

House Republican Housing Plan

“The Responsible Homeowners Act”

✓ **Keeping Families in Their Home, Lowering Costs for All Homeowners:**

\$5,000 Refinancing Credit: House Republicans propose to provide a \$5,000 refinancing tax credit to help families cover the costs of a mortgage refinancing, buy down points, or reduce their principal balance (covers refinancings through July 1, 2010).

The temporary first-time home-buyers credit recently enacted by Congress is of little value to those who have already purchased home. In order to assist the millions of Americans who may wish to take advantage of historically low rates on home mortgages, House Republican are proposing a temporary \$5,000 refinancing tax credit. The credit can be used to:

- Cover the closing costs associated with a refinancing,
- Buy down points on the newly refinanced mortgage, or
- For homeowners that may be slightly underwater, the credit may be used to increase their equity and thus qualify for a refinancing.

According to a [2008 survey](#) the average closing costs associated with refinancing a \$200,000 loan is \$3,118.

Unlike the Democrat plan which limits refinancing assistance to those with Fannie Mae or Freddie Mac owned or guaranteed mortgages, the Republican proposal benefits homeowners irrespective of whether or not their mortgage is owned or backed by Fannie Mae or Freddie Mac. Some 60 percent of mortgages are non-Fannie Mae or Freddie Mac mortgages. These homeowners could benefit from the House Republican proposal.

Incentives for Voluntary Refinancing to Keep Homeowners in Their Home: Many borrowers who fall behind on their mortgage can remain in their home if their lender agrees to refinance or modify their mortgage to reduce their monthly payments. Lenders can reduce monthly payments by adjusting interest rates, extending the term of a loan, or even forgiving a portion of the debt.

In an effort to encourage these types of workout, House Republicans propose to provide tax incentives for lenders to help lower payments and for borrowers to help compensate lenders with a portion of any future home appreciation. Specifically, House Republicans propose that in exchange for a lender investing in keeping a homeowner in their home by refinancing their mortgage and lowering the owners monthly payments, if the homeowner agrees to share a portion of future home appreciation with the lender, then the lender will not be taxed on that future profit and the borrower will not incur any tax liability as a result of the refinancing (covers refinancings through July 1, 2010).

Unlike the Democrat plan which proposes to use tax dollars to pay servicers for modifying mortgages, and pay lenders for a portion of the cost of lowering monthly payments, the House

Republican proposal relies on the concept of shared sacrifice and shared gain. Lenders sacrifice short-term income in exchange for the stability of keeping a homeowner in their home and a portion of any future appreciation in the value of the home. Homeowners sacrifice a portion of any future appreciation in their home in exchange for lower monthly payments that enable them to remain in their home. Under the House Republican proposal neither servicers nor lenders are paid to modify mortgages.

Mortgage Modifications, Not Lawsuits: Many mortgage servicers are fearful that if they modify a mortgage that they could later be sued by one of the many investors who own a portion of the mortgage. As a result, fewer mortgages are modified. To address this problem House Republicans propose to provide a “safe harbor” from lawsuits by investors for mortgage servicers who engage in specified loan modifications consistent with their statutory duties; and would require unsuccessful plaintiffs to pay all attorneys’ fees and any legal costs incurred by the defendant. A similar proposal was put forward by President Obama and Congressional Democrats.

✓ **Encouraging Neighborhood Investors & Stabilizing Home Prices:**

The key to stabilizing home prices is to get people buying homes again. That includes the young couple who is purchasing their first home, the growing family that needs to trade-in their first home for something bigger, and the empty-nesters who are looking to downsize.

\$15,000 Home buyer Credit: To spur home purchases across-the-board, House Republicans propose a \$15,000 home-buyers credit for all purchases of primary residences provided that the buyer puts 5% down (covers purchases made before July 1, 2010). The down-payment requirement encourages responsible home ownership and will ensure that we do not repeat the mistake of the past where individuals ended up with more home than they could afford through the use of zero-down-payment loans.

In February Congress enacted an \$8,000 home-buyers credit, but that credit is only available to first time borrowers.

According to the [National Association of Realtors](#), at the end of February there were 3.8 million existing homes available for sale, which if sold at the February sales rate and assuming no new houses came on the market would represent a 9.7-month supply of houses.

First-time buyers accounted for half of all home sales in February. According the chief economist for the Realtors, “Because entry level buyers are shopping for bargains, distressed sales accounted for 40 to 45 percent of transactions in February.” He went on to add, “Our analysis shows that distressed homes typically are selling for 20 percent less than the normal market price, and this naturally is drawing down the overall median price.”

Expanding the credit to \$15,000 and expanding it to all home-buyers will not only result in a more even playing field, but it will entice buyers from across-the spectrum to get into the market, whether they are looking for their first home, a bigger home for their family, or to relocate for a new job. This in turn will help stabilize home values.

Illustrative Examples of Those Eligible for a Homebuyer Credit Under the Democrat and Republican Housing Plans:

	Democrat Housing Plan	House Republican Housing Plan
First-time Buyer	Yes	Yes
Current Homeowners Who Need to Relocate for a New Job	No	Yes
Current Homeowners Who Need to Purchase a Larger House to Accommodate an Expanding Family	No	Yes
Current Homeowners Who Wish to Downsize Their Existing Home	No	Yes
Current Homeowners Who For Whatever Personal or Professional Reason Wish to Relocate	No	Yes

Incentives for Neighborhood Investors: In areas with a high number of foreclosed homes we need individuals who are willing to invest in these homes and get them reoccupied. Unfortunately, current law only provides incentives for the purchase of owner-occupied homes. We should encourage neighborhood investors to purchase vacant or foreclosed homes and rent them out rather than leaving them empty, therefore House Republicans propose to equalize the treatment of a home purchased as a primary residence with a home purchased for rental purposes (defined as being rented to the same tenant for at least 181 days out of the year) by providing the same exclusion from taxes for any future appreciation in the home value (covers purchases made before July 1, 2010).

Under existing law, when a homeowner sells a home that they have occupied as a primary residence at least two of the last five years, the owner gets to exclude from capital gains taxes any gain up to \$250,000 for a single person or \$500,000 for a married couple. No similar treatment exists for homes an individual owns and rents out to others.

Unlike the “get rich quick” schemes of the past where individuals purchased homes to “flip them” later, this proposal incentivizes the neighborhood investor with the longer term outlook. A neighborhood investor would only be able to claim the capital gains tax exclusion if they held onto the rental property for at least two years and kept it occupied each of those years. In addition, this proposal would not eliminate any down-payment or other financing requirements imposed by a lender.

By contrast the Democrats have proposed and enacted a plan whereby the federal government will spend \$2 billion to help states, local governments, and nonprofits in the purchase and rehabilitation of foreclosed or vacant properties. House Republicans believe that individuals are better stewards of homes than distant government bureaucrats

✓ Do Not Reward Those Who Created This Problem:

Helping distressed homeowners should not come at the expense of the 90% of homeowners who are paying their mortgages on time. Government policies should not reward irresponsible behavior. Because mortgage companies and borrowers who engaged in fraud must be punished to the full extent of the law not rewarded, House Republicans propose to direct the FBI, Department of Justice, FHA, and other government housing agencies to step up efforts to combat mortgage fraud and authorize additional resources to investigate and prosecute such cases.

The Washington Post recently [reported](#) on continued fraud in government housing programs:

More than 9,200 of the loans insured by the FHA in the past two years have gone into default after no or only one payment, according to the Post analysis. The pace of these instant defaults has tripled in one year. By last fall, more than two dozen FHA home loans on average were defaulting this way every day, seven days a week....

If a loan "is going into default immediately, it clearly suggests impropriety and fraudulent activity," said Kenneth Donohue, the inspector general of the Department of Housing and Urban Development, which includes the FHA....

Among FHA loans with instant defaults, the upward trend is especially pronounced in refinanced deals. The number of refinancings that defaulted after zero payments or one have more than quadrupled since then end of 2007 and now represent two-fifths of all instant defaults.

Amazingly according to the Post, the government is devoting few resources to uncover this fraudulent activity:

Once, about 130 HUD investigators teamed with FBI agents in an FHA fraud unit, but this office was dismantled in 2003 after the FHA's business dwindled in the housing boom.

House Republicans propose to address this fraudulent activity by directing that the FBI, Department of Justice, the FHA, and other government housing agencies devote additional resources to investigating and prosecuting mortgage fraud.

Who Benefits?

Democrat Housing Plan vs. Republican Housing Plan

	Democrat Plan	Republican Plan
ONLY borrowers who accurately represented their income or assets on their original mortgage	NO	YES
ONLY lenders who followed proper lending standards and knowingly made loans to people that they likely could afford	NO	YES
First-time homebuyers	YES	YES
Those who for work, family or other reasons need to sell their current house and buy another house	NO	YES
Responsible homeowners who want to refinance at a lower interest rate	NO	YES
Those with Fannie or Freddie-backed mortgages	YES	YES
Those with non-Fannie or Freddie backed mortgages	NO	YES
Those willing to invest their own money to help stabilize home values in their own communities	NO, relies on taxpayer money instead	YES