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How Would Herman Cain's 9-9-9 Plan Impact Mortgage Banking?

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***BLOG VIEW*: The latest NBC News/Wall Street Journal poll has placed former Godfather's Pizza CEO Herman Cain as the leader in the race for the Republican presidential nomination. Part of the appeal that fueled Cain's ascension is his willingness to put out a specific economic plan that offers a user-friendly explanation of his political philosophy: the so-called 9-9-9 plan.**

According to Cain's campaign website, the 9-9-9 plan would realign the federal tax code to include a 9% business flat tax, a 9% individual tax and a new 9% national sales tax. If Cain's website is any indication, loopholes and exceptions are very limited - the candidate promises "additional deductions" for businesses and homeowners within "empowerment zones," which I assume will be defined as at-risk communities in desperate need of economic stimulus.

What would this plan mean for the mortgage banking industry? At first glance, it appears to offer some benefits while raising a lot of concerns.

For business owners, the 9% business flat tax appears to be a step in the right direction. Contrary to the recent inane rant by Elizabeth Warren that depicts business owners as being greedy slobs who don't tote their fair share of the tax burden, U.S. companies - especially small businesses - operate under a Byzantine tax code that is cumbersome and confusing. The absence of any significant wave of entrepreneurial efforts similar to the explosion of newly created business during the recovery from the 1991 recession can be blamed, in large part, on the tax burden business owners face.

While some Cain critics insist that the nation's mega-corporations will benefit the most from this aspect of the 9-9-9 plan, the real beneficiaries will probably be the Main Street operations that have found themselves choked for cash over the past few years. This includes the community-level lenders, whose viability has been ignored by a federal government that has stuffed the so-called "too-big-to-fail" institutions with taxpayer funds - which, in turn, wound up going into their C-suite compensation packages.

The other two-thirds of the 9-9-9 plan, however, is where the uncertainty comes in. The 9% individual tax - as it is defined today - applies to all people, excluding those at or below the poverty level. Cain's critics say that it will raise taxes on the more economically vulnerable segments of the population. From a mortgage banking perspective, this part of the plan would work best if another Cain goal - a repeal of the disastrous Dodd-Frank Act - would eliminate the suffocating Qualified Mortgage and Qualified Residential Mortgage language that is keeping too many people from achieving homeownership.

As for the new 9% national sales tax, it is not clear whether this would apply to the purchase of residential and commercial property. If it does, this would clearly raise housing and commercial real estate purchase prices.

Also unclear is whether the 9-9-9 plan would preserve the mortgage interest tax deduction. Cain's campaign website insists that the candidate wants to eliminate "nearly all deductions and special interest favors," but this particular deduction is never mentioned. I tried to get clarification from the Cain campaign on this matter, but they never acknowledged my telephone calls and e-mails.

Richard Rydstrom, chairman of the Los Angeles-based Coalition for Mortgage Industry Solutions, believes the Cain plan raises more questions than answers.

"It's like a beautiful new paint job with a few cylinders misfiring," says Rydstrom. "Few should object to the notion that we need a less complex tax structure. However, the debate remains whether taxes should be lowered or raised for businesses and consumers. The component parts of the debate must include the goal and the mechanisms to achieve that goal - a successful economy with full employment.

"Whether we call it 9-9-9 or 12-12-12 or 20-10-0, economic recovery is not precluded by or solely dependent upon the tax raising allocation system," Rydstrom continues. "Picking 'production' over 'spending' is a 50/50 proposition - and a political bet. However, if the 9-9-9 plan shifts taxation from production to consumption, it may further stifle the anemic economic recovery. Consumer spending and consumption is a crucial part of the recipe towards full employment - even if the pie has shrunk- and a balanced tax system underlies production and the kinetic capacity of available consumer spending. All are included in the fabric of an improved economy."

However, Rydstrom adds that higher taxes do not necessarily lead to public panic or economic calamity.

"We have seen higher taxes in periods of higher productivity and spending," he says. "I recall my days as a tax accountant for high net-worth celebrities, back when President Reagan 'lowered taxes' but strangled the deductions. The public perceived that a significant reduction in taxes had taken place, and the reaction was critical and electrifying. President Clinton had high rates with high production and consumption, but he also had the power to instill confidence - and that is the number one reason for the lack of our ability to recover currently."

Edward Pinto, a resident fellow at the American Enterprise Institute and a former executive vice president, chief credit officer and senior vice president of marketing and product management at Fannie Mae, says that Cain's raising of the issue is encouraging.

"While details about how the 9-9-9 plan will presumably be forthcoming, the interest tax deduction should be on the table in any discussion of a broad income-tax reform plan aimed at drastically reducing marginal tax rates," says Pinto. "This would have the added benefit of reducing the tax code's bias in favor of debt and against savings."

Bob Dorsa, president of the American Credit Union Mortgage Association, has not seen enough details of the 9-9-9 plan to offer an opinion, but he also expresses satisfaction that the presidential race is shining a fresh look at this tax deduction.

"If our government is serious about fiscal reform, they will inevitably have to make some changes here," he says. "I would see a limit on either the total amount of the deduction or on the income bracket of the homeowner. With interest rates remaining low, that could impact the timing."

All of this, of course, is still a game of "what if?" Many people in the Republican establishment and the media are arrogantly insisting that former Massachusetts Gov. Mitt Romney is the "inevitable" party nominee - even he has repeatedly lost straw poll competitions and media surveys consistently show that roughly 75% of Republican primary-bound voters are *not* in favor of his candidacy.

And even if Cain were to gain the nomination and then the presidency, every industry and special-interest group in the nation that depends on taxpayer funding will go into overdrive to ensure that their seat on the federal government's gravy train remains intact.

Nonetheless, Cain deserves kudos for going beyond the bland vague promises of his rival candidates by offering a fresh approach to taming a thorny issue. Texas Gov. Rick Perry realized this take-charge approach attracts voters, hence his new hastily-conceived "flat tax" idea that was clearly inspired by the Cain approach.

And if Cain's campaign continues to outpace his competitors, mortgage bankers need to pay more attention to the 9-9-9 approach and demand more specifics on how this plan could help - or, perhaps, hurt - the industry's recovery.

- Phil Hall, editor, ***Secondary Marketing Executive***

(Please address all comments regarding this opinion column to hallp@sme-online.com.)

(Photograph courtesy of Gage Skidmore)
