



NATIONAL ASSOCIATION OF REALTORS®

*The Voice For Real Estate®*

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September 24, 2007

The Honorable Ron Lewis  
U.S. House of Representatives  
2418 Rayburn House Office Building  
Washington, D. C. 20515

Dear Representative Lewis:

On behalf of more than 1.3 million members of the NATIONAL ASSOCIATION OF REALTORS® I'd like to thank you for your leadership in introducing H.R. 1876, a bill that addresses a serious problem facing communities all over our Nation. This legislation, the Mortgage Cancellation Relief Act, will help ease significant burdens that many face today. Your early attention to a growing national problem shows foresight and a keen awareness of fundamental fairness. By including your legislation as part of his recent housing relief program, President Bush has validated the prudence of providing tax relief for those who have suffered true economic harm.

Regrettably, communities all over the country face unprecedented declines in property values and increases in foreclosures. While the reasons for these trends vary from community to community, the affected homeowners face a very undesirable outcome: a tax bill imposed on money they don't have, also known as "phantom income." From time to time, a lender may forgive part of a homeowner's mortgage in a variety of situations. These might include a sale of a home for less than the outstanding balance on the mortgage (a "short sale"), a foreclosure or a reduction in the amount of a mortgage obligation in a workout designed to keep the homeowner in the home.

Under current law, debt forgiveness events require a borrower to pay tax, even though there is no cash generated. In a short sale, the seller cannot cover the outstanding balance on the mortgage, so the seller receives no cash proceeds at settlement. Similarly, in workouts and foreclosures, the borrower receives no cash proceeds, yet is still required to pay tax. Thus, the individual who has suffered what is likely a cataclysmic economic loss faces a tax bill.

Your bill restores some fundamental fairness for these individuals in financial and economic distress by eliminating the requirement that they pay tax on phantom income. At the same time, your bill provides important safeguards so that the provision cannot be abused by those who would "game" the system. Your bill has bipartisan support, as well.

Again, we thank you for your leadership and look forward to early enactment of your bill.

Sincerely,

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