NAHB
NATIONAL ASSOCIATION OF HOME BUILDERS
GOVERNMENT AFFAIRS

ACROSS THE COUNTRY HOME BUILDERS CARE

Joseph M. Stanton
Chief Lobbyist

September 25, 2007

The Honorable Charles Rangel (D-NY)	The Honorable Jim McCrery (R-LA)
Chairman	Ranking Member
Committee on Ways and Means	Committee on Ways and Means
United States House of Representatives	United States House of Representatives
1100 Longworth House Office Building	1100 Longworth House Office Building
Washington, DC 20515	Washington, DC 20515

Dear Chairman Rangel and Ranking Member McCrery,

On behalf of the more than 235,000 members of the National Association of Home Builders (NAHB), I am writing to express our support for H.R. 3648, scheduled to be marked up by the Ways and Means Committee on Wednesday, September 26. This legislation will play a central role in aiding American families avoid foreclosure and stay in their homes. With the whirlwind of problems in the mortgage finance system, H.R. 3648 can help stabilize families, their neighborhoods, the surrounding community and the economy as a whole.

The issue addressed in this bill is one significant consequence of the current mortgage crisis -the possible tax effect on struggling homeowners. Section 108 of the Internal Revenue Code requires any discharge of indebtedness (credit cards, student loans, mortgages, etc) to be includable in taxable income. There are several possible scenarios in which this tax effect arises in the context of mortgage loans however the key components are the same for all. A bank forgives some amount of indebtedness for a homeowner either to avoid foreclosure or simply to forgive debt to a homeowner already in the foreclosure process. In general, the amount of forgiven indebtedness is treated by the IRS as income which is then taxable at ordinary income tax rates. For families already struggling to make the ends meet, the phantom income and resulting tax burden generated by Section 108 can endanger their financial health even further.

Section 108 requirements also create perverse incentives in the marketplace. First, the existing tax rules encourage many struggling homeowners (specifically those in states with non-recourse debt as the primary mortgage model) to seek foreclosure over restructuring their loan with lenders. This moves more homeowners out of their homes, destabilizes neighborhoods and increases the inventory of the housing stock on market. Second, the potential increase in tax liability discourages homeowners who are solvent from seeking restructuring agreements from lenders, a preferred situation for all involved. H.R. 3648 would encourage market-based restructuring between lenders and homeowners and discourage foreclosures.

NAHB also applauds the inclusion in the bill of an extension for the deductibility of mortgage insurance. Mortgage insurance is especially critical for low- to moderate-income, first-time homebuyers, many of whom may not qualify for a market-rate mortgage. By enabling mortgage insurance premium (MIP) payments to be deducted, homeownership is made more affordable for thousands of families who would now be able to buy a home without having to resort to more costly sub-prime or predatory alternatives.

As well, providing deductibility for MIP payments will, over time, result in increased revenues for the federal treasury. The second loans used by many borrowers to avoid mortgage insurance are riskier and result in more tax deductible interest payments than MIP payments. MIP payments cease when a homeowner achieves a 78% loan-to-value ratio, which may occur in only a few years due to payments on principle and house price appreciation. However, deductible second mortgage interest payments continue for the life of a loan.

Thank you for your leadership on this legislation. H.R. 3648 is the right bill at the right time for the nation's faltering housing market. We look forward to working with you to secure its enactment into law.

Sincerely,

Joseph M. Stanton

cc: House Committee on Ways and Means

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September 25, 2007

The Honorable Charles B. Rangel
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

The Honorable Jim McCrery
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Chairman Rangel and Ranking Member McCrery:

On behalf of the Mortgage Bankers Association (MBA), I write in support of legislation that the Committee will soon mark-up that would amend the Internal Revenue Code. Specifically, MBA supports provisions in the bill that would allow for limited exclusions of discharges of indebtedness on principal residences from gross income and extend the income tax deduction for all mortgage insurance premiums.

While we support the Committee's views with respect to the discharges of indebtedness on principal residences from gross income, we firmly believe that any tax code change must be done in a way that preserves incentives for borrowers to work with their lender on loss mitigation options and does not encourage foreclosures. We also caution that loss mitigation activities that result in debt forgiveness should be treated the same under the proposed tax exemption as debt that is discharged as a result of foreclosure, deeds in lieu of foreclosure or short sales. We would like to work with the Committee on details of this new tax provision as the bill advances.

MBA believes that the mortgage insurance deduction for all loans (including Federal Housing Administration mortgage insurance premiums and guarantee fees for Veterans Affairs and Rural Housing Service loans) provides a significant benefit to prospective homebuyers and, therefore, should be extended and made permanent. However, we believe there are some technical but critical amendments that should be made to the existing statute in order to clarify the law and assist the Internal Revenue Service, government lending programs and the mortgage industry in implementing this tax credit going forward.

Again, MBA encourages the Ways and Means Committee to support the bill and thanks you for considering this issue. We look forward to working with lawmakers to address our concerns as this legislation progresses through Congress. If you or your staff should have any questions, please feel free to contact me or Erick Gustafson, MBA's Vice President of Government Affairs, at (202) 557-2700.

Most Sincerely,

John M. Robbins, CMB
MBA Chairman

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September 25, 2007

Honorable Charles Rangel, Chairman
Committee on Ways and Means

Honorable Jim McCrery, Ranking Member
Committee on Ways and Means

1100 Longworth HOB
U.S. House of Representatives
Washington, D.C. 20515

Dear Messrs Rangel and McCrery:

On behalf of 1.3 million members of the NATIONAL ASSOCIATION OF REALTORS® (NAR), I wish to thank you for your leadership in stepping forward with a proposal that would relieve tax burdens for many families in financial distress. The NATIONAL ASSOCIATION OF REALTORS® supports the legislation you have crafted to provide permanent mortgage cancellation tax relief.

Regrettably, communities all over the country face declines in property values and increases in foreclosures. While the reasons for these trends vary from community to community, the affected homeowners face a very undesirable outcome. They must pay tax, at ordinary income rates, on the phantom income they realize when a lender forgives some part of a homeowner's mortgage. Such forgiveness might occur on a sale of a home for less than the outstanding balance on the mortgage (a "short sale"), in a foreclosure or when the amount of a mortgage obligation is reduced in a workout designed to keep the homeowner in the home.

Your relief proposal restores fundamental fairness for homeowners in financial and economic distress by eliminating the requirement that they pay tax on phantom income. At the same time, your bill provides important safeguards so that the provision cannot be abused by those who would "game" the system.

NAR also will support the offset that accompanies the relief proposal. The offset does not eliminate any tax benefit, but rather tightens the requirements for utilizing some tax benefits associated with the $250,000/$500,000 exclusion (the exclusion). Owners of vacation homes or rental properties will still be able to convert such property into a principal residence, but, on a prospective basis, will no longer be able to utilize the exclusion as frequently as under current law.

We look forward to working with you to secure the timely enactment of this legislation.

Sincerely,

Pat V. Combs

Pat V. Combs, ABR, CRS, GRI, PMN
2007 President, National Association of REALTORS®