

The Housing and Economic Recovery Act of 2008 A Practical Summary

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On July 30, 2008, the Housing and Economic Recovery Act of 2008 was signed into law by President Bush. The 700-page housing bill is designed to help struggling homeowners avoid foreclosure and boost confidence in the housing market; however, the sheer amount of information contained in the bill is overwhelming.

To make it easier to discuss the Act with clients and to help you understand how the Act will impact your client base, our underwriter, LandAmerica, has created a practical summary of some of the Act's major provisions. While the Act can be complex, some major provisions include:

Federal Housing Administration Modernization

What the legislation does: The legislation gives the Federal Housing Administration (FHA) greater flexibility to respond to the needs of borrowers, enables more working families to become home owners, provides a viable alternative to the volatile subprime market and allows the FHA to play an important role in stabilizing the mortgage markets. How?

- The maximum FHA-insured loan will be increased to 115 percent of an area's median home price, up to a maximum of \$625,500, with a minimum down payment of 3.5 percent (up from 3.0 percent currently).

Foreclosure Relief (Hope for Homeowners Act of 2008)

What the legislation does: The legislation is estimated to help as many as 400,000 homeowners stay in their homes. How?

- The legislation allows the FHA to guarantee up to \$300 billion in refinance mortgages where current mortgage holders agree to accept partial payment so the outstanding principal on the new loan is more affordable for borrowers.
- Existing lenders would have to agree to take a substantial write-down to make the new loan affordable, and the new FHA lender would pay off the discounted existing mortgage.
- Only owner-occupied principal residences would be eligible. In exchange for new mortgages, homeowners will share future appreciation of their property with the FHA.
- Borrowers must also meet a payment burden test to determine if they can afford a new mortgage.
- Banks must agree to relinquish their existing claims in exchange for a payment equal to 85% of the current value of the home.
- The government would be liable if the borrower defaults and the amount recovered in foreclosure is less than the outstanding principal.
- The homeowner relief program begins October 1, 2008, and ends on September 30, 2011.

Mortgage Revenue Bonds

What the legislation does: Expanding this program helps strapped borrowers seeking to refinance their home loans. How?

- States will be provided new authority to issue an **additional** \$11 billion in bonds to be used to refinance subprime loans, mortgages for first-time home buyers and multi-family rental housing.

Government Sponsored Enterprises (GSEs)

What the legislation does: The law creates a new, independent regulator called the Federal Housing Finance Agency (FHFA) to govern and reform government-sponsored enterprises (GSEs) Fannie Mae,

Freddie Mac and the Federal Home Loan Banks. How?

- The Treasury Department has been granted temporary authority to purchase debt and equity of Fannie Mae and Freddie Mac through 2009. This is meant to provide financial stability for the mortgage giants. The regulator will have enhanced authority to raise capital standards and take corrective actions if the GSEs are undercapitalized. Since this agency will be funded through fees assessed upon the GSEs, **these fees will likely be passed along to lenders.**
- The legislation also permanently increases the maximum loan limit to \$625,500 for Fannie Mae and Freddie Mac. This will help buyers seeking homes in high-priced markets such as California and the Northeast.
- The bill also creates a new affordable housing fund to be financed by the GSEs. The fund will be used to finance the construction, maintenance and preservation of affordable rental housing projects nationwide.

Tax Credits

What the legislation does: Provides each new first-time homebuyer a tax credit equivalent to an interest-free loan of 10 percent of the purchase price of the home (up to \$7,500) to be repaid over 15 years. How?

- It will be available through July 2009 for taxpayers who meet adjusted gross income levels. Rules relating to the Low Income Housing Tax Credit will be simplified, and states will see increased housing tax credit in 2008 and 2009 depending upon the size of the state.
- The legislation also allows for a new standard deduction for homeowners who do not itemize on their tax returns. For tax year 2008, taxpayers who do not itemize their deductions but pay property taxes will receive a \$500 additional standard deduction (\$1,000 for married couples).

Who is eligible to claim the \$7,500 tax credit?

First-time home buyers purchasing any kind of home - new or resale - are eligible for the tax credit. To qualify for the tax credit, a home purchase must occur on or after April 9, 2008, and before July 1, 2009. For the purposes of the tax credit, the purchase date is the date when closing occurs.

What types of homes will qualify for the tax credit?

Any home purchased by an eligible first-time home buyer will qualify for the credit, provided that the home will be used as a principal residence and the buyer has not owned a home in the previous three years. This includes single-family detached homes and attached homes like townhouses and condominiums, as well as new homes constructed on lots already owned by the homebuyer.

Other Provisions in the Bill

Veterans: The bill lengthens the time a lender must wait before starting foreclosure after a soldier returns from service from three to nine months and also provides returning soldiers with one year of relief from increases in mortgage interest rates.

Disclosure Requirements: Enhances mortgage disclosure requirements to require lenders to inform borrowers of the maximum monthly payments possible under their loans.

Legal Services: Provides additional funding for housing counseling and legal services to distressed borrowers.

Community Development: \$3.9 billion will be provided for emergency Community Development Block Grant money to purchase and clean up abandoned homes in areas blighted by foreclosures.

*Sources:

The United States Senate

The Library of Congress

National Home Builders Association

www.govtrack.com

www.federalhousingtaxcredit.com

www.hud.gov

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CB Title Group, LLC
140 Mountain Avenue, Suite 101
Springfield, NJ 07081
P: 973-921-0990 • F: 973-921-0902

CB Title Agency of NY, LLC
14 Penn Plaza, Suite 1800
New York, NY 10122
P: 212-239-8789 • F: 212-239-4675