

Help for Homeowners Hangs in the Balance

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Congress left town for the July 4 recess with a half-baked cake in its legislative oven -- one that has huge potential significance for the housing and mortgage markets. The relief package left unfinished is designed to help hundreds of thousands of homeowners heading for foreclosure, pull buyers back into the real estate market, and permanently raise conventional and FHA loan limits in high-cost markets.

Legislators could still wrap things up when they return. The Senate is on the verge of final passage of its bill, and it could do so as early as the week of July 7. The House has already passed its version. Final legislation could go to the [White House](#) later this month. Although [President Bush](#) has threatened a veto, [Capitol Hill](#) analysts say that strong bipartisan support -- plus elections this fall -- makes it highly unlikely that he would do so.

What's in the bill, and what could it mean to you? If you dig into this 631-page behemoth, you might find something that directly benefits you. That's especially the case if you are:

- *Thinking about buying a first home.* The legislation offers federal tax credits up to \$8,000 per couple -- \$4,000 per individual -- for qualified purchasers of newly constructed or resale houses. There's no cap on the total number of buyers to be assisted, plus the definition of "first-time buyer" is more generous than a literal reading would suggest. This provision alone could provide significant stimulus and bring thousands of people back into the real estate market.

- *Saddled with a debt-laden home heading for foreclosure.* The pending legislation may offer a way out for you -- provided that your lender agrees to participate. Even if you're behind on payments and your mortgage balance exceeds your property's value, you could end up with a new, affordable fixed-rate loan backed by the [Federal Housing Administration](#).

- *Searching for a home in a high-cost market.* The new housing bill is certain to provide higher limits than the \$417,000 cutoff for [Fannie Mae](#) and [Freddie Mac](#) that prevailed before the economic stimulus package's temporary increase of up to \$729,500, which is set to expire at the end of this year.

The odds are the new maximum will be below \$700,000. The Senate bill calls for \$625,000 for Fannie Mae, Freddie Mac and FHA. House negotiators reportedly have been pushing for \$688,000. But the final compromise number should be high enough to help buyers in California, New England and the mid-Atlantic states who otherwise would have little choice but to pay higher interest rates for jumbo loans.

The new credit program would dangle tax savings in front of almost anyone considering buying a first house, or buying a house after not owning one for at least three years. Tax credits are more valuable than deductions because they are dollar-for-dollar reductions from what you would otherwise owe on your federal taxes.

"This should be a very potent stimulus," said Howard Glaser, president of Glaser Group, a Washington legislative consulting firm that represents mortgage lenders. "Unlike the earlier [economic] stimulus package" -- the one that has been pumping out tax rebate checks to consumers -- "this one is directly targeted at selling houses."

The expansive definition of who qualifies as a "first-time" buyer is a plus in economically hard-hit areas where many former owners have become renters in the past several years.

But the tax credit would come with some noteworthy limitations. You have to pay the credit back to the [IRS](#). If you continue to live in the house as your primary residence, you could have as long as 15 years to do so, but if you sell the house or convert it to some other use, such as a second home or investment property, then you'll have to repay more quickly.

There's also an income restriction of \$75,000 for individuals and \$150,000 for married joint filers. Beyond those limits, the maximum allowable credit would phase down. The credit program covers qualifying home purchases between April 9, 2008, and April 1, 2009.

The portion of the legislation that deals with financially distressed homeowners would help an estimated 400,000 borrowers. It is restricted, however, to owners who cannot afford their current loans and have a mortgage-debt-to-income ratio above 31 percent. The owner of the mortgage -- either a lender or bond investor -- must agree to reduce the balance of the principal amount to 85 percent of the current market value -- i.e., write off a significant chunk of what's owed.

If these and other conditions are met -- including homeowners agreeing to split any future appreciation with the government -- borrowers may qualify for a new fixed-rate, 30-year FHA loan they can more easily afford.