

NATION'S HOUSING

Housing, mortgage relief bill is in the homestretch

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WASHINGTON — Congress left town for the Fourth of July recess with a half-baked cake in its legislative oven — one that has huge potential significance for the housing and mortgage markets. The unfinished work is a major relief bill designed to rescue hundreds of thousands of homeowners heading for foreclosure, pull new buyers back into the real estate arena and permanently raise conventional and Federal Housing Administration loan limits in high-cost markets.

The Senate is on the verge of final passage of its bill, and it could do so as early as this week. The House has already passed its version. Final legis-

lation could go to the White House later this month. And although President Bush has threatened a veto, Capitol Hill analysts say that strong bipartisan support — plus elections this fall — makes it highly unlikely he'd actually do so.

What could the bill mean to you? If you dig into this 631-page behemoth, you might find something that directly benefits you, especially if you are:

■ Thinking about buying a first home. The legislation offers federal tax credits up to \$8,000 per couple (\$4,000 per single) for qualified purchasers of newly constructed or resale houses. There's no cap on the total number to be assisted and the definition of "first-time buyer" is more generous than a literal reading might suggest.

■ Saddled with a debt-laden home heading for foreclosure. The pending legislation may offer a way out. Even if you're behind on payments and your balance exceeds your property's value, you could end up with a new, affordable FHA fixed-rate loan.

■ Searching for a home in a high-cost market. The measure is certain to provide higher limits than the \$417,000 cutoff for Fannie Mae and Freddie Mac that prevailed before the economic stimulus package's temporary increase to \$729,500, which is set to expire at the end of this year.

The odds are that the new maximum will be less than \$700,000 — the Senate measure calls for \$625,000 for Fannie, Freddie and the FHA. House

negotiators reportedly have been pushing for \$688,000. But the final compromise number should be high enough to help out buyers in California who otherwise could be forced to pay higher interest rates for jumbo loans.

The new credit program would dangle tax savings in front of almost anyone considering buying a first house, or buying a home after not owning one for at least three years. Tax credits are more valuable than deductions because they are dollar-for-dollar reductions off whatever you'd otherwise owe on your federal taxes.

"This should be a very potent stimulus," said Howard Glaser, president of the Glaser Group, a Washington, D.C., legislative consulting firm repre-

sending mortgage lenders.

The credit's expansive definition of who qualifies as a "first-time" buyer is a plus in areas of the country where former owners have become renters in the last several years.

But the credit comes with limitations. No. 1: You've got to pay the credit back to the Internal Revenue Service over an extended period — up to 15 years following the tax year of the home purchase. And if you sell the house or convert it to a use other than principal residence, such as a second home, you've got to repay the credit.

There's also an income restriction of \$75,000 for singles, \$150,000 for married joint filers. Beyond that, the maximum allowable credit would phase down in increments. The credit

program covers qualifying home purchases made between last April 9 and April 1, 2009.

The portion of the legislation that deals with financially distressed homeowners would help an estimated 400,000 borrowers. It would be restricted to owners who cannot afford their current loans and have a mortgage debt-to-income ratio above 31%. The owner of the mortgage would have to agree to reduce the balance of the principal amount to 85% of the current market value.

If these and other conditions were met, borrowers might qualify for a new fixed-rate 30-year FHA loan they could more easily afford.

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