



October 17, 2005

The Honorable Connie Mack, Chairman
The President's Advisory Panel on Federal Tax Reform
1440 New York Avenue NW, Suite 2100
Washington, DC 20220

Dear Senator Mack:

During the October 11, 2005 meeting of the President's Advisory Panel on Federal Tax Reform, a panel member suggested capping the mortgage interest deduction at the current Federal Housing Administration loan limits. Unfortunately, this proposal to reduce the mortgage interest deduction cap is inconsistent with President Bush's publicly stated principles for tax reform and could harm homeownership and the economy.

In the Executive Order establishing the Panel, President Bush clearly asked the Panel to provide options to reform the Federal Internal Revenue Code while bearing in mind the goals of simplification, fairness, economic growth, and support for charitable giving and homeownership. The mortgage interest deduction is consistent with America's longstanding tradition of encouraging homeownership, a pillar of U.S. housing policy. Since the enactment of the federal tax code in 1913, the mortgage interest deduction has remained one of the most powerful incentives for the expansion and preservation of homeownership.

Capping the mortgage interest deduction at the FHA limits has the potential, especially in high-cost areas, where the FHA limit of \$312,895 is often far less than the median home price, to raise the tax liability of many middle-income Americans while also devaluing their most valuable asset. Not to mention, because the FHA limits vary by area, indexing the mortgage interest deduction to this figure would add yet another layer of complexity to the already complicated tax code that the Panel is working to reform.

The benefits of homeownership and the mortgage interest deduction extend far beyond positive social effects; homeownership and the mortgage interest deduction strengthen the economy and play a key role in our nation's accumulation of wealth. During times of recession, the ability of households to refinance their homes and access home equity has been a substantial source of support for the economy.

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As the Commission considers potential changes to the tax code, we urge you to consider carefully the social and economic benefits that the mortgage interest deduction generates.

Most sincerely,

A handwritten signature in black ink, reading "Jonathan L. Kempner". The signature is written in a cursive, flowing style with a large initial 'J'.

Jonathan L. Kempner