July 23, 2008

A New Direction for Housing & the Economy

Congress Acts as Mortgage Crisis is Straining American Economy

Today, the House will act on the most comprehensive response yet to the American mortgage crisis – which will help families facing foreclosure keep their homes, help other families avoid foreclosures in the future, and help the economic recovery of communities harmed by empty homes caught in the foreclosure process. To restore market confidence, the bill gives Treasury emergency and temporary financing authority for Fannie Mae and Freddie Mac, which hold or back half of the national mortgage debt and are about the only source of money still available for mortgage lenders. Most Americans' primary investment is their home—and home values have plummeted by a record 15% in the last year. Ending the foreclosure crisis is vital to the American economic recovery.

FHA Rescue and Neighborhood Stabilization

- Provides mortgage refinancing assistance to keep at least 400,000 families from losing their homes, to protect neighboring home values, and to help stabilize the housing market at no cost to American taxpayers.
- Expands the FHA program so that borrowers in danger of losing their home can refinance into lower-cost government -insured mortgages that they can afford to repay.
- Protects American taxpayers by requiring lenders and homeowners to take responsibility. This is not a bailout; in order to participate, lenders and mortgage investors must take significant losses and borrowers must share any profit from the resale of a refinanced home with the government.
- Strengthens neighborhoods hit hardest by the foreclosure crisis by providing CDBG funds to states and localities to buy foreclosed homes standing empty, rehabilitate foreclosed properties, and restore home values.

Strengthen Regulations of Housing GSEs and Temporary Authority to Shore Them Up

- Creates a strong, independent regulator with the authority to set strong capital standards so markets can count on the safety and soundness of Fannie Mae and Freddie Mac and so that they can continue to provide our nation's families with affordable housing, as Democrats have been calling for since 2004.
- To stabilize the housing finance market, and make sure that affordable home loans continue to be available, the measure gives necessary stand-by authority to the Treasury Department in the unlikely case that the GSEs require temporary Federal financial intervention.
- This authority is the best way to boost market confidence in the GSEs and reduce the likelihood that the government would need to lend a hand. The Congressional Budget Office says "There is a significant chance -- probably better than 50 percent -- that the proposed new Treasury authority would not be used before it expired at the end of December 2009."
- This bill safeguards the interests of the American taxpayer. The new regulator must approve all executive compensation, and taxpayers must be paid back before investors any time the new authority is invoked.
- Raises their loan limits to increase liquidity in the mortgage market to $625,000, and creates a new Fund to boost the nation's stock of affordable rental housing.

Tax Provisions to Expand Refinancing Opportunities and Spur Home Buying

- Gives first-time homebuyers a refundable tax credit that works like an interest-free loan of up to $7,500 (to be paid back over 15 years) to spur home buying and stabilize the market.

- Supplies states with $11 billion of additional tax-exempt bond authority in 2008 to refinance subprime loans, make loans to first-time homebuyers and to finance the building of affordable rental housing.
- Provides couples using the standard deduction with up to an additional $1,000 deduction for property taxes.
- Makes necessary reforms to encourage the creation of low-income housing.

Preserving the American Dream for Our Nation's Veterans

- Increases VA Home Loan limit, as was done in the stimulus package, for high-cost housing areas to expand homeownership opportunities for veterans.
- Helps returning soldiers avoid foreclosure by lengthening the time a lender must wait before starting foreclosure, from three months to nine months after a soldier returns from service.

FHA Modernization and Preventing Future Abuses and Crises

- Expands affordable mortgage loan opportunities for families (many of whom would otherwise turn to subprime lenders) and for seniors through expanded access to reverse mortgages through Federal Housing Administration reform.
- Takes action to prevent future abuses by lenders, by establishing a nationwide loan originator licensing and registration system to set minimum standards for all residential mortgage brokers and lenders in an effort to curb abusive lending practices.
- Strengthens mortgage disclosure requirements to help ensure that borrowers understand their mortgage loan terms.

Stabilizing Housing is Key to America's Economic Recovery: Real Relief from the New Direction Congress

Families Are Losing Homes or Value in Their Homes

- **Foreclosures.** The number of homeowners filing for foreclosure grew by more than 50 percent in June compared with a year ago. 3-4 million families are expected to lose their homes to foreclosure because they cannot afford their high-interest subprime loans.
- **Home Prices Drop.** Home prices have dropped a record 15% in the past year across 20 major U.S. cities. Forty-four percent of all homeowners will likely feel the ripple effect of foreclosures from subprime loans.
- **Mortgages exceed equity in home.** With falling housing prices, homeowners' debt on their houses exceeds their equity in their homes for the first time since 1945.

Ripple Effects Throughout the Economy

- **The slump has hurt manufacturers, construction firms and other businesses that depend on strength in the housing industry, forcing companies to lay off workers.** The number of new residential construction projects started has trended downward sharply for 22 months. Declines in residential fixed investment subtracted almost one percent from GDP during 2007. [JEC] The American construction industry has lost 452,000 jobs in the last year.
- **Consumer spending and consumer confidence.** Consumer spending, vital to the health of the economy, dropped to 1.1 percent – half of the previous quarter. Consumer confidence fell to a 16-year low in June.
- **Loans and credit are harder to get and more expensive for everyone.** As bank and financial company losses on securities linked to mortgages that defaulted have grown, these companies have significantly tightened lending standards across a variety of sectors, from mortgages and credit cards to student loans. About 55 percent of banks reported imposing tougher standards on business loans, 30 percent tightened lending standards on credit card loans, and nearly two-thirds of banks surveyed had tightened lending standards on traditional, prime mortgages, according to a Federal Reserve survey in April.