



JAMES L. McINTIRE  
State Treasurer

State of Washington  
Office of the Treasurer

April 16, 2009

Secretary Timothy F. Geithner  
United State Department of the Treasury  
1500 Pennsylvania Ave, NW  
Washington, DC 20220

Dear Secretary Geithner,

Restoring a healthy housing market is essential for strengthening the national economy. Your \$8,000 Federal Tax Credit for first-time homebuyers is a bold step toward that goal. I am requesting your urgent action to make it more effective for homebuyers immediately.

The federal program is currently structured as a tax rebate. Homebuyers are eligible for the tax credit only after they have purchased the home, submitted the appropriate forms, and allowed several weeks for the Internal Revenue Service to process the claim.

Historically low interest rates and home prices provide a tremendous opportunity for first-time homebuyers but securing a down payment remains a significant obstacle.

Like other states, Washington invests its short-term treasury account at market rates. As Treasurer, I have proposed that the state deposit funds at market rates to create liquidity in banks that agree to partner with our Housing Finance Commission. Through their agreement with the Commission, banks would provide low-cost bridge loans for homebuyers, allowing them to monetize the \$8,000 as part of their down payment. The Washington Association of Realtors has pledged a \$400,000 reserve fund to back these loans.

Here's the catch: current IRS rules require rebates from an amended 2008 tax return to be mailed only to a filer's address on their original return and therefore preclude the agency from rerouting the payment to a new address, in this case the state Housing Finance Commission, to ensure repayment of the bridge loan. Allowing a change in the address to which the rebate is mailed would solve this problem.

I am requesting that you allow the IRS to change its rules immediately. This technical change would allow Washington, and other states, to build on the bold national initiative you have undertaken. Without this change, fewer homebuyers will be able to come up with the down payments needed and our housing market will continue to deteriorate. Your timely help is critical.

Sincerely,

  
James L. McIntire  
Washington State Treasurer





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**Background:**

Many first-time homebuyers that qualify for the ARRA homeownership tax credit of up to \$8,000 would like to buy a house and receive the tax credit. However, they lack the money for the down-payment and closing costs necessary to purchase a home. If qualified buyers could receive an advance against the amount of the tax credit to use at the time of purchase, they could proceed to buy a home and then apply for the tax credit. Several housing finance agencies have implemented programs to advance funds at the time of closing, provided the borrowers are participating in the agency's homeownership programs and the agency can have both a first and second lien against the borrower's home as collateral.

The Washington State Housing Finance Commission (the Commission) has implemented such programs in our state but due to a lack of available funding for both first and second mortgages as a result of market disruptions, the Commission cannot do the volume of loans necessary to stimulate the state's economy by simply encouraging the use of the homeownership tax credit. Therefore, the Commission, the State Treasurer and the Washington Association of Realtors have designed a program to advance funds at the closing table for qualified first-time buyers that are not participating in the Commission's programs using a line of credit from a local financial institution and a short-term loan program that advances the funds and then repays the loan from the tax credit refund. However, the use of a revolving line of credit to fund a short-term loan program requires immediate repayment of the line of credit upon receipt of the tax credit refund.

**The Problem:**

The problem we have identified is that since most taxpayers have already filed their original 2008 tax return, they will have to file an amended return to obtain the tax credit for the balance of 2008; and the IRS will not mail a tax refund check to any address except the tax payer's address on the original refund. This prevents the Commission from being able to collect the amount of the short-term loan from the first-time taxpayer/borrower at the time the tax credit refund is received. Without the security of being able to repay the short-term loan at the time the refund is mailed to the borrower, the Commission will not have the funds to repay the line of credit and re-use the funds to benefit other first-time buyers. This puts the Commission at significant risk.

**The Solution:**

The solution to this problem is to change IRS procedures to allow the amount of a refund from an original or amended tax return to be deposited, by electronic transfer or check, into an escrow account in the name of the housing finance agency, as designated by the taxpayer through an assignment of the refund to the housing finance agency, which is submitted with the original or amended return.

By making this simple change and allowing the tax credit refund to be directed to an escrow account from which the housing finance agency can repay the line of credit for the short term loan, housing agencies can advance funds at the closing table to be used for down-payment and closing costs and then be assured of collecting the funds at the time the tax credit is sent to the tax payer/borrower. This removes the risk to the housing finance agency, helps the first-time buyer to purchase a home and avoids additional interest costs which would be required by a long-term amortizing loan to the buyer.