# American Housing Rescue & Foreclosure Prevention Act

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On July 23, the House passed the most comprehensive response yet to the American mortgage crisis by a vote of 272-152. The American Housing Rescue & Foreclosure Prevention Act, H.R. 3221, will help families facing foreclosure keep their homes, help other families avoid foreclosures in the future, and help the recovery of communities harmed by empty homes caught in the foreclosure process.

To shore up the housing market and ensure the availability of affordable home loans, the bill would put a tough, independent new regulator in charge of the housing Government Sponsored Enterprises, or GSEs (Fannie Mae, Freddie Mac, and the Federal Home Loan Banks), which are vital to both the financial markets and American homeowners. The new regulator will be far better prepared to quickly and effectively respond to issues affecting the safe and sound operation of these enterprises.

The centerpiece of the bill will help significant numbers of hard-working American families in danger of losing their home refinance into lower-cost government -insured mortgages they can afford to repay - at no cost to the American taxpayer. It also:

- strengthens neighborhoods hardest hit by the foreclosure crisis by providing resources to allow cities and states to buy up and rehabilitate foreclosed properties that are currently driving down home prices, reducing state and local revenues, and destabilizing neighborhoods;

- expands homeownership opportunities for veterans and helps returning soldiers avoid foreclosure and stay in their home;

- provides tax breaks to spur home buying; and

- creates a new Fund to boost the nation's stock of affordable rental housing in both rural and urban areas for low and very low-income individuals and families.

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.

Since most Americans' primary investment is in their home, ending the foreclosure crisis is vital to the American economy recovery.

Specifically, this legislation includes the following provisions:

FHA Housing Stabilization and Homeownership Retention Act

- 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 many borrowers in danger of losing their home can refinance into lower-cost government-insured mortgages they can afford to repay.

- Protects 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 by reducing the loan principal.  In exchange for an FHA guarantee on the mortgage, borrowers must share any profit from the resale of a refinanced home with the government.

- Contains critical protections for taxpayers' dollars, including higher refinancing fees that establish a new FHA reserve to cover possible losses from defaults on these government-backed mortgages.

- Only primary residences are eligible: NO speculators, investment properties, second or third homes will be refinanced.

- According to CBO, this three-year program, starting October 1, 2008, will not cost taxpayers a dime, as it is more than paid for by using funds in the first few years from the Affordable Housing Trust Fund.

- Provides $180 million for financial counseling and legal assistance to help families stay in their homes.

Strengthening Regulations of the GSEs

- Puts a strong independent regulator in place with real teeth, with real responsibilities and powers so that Fannie Mae and Freddie Mac can safely and soundly work to provide our nation's families with affordable housing, as Democrats have been calling for since 2004.

- The new regulator will have enhanced authority to raise capital standards, set strict prudential standards, including internal controls, audits, and to enforce these new standards and promptly take corrective action. The new regulator will oversee, and can directly restrict, executive compensation at Fannie Mae and Freddie Mac.

- Raises the GSE loan limits for single family homes to create affordable mortgage loans for moderately priced homes by allowing GSE loans up to 115% of the local area median home price, and to make GSE loans effective in high cost areas by raising the permanent loan limit from $417,000 to $625,500.

- Creates a new permanent affordable housing trust fund - financed by the GSEs and not by taxpayers - to fund the construction, maintenance and preservation of affordable rental housing for low and very low-income individuals and families nationwide in both rural and urban areas.

Backstopping Fannie Mae and Freddie Mac To Shore Up the Housing Market

- Gives the Secretary of the Treasury the authority to increase the already existing line of credit to Freddie and Fannie for the next 18 months, as well as giving the Treasury Department standby authority to buy stock in those companies to provide confidence in the GSEs and stabilize housing finance markets.

- Includes meaningful taxpayer protections directing the Treasury Department to take the following into account, when using these authorities:

- Taxpayers should be first in line for being paid back, before other shareholders.

- There should be restrictions on dividends for shareholders and on compensation for the executives of the GSE's until taxpayers are fully reimbursed.

- Strengthens oversight by requiring the Federal Reserve and Treasury to consult with the new regulator on issues concerning the safety and soundness of the GSEs and use of the standby authority.

- While Fannie Mae and Freddie Mac both now meet the capital and liquidity requirements set by their regulator, given the severe turmoil in the markets, the standby authority is needed to increase market confidence and enable both enterprises to continue to raise capital and maintain the availability of mortgage credit.

- The non-partisan 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." CBO estimates that, if used, the federal budgetary cost of this proposal would be $25 billion over fiscal years 2009 and 2010.

- Because CBO estimates that these provisions could increase direct spending, we need to waive PAYGO rules in order to consider it. The bill requires the Treasury Secretary to make an emergency designation before using the authority -- certifying that he is acting to provide stability to financial markets, prevent disruptions in the availability of mortgage finance, protect the taxpayers, and facilitate an orderly restoration of private markets. No spending would occur unless the Secretary certifies that there is an emergency that requires immediate action. However, if those conditions are not met, there would not be any increase in the deficit as a result of this legislation.

Stabilizing Neighborhoods Hurt by the Foreclosure Crisis

- Provides $4 billion in emergency assistance (CDBG Funds) to communities hardest hit by the foreclosure and subprime 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.

- Foreclosed and rehabilitated homes would be sold or rented to moderate-income individuals and families -- whose incomes do not exceed 120 percent of the area median income. At least 25 percent of the funds would be targeted to house low-income and very low-income persons and families -- whose incomes do not exceed 50 percent of area median income.

- Any profit from the sale, rental, rehabilitation or redevelopment of these properties must be reinvested in affordable housing and neighborhood stabilization.

- Provides $180 million for pre-foreclosure counseling, to be distributed in grants by the Neighborhood Reinvestment Cooperation (NeighborWorks) - with 15 percent targeted for low-income and minority homeowners and neighborhoods, and $30 million in grants for legal counseling to assist homeowners in foreclosure.

Preventing Future Abuses and Crises

- Establishes a nationwide loan originator licensing and registration system that will set minimum standards for loan originator licensing substantially improving the oversight of mortgage brokers and bank loan officers.

- Establishes
improved mortgage disclosure requirements that will help ensure that mortgage borrowers understand their mortgage loan terms.

FHA Modernization

- 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.

- Raises FHA loan limits to create affordable mortgage
loans for moderately priced homes by allowing FHA loans up to 115% of the local area median home price, and to make GSE loans more available in high cost areas by raising the permanent loan limit from $362,790 to $625,500.

- Expands opportunities for seniors to tap into equity
in their home through FHA reverse mortgage loans, by increasing the loan limit for the program, reducing and capping lender fees for such loans, and strengthening consumer protections limiting the sale of other financial products in conjunction with FHA reverse mortgage loans.

- Prevents
HUD from raising single family loan fees on lower- and middle-income borrowers, and from raising loan fees on FHA rental housing loans.

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 so that veterans have more homeownership opportunities.

- Helps
returning soldiers avoid foreclosure and stay in their home by lengthening the time a lender must wait before starting foreclosure, from three months to nine months after a soldier returns from service and providing returning soldiers with one-year relief from increases in mortgage interest rates.

- Requires the Department of Defense
to establish a counseling program for veterans and active service members facing financial difficulties and provides a moving benefit to servicemen and women who are forced to move out because their rental housing was foreclosed on.

- Increases benefits paid to veterans
with disabilities, such as blindness, to adapt their housing and allows

the Veterans Administration to provide for improvements to homes of veterans with service-connected disabilities.

Tax Provisions to Expand Refinancing Opportunities and Spur Home Buying (H.R. 5720)

- Provides $15 billion in tax benefits, including tax credits to first-time homebuyers, a real property tax deduction for non-itemizers, an additional $11 billion in mortgage revenue bonds for states, and improves access to low-income housing.

- 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. The credit will begin to phase out for taxpayers with adjusted gross income in excess of $75,000 ($150,000 in the case of a joint return).

- Provides taxpayers that claim the standard deduction with up to an additional $500 ($1,000 for a joint return) standard deduction for property taxes in 2008.

- Temporary increase in mortgage revenue bond authority to allow for the issuance of an additional $11 billion of tax-exempt bonds to refinance subprime loans, provide loans to first-time homebuyers and to finance the construction of low-income rental housing.

- Temporary increase in low-income housing tax credit and simplification of the credit to help put builders to work to create new options for families seeking affordable housing alternatives.

- The cost of the bill (except for the Fannie Mae/Freddie Mac provisions) is fully offset with a tax compliance provision from the President's Budget (requiring credit card companies to report more information to the IRS about credit card transactions) and by delaying the effective date of a tax benefit for multinational companies that has not yet taken effect.

Debt Limit Increase

- Increases the debt limit to $10.6 trillion, as requested by the Bush Administration. This $800 billion increase is identical to provision the House automatically passed as part of the budget resolution conference report. The Senate has not yet enacted this provision, which is critical to ensure that the federal government can effectively manage its finances through next year.