



***Housing and
Economic
Recovery Act -
“HERA”
of 2008 (H.R. 3221)***
Some Highlights

What It Created



- Measures to lend assistance to current and would-be homeowners.
- Provisions designed to assist:
 - first-time homebuyers
 - existing homeowners with low mortgage balances
 - retirees tapping home equity as an income source
- To give a boost to the housing market.

First-Time Homeowner Tax Credit



- Has not owned a home in three years
- A tax credit (10% of the purchase price) up to \$7,500 for couples and singles, and \$3,750 for married individuals filing separately.
- Home purchase must be between April 9, 2008 and July 1, 2009.
- Eligibility phase out at adjusted gross income of \$75K for individuals and \$150K for married couples.
- A one-time tax credit for the tax year the purchase is made.

First-Time Homeowner Tax Credit



- In reality is an interest-free loan.
- Must be repaid over 15 years, beginning 2 years after purchase.
- Full \$7,500 tax credit increases tax bill \$500 each year for 15 years.
- Pay-off remaining balance if sell home before 15 years.
- Benefit = Zero percent interest loan for 15 yrs.

Forgiveness to Allow Refinancing into FHA - Housing Rescue Law



- Assist homeowners behind on loan payments due to ARM rates increasing.
- Home lost value - upside down - cannot refi into fixed-rate loans.
- Encourages lenders to forgive some debt in order to refi at lower amounts into FHA insured (30 yr fixed) mortgage.
- Lender agrees to forgive all debt above 90% of the home's current appraised value.

Forgiveness to Allow Refinancing into FHA - Housing Rescue Law



- Catch: Must share the home-price appreciation with the FHA.
- FHA's cut decreases over next 5yrs, but never goes below 50%.
- If sell home (or refi the loan) within a year after refi into FHA, then FHA gets ALL of the home appreciation.
- If sell home (or refi) > 1yr but < 2yrs, then FHA gets 90%, then % decreases by 10% each year until reaches 5 yrs.

Forgiveness to Allow Refinancing into FHA - Housing Rescue Law



- GOAL = To encourage homeowners to keep FHA insured mortgages for at least 5yrs.
- GOAL = To encourage lenders to forgive some debt, so homeowners can refi for lesser amounts and remain in their home.

Additional Provisions



- See Handout Summary.
- Reverse mortgage changes - cap fees.
- FHA Reform - setting loan limits.
- Add'l property tax deduction - \$500s/\$1k-m
- Seller-funded down payment assistance programs.
- GSE Reform and Stabilization.
- National Affordable Housing Trust Fund.
- Loan Originator Requirements - licensing.

Mortgage Fraud



- Is still soaring ! Even though loan apps are at and 8 yr low.
- Mortgage Asset Research Institute found # of fraudulent loans issued in first 3 mos of 2008 increased 42% over 2007 period.
- Regulatory agencies are overwhelmed.
- FBI Mortgage Fraud Task Force reported in June - 400 arrests/responsible for >\$1 billion in losses.

Mortgage Fraud



- States are strengthening loan originator requirements.
- Feds are pushing for States to strengthen their requirements.
- Parallel HUD system.
- Fed Bank Regulators will establish a parallel registration system for FDIC-insured banks.
- Need Real Estate Industry self-regulation: title companies, lenders, and realtors.