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The Housing and Economic Recovery Act of 2008 Summary of Key Provisions

Introduction:

H.R. 3221, the "Housing and Economic Recovery Act of 2008," passed the House on July 23, 2008, by a vote of 272-152. On Saturday, July 26, 2008, the Senate passed the bill by a vote of 72-13. The President signed the bill on July 30, 2008. The bill is aimed at stimulating economic factors which will in turn stimulate buying and lending behavior.

- **Homebuyer Tax Credit** - a $7500 tax credit that would be available for any qualified purchase between April 9, 2008 and June 30, 2009. The credit is repayable over 15 years (making it, in effect, an interest free loan).

Below is a brief summary of the Tax Credit portion of HR 3221

FEATURE	H.R. 3221 Housing and Economic Recovery Act of 2008
Amount of Credit	Ten percent of cost of home, not to exceed $7500.
Eligible Property	Any single-family residence (including condos, coops) that will be used as a principal residence.
Refundable	Yes. Reduces income tax liability for the year of purchase. Claimed on tax return for that tax year.
Income Limit	Yes. Full amount of credit available for individuals with adjusted gross income of no more than $75,000 ($150,000 on a joint return). Phase out above caps ($95,000 and $170,000 respectively).
First time Homebuyer only	Yes. Purchaser (and purchaser's spouse) may not have owned a principle residence in 3 years previous to purchase
Recapture	Yes. Portion (6.67% of credit) to be repaid each year for 15 years. If home sold before 15 years, then remainder of credit recaptured on sale.
Impact on District of Columbia	DC credit not available if purchaser uses this credit
Effective Date	Purchases on or after April 9, 2008
Termination Date	July 1, 2009
Interaction with Alternative Minimum Tax	Can be used against AMT, so credit will not throw individual into AMT

- **GSE Reform** – including a strong independent regulator, and permanent conforming loan limits up to the greater of $417,000 or 115% local area median home price, capped at $625,500. The effective date for reform is immediate upon enactment, but the loan limits will not go into effect until the expiration of the Economic Stimulus limits (December 31, 2008).

- **FHA Reform –** including permanent FHA loan limits at the greater of $271,050 or 115% of local area median home price, capped at $625,500; streamlined processing for FHA condos; reforms to the HECM program, and reforms to the FHA manufactured housing program. The down payment requirement on FHA loans will go up to 3.5% (from 3%). The effective date for reforms is immediate upon enactment, but the loan limits will not go into effect until the expiration of the Economic Stimulus limits (December 31, 2008).

- **Additional Property Tax Deduction** – HERA provides a one-year benefit that will be available to all homeowners. Under current law, property taxes are deductible only if an individual itemizes his/her deductions on Schedule A of their tax return. The new provision will permit a deduction of up to $500 ($1000 on a joint return) for all individuals who utilize the standard deduction and do not itemize. Instructions will be provided on the 2008 tax return when it is distributed at year-end.

- **FHA foreclosure rescue** – development of a refinance program for homebuyers with problematic sub prime loans. Lenders would write down qualified mortgages to 85% of the current appraised value and qualified borrowers would get a new FHA 30-year fixed mortgage at 90% of appraised value. Borrowers would have to share 50% of all future appreciation with FHA. The loan limit for this program is $550,440 nationwide. Program is effective on October 1, 2008.

- **Seller-funded down payment assistance programs** – codifies existing FHA proposal to prohibit the use of down payment assistance programs funded by those who have a financial interest in the sale; does not prohibit other assistance programs provided by nonprofits funded by other sources, churches, employers, or family members. This prohibition does not go into effect until October 1, 2008.

- **VA loan limits** – temporarily increases the VA home loan guarantee loan limits to the same level as the Economic Stimulus limits through December 31, 2008.

- **Risk-based pricing –** puts a moratorium on FHA using risk-based pricing for one year. This provision is effective from October 1, 2008 through September 30, 2009.

- **GSE Stabilization –** includes language proposed by the Treasury Department to authorize Treasury to make loans to and buy stock from the GSEs to make sure that Freddie Mac and Fannie Mae could not fail.

- **Mortgage Revenue Bond Authority** – authorizes $10 billion in mortgage revenue bonds for refinancing sub prime mortgages.

- **National Affordable Housing Trust Fund** – Develops a Trust Fund funded by a percentage of profits from the GSEs. In its first years, the Trust Fund would cover costs of any defaulted loans in FHA foreclosure program. In out years, the Trust Fund would be used for the development of affordable housing.

- **CDBG Funding –** Provides $4 billion in neighborhood revitalization funds for communities to purchase foreclosed homes.

- **LIHTC –** Modernizes the Low Income Housing Tax Credit program to make it more efficient.

- **Loan Originator Requirements –** Strengthens the existing state-run nationwide mortgage originator licensing and registration system (and requires a parallel HUD system for states that fail to participate). Federal bank regulators will establish a parallel registration system for FDIC-insured banks. The purpose is to prevent fraud and require minimum licensing and education requirements. The bill exempts those who only perform real estate brokerage activities and are licensed or registered by a state, unless they are compensated by a lender, mortgage broker, or other loan originator.

- **Modification of $250,000/$500,000 Exclusion** – The sole real-estated related "pay-for" among the tax incentives modifies the $250,000/$500,000 exclusion of gain on the sale of a principal residence. Beginning in 2009, the exclusion, as it applies to a second home (or rental property) that is converted to a principal residence will be allocated. When the second home is sold, any gain attributable to use as a second home (or rental property) will be taxed at capital gains rates. Any gain attributable to use as a principal residence will remain excludable, up to the $250,000 and $500,000 limits. A formula is provided for computing the proper treatment of these gains.