Preserving Home Ownership Tax Benefits

CONGRESSIONAL ACTION NEEDED

Preserve the tax rules that have applied to home ownership. Most of these rules, particularly the mortgage interest deduction and the property tax deduction, have been part of the tax system for decades and are deeply woven into the economic fabric. Congress must do no harm. The housing market has not yet recovered. Changing the tax laws would further impair the market.

CONGRESSIONAL ACTIONS TO DATE

House of Representatives

Budget Committee Chairman Paul Ryan (R-WI) released a Republican Budget that recommends an overhaul of the tax system that would reduce the maximum tax rate from 35% to 25%. Ways and Means Chairman Dave Camp (R-MI) has also stated a goal of reducing the tax rate to 25%. Both have acknowledged that many tax benefits would need to be eliminated or reduced to achieve this goal, but neither has specified what provisions would be changed.

United States Senate

Neither the Budget nor the Finance Committee has released a far-reaching tax proposal. Both Committees have begun hearings to frame what tax reforms are needed. The Chairs of these committees both served on the Deficit Reduction panel.

WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

- House members who haven't yet acted should cosponsor H.Res. 25.
- Any change to the mortgage interest deduction or other home ownership provisions will slow the housing recovery.
- Tax rates have a way of creeping up over time. Since 1986, when the rate was 28%, the top rate has been as high as 39.6% and is presently 35%.
- Reducing, eliminating or otherwise changing the value of the mortgage interest deduction will cause the value of housing to drop even more—perhaps by as much as 15% in some markets. This decline would be in addition to the 30% decline that some markets have experienced.

ISSUE BACKGROUND

In December 2010, the President's National Commission on Fiscal Responsibility and Reform (best known as the Deficit Commission) issued a report identifying tax and spending changes designed to significantly reduce the deficit over the next decade. That Commission recommended different tax options. At least three different approaches were included:

- Eliminate all "tax expenditures" (deductions, exclusions, credits).
- Eliminate the MID for second homes and reduce the amount of allowable mortgage debt from $1 million to $500,000.
- Convert the deduction to a 12% tax credit.

Since the report was issued, NAR has aggressively reminded Congress that any change to the tax rules that apply to home ownership would disrupt the market and cause home values to further decline.

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The Future of the Secondary Mortgage Market

CONGRESSIONAL ACTION NEEDED

Enact comprehensive legislation to restructure the secondary mortgage market in a manner that provides the federal government with a continued role in the secondary mortgage market in order to ensure a continual flow of mortgage liquidity in all markets under all economic conditions.

CONGRESSIONAL ACTIONS TO DATE

House of Representatives

The House Financial Services Committee has held five hearings and a markup of nine different bills to reform Fannie Mae and Freddie Mac (the GSEs). To date, NAR has testified before the House Financial Services Committee and offered written statements for the public record for each hearing. NAR expects the House Financial Services Committee to hold additional hearings and markups throughout the remainder of the year, and plans to continue its active role in the ongoing debate.

United States Senate

The Senate Banking, Housing and Urban Affairs Committee has held two hearings this year on reforming the GSEs, and NAR has submitted written statements. More hearings are planned and NAR will testify. In March, NAR testified before the committee on the "State of the Nation's Housing" and used that platform as an opportunity to touch on the issue of the GSEs and loan limits.

Currently, there are two comprehensive GSE reform bills, H.R. 1182 and S. 693, the "GSE Bailout Elimination and Taxpayer Protection Act" introduced by Representative Jeb Hensarling (R-TX) and Senators John McCain (R-AZ) and Orrin Hatch (R-UT), respectively. NAR does not support these bills as they effectively shut down Fannie Mae and Freddie Mac without offering any replacement for their secondary market mission.

WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

- The federal government must have a continued key role in the secondary mortgage market in order to ensure that there is capital for mortgage lending in all mortgage markets under all market conditions.
- Reform of the secondary mortgage market, in particular Fannie Mae and Freddie Mac, should be comprehensive and undertaken methodically.
- NAR does not support H.R. 1182 and S. 693 as the legislation shuts down Fannie Mae and Freddie Mac without offering a replacement for their secondary mortgage market mission.

ISSUE BACKGROUND

Comprehensive Restructuring of the GSEs is Required

The GSEs, though they have been in conservatorship for almost three years, remain critical to ensuring mortgage market liquidity. Currently, estimates of GSE loan volume range as high as two-thirds of mortgage loans. Elimination of the GSEs, without a viable replacement for their secondary mortgage market mission, will mean severely restricted mortgage capital and higher costs for qualified, creditworthy borrowers. The reduction in mortgage liquidity will exacerbate downward pressure on home prices ultimately reducing the home values for existing home owners.

Access to Affordable Mortgage Products

CONGRESSIONAL ACTION NEEDED

Extend the current mortgage loan limits for FHA and the GSEs.

Oppose mandatory increases in mortgage down payments proposed by financial regulators through narrow definition of Qualified Residential Mortgage (QRM).

CONGRESSIONAL ACTIONS TO DATE

House of Representatives

Representative Hensarling (R-TX) has introduced GSE reform legislation (H.R. 1182) that would reduce the GSE loan limit to $417,000 nationwide.

United States Senate

Senator McCain (R-AZ) has introduced GSE reform legislation (S. 693) that would reduce the GSE loan limit to $417,000 nationwide.

Regulators

The Dodd-Frank Act requires mortgage securitizers to retain 5% of the risk unless the mortgage is a qualified residential mortgage (QRM). The proposed rule issued by six federal regulators would require families to make a 20% down payment and meet other stringent requirements. The QRM definition is extraordinarily important because it will determine the types of mortgages that will be generally available for borrowers for the foreseeable future. Weak underwriting and toxic mortgages are the main cause of mortgage defaults, not well-underwritten mortgages with affordable down payments.

WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

- Oppose any decrease to FHA and GSE loan limits.
- Submit comments to the six regulators during the comment period and voice concern that the proposed QRM rule would deny otherwise creditworthy Americans affordable financing while further concentrating the lending industry in the mega-banks that are already "Too big to fail."

ISSUE BACKGROUND

Higher Loan Limits Need to be Permanent and Available in All Markets

The current loan limits expire on September 30, 2011. Reverting to the statutory limits will create a decline in liquidity and hurt our nation's economic recovery. Many argue that the loan limit increases help only higher cost areas, but this is not the case. Reverting to the statutory limits will reduce limits in 619 counties and 41 states and the District of Columbia. The average decline in loan limits will be more than $58,000.

Increasing Down Payments Puts Home Ownership Out of Reach for Middle America

When a consumer buys a house, there is a significant cash investment required. This includes the down payment, closing costs (3-5% the purchase price), and other fees (including inspections, prepays, etc.). Placing home ownership out of reach for middle-class America by raising down payments to 20% will have dire consequences on our economic health and the individual wealth of our citizens. Requiring a higher down payment does little to reduce risk of default, but strips home buyers of their savings and increases the number of borrowers who would be ineligible for home ownership. If down payment requirements increase to 20%, NAR estimates that it would take a frugal family more than 14 years to accrue the savings needed to buy a home.

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Affordable and Available Property Insurance

CONGRESSIONAL ACTION NEEDED

Reauthorize the National Flood Insurance Program (NFIP) to ensure access to affordable flood insurance.

CONGRESSIONAL ACTIONS TO DATE

House of Representatives

The Financial Services Insurance Subcommittee reported a five-year reauthorization bill, the Flood Insurance Reform Act H.R. 1309.

United States Senate

Last Congress approved S. 3814, extending short-term authority for the NFIP to September 30, 2011.

WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

- Reauthorize the NFIP for at least five years and end the uncertainty of extensions and shutdowns.
- Do not let a vital program lapse again or hold it hostage to extensions of other federal programs.
- Support provisions of H.R. 1309 (Biggert, R-IL) to reauthorize NFIP through 2016 but oppose its privatization pilot program, which would reduce the program's risk pool and long-term viability.
- Oppose H.R. 435 (Miller, R-MI) to sunset the NFIP by 2013 and authorize interstate compacts.

ISSUE BACKGROUND

Millions of American Taxpayers Rely on the NFIP for Flood Protection

Floods claimed more lives and property than any other natural disaster in the U.S. over the last century. Unable to ignore the rising cost to taxpayers of disaster payments for uninsured properties or the lack of a private market for flood insurance, Congress created the NFIP in 1968. Today, 5.6 million property owners rely on the program in 21,000 communities where flood insurance is required for federally related mortgages.

Stopgap Extensions and Shutdowns Have Exacerbated Market Uncertainty

Since September 2008, Congress has approved nine NFIP extensions and allowed five lapses. During the June 2010 lapse, 47,000 home sales were delayed or cancelled according to NAR survey data. Real estate markets require certainty to make the long-term investments that are vital to the U.S. economic recovery.

Private Markets Will Not Guarantee Access to Affordable Flood Insurance

The four large insurers that write virtually all the private flood insurance today do so only for "high net worth" owners and high-value property at an average price twice the NFIP's. Reinsurance would not address the fundamental market failure, which would force private insurers to set rates that no one but the wealthiest could afford while attempting to cover NFIP's 5.6 million policies.

Reauthorizing the NFIP Saves Taxpayers Both Money and Property

Historically, the NFIP has collected enough revenue to cover its cost or pay back a short-term loan from the U.S. Treasury with interest. Even with the 2005 loan balance currently at $18 billion, reauthorization would not add to the federal budget deficit according to the CBO. However, the program's requirements have already averted $16 billion in losses by strengthening millions of properties against floods. Without NFIP, there would be more uninsured and unmitigated properties, taxpayers would still be "on the hook" for disaster assistance to these properties, and there would be no premiums to pay down any remaining loan balance or collect interest.

Floods Are a National Problem Requiring a National Solution

Floods are not just a coastal issue. Flood disasters have been declared in every state—along rivers, anywhere where snow melts or rain falls. Historic claims data shows the top three states contributing the most net revenue to NFIP coffers were on the Gulf; the top three with the most NFIP net loss years were in the Midwest.

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Short Sales

CONGRESSIONAL ACTION NEEDED

Cosponsor H.R. 1498, the "Prompt Decision for Qualification for Short Sale Act of 2011," and ask House Financial Services Committee Chairman, Rep. Spencer Bachus (AL), to hold a hearing on this bill and other short sales issues.

CONGRESSIONAL AND REGULATORY ACTIONS TO DATE

Since 2008, NAR has been actively pushing the lending industry to improve the process for approving short sales. In a direct response to REALTOR® concerns, the Treasury Department developed a new program, the Home Affordable Foreclosure Alternatives Program (HAFA), to establish uniform procedures, forms and deadlines for short sales. The challenge now is to push lenders to implement HAFA and to improve other short sales programs so short sales close at much higher rates.

On April 12, 2011, Representatives Tom Rooney (R-FL) and Robert Andrews (D-NJ) introduced H.R. 1498, the "Prompt Decision for Qualification of Short Sale Act of 2011." This legislation makes it mandatory for mortgage servicers to reply to a short sale request within 45 days of a complete submission. If the servicer fails to provide a decision by the deadline, the request is considered approved.

WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

- NAR supports H.R. 1498 to require servicers to decide whether to approve a short sale within 45 days of completion of the short sale request.
- A hearing on H.R. 1498 will shine a light on the short sales issue and identify ways to make short sales work better.
- Delays in approving requests for a short sale remain a significant impediment to this foreclosure avoidance option.
- Too often, consumers spend an enormous amount of time working to gain approval of a potential short sale only to have the delayed approval process result in the prospective buyer walking away from the deal and the home going into foreclosure.
- Banks are losing more than they have to because they lose much more when selling homes after foreclosure than they would if they approved reasonable short sales.

ISSUE BACKGROUND

Expedited Decisions by Lenders/ Servicers on Shorts Sales Required

Too often, short sales are still a story of delay and unrealistic lender views of current home values, resulting in the potential buyer cancelling the contract and the property going into foreclosure. Even if successful, the process usually takes many months and countless hours and often requires re-marketing because buyers lose patience and terminate the contract. Streamlining short sales will reduce the amount of time it takes to sell the property, improve the likelihood the transaction will close, and reduce the number of foreclosures. This will benefit lenders, sellers, buyers and communities.

Qualified Residential Mortgage

CONGRESSIONAL ACTION NEEDED

Sign onto the Sherman-Campbell letter in the House and the Landrieu-Isakson-Hagan letter in the Senate.

Oppose mandatory increases in mortgage down payments proposed by financial regulators through narrow definition of Qualified Residential Mortgage (QRM).

CONGRESSIONAL ACTIONS TO DATE

Regulators

The Dodd-Frank Act requires mortgage securitizers to retain 5% of the risk unless the mortgage is a Qualified Residential Mortgage (QRM). The proposed rule issued by six federal regulators would require families to make a 20% down payment and meet other stringent requirements. The QRM definition is extraordinarily important because it will determine the types of mortgages that will be generally available for borrowers for the foreseeable future. Weak underwriting and toxic mortgages are the main cause of mortgage defaults, not well-underwritten mortgages with affordable down payments.

WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

- Sign on to the Sherman-Campbell letter and the Landrieu-Isakson-Hagan letter.
- Submit comments to the six regulators during the comment period and voice concern that the proposed QRM rule would deny otherwise creditworthy Americans affordable financing while further concentrating the lending industry in the mega-banks that are already "Too big to fail."

ISSUE BACKGROUND

Increasing Down Payments Puts Home Ownership Out of Reach for Middle America

When a consumer buys a house, there is a significant cash investment required. This includes the down payment, closing costs (3-5% the purchase price), and other fees (including inspections, prepays, etc.). Placing home ownership out of reach for middle-class America by raising down payments to 20% will have dire consequences on our economic health and the individual wealth of our citizens. Requiring a higher down payment does little to reduce risk of default, but strips home buyers of their savings and increases the number of borrowers who would be ineligible for home ownership. If down payment requirements increase to 20%, NAR estimates that it would take a frugal family more than 14 years to accrue the savings needed to buy a home.

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