

## Talking Points on Housing Stimulus Legislation

- The housing stimulus bill approved by Congress and signed into law by President Bush is vital to address the turmoil in the financial and housing markets and to bolster the faltering economy.
- Senate Banking Committee Chairman Chris Dodd (D-Conn.) calls the measure “the most important piece of housing legislation in a generation.”
- And with good reason. The landmark legislation contains several provisions to help home buyers, stop the slide in home prices, provide a lifeline to borrowers facing foreclosure and bolster market confidence in mortgage giants Fannie Mae and Freddie Mac.
- The key elements of the new law are:
  1. **A temporary first-time home buyer tax credit.** The tax credit will stimulate home buying, reduce excess supply in housing markets and shore up home prices.
  2. **FHA modernization and expansion.** A revitalized FHA will have greater flexibility to respond to the needs of borrowers, enable more working families to become home owners and play an important role in the mortgage markets. To address the foreclosure crisis, the FHA is given additional authority to insure up to \$300 billion of mortgages to refinance loans headed for foreclosure.
  3. **GSE (government-sponsored enterprise) reform.** The law reforms the regulation of Fannie Mae and Freddie Mac and permanently increases the conforming loan limit to help buyers in high-cost markets. To reassure financial and global markets, the government will temporarily expand its line of credit to Fannie and Freddie and permit the U.S. Treasury to purchase an equity stake in the companies through the end of 2009.
  4. **Mortgage Revenue Bond Program.** The measure gives states the ability to issue an additional \$11 billion in mortgage revenue bonds, which will help strapped borrowers seeking to refinance their home loans.
  5. **Low Income Housing Tax Credit.** Enhancing this program will expand the supply of much-needed affordable rental housing.

### How the Tax Credit Works

- The centerpiece of the legislation to help stimulate housing and the economy is the home buyer tax credit.

- Here's how it works.
- The new law authorizes a temporary, \$7,500 tax credit for qualified first-time home buyers for the purchase of any home.
- A first-time home buyer is defined as a buyer who has not owned a home during the past three years.
- The temporary tax credit is good for a home purchased on or after April 9, 2008 and before July 1, 2009.
- Buyers can take the tax credit in their 2008 or 2009 tax return. If you purchased the home in 2008, the tax credit is taken on your 2008 tax return. If you buy in 2009, you have the option of taking the credit on your 2008 or 2009 tax returns.
- Single taxpayers with adjusted gross incomes of up to \$75,000 are eligible to take the full credit. For married couples filing a joint return, the income limit doubles to \$150,000.
- Single taxpayers earning between \$75,000 and \$95,000 can claim a partial credit of less than \$7,500 while the phase-out for married couples ends for those earning above \$170,000.
- Since the tax credit is refundable, it means that the home buyer can claim the credit even if they owe little or no federal income taxes. In other words, the government would write you a check.
- For example, if a home buyer owes the federal government \$2,500 in federal taxes and qualifies for the \$7,500 home buyer tax credit, the taxpayer would receive a \$5,000 refund check from the IRS (\$7,500 minus the \$2,500 owed).
- To reduce the cost to the federal Treasury, Congress has mandated that the tax credit essentially serves as an interest-free loan to be repaid over 15 years.
- For example, a home buyer claiming a \$7,500 credit would repay the credit at \$500 per year. However, the buyer doesn't have to start repaying the credit until two years after the tax year in which the credit is claimed.
- If the home owner sold the home, then the remaining credit amount would be due from the profit on the home sale. If there was insufficient profit, then the remaining credit payback would be forgiven.

## **Tax Credit Will Boost Demand**

- The tax credit provides a significant – and temporary – financial incentive for home buyers.
- This will increase housing demand, get home buyers back into the marketplace and fight falling housing prices, which threatens the economy as whole.
- According to Census data, first-time home buyers constitute about 40 percent of all buyers.
- As more first-time buyers enter the market, this will stimulate buying up the housing ladder.
- Today, many consumers are well-positioned to buy a home but lack the confidence or incentive to jump into the marketplace.
- This tax credit will help get them off the fence.
- Prices have fallen in many markets, mortgage interest rates are still in the 6 percent range and there is a huge selection of homes to choose from.
- Making matters even more attractive for prospective buyers is that they now have a \$7,500 tax credit they can use.
- But it's temporary. It will only last until July 1 of next year.
- One final note. This program has been tested before.
- In 1975, in the midst of an economic recession, Congress enacted a temporary \$2,000 tax credit for people buying new homes.
- In a period of nine months, buyers had flocked to the market. The tax credit helped to clear off a then-record number of unsold homes on the market and was an important tool in helping the economy dig its way out of the recession.
- In short, the tax credit worked before, and we expect similar success in the year ahead.