National Council of State Housing Agencies
444 North Capitol Street, NW, Suite 438
Washington, DC 20001

March 20, 2003

The Honorable John W. Snow
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220

Dear Secretary Snow:

I write to alert you to a serious error in the Estimated Impact of the Major Components of the Bush Administration's Growth and Jobs Plan on Housing and the Economy, the attached report issued March 11 by the Mortgage Bankers Association of America (MBA). The error invalidates the report's conclusion that the Administration's dividend exclusion plan would have "limited effect" on the Low Income Housing Tax Credit (Housing Credit).

I bring this error to your attention because the MBA report is Causing some in Congress and the Administration to question the findings of Ernst & Young's February 2003 report, The Impact of the Dividend Exclusion Proposal on the Production of Affordable Housing. The E&Y report, commissioned by the National Council of State Housing Agencies (NCSHA), projects a 35percent annual loss of Housing Credit apartment production.

NCSHA has informed MBA of its mistake and asked MBA to issue a correction to its report.Although MBA has not denied its error, it has refused to issue a correction. Given Congress and the Administration's need for accurate information on this issue now, NCSHA is compelled to correct the record.

MBA's error occurs in its report's Appendix 2 (Exhibits 1-3). The MBA analysis uses tax rate and dividend assumptions consistent with those used by E&Y in its analysis. However, in computing the marginal shareholder benefit, MBA mistakenly double-counts the value of the Housing Credit tax deduction, grossly exaggerating the return to the shareholder.

Despite its stated intention to use an 8 percent corporate return for Housing Credits, the MBA analysis produces a Housing Credit investment yield of nearly 37 percent ($367 of after tax earnings for a $1,000 investment); in fact, Housing Credit yields are about 8 percent, as shown in the E&Y report ($87 of after tax earnings from a $1,000 investment). This miscalculation of corporate yield leads MBA to conclude that the marginal rate of return to the shareholder under the Administration's plan would be positive, when in fact it would be negative. The mistake and the impact of its correction are illustrated on the following chart:

Corrected

Marginal Benefit of MBA MBA E&Y

Housing Credit Investment: Analysis Analysis Analysis

Housing Credit Cost 1,000 1,000 1,000

Corporate Income after

Housing Credit 1,367 1,087 1,08

Net After-tax Cash Flow 367 87 87

Return to Corporation

Under Current and Proposed Law* 36.7% 8.7% 8.7%

Return to Shareholder

Under Current Law 28.7% 6.8% 6.8%

Return to Shareholder

Under Proposed Law 7.6% (12.4%) (12.2%)

*Net After-tax Cash Flow divided by Housing Credit Cost

As illustrated above, MBA's analysis, once corrected, no longer supports its conclusion that the dividend exclusion plan would have "limited effect" on the Housing Credit. In fact, MBA's analysis properly done produces virtually the same result as E&Y's analysis.

MBA appropriately concludes that, "What is important is that the benefit remains positive overall to shareholders. . ."Since its own analysis when computed accurately yields a negative shareholder benefit, MBA must reverse its conclusion.

Despite the flaws in MBA's analysis, we are encouraged that MBA agrees we should seek changes to the dividend plan to limit any negative effects on the Housing Credit. We continue to be available to Congress and the Administration to assist in that effort.

Sincerely,

Barbara J. Thompson
Executive Director

Enclosure

cc:
Assistant Secretary Pamela Olson
Deputy Assistant Secretary Gregory Jenner

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Report by the Mortgage Bankers Association of America

Estimated Impact Of the Major Components of the Bush Administration's

Growth and Jobs Plan on Housing and the Economy

[redacted data]

35 pp

March 11, 2003

Mortgage Bankers Association of America