

The Housing and Economic Recovery Act of 2008

In early 2008, the Economic Stimulus Act of 2008 raised conforming loan limits in high-cost areas to \$729,750 (up from \$417,000); however, this provision was temporary and is set to expire on Dec. 31, 2008.

On July 30, 2008, President Bush signed into law the Housing and Economic Recovery Act of 2008 (HERA). This piece of historic legislation will assist an estimated 400,000 homeowners facing foreclosure, many of whom reside in California, by allowing them to refinance their current mortgages with a Federal Housing Administration (FHA)-backed loan. Another centerpiece of this legislation is the creation of a \$7,500 tax credit for first-time home buyers and the continuation of the Hope for Homeowners program. Effective Oct. 1, 2008, the bill also will permanently increase FHA, Fannie Mae, and Freddie Mac loan limits.

Under HERA, the new loan limits for Fannie Mae and Freddie Mac are the greater of either \$417,000 or 115 percent of an area's median home price, up to \$625,500. The new FHA loan limit will be the greater of \$271,050 or 115 percent of an area's median home price, up to \$625,500. Both new loan limits will be effective upon the expiration of the Economic Stimulus limits on Dec. 31, 2008.

Homeowners May Already Be Eligible for Assistance

Families should not wait to seek mortgage relief. Right now, homeowners can determine if they are already eligible for mortgage assistance through *FHASecure*, FHA's existing refinancing program. They can obtain information through either of the following options:

1. Contact a local HUD-approved housing counseling agency at HUD.gov.
2. Contact the HOPE NOW Alliance at (888) 995-HOPE.

\$7,500 TAX CREDIT FOR FIRST-TIME HOME BUYERS – *Features of the tax credit include:*

- Ten percent of cost of home, not to exceed \$7,500.
- Portion (6.67 percent of credit) to be repaid each year for 15 years. If the home is sold before 15 years, then remainder of credit is recaptured on sale.
- Any single-family residence (including condos, co-ops) that will be used as a principal residence.
- Reduces income tax liability for the year of purchase. Can be claimed on tax return for that tax year.
- Full amount of credit available for individuals with adjusted gross income of no more than \$75,000 (\$150,000 on a joint return). Phases out above those caps (\$95,000 and \$170,000, respectively).
- Purchaser (and purchaser's spouse) may not have owned a principal residence within three years prior to purchase.
- The tax credit phases out for a taxpayer with a modified adjusted gross income of no more than \$75,000 (or \$150,000 for joint returns)
- This tax credit is available for qualifying homes purchased from April 9, 2008, through June 30, 2009.

HOPE FOR HOMEOWNERS PROGRAM

Hope for Homeowners maintains FHA's long-standing requirement that new loans be based on a family's long-term ability to repay the mortgage. By continuing to slow the rate of foreclosures, this program will support FHA's existing effort to stabilize local housing markets. From Sept. 2007 to June 2008, FHA has guaranteed more than \$93 billion of mortgage capital. FHA allows only owner-occupants to be eligible for FHA-insured mortgages. Borrowers must also meet the following eligibility criteria:

- Their mortgage must have originated on or before Jan. 1, 2008;
- Their mortgage debt-to-income must be at least 31 percent;
- They cannot afford their current loan;
- They did not intentionally miss mortgage payments; and
- They do not own second homes.

Features of FHA-insured loans under the new program include:

- 30-year, fixed-rate mortgage;
- Maximum 90 percent loan-to-value ratio;
- No prepayment penalties;
- \$550,400 maximum mortgage amount, and will include charges for FHA insurance premiums;
- Extinguishment of any subordinate liens;
- New home appraisals from FHA-approved appraisers; and
- Upon obtaining the FHA refinance, the borrower must share with the FHA at least 50 percent of any equity realized through a subsequent sale or refinance.

HUD, U.S. Treasury, FDIC, and the Federal Reserve will form the Congressionally mandated Board of Directors and work together to establish additional program standards.

FHA will insure up to \$300 billion in new loans. Borrowers will pay an up-front premium of 3 percent of the original mortgage amount and an annual premium of 1.5 percent of the outstanding mortgage amount. Any additional costs incurred by FHA will be reimbursed by Fannie Mae and Freddie Mac.

Voluntary Lender Participation

FHA will continue to offer lenders an alternative to foreclosing on borrowers. Similar to *FHASecure's* recent expansion, lenders will be encouraged to write down the outstanding mortgage principal balances to 90 percent of the new value of the property. In many cases, reductions in principal will cost lenders less than the losses associated with foreclosure; however, lender participation is voluntary.

Program Timeline

The program will last Oct. 1, 2008, through Sept. 30, 2011. Since Sept. 2007, *FHASecure* has helped more than 290,000 families obtain safer, more affordable mortgages. *FHASecure* is on pace to help 500,000 families by the end of the year.