

Quick Reference Guide to the Benefits of the 2008 Housing Bill
Effective October 1, 2008

1. Encouraging First-Time Homebuyers to purchase – for primary residence only.
 - A. Gives a first-time homebuyer a REFUNDABLE Federal tax credit that works like an interest-free loan of up to \$7,500 or 10% of the purchase price, whichever is smaller. (With a tax credit, you subtract the credit amount from the total you would otherwise pay to the IRS. So, if you owe \$1,500 and you qualify for the credit, you would end up getting a \$6,000 refund. But there are two big catches:
 1. If you earn a modified adjusted gross income of more than \$75,000 or \$150,000 if you are married and filing jointly, the credit starts to phase out. For single people, it phases out completely at \$95,000 of annual income, while for married people filing jointly, it phases out at \$170,000.
 2. You have to pay the credit back over the next 15 years, in equal amounts each year when you file your federal taxes. This makes it more like an interest-free loan than a true credit.
 3. The tax credit is retroactive to home purchasers on April 9, 2008 and expires July 1, 2009.
 - B. Additional deduction – a homeowner who takes the standard deduction on their federal income taxes and does not itemize, can take an additional federal tax deduction of \$500, or \$1,000 if they are married and filing taxes jointly. This is gravy – you get it in addition to the standard deduction.
2. FHA
 - A. Permanently increases the FHA loan limit in high cost areas to \$625,000 after the stimulus bill expires on 12-31-08.
 - B. Increases the FHA down payment to 3.5% from the current 2.87%. (Gifts allowed from family members, unions, state and local bond programs)
 - C. Eliminates Down payment Assistance Programs as of 9-30-08. (Credit approval required by then).
 - D. 12 month moratorium on FHA risk-based premiums effective 10-01-08.
3. FHA Reverse Mortgages
 - A. Raises the loan limit nationally (not by count) to \$625,000.

B. Limits fees that can be charged on reverse mortgages:

2% on 1st \$200,000

1% on portion of loan amount above \$200,000 to a maximum of

\$6,000

C. Says that borrowers cannot be forced to purchase an annuity or other financial or insurance product as a condition of qualifying for a reverse mortgage.

D. FHA Reverse mortgages will now be able to be used for purchases as well as refinances.

4. VA – increases VA Guaranty to raise no down VA loan to \$625,000 in high-cost areas (no details yet on this)

- Prevents a lender from starting foreclosure against a returning veteran for 9 months after a soldier returns.

5. Neighborhood Stabilization

A. Provides \$4 Billion in emergency assistance to communities hardest hit by the foreclosure and sub-prime crisis to purchase foreclosed homes at a discount and rehabilitate or redevelop the homes to stabilize neighborhoods and stem the significant losses in home values of neighboring homes.

- These homes would be sold or rented to moderate income individuals and families whose income does not exceed 120% of the area median income.

B. Provides \$180 million for pre-foreclosure counseling and \$30 million in grants for legal counseling to assist homeowners in foreclosures.

6. Loan officer licensing – establishes a nationwide loan originator licensing and registration system that will set minimum standards for loan originator licensing to improve the oversight of everyone originating mortgage loans.

7. Conforming Conventional loans

Permanently empowers FNMA and Freddie Mac to purchase conforming conventional loans up to \$625,000 (they can buy loans up to 115% of the local median home price) after the Stimulus Bill expires 12-31-08.

8. Re-negotiating mortgages (program expires 9-30-2011)

How much effect the \$300 billion FHA is authorized to use to assist homebuyers in trouble to refinance remains to be seen. It may take a lot more pain to bring lenders to the point where they will be willing to accept the unusual and very costly terms of the program. At this point this option is probably low on a lender's "List of Options" of how to work out overdue loans. On their own lenders are finding different ways of avoiding some foreclosures.

A. How it may work

1. Eligibility:

- a. You need to have originated your troubled loan on or before 1-1-08.
- b. The loan must be on your primary residence (vacation homes and investment properties are not eligible).
- c. Full documentation required on all loans.
- d. As of 3-1-08 your monthly house payment (PITI) has to have been at least 31% of your monthly household income. So, if you were earning \$5,000 per month and had house payments of \$3,000 you are eligible. But, if you had payments of just \$1,400 you would not be presumably because that loan is affordable given the size of your income.

2. Lenders are not required to participate. They may not be willing to negotiate unless they think the borrower is on the cusp of foreclosure.

3. If a borrower does get a new loan, they cannot take out a home equity loan for at least 5 years after they get a new loan. The borrower also must pay a 1.5% fee each year on the remaining balance.

- The borrower must give FHA no less than 50% of any appreciation on the home when they sell. If they sell or refinance the home in less than one year they will have to turn over 100% of any profit they realize from higher home prices. After one year the borrowers will share 90% of the profits with FHA. The percentage keeps dropping in 10% increments to 50% after the 5th year, where it stays.
 - a. Example – original loan is \$200,000 and borrower sells in 1 year for \$250,000, they owe FHA \$50,000 minus cost.

- The borrower must pay FHA an exit fee of 3% of the mortgage principal when they sell or refinance.

4. Lender Cooperation

A new appraisal must be ordered and based on that new appraised value, the FHA lender determines how much the original lender has to reduce the original mortgage by so that it will reflect 90% of the home's market value. If the original lender agrees to the write down, the new lender replaces the old loan with a new, 90% FHA loan.

- as part of the deal, the old lender writes off any penalties and fees on the original mortgage (including prepayment penalties) and accepts the proceeds from the new loan on a paid-in-full basis. Additionally, it pays the FHA an upfront premium equal to 3% of the mortgage principal.

5. Savings to a borrower

Savings will depend on what borrowers are paying for their present loan and where they live, but the savings for most people will be substantial even factoring in FHA fees.

- In areas with big drops in house prices like Sacramento with 30% declines, some loans might be reduced by more than 40%.

6. 2nd lien holders – at the last moment a provision was put in that will allow second lien holders to share in a portion of the future appreciation on the property. However, they have to agree to the restructuring and refinancing of the existing first mortgage, which would extinguish any second or subordinated liens.

- When 2nds were originally made they were “secured” by the property but now with values down so far so fast, large numbers of these loans are unsecured so banks can't even foreclose if borrowers miss mortgage payments. They have to treat 2nds like credit cards using more traditional means of collection.