

Legislative Highlights

House Passes Response to Mortgage Crisis

The House of Representatives in early May passed a comprehensive and bipartisan response to the American mortgage crisis. The American Housing Rescue and Foreclosure Prevention Act (H.R. 3221) responds directly to middle class concerns while providing the regulatory tools to prevent a repeat of these problems. The legislation combines a number of bills including measures to modernize the FHA and reform the GSEs, which will provide needed liquidity. Key provisions of the package:

- Provides mortgage refinancing assistance from the FHA so many borrowers in danger of losing their home can refinance into lower-cost government-insured mortgages at affordable interest rates.
- Only primary residences are eligible: no speculators, investment properties, second or third homes will be refinanced.

- Protects taxpayers by requiring lenders and mortgage investors to take significant losses by reducing the loan principal (up to 15 percent). In exchange for an FHA guarantee, borrowers must share any appreciation with the government from the resale of a refinanced home.

- Strengthens regulation of Fannie Mae and Freddie Mac and the Federal Home Loan Bank system, while raising the GSE loan limits for homes in high-cost areas so that these entities can purchase more loans (thereby lowering interest rates for new homes and refinancings in those areas).

- Provides legal protection to mortgage servicers from the threat of investor lawsuits if they reduce monthly mortgage payments through lower interest rates, reduced principal amounts or other changes in loan terms.

- Provides \$11 billion in tax benefits,

including tax credits to first-time homebuyers, a real property tax deduction for nonitemizers and an additional \$10 billion in mortgage revenue bonds for states, and improves access to low-income housing.

- Gives middle-income first-time homebuyers a refundable tax credit up to \$7,500 (to be paid back over 15 years) to spur home buying and stabilize the market.

- Helps returning soldiers avoid foreclosure by lengthening the time a lender must wait before starting foreclosure from three months to one year after a soldier returns from service.

At press time, the Senate Banking Committee leadership was working on their own package. The Bush administration, while supportive of some of the House bill, has threatened a veto if the bill is presented in its current form. ■