



NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

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June 6, 2007

The Honorable Debbie Stabenow
133 Hart Senate Office Building
Washington, DC 20510

Dear Senator Stabenow:

More than 1.3 million members of the NATIONAL ASSOCIATION OF REALTORS® (NAR) thank you for taking the lead as sponsors of S. 1394, the Mortgage Cancellation Tax Relief Act of 2007. Enactment of this legislation is a high priority for NAR. The legislation provides fundamental fairness to homeowners who, for whatever reason, are forced to sell their homes for less than the original purchase price. Your bill grants critical relief to individuals and families facing both a staggering economic loss and a tax bill on phantom income.

From time to time, a region's residential real estate market experiences a decline in property values. When families in declining markets must, for whatever reason, sell their homes, some will sell their home for less than the original purchase price. Also, where borrowers have been adversely affected by subprime loans, foreclosure occurs all too frequently. In each case, the proceeds from the sale may not even cover the balance of the outstanding mortgage.

Under current law, when a borrower cannot satisfy the outstanding mortgage and the lender forgives some (or all) of the shortfall, a taxable event is triggered. Even though the seller receives no cash from the transaction, any amount the lender forgives is treated as taxable income to the seller. Thus, an individual who experiences a loss on the sale of the home will, in instances where a lender forgives some portion of the debt, pay tax at ordinary income rates at the time he experiences what may well be his most substantial economic loss.

Your bill relieves the seller from the requirement of recognizing the amount of forgiven debt as taxable income. We believe that this is fair, especially in light of other favorable provisions that permit sellers who have significant *gains* to avoid taxation altogether. We fully support the safeguards in your bill to grant relief only to the extent of the original purchase price (plus improvements). Thus, no relief is provided for "cash out" refinancing.

The provisions of S. 1394 passed the House and Senate in previous Congresses, but were not enacted. The Hurricane Katrina 2005 relief package included the same relief as is found in your bill, but limited the relief to those in the Gulf Opportunity Zone (GO Zone). It is time for the GO Zone relief to be extended to all taxpayers who find themselves in this distressed situation. The bill's provisions are timely and enormously important to the potentially affected sellers.

We urge you to work with other Senators and the Finance Committee to secure timely enactment of this important bill. Should you have questions, please feel free to call on us.

Sincerely,

A handwritten signature in black ink that reads "Pat V. Combs". The signature is written in a cursive style with a large initial "P" and a distinct "V".

Pat V. Combs, ABR, CRS, GRI, PMN
2007 President, National Association of REALTORS®