WASHINGTON RESEARCH COUNCIL Impact Report

February 2, 2009

THE ECONOMIC AND FISCAL IMPACTS OF FIRST-TIME HOME BUYERS

Studies have repeatedly demonstrated that housing construction, and even resales, are dynamic engines of economic growth, but in the face of the darkening economic picture and deepening recession, housing has become more of a brake than an engine. Economists have generally agreed that a sustained recovery will not be possible until the housing market is stabilized. .

Washington REALTORS® is recommending to the Governor and Legislature a package of housing market strategies to boost the Washington State Economy. These strategies, which include elements that would act on both the demand side and the supply side of the market, are summarized in the appendix to this report.

On the demand side, the REALTORS® goal is to stimulate an additional 12,000 first-time home buyers. This quote from Bryan Wahl, the REALTORS® Director of Governmental Affairs, explains the focus on first-time buyers:

> One of the concerns right now is—particularly with first-time buyers—people aren't pulling the trigger. We've seen the numbers of first-time buyers drop dramatically. That's why we're focusing our efforts there. It's the first-time purchaser who sets off a chain reaction: The person selling the home then makes a purchase, and on and on.

The primary strategy for reaching this goal is to expand funding for the Washington State Housing Finance Commission's down payment assistance programs, which provide second mortgages to help low and moderate income first-time buyers bridge the gap between the purchase price of the house and the amount that can be financed through a first mortgage.

Table 1: Summary Impacts of 12,000 First-Time Buyers

Economic	
Employment (Full-Time Equivalent)	*8,533*
Employee Compensation	*$340.3 million*
Output	*$1.35 billion*
State Revenue	
Real Estate Excise Tax*	*$88.6 million*
Sales Tax*	*$32.6 million*
Business & Occupation Tax*	*$11.8 million*
Total*	*$133.0 million*
Property Tax**	*$1.5 million*

*Over two years; **Annual, after two years

Washington REALTORS® have asked the Washington Research Council to oversee the production of estimates of the economic and state tax revenue impacts of an additional 12,000 first-time home buyers. This report presents those estimates, which have been prepared for us by two outstanding experts on the state's economy. The impact estimates for output, employment and income have been prepared by Glenn E. Crellin, who for 15 years has been Director of the Washington Center for Real Estate Research at Washington State University in Pullman. The revenue estimates have been prepared by Dr. ChangMook Sohn, who, before retiring last year, served for 25 years as Executive Director for Washington State's Economic and Revenue Forecast Council.

In summary, we project that 12,000 additional first-time buyers would generate about 8,500 jobs, paying $340 million in wages and benefits. Gross domestic product of the state would rise by $1.35 billion. This additional economic activity would generate about $84.4 million in real estate excise tax, $32.6 million in sales tax and $11.8 million in business and occupation tax for the state within a two-year period (a total of $128.8 million). Annual state property tax revenue would increase by $1.5 million after two years. Local government revenues would also increase. Details are provided on the following pages.

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HOUSING AND THE ECONOMIC CRISIS

The U.S. economy slipped into recession in December of 2007. Initially, the rate of decline was quite mild, but since late summer 2008, the economic situation has become much more difficult.

Housing lead the expansion

The signature feature of the last economic expansion was a rapid rise in house prices. As measured by the Standard and Poor's/Case-Shiller (S&P/C-S) 20-City Composite Home Price Index, between January 2000 and May 2006 seasonally-adjusted house prices rose by 106 percent.

Chart 1: Seasonally-Adjusted House Price Indices for Seattle and 19 Other Metro Areas

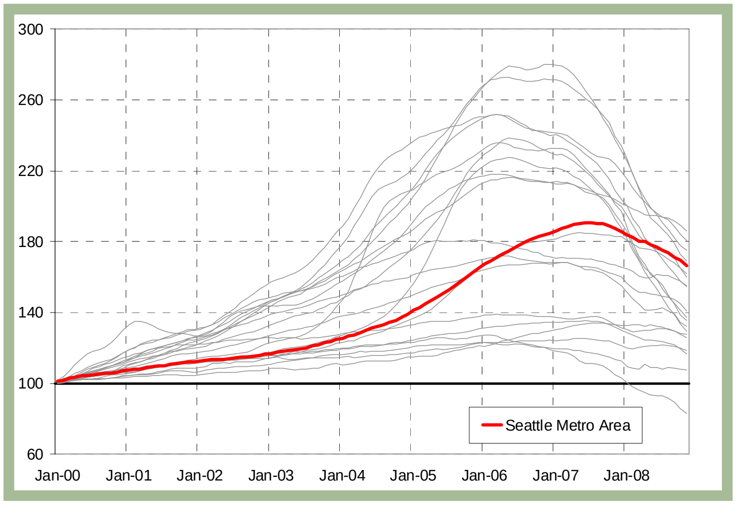


Chart 1 shows the separate S&P/C-S price indices for the 20 cities. The Seattle metro area (King, Pierce and Snohomish counties) is the heavy red line. The other 19 metro areas are the light gray lines. As the chart indicates, the gain in prices varied considerably across cities. At one extreme, for Los Angeles the peak gain was 170 percent, and for Miami it was 138 percent. At the other extreme, the peak gain was only 22 percent in Cleveland and 25 percent in Dallas. For Seattle the peak came in July 2007, when the index was 89 percent above January 2000.

The initial phase of the boom in home prices was driven by falling mortgage interest rates. Chart 2 shows the interest rate on a conventional 30-year mortgage as reported by the Federal Home Loan Mortgage Corporation (Freddie Mac) from April 1971 (when the series begins) through late-January 2009. The 30-year mortgage rate hit 18.6 percent during the 1981–82 recession. From that point it began a long secular decline (albeit with numerous ups and downs along the way) and in January 2000 stood at around 7 percent. By June 2003 the 30-year conventional rate was only 5.2 percent (the lowest level recorded up to that time in the Freddie Mac series) as the Federal Reserve dropped the Federal Funds rate to 1.0 percent and the global savings glut pushed up demand for securities backed by U.S. mortgages.

Chart 2: Interest Rate on 30-Year Conventional Mortgage

From mid-2003 the upward impetus to home prices shifted from mortgage rates to demand growth due to the strengthening economy, to relaxation in lending standards and, ultimately, to self-fulfilling expectations of further price increases. By early summer 2006, the Federal Reserve had taken the Federal Funds rate back up to 5.25 percent, 30-year conventional mortgage rates hit 6.8 percent, and house prices had stopped rising in many markets.

From its May 2006 peak, the S&P/C-S 20-city composite index had fallen by 25 percent by November 2008 (the most recent month for which we have data). Generally, the cities that have seen the greatest declines from their peaks have been those that had the biggest run ups. Miami house prices had fallen by 40 percent; Los Angeles, by 36 percent. (The exception is Detroit, where the peak was "only" 27 percent above January 2000, and the subsequent decline was 35 percent. Detroit is the only city for which the S&P/C-S home price index is currently below its January 2000 value.)

Because of the dot-com collapse and the special problems Boeing faced as a result of the 9/11 terror attacks, the recession in the early part of this decade was especially deep and long in the Seattle area. As a result, prices here did not rise a great deal during the 2001–03 period of falling mortgage rates. Having largely missed the first half of the house price boom, the subsequent excesses were nowhere near as extreme in this area as in other places in the country and the downturn has not been anywhere near as severe. For Seattle, the most recent index value is 13 percent below the peak.

Chart 3: Seasonally-Adjusted Monthly Transactions Subject to the Real Estate Excise Tax

Although prices did not peak in the Seattle area until mid-2007, higher interest rates did dampen the level of activity in the real estate market, as measured by the number of transactions after summer 2005. (Higher mortgage rates discourage people from moving, as it can mean giving up an existing mortgage with a below-market interest rate.) Chart 3 shows monthly transactions subject to the real estate excise tax (REET). In July, August and September 2005, more than 95,000 transactions were recorded. In the same three months of 2007, less than 70,000 were recorded. Until mid-2007 rising transaction values offset the fall in the number of transactions. Since that point, however, REET collections have fallen precipitously.

The subprime problem

In early 2007 there were clear signs of difficulties with securities backed by sub-prime mortgages. From that point the financial crisis unfolded, seemingly in slow motion. In April 2007, New Century Financial Corporation, a leading subprime lender, filed for bankruptcy. In June S&P and Moody's Investors Service downgraded a number of bonds backed by subprime mortgages. In July, two Bear Stearns hedge funds filed for bankruptcy. In August American Home Mortgage Investment Corporation, another large subprime lender, filed for bankruptcy. By this point the spread between interest rates on 30-year conventional mortgages and rates on 30-year jumbo mortgages had widened considerably, as investors began to flee to quality.

On September 18, to alleviate some of the stress on the financial markets, the Federal Open Market Committee (FOMC) voted to reduce the federal funds rate from 5.25 percent to 4.75. This was the first of a series of reductions that would take the federal funds rate to essentially zero by December 2008.

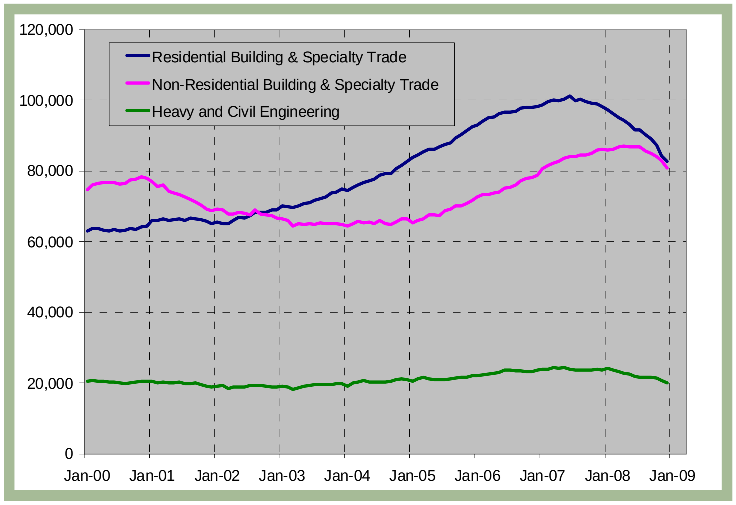
Still, at this point the problems appeared to be well contained. On October 9, the S&P 500 index set its all-time record closing high of 1,565.15.

Recession

In December 2007 the economy slipped into recession, although this was not formally recognized by the official arbiter (the National Bureau of Economic Research) until a year later. Christmas sales are weak, and it was clear that declining house prices had begun to put a damper on consumer spending. Through the first half of 2008 rising fuel and food costs, the result of a commodity price bubble, put further pressure on consumer spending.

A second factor in the initial stages of the recession was the downturn in residential construction activity. Because Washington house prices peaked later than prices in most other states, the state's construction employment also peaked later. In Washington State, residential construction employment peaked in June 2007, at just over 100,000 jobs. By December 2007, the state had lost 3,000 residential construction jobs. This loss, however, was largely offset by a gain in non-residential jobs. From December 2007 to December 2008, the state lost 15,400 residential construction, 5,200 non-residential construction, and 3,700 heavy construction/civil engineering jobs.

Chart 4: Washington Construction Employment, Seasonally Adjusted



In January 2008, Bank of America announced it would buy Countrywide Financial Services, a leading subprime lender. In February Congress passed and President Bush signed the Economic Stimulus Act of 2008; this authorized tax rebates that propped up consumption spending somewhat during the late spring and early summer months. In March, the investment bank Bear Stearns, on the verge of bankruptcy, sold itself to JPMorgan Chase for $2 a share. The Fed facilitated the sale by providing a $29 billion guarantee to JPMorgan Chase.

In June, S&P downgraded AMBAC and MBIA, two "monoline" insurance companies that provide insurance for bonds. In July the Office of Thrift Supervision closed IndyMac Bank, F.S.B. At the time, this was the third largest bank failure in U.S. history.

After a relatively quiet August, things became dramatically worse in September.

Bleak September

On September 7, the Federal Housing Finance Agency placed both the Federal National Mortgage Association (Fannie Mae) and Freddie Mac into conservatorship, and the Treasury announced additional measures to provide them with funding, including the purchase of preferred stock.

On Sunday September 14, Bank of America agreed to purchase Merrill Lynch & Company.

Lehman Brothers Holdings Incorporated, unable to arrange a rescue, files bankruptcy early on the morning of the 15th. Beginning on the 15th, the spreads between the rates of return on risky and risk-free assets widened dramatically, indicating that the credit markets were freezing up. On September 16, the Fed authorizes up to $85 million in funding for insurance giant American International Group (AIG). Also on September 16, the net asset value of the Reserve Prime Money Fund falls below $1.

On the 19th the Fed and Treasury announced further actions to provide liquidity and on the 20th the Treasury submitted draft legislation to purchase troubled assets.

On September 25, the federal Office of Thrift Supervision closed Washington Mutual Bank and transferred its banking assets to JPMorgan Chase.

On September 29, the House of Representatives rejected Treasury-submitted legislation authorizing the federal government to purchase troubled assets from financial institutions. The S&P 500 closed at 1,106.42 that day, down more than 206 points, 8.8 percent.

TARP and quantitative easing

On October 3, President Bush signed the Emergency Economic Stabilization Act of 2008. This legislation, the successor to the bill earlier rejected by the House of Representatives, established the $700 billion Troubled Asset Relief Program (TARP). Initially it was expected that the Treasury Department would use TARP funds to buy illiquid assets—primarily mortgage-backed securities—from banks. On October 14, in a turnaround, Secretary Paulson announced that the Treasury Department would use $250 billion in TARP funds to purchase preferred stock in banks as a way of bolstering their reserves. Nine large financial institutions, including JPMorgan Chase, Bank of America and Wells Fargo, announced that they had agreed to participate.

In the following weeks, a number of large non-bank financial institutions—including American Express, Hartford Financial Group and GMAC—announced plans to restructure so as to qualify for government funding through TARP.

Eventually, the Treasury provided TARP funds to General Motors and Chrysler.

As it continued to drive the federal funds rate down towards 0, the Fed introduced new tools to provide liquidity to the financial markets. The use of these tools has come to be known as "quantitative easing." On October 7, the Fed announced the creation of the Commercial Paper Funding Facility, which would buy 3-month commercial paper directly from issuers as a backstop to the private market. On November 25, the Fed announce the creation of the Term Asset-Backed Securities Lending Facility, which would lend up to $200 billion to holders of AAA-rated asset-backed securities. Also on November 25, the Fed announced that it would purchase up to $600 billion in mortgage-backed securities issued by Fannie Mae, Freddie Mac, and the Government National Mortgage Association. These purchases, which began on January 5, 2009, lead to a sharp drop in mortgage rates (which can be seen on Chart 2).

By January, there were some signs of thawing in the credit markets. However, for the economy overall, things continued to look grim. Christmas 2008 sales were very weak, and January brought layoff announcement after layoff announcement.

Economic Impact of First-Time Buyers

Studies have repeatedly demonstrated that housing construction, and even resales, are dynamic engines of economic growth, but in the face of the darkening economic picture and deepening recession, housing has become more of a brake than an engine. Economists have generally agreed that a sustained recovery will not be possible until the housing market is stabilized. This is one reason that the Federal Reserve has begun to purchase mortgage backed securities.

To stabilize the housing market requires more than just lower interest rates: It requires the development of confidence to participate, beginning at the lowest rung of the ownership housing ladder, thereby providing liquidity to households who desire to purchase, but are locked in place until they can sell their current home.

Acknowledgement

Washington Research Council has produced this report with funding from the Washington Association of REALTORS®. The results of this analysis are the sole responsibility of the Washington Research Council.

The Washington REALTORS® have therefore asked whether programs could be developed in order to encourage as many as 12,000 first-time homebuyers to reenter the housing market; and what the economic stimulus generated by those transactions would be.

To estimate those impacts, the Washington Center for Real Estate Research (WCRER) at Washington State University utilized the Input-Output Model of the Washington Economy developed by the Minnesota Implan Group. Academic colleagues, especially in the School of Economic Sciences at Washington State University, believe that the models are good representations of the regional economies throughout the state.

Background on Input-Output Analysis

While the models utilized to perform input-output economic analysis are exceptionally complex, the basic concept is fairly straightforward. It examines relationships throughout the economy both between businesses and between businesses and their final consumers. It captures all monetary market transactions for consumption in a given time period. The resulting formulas allow for the examination of the effects of changes in one or several economic activities on the entire economy (and upon individual industries within that economy). While the approach can also accommodate more regionalized analysis (individual counties), that would require estimating activity inputs at the county, rather than state level. The project team determined the statewide analysis was adequate for current purposes.

The model utilizes flows at the industry level, but individual models differ in the level of detail available. For example, the Office of Financial Management for the State of Washington recently promulgated an updated set of Input-Output Tables for the state of Washington, benchmarked to 2002 economic activity and structure of the state's economy. This model has identified 50 industry groups as the basis of analysis. By contrast, the model developed by the Minnesota Implan Group for the state of Washington used in this study has been updated to reflect economic activity as of 2007, but uses a similar 2002-based economic structure (since it was released by the Federal government in 2007). A bigger difference lies in the detail of the industrial structure since the IMPLAN model provides an analysis framework of 440 "sectors" or industry groups, defined for consistency with the North American Industry Classification System (NAICS), which is used throughout the Federal statistical system as the basis for defining industries. This allows for far more specific detail on the industries impacted directly by a home sale. For example, the state's 50-sector model lumps all construction into a single sector, while IMPLAN allows differentiation between new residential construction and maintenance/repair construction activities, each with its own set of coefficients and multipliers. The multipliers describe the response of the economy to a stimulus (a change in demand or production). The multipliers represent the predictive model.

The impact analysis phase begins by transforming a topic of concern or basic result into a set of economic issues or actors. For example, this analysis is based on the sale of 1,000 homes to first-time home buyers. That result is achieved by examining the underlying economic actions – preparing the homes for market, marketing the homes, closing the transactions, occupying the homes and personalizing the homes to the tastes of the new owners. These activities are directly tied to sales transactions, but they reflect expenditures in different industries, although all are theoretically made within a narrow window of time.

The analysis

The first step in using the models is to identify the assumptions regarding the direct expenditures involved in selling (and perhaps constructing) the homes. Relying on research previously conducted by WCRER or by the National Association of Realtors® it was determined that typically 83 percent of homes sold to first-time buyers were resale homes and 17 percent were newly constructed. Furthermore, the typical price paid by first-time buyers was 85 percent of the median price paid by all buyers. Throughout this analysis a baseline of 1,000 homes sold to first-time buyers was used in generating model inputs. That means 830 resale homes with a typical price of $239,300 and 170 homes with a median construction value of $181,400 (selling price of $259,200, including land) was used.

It must be pointed out that in an economic impact analysis only new production expenditures should be included, thus the sales price for the resale properties is used only as a scale against which to measure some of the direct expenditures. The construction values of those homes would have been included as an economic impact in the year in which they were built. For newly built homes, however, the construction value is a critical element of their economic impact. To calculate the construction value, statistics on permit values indicated when builders/developers submitted their applications to build the new homes.

Other elements of the home marketing process are acknowledged in these estimates. Prior to putting their home on the market, the owner of an existing (resale) home typically engages in some cosmetic repairs to improve the marketability of the property and the likely price received. Consumer research indicates that the typical seller spends about one percent of the selling price of the property for those pre-sale repairs. Similarly, after the sale the typical buyer will make additional changes (including remodeling and redecorating), averaging about two percent of the purchase price. Those numbers have been shown to be remarkably consistent across business cycles. Between those two extremes of the home sales process the actual marketing and selling of the property occurs. Marketing expenses include expenditures on advertising, professional services by the new staging industry, and the costs of open houses, etc. Those open house costs could include fresh flowers as well as preparing fresh-baked cookies to create a homey aroma for the guests (potential buyers). Some properties may include special events for real estate licensees with far more elaborate catering and prizes. WCRER has not included extraordinary inducements in this analysis (e.g. flat-panel TVs, trips or even prized automobiles for selected properties) although it is well understood that those incentives may be common for high-end homes in challenging markets.

The largest expenditures actually occur on the day of the closing, and to be certain the estimates utilized were representative of current practice in Washington, WCRER asked a real estate licensee member of the Realtors® Presidential Advisory Group advising the research team (and a member of the WCRER Board of Trustees) to prepare a representative closing statement for a hypothetical purchaser of a $240,000 resale home in Pierce County. This closing statement assumed a 10 percent down payment and a typical credit score (620-660) for someone making such a purchase.

The resulting closing statement was used to determine the probable costs of securing financing, appraisals, closing services, property insurance costs and the like. For simplicity, WCRER assumed that 88 percent of the resale homes and 78 percent of the newly constructed units were sold with the assistance of a real estate licensee, and that when a licensee was used a commission of six percent of the sales price was collected. Clearly real estate commissions are negotiable, and WCRER acknowledges that increased use of the Internet has placed some downward pressure on real estate commissions. Nevertheless, the most recent research using information collected under the Home Mortgage Disclosure Act (HMDA) shows that most agent-assisted transactions have commissions between five and seven percent.

These expenditures were aggregated and applied to the appropriate industries. The true strength of Input-Output analysis is that it prepares separate impacts and multipliers based on the industry benefitting from the direct expenditure. This means that if the good or service impacted is produced in Washington, it will have a greater impact on the state's economy than if the good or service is being imported from California, for example.

One final note about the assumptions is required. Since we are dealing with owner-occupied homes the issue of whether the rental equivalency of those units should be included as a direct economic impact should be addressed. While it may seem strange to include an item as an expenditure where no formal payment is being made while omitting the actual mortgage payments from the analysis, the intent is to include the shelter value while discounting any premium the owner may be paying for the theoretical investment component of homeownership. Accordingly, WCRER has chosen to include the rental equivalency. It should be pointed out that this decision in no way impacts the resulting estimates of employment or employee compensation (and in no way changes the analysis used by the other research participants in this endeavor).

Three sets of expenditures are presented from the Input-Output Analysis:

- Direct Effects—the expenditures directly associated with the preparation of the house for sale and the transaction itself, as described above;
- Indirect Effects—the "upstream" expenditures necessary to produce the goods and services which were counted in the direct effects;
- Induced Effects—the "downstream" expenditures by households from wages and the indirect effects associated with those expenditures from wages.

Three categories are also reported:

- Output—total production of goods and services in Washington;
- Employment—full-time equivalent jobs generated as a result of the expenditures;
- Employee Compensation—wages and salaries paid/earned as a result of the expenditures. Employee compensation does not include compensation to business owners or corporations.

The economic impacts of the sale of 1,000 homes to first-time buyers are presented in Table 2.

Table 2: Economic Impact of the Sale of 1,000 Homes to First-Time Buyers

	Direct	Indirect	Induced	Total
Output	*$71.9 million*	*$19.7 million*	*$20.8 million*	*$112.4 million*
Employment (FTE)	*403.1*	*109.5*	*198.6*	*711.1*
Employee Compensation	*$16.3 million*	*$4.1 million*	*$7.9 million*	*$28.4 million*

As the input/output model is a linear model, the impacts will scale up and down proportionally with the number of buyers: For 12,000 first-time buyers, the impacts are thus twelve times larger, as shown in the Table 3.

Table 3: Economic Impact of the Sale of 12,000 Homes to First-Time Buyers

	Direct	Indirect	Induced	Total
Output	*$862.4 million*	*$235.6 million*	*$250.0 million*	*$1,348.3 million*
Employment (FTE)	*4,837*	*1,314*	*2,383*	*3,533*
Employee Compensation	*$195.3 million*	*$49.7 million*	*$95.2 million*	*$340.2 million*

Revenue Impacts of First-Time Buyers

Real Estate Excise Tax

The preceding analysis indicates that first-time buyers pay 85 percent of statewide median prices ($239,300 for a resale home and $259,200 for a new home), that 83 percent of first-time sales are resale homes, and that 17 of first-time sales are new homes. As the state Real Estate Excise Tax (REET) rate is 1.28 percent, the initial REET impact of 1000 sales (the first round) is:

$$(0.0128 \times 830 \times \$239{,}300) + (0.0128 \times 170 \times \$259{,}200) \approx \$3.1 \text{ million.}$$

WCRER research shows that 65 percent of the parties who sold their houses to first-time buyers subsequently buy another house in the state. That would be (0.65 × 830) = 540 houses in the second round of sales. As these are not first-time buyers, they are assumed to pay the state median prices of $304,941 for a new home and $282,529 for a resale home. Assuming again that 83 percent of the purchases are resale homes and 17 are new, the second round involves 488 resale homes and 92 new homes. In the third round, 292 sales (6 percent of the 448 resale homes) result, and so on down the line. WCRER research indicates that four rounds of subsequent sales will occur in approximately 9 months following the initial round. With the above ratios, 1,075 sales occur in those rounds (in addition to the original 1000), generating an additional $3.9 million. Together these five rounds provide a total of 2,075 sales and $7.0 million in state REET collections in the year after implementation. Carrying subsequent sales forward for five more rounds (assumed to take another year) generates an additional 95 sales (for a total of 2,165, of which 368 are new construction) and $350,000 in state REET.

At the average local REET rate of 0.5 percent, these transactions will also generate $2.9 million in REET for local governments.

Retail Sales/B&O Taxes

Based on the historical ratios of sales and B&O taxes to output, and the estimate of the increase in output that the input/output analysis ascribes to 1,000 first-time sales, we calculate that 1,000 first time sales will generate

$2.7 million in retail sales tax revenue for the state and $980,000 in B&O tax revenue.

Using the average local sales tax rate of 2.0 percent, local sales tax revenue would be $830,000. Using the average ratio between state and local B&O receipts, local B&O revenue would be $100,000.

Property Tax

Under the terms of the Initiative 747 property tax limit (ruled unconstitutional by the state Supreme Court, but subsequently reenacted by the legislature) the state property tax levy goes up by the lesser of one percent or the September-to-September rate of IPD inflation. As such, any increase in property values resulting from increased demand would not increase state property tax revenues. Under the terms of I-747, however, new construction would add to the levy value allowed in subsequent years. The 2009 state school levy is $1.75 per $1,000 of market value; at that rate a new median-priced home would add $374 per year to property taxes in the year after it is constructed. The 368 new homes that are projected within two years would boost annual state property tax revenue by $128,000 and local property tax revenue by $597,000.

The revenue impacts of 1,000 first-time buyers are summarized in Table 4.

Table 4: Revenue Impact of the Sale of 1,000 Homes to First-Time Buyers

	State	Local	Total
Real Estate Excise Tax*	*$7.4 million*	*$2.9 million*	*$10.3 million*
Sales Tax*	*$2.7 million*	*$830,000*	*$3.5 million*
B&O Tax*	*$980,000*	*$100,000*	*$1.1 million*
Total*	*$11.1 million*	*$3.8 million*	*$14.9 million*
Property Tax**	*$130,000*	*$600,000*	*$730,000*

*Over two years

**Annual, after two years

Again, impacts scale up and down proportionally with the number of first-time buyers. The revenue impacts from 12,000 homes are shown in Table 5.

Table 5: Revenue Impact of the Sale of 12,000 Homes to First-Time Buyers

	State	Local	Total
Real Estate Excise Tax*	*$88.6 million*	*$34.6 million*	*$123.2 million*
Sales Tax*	*$32.6 million*	*$10.0 million*	*$42.6 million*
B&O Tax*	*$11.8 million*	*$1.2 million*	*$13.0 million*
Total*	*$133.0 million*	*$45.8 million*	*$178.8 million*
Property Tax**	*$130,000*	*$600,000*	*$730,000*

*Over two years

**Annual, after two years

If the first-time buyer program is funded through revenue bonds issued by the Housing Finance Commission, the revenue shown ($11,100 per first-time buyer) would be a net gain to the state general fund. However, the turmoil in the credit markets may make it difficult for the Commission to borrow money in the near term. Were the initial clients of the program to be funded from the general fund, that cost would need to be subtracted when calculating the gain to the general fund.

Appendix

Washington REALTORS® State Policy Recommendations

1. Increase Home Purchases through Down Payment Assistance to First Time Homebuyers
Down payment assistance is the most cost effective way to encourage first-time home buyers to purchase a home. To help stimulate 12,000 home sales in 2009 to first-time buyers, additional down payment assistance is needed. Down payment assistance (DPA) would be in the form of a second loan to help pay down payment and closing costs. Recipients would be required to complete the home buying seminar and earn household incomes at or below 120% of area median income. Recommended source of funds are:

- **A One-Time Appropriation of State Funds**
  The Washington Legislature should fund a down payment assistance program for first-time buyers earning less than 80% of median income as part of a larger economic stimulus package. The program could be appropriated through the Housing Division of the Department of Community Trade and Economic Development to work in partnership with the Washington State Housing Finance Commission loan program.

- **Washington State Housing Finance Commission Taxable Loan Program**
  The Washington State Housing Finance Commission (WSHFC) should develop a taxable loan program to assist homebuyers approved for primary conventional mortgages by Freddie Mac and Fannie Mae approved lenders. These loans would not count toward federal or state bond cap limits, allowing the program to grow with demand, subject only to market conditions. Down payment assistance loans would be provided by the WSHFC and loans would be purchased from lenders by an approved loan servicer working for the Commission.

2. Modify Housing and Economic Recovery Act Tax Credit (HERA)
Congress authorized a repayable $7,500 tax credit to first-time buyers in summer of 2008. This effort has had limited success due to repayment requirements, limits eligibility to first-time buyers and because it does not address the difficulty many buyers have in finding the up-front cash needed to enter the market.

The Governor's office should work with the state's congressional delegation to make the following changes to HERA:

- make the credit non-repayable;
- fund the credit up-front allowing homebuyers to use as cash at closing
- expand eligibility to all homebuyers.

Additionally, the Governor's office should work with the Internal Revenue Service to develop a strategy that allows Washington State to make down payment assistance loans against the tax credit repayments allowing buyers to use the credit as cash at closing.

3. Temporary Property Tax Credit or Waiver
The Legislature should authorize either a one year 25% property tax credit or one year waiver of property tax on the tax obligation to first-time buyers. A tax reduction would reduce the amount of cash required at closing and costs the homeowner faces in the first year, providing an incentive to go forward with a home purchase.

4. Coordinated Public Information Campaign
State agencies, REALTORS®, lenders, non-profit housing assistance groups and others should develop and implement a coordinated campaign advertising mortgage financing resources, down payment assistance programs and homebuyer pre and post purchase counseling services. A coordinated effort would benefit from brand identification and should be a multi-media campaign including uniform web link branding.

5. Ensure Long Term Health of the Housing Market through Reorganization and Expansion of State Housing Policy Efforts
Washington has three separate housing policy groups and programs:

- Housing Division of the Department of Community, Trade and Economic Development,
- Washington State Housing Finance Commission, and
- The Governor's Affordable Housing Advisory Board.

Additionally, multiple state agencies have regulatory authority over the multiple sectors of the economy involved with housing including the Departments of Licensing, Labor and Industries and Financial Institutions. There also exist multiple local housing authorities, non-profit community development organizations and professional trade associations serving consumers and practitioners involved in real estate sales, housing construction and mortgage lending. This complex regulatory and policy environment hampers the necessary strategic, cogent and uniform consideration of housing policy and regulation that would foster a healthy housing market.

The Governor's office and the Legislature should explore opportunities to better coordinate, and possibly, to consolidate existing government housing policy and regulatory activities. The policy goals should be to

- foster administrative efficiencies and inclusive participation by practitioners, policy makers and regulators,
- consider and be responsive to housing needs for all income levels; and
- ensure the health, vitality and stability of all market sectors and businesses that contribute to this vital sector of the economy.

6. Decrease Supply by Preventing Further Foreclosures
Rapid increases in home foreclosures contribute to de-stabilized markets. Reducing foreclosures will stem price declines resulting from expanded inventory of underpriced homes on the market. A more stable market increases buyer confidence bringing buyers back into the market. Washington set the groundwork in 2008 when the Homeowner Security Counseling Program was established. A second wave of adjustable mortgage interest rate resets will occur in 2009 and 2010. Expanding and augmenting existing foreclosure prevention efforts is warranted.

6(a) Increase and Expand Washington's Homeowner Security Counseling Program
In 2008 the Legislature appropriated $1.5 million for foreclosure prevention counseling services. These services augment existing non-profit programs which are primarily funded by donors. Contributions have dropped significantly, reducing the capacity to increase levels of service and caseloads. The existing program does not fund counselor training. The Legislature should appropriate an additional $3 million to this program to expand capacity and extend program services through June 30, 2011 or beyond.

6(b) Executive Action Urging Loan Modification Efforts
Washington's Governor Gregoire and the National Governors Association should take a proactive role urging lenders and loan servicers to prioritize loan modifications and provide adequate resources toward these efforts.

6(c) Require Reasonable Foreclosure Prevention Efforts
The 2009 Legislature should pass legislation that would facilitate reasonable loss mitigation efforts and loan adjustments before foreclosure can be filed. Examples include mandatory notification of available foreclosure prevention counseling services prior to foreclosure; or notification of loan modification options prior to resetting the interest rate on adjustable rate mortgages.

6(d) Clarify Distressed Property Conveyance Law to Remove Impediments to Professional Representation of Distressed Home Sellers.

7. Preserve State Authority to Regulate Financial Institutions and the Financial Services Industry
Federal responses to the current financial situation include potentially harmful regulatory reform efforts that could strip state regulatory authority of financial institutions and financial service providers operating in Washington. Governor Gregoire and the National Governors Association should focus efforts to protect and strengthen states' existing regulatory authority.

8. Adopt a "Do No Harm Policy" to Protect Housing Market Activity
The strength of Washington's economy and our economic recovery depend on a healthy housing market where housing demand in all price ranges is supplied by market forces. A healthy housing market creates jobs, stimulates retail activity and supports a broad spectrum of professional services. State, county and city fiscal health depends on revenue generated by a thriving housing market. The Executive and Legislative branches of Washington State government should vigilantly protect the housing market and ensure its long term health by avoiding regulations and fiscal policy that would harm this market sector.

During this time of budget deficits, elected officials should:

- Oppose proposals that would increase taxes on the real estate industry or homeownership,
- Oppose proposals that would create barriers to home sales, and
- Oppose regulations that increase the cost of housing, homeownership or the transfer of real property.