



NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

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October 2, 2007

U.S. House of Representatives
Washington, DC 20515

Dear Representative:

A top tier legislative priority of the NATIONAL ASSOCIATION OF REALTORS® (NAR) will come to a vote when H.R. 3648 is considered this week. The mortgage cancellation tax relief the bill provides is critical for many families in financial distress that would otherwise pay tax on phantom income. *The NATIONAL ASSOCIATION OF REALTORS® supports H.R. 3648 and urges you to vote for it on final passage.*

No one ever likes to be the “pay for.” Nonetheless, we believe that the Ways and Means Committee has balanced many competing goals in crafting an offset. The offset solution falls *only* on some (but not all) individuals who own more than one residence. Current law is unchanged for families that own only one residence. The revenue offset establishes a prospective policy that the \$250,000/\$500,000 exclusion will be available for all principal residences during the time they are *used* as principal residences.

Not every homeowner who may benefit from the mortgage cancellation relief is in foreclosure or subject to a subprime mortgage. In fact, the current wave of foreclosures is unprecedented. *A seller can be completely current in his/her mortgage payments but still be unable to sell their home for what they owe on the mortgage.* These transactions are called “short sales.” For many years, the “short sale” problem drove the quest for mortgage cancellation relief.

Over the past 25 years, different regions have experienced price/value declines that resulted in increased short sales. These regions include Texas and Denver in the early 1980’s, Washington, D. C and Boston in the late 1980’s and Southern California in the early 1990’s. Similarly, on a more localized basis, properties can lose value during periods of massive job layoffs or the discovery of environmental contamination. These regional downturns led NAR to seek mortgage cancellation relief, starting in 1996. The relief passed the House and Senate as part of larger tax bills in 1999 and 2000, but the provision was not included in conference reports on the underlying legislation. Today, it is essential that Congress not lose sight of short sales during this debate.

Just as short sales dominated the mortgage cancellation in earlier efforts, foreclosure generates a great deal of discussion today. In the case of foreclosures, the affected borrower reaches the end of the nightmare with neither cash nor a home to live in. Under current law, the borrower also faces a tax bill. The tax on the phantom income is imposed at ordinary rates. We believe the mortgage cancellation relief proposal restores fundamental fairness for homeowners in financial and economic distress by eliminating the requirement that they also pay tax on phantom income.

Again, we urge you to support H.R. 3648. We look forward to securing its timely enactment.

Sincerely,

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