Summary of Key Housing Legislation Provisions

GSE Regulatory Reform

- Establishes a new, independent regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, the housing government-sponsored enterprises (GSEs). Most provisions are effective as of date of enactment.
- Regulator is headed by a Director, with separate Deputy Directors for oversight of safety and soundness of Fannie Mae/Freddie Mac, safety and soundness of FHLBanks, and mission of all GSEs. The Director also chairs an advisory board for the new agency that includes the Secretaries of HUD and Treasury and the SEC Chairman.
- GSE minimum capital requirements remain unchanged, but the regulator is given authority to establish higher levels through regulation and to institute temporary increases by order to address safety and soundness or prudential regulatory concerns.
- Temporary increases are to be rescinded once the cause for the increase is resolved and the regulator is charged with issuing regulations on standards for initiating and rescinding temporary capital increases and on the timeframe for reviewing temporary increases.
- Regulator is given complete discretion to establish new risk-based capital requirements.
- Regulator is given authority to oversee and regulate the portfolio holdings of Fannie Mae and Freddie Mac based on criteria and conditions including capital sufficiency, safety and soundness, mission, secondary market liquidity and the size of the portfolios in relation to the overall mortgage market.
- The regulator is given prior approval authority over new products under criteria and processes that should allow the GSEs to respond to market needs in a timely fashion.
- Establishes a new system of affordable housing goals for Fannie Mae and Freddie Mac, with lower income targets and separate measures for home purchase mortgages, refinance mortgages and multifamily mortgages. The multifamily goals will be set as absolute unit or dollar thresholds to prevent declines in total multifamily mortgage purchases from reducing goals requirements.
- Requires the regulator to establish affordable housing goals for FHLBank mortgage purchase programs.
- Sets the GSE conforming loan limit in high cost areas at 115% of the local area median home price, up to a limit of $625,500. The cap is indexed to changes in national home prices, but will not be permitted to decline. Any declines in the index will be netted against future increases. The new permanent levels go into effect after the current temporary limits expire at the end of 2008.
- Creates a new Affordable Housing Program, financed by contributions from Fannie Mae and Freddie Mac. HUD will administer 65% of the funds as grants to states, while the other 35% is earmarked for a Capital Magnet program administered by Treasury. Initially, however, the fund contributions will be set aside as a reserve for losses incurred in the new FHA foreclosure prevention program described below.
- Eliminates presidential board appointments for Fannie and Freddie and FHLBank director appointments.

Backstopping Fannie Mae and Freddie Mac

- The Treasury is granted temporary authority (through 2009) to purchase debt and equity obligations of the GSEs. This provides an open-ended increase in the GSEs' current relatively small lines of credit with Treasury and provides a new alternative for increasing capital through stock sales to Treasury.
- The temporary Treasury support measures are accompanied by a requirement that the new regulator consult with the Fed before undertaking any safety and soundness actions. This requirement also sunsets at the end of 2009.

FHA Modernization

- FHA reform is included to modernize, streamline and expand the reach of the FHA program.
- The FHA loan limit is increased from 95% to 115% of area median home price with a cap at 150% of GSE limit (currently, $625,500). The limit for each area is at least 65% of the GSE limit (currently $271,050).
- Down payments of 3.5% will be required for any FHA loan.
- The seller-assisted down payment program will be terminated after October 1, 2008.
- The maximum upfront FHA mortgage insurance premium is increased to 3% from the current 2.25%; however, beginning on October 1, 2008, there will be a one-year moratorium on the use of risk-based premiums in the FHA program.
- FHA insurance of condominium mortgages is placed under the same statute that applies to most other single family mortgages, which will allow FHA to streamline its condo requirements.
- FHA's program for reverse mortgages (home equity conversion mortgages, or HECMs) is expanded with higher mortgage limits.

FHA Expansion (Hope for Homeowners)

- Creates a new, $300 billion, voluntary program within FHA to provide FHA-insured mortgages to distressed borrowers.
- The program will be operated by a board consisting of the HUD and Treasury Secretaries and the Chairmen of the Fed and FDIC.
- The new mortgages offered by FHA-approved lenders will refinance distressed loans at a significant discount for owner-occupants at risk of losing their homes to foreclosure. In exchange, homeowners will share future appreciation with FHA.
- Borrowers must meet a payment burden test (a mortgage debt-to-income ratio greater than 31%).
- Current mortgage holders must agree to relinquish their claims in exchange for a payment equal to 85% of the current value of the home.
- The program is paid for by using part of Fannie Mae's and Freddie Mac's Affordable Housing Program contributions. If the program costs less than projected, the unused funds are returned to the designated programs.
- The program will begin October 1, 2008 and sunset on September 30, 2011.

Other Notable Provisions

- Provides for a temporary increase in VA guarantee authority to match the current temporary mortgage limits for FHA and Fannie Mae/Freddie Mac.
- Encourages states to establish mortgage licensing and registry systems and directs HUD to step in if the states fail to accomplish this task.
- Provides $4 billion in emergency funding through grants to states for the purchase of foreclosed homes and the rehabilitation or redevelopment of the homes.

Summary of Tax Provisions

First-time homebuyer credit

- The bill includes a refundable tax credit that is equivalent to an interest-free loan equal to 10 percent of the purchase of the home or claimed (up to $7,500) by first-time homebuyers which is repaid over 15 years.
- The provision applies to homes purchased on or after April 9, 2008 and before July 1, 2009. Purchases made in 2009 can be treated as if they occurred in 2008.
- The credit phases out for taxpayers with modified adjusted gross income in excess of $75,000 ($150,000 in the case of a joint return).

Low Income Housing Tax Credit

- Contains numerous proposals to simplify the technical rules relating to the LIHTC.
- The bill would increase the state-by-state limitation on housing tax credits in 2008 and 2009 by an additional 20 cents for each person residing in the state for large population states and increase by 10 percent the small state set-aside.
- Provides relief for housing tax credit properties facing stagnant income limits and rents.
- Temporarily eliminates the Basic Allowance for Housing from the calculation of income in qualifying enlisted military personnel for housing tax credit properties in communities impacted by the Base Realignment and Closure process.

Non-Itemizer Property Tax Deduction

- Present law allows a taxpayer who itemizers to deduct State and local property taxes from their Federal income. Non-itemizers claim the standard deduction ($10,700 for joint filers or $5,350 for individuals). The bill provides an additional standard deduction, $500 deduction for single filers and a $1,000 deduction for joint filers, for non-itemizers who pay State and local property taxes for one year (tax year 2008). The provision will sunset on January 1, 2009.

Temporary increase in mortgage revenue bonds

- The bill would increase this national limit in 2008 to allow for the issuance of an additional $11 billion of tax-exempt bonds to provide loans to first-time home buyers and to finance the construction of low-income rental housing. The bill would also temporarily allow qualified mortgage revenue bonds (a form of tax-exempt bond issued by states to help provide financing to first-time home buyers) to be used to refinance certain subprime loans.

Repeal of AMT limitations on tax-exempt housing bonds, low-income housing credit, and rehabilitation credit

- This bill would allow the low-income housing tax credit and the rehabilitation tax credit to be used to offset the AMT and would ensure that interest on tax-exempt housing bonds is not subject to the AMT.

Vacation Home Revenue Offset

- Gain from the sale or exchange of a principal residence allocated to periods of nonqualified use is not excluded from gross income. A period of nonqualified use means any period (not including any period before January 1, 2009) during which the property is not used by the taxpayer or the taxpayer's spouse or former spouse as a principal residence (e.g., rental property). The amount of gain allocated to periods of nonqualified use is the amount of gain multiplied by a fraction the numerator of which is the aggregate periods of nonqualified use during the period the property was owned by the taxpayer and the denominator of which is the period the taxpayer owned the property.