I am confident that when you do so for the MID, you will recognize just how valuable the provision is to American families and the American way of life and will keep it in place as our economy begins to recover.

Thank you for the opportunity to testify. I would welcome any questions you may have.