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**TESTIMONY IN SUPPORT OF HB1178
INCOME TAX- SUBTRACTION MODIFICATION-
FIRST-TIME HOMEBUYER SAVINGS ACCOUNT**

Budget & Taxation
March 30, 2021

Chair Guzzone, Vice-Chair Rosapepe and Members of the Committee,

Thank you for the opportunity to testify before you on HB1178, Income Tax – Subtraction Modification – First-Time Homebuyer Savings Accounts. The purpose of this bill is to allow qualifying individuals, as a first-time homebuyer, to save money for a down payment through a tax-free savings account. An eligible account holder may claim a subtraction modification for (1) the amount contributed, up to \$5,000, during the taxable year to a designated account and (2) the earnings, including interest and other income on the principal, from the designated account during the tax year. The subtraction modification may be claimed for up to 10 years and for a maximum contribution amount of \$50,000 during the 10-year period. The bill also allows individuals to create an account for a beneficiary like a child or grandchild. Additionally, as unanimously passed by the House, this bill requires financial institutions to provide homebuyer education and housing counseling, and requires the Department of Housing & Community Development to conduct outreach to communities who have experienced lower rates of home ownership.

Down-payments and closing costs are the biggest impediments to many first-time purchasers who make enough money to afford a monthly mortgage payment but may have student debt or are unable to save enough to purchase.

52% of adult children are living at home with their parents – a higher percentage than at any time in the last 100 years. The National Association of REALTORS® conducts an Annual profile of homebuyers and sellers, and in the 2020 report they noted:

- First-time buyers (31%) took another drop from rates that were already at 30-year historic lows
- 79% of first-time buyers rely on savings to purchase their first home compared to 58% for all other buyers including repeat buyers who can often use the proceeds from another sale to help.

It is these first-time buyers who are so heavily reliant on savings that this bill targets to assist. The bill will not only help maximize first-time buyer's dollars but offer an incentive to start planning for a home purchase.

The pandemic, combined with rising home prices and tight inventory in many areas, is now making it even harder for young homebuyers to save for their first down payment. Although mortgage rates remain low, home prices are on the rise due to limited availability. Decreases in home ownership are not reflective of a decline in the younger generations' interest in buying a home, rather, surveys have shown that young prospective home buyers have indicated a desire to buy homes. This is on par with that of previous generations. A multitude of factors go into buying a home and we must make home-ownership a much more attractive option, especially for the younger generation who are also juggling higher than average rent prices and growing student loan debt.

Additionally, homeownership and home equity can be a key strategy to closing the wealth gap between white households and households of color. After all, the COVID-19 pandemic has only exacerbated racial and class disparities in this country and this state. As a 2020 Abell Foundation report observed, homeownership in Baltimore's Black community has been falling for years. Long before the virus hit, the city's homeownership rate fell from 51% to 47% between 2007 and 2017, while the rate among African Americans living in Baltimore declined from 45% to 42% during the same period. This follows a nationwide trend.

For many renters, the financial stumbling block of first-time home buying is twofold — qualifying for a mortgage and coming up with a down payment of 5%, 10% or 20% of the property's value. That's where a tax-free savings account might prove useful, in reducing the obstacle of the up-front costs.

Research has demonstrated that homeownership boosts personal savings, improves communities as people take greater responsibility for their surroundings, and ultimately reduces housing costs. By creating this subtraction modification for the first-time home buyers savings account, we are highly encouraging the younger generation to start saving for the purchase of a home in the future and making homeownership for all-regardless of color, more obtainable.

For these reasons, I am requesting a favorable report.

With kindest regards,

Benjamin Brooks