This policy is unfair, anti-home-ownership, and antifamily.

Moreover, consider the purpose of IRA's. IRA's are intended to promote long-term productive investments to provide a nest egg for retirees. Historical studies have shown that one's home is generally the largest and most important asset people have. It is probably also the best investment they will ever make. Shouldn't IRA funds be available for this important purpose?

Consider, finally, that we do permit individuals to borrow from their 401(k) retirement accounts to purchase a home. A 401(k) plan is nothing more than a self-directed retirement plan—in much the same way an IRA account is. If we allow people to borrow money from a 401(k) plan for this purpose, shouldn't we also allow borrowing from an IRA account?

I believe we should. My legislation allows this to be done in a flexible, but responsible manner. My bill allows 100 percent of the funds in one's IRA account to be used for a first-time home purchase, structured either as a loan or an equity sharing investment.

Under my bill, IRA advances structured as a loan may be flexible. Any loan from an IRA can be for a term of up to 15 years. The loan may be interest only—no principal amortization. And, interest on the loan may be deferred until repayment of the loan. These two options increase flexibility with respect to cash flow. Finally, the loan may be unsecured or may be secured—typically by a second lien on the home. This increases flexibility with respect to second mortgage limitations typically imposed by secondary market mortgage lenders like Fannie Mae and Freddie Mac.

IRA advances structured as an equity sharing agreement are intended to mirror current free market practices, in which homebuyers give up part of the appreciation of value of their home in return for vital down payment assistance. To preserve the concept of having the IRA engage in economic transactions, my bill requires that equity sharing arrangements be structured under terms similar to those made in arms-length transactions.

While flexible, the bill is also structured in a careful, targeted manner. The public policy purpose of the bill is to promote entry into the housing market. Therefore, the home buyer must be a first-time home buyer. In addition, the home purchase must be a principal residence. Finally, the loan or equity investment must be repaid upon the sale of the home.

My bill also contains provisions to prevent self-dealing or tax-gaming. For example, the interest rate on the loan must be no less than 200 basis points below and not more than 200 basis points above comparable Treasury rates. In this way, the IRA earns at least a fair rate of return, but individuals cannot funnel excessive tax-deferred funds into an account. Perhaps most importantly, my bill provides that forgiveness or default on loan or equity repayment subjects an IRA to premature distribution treatment—making the funds subject to tax and withdrawal penalty. This effectively prevents individuals or parents from converting IRA funds tax-free to personal use through a fabricated default.

Finally, I would like to compare this approach to the so-called penalty waiver approach. This approach was included in H.R. 4210, a major tax bill approved in the 102d Congress, but vetoed by the President. The penalty waiver provision was also included in the super-IRA bills introduced last year by Senator ROTH in the Senate and Representatives THOMAS and Pickle in the House. Many Members of both the House and Senate Have introduced legislation incorporating this concept.

Quite simply, the penalty waiver approach provides for a waiver of the 10-percent penalty on premature IRA withdrawals for certain identified purposes. Typically, qualified purposes in legislative proposals include first-time home purchase, higher education expenses, and emergency medical bills.

Clearly, adoption of this type of proposal would make it easier to access IRA's for these purposes. However, penalty waiver advocates generally fail to emphasize that the IRA account holder would still owe Federal and State income taxes. At best, a penalty waiver would marginally reduce the huge disincentive against using IRA funds to buy a home.

Let me illustrate this point. Take a hypothetical case in which a young couple plans on buying a house, requiring a downpayment of $10,000. Let's assume the couple's sole source of long-term savings is the $10,000 they have in their IRA account. Let's also assume that this couple is in a marginal 28 percent Federal tax bracket, and a 6-percent marginal State tax bracket. Even under a penalty waiver approach, this couple would still forfeit almost one-third of the amount in their IRA account to State and Federal taxes. Moreover, they would have less than $7,000 left to invest, not enough to make the required downpayment. In contrast, under my legislation, the couple could lend themselves all of the $10,000, with no tax or penalty consequences.

This difference is especially important when considering parental loans. It is true that certain penalty waiver proposals permit parental withdrawals to assist their children with a downpayment. But I think it would be a very rare case in which a parent would be willing to take $10,000 from their IRA account, suffering an unnecessary tax of from $3,000 to $4,000, to assist their children with a downpayment.

Thus, a penalty waiver sounds like a good public policy change. However, in practice, it would have only a marginal impact—reducing one's tax penalty by only around 20 percent of the amount otherwise owed. This incentive will induce relatively few people to actually take money out of their account to buy a house, compared to current law. As a result, it will produce a very small increase in the level of homeownership in this country.

We need to do more to access IRA funds for home ownership. Adoption of the First-time Homebuyer Affordability Act would make it much easier for many Americans struggling to meet downpayment requirements and enter the housing market. I would welcome cosponsors for this bill, and urge its consideration in the House.

PROPOSING A BALANCED BUDGET AMENDMENT TO THE CONSTITUTION

SPEECH OF

HON. JACK QUINN

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Thursday, January 26, 1995

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.J. Res. 1) proposing a balanced budget amendment to the Constitution of the United States:

Mr. QUINN. Mr. Chairman, I rise today in strong agreement with my colleague from New York, Congressman JERRY SOLOMON, who yesterday called the balanced budget amendment, ''the most important matter the House will address during the 104th Congress.''

The important thing to remember today is that I am here at the request of my constituents who overwhelmingly support this historic legislation.

As an advocate of fiscal responsibility, I have been fighting for a balanced budget amendment since I ran for Congress more than 2 years ago.

Implicit in this legislation is a measure to require that a balanced budget is achieved without touching the Social Security trust fund. We must leave Social Security alone.

Time and time again, Congress has failed to summon up the courage to attack spending. This constitutional amendment makes courage the law and forces us to get our financial house in order.

In addition to the balanced budget amendment, we also need the line-item veto and legislation prohibiting unfunded mandates. By enacting all of these proposals, we can help reduce the deficit and make a start on balancing the budget.

I supported the Barton substitute with the three-fifths tax limitation provision because I think it is the best approach to make it as difficult as possible to raise taxes to balance the budget. Raising taxes simply lifts the burden off of Congress and places it on the backs of hard-working, American taxpayers.

As the Hamburg town supervisor, I was required by law and by my constituents to balance the town budget each and every year. The American people are calling on us to balance the Federal budget, and we can respond with this law requiring us to do just that.

Local governments are forced to balance their budget. State governments are forced to balance their budget. Yet the Federal Government has failed to balance the budget since the Johnson administration.

We must always keep in mind that we are the representatives of the people. As such, we must listen to the voices of Americans. Their voices are loud and clear. Pass the balanced budget amendment.