NATIONAL ASSOCIATION OF HOME BUILDERS
GOVERNMENT AFFAIRS

Joseph M. Stanton
Chief Lobbyist

September 25, 2007

The Honorable Charles Rangel (D-NY)
Chairman
Committee on Ways and Means
United States House of Representatives
1100 Longworth House Office Building
Washington, DC 20515

The Honorable Jim McCrery (R-LA)
Ranking Member
Committee on Ways and Means
United States House of Representatives
1100 Longworth House Office Building
Washington, DC 20515

Dear Chairman Rangel and Ranking Member McCrery,

On behalf of the more than 235,000 members of the National Association of Home Builders (NAHB), I am writing to express our support for H.R. 3648, scheduled to be marked up by the Ways and Means Committee on Wednesday, September 26. This legislation will play a central role in aiding American families avoid foreclosure and stay in their homes. With the whirlwind of problems in the mortgage finance system, H.R. 3648 can help stabilize families, their neighborhoods, the surrounding community and the economy as a whole.

The issue addressed in this bill is one significant consequence of the current mortgage crisis -the possible tax effect on struggling homeowners. Section 108 of the Internal Revenue Code requires any discharge of indebtedness (credit cards, student loans, mortgages, etc) to be includable in taxable income. There are several possible scenarios in which this tax effect arises in the context of mortgage loans however the key components are the same for all. A bank forgives some amount of indebtedness for a homeowner either to avoid foreclosure or simply to forgive debt to a homeowner already in the foreclosure process. In general, the amount of forgiven indebtedness is treated by the IRS as income which is then taxable at ordinary income tax rates. For families already struggling to make the ends meet, the phantom income and resulting tax burden generated by Section 108 can endanger their financial health even further.

Section 108 requirements also create perverse incentives in the marketplace. First, the existing tax rules encourage many struggling homeowners (specifically those in states with non-recourse debt as the primary mortgage model) to seek foreclosure over restructuring their loan with lenders. This moves more homeowners out of their homes, destabilizes neighborhoods and increases the inventory of the housing stock on market. Second, the potential increase in tax liability discourages homeowners who are solvent from seeking restructuring agreements from lenders, a preferred situation for all involved. H.R. 3648 would encourage market-based restructuring between lenders and homeowners and discourage foreclosures.

NAHB also applauds the inclusion in the bill of an extension for the deductibility of mortgage insurance. Mortgage insurance is especially critical for low- to moderate-income, first-time homebuyers, many of whom may not qualify for a market-rate mortgage. By enabling mortgage insurance premium (MIP) payments to be deducted, homeownership is made more affordable for thousands of families who would now be able to buy a home without having to resort to more costly sub-prime or predatory alternatives.

As well, providing deductibility for MIP payments will, over time, result in increased revenues for the federal treasury. The second loans used by many borrowers to avoid mortgage insurance are riskier and result in more tax deductible interest payments than MIP payments. MIP payments cease when a homeowner achieves a 78% loan-to-value ratio, which may occur in only a few years due to payments on principle and house price appreciation. However, deductible second mortgage interest payments continue for the life of a loan.

Thank you for your leadership on this legislation. H.R. 3648 is the right bill at the right time for the nation's faltering housing market. We look forward to working with you to secure its enactment into law.

Sincerely,

Joseph M. Stanton

cc: House Committee on Ways and Means

1201 15th Street, NW • Washington, DC 20005-2800
(202) 266-8470 • (800) 368-5242, ext. 8470 • Fax: (202) 266-8572
E-mail: *jstanton@nahb.com*