

Stimulus bill, 'TARP II' offer housing incentives

\$15,000 homebuyer tax credit, higher loan limits, lower rates in play

By Inman News, Tuesday, February 10, 2009.

A \$15,000 homebuyer tax credit, higher loan limits for Fannie Mae, Freddie Mac and FHA, and government spending to lower mortgage rates are all in play as Congress and the Obama administration near agreement on an economic stimulus bill and financial stability plan for banks.

The Senate today approved an \$838 billion economic stimulus bill that includes a \$15,000 homebuyer tax credit, just hours after President Barack Obama's new Treasury secretary unveiled a multitrillion-dollar financial stability plan that includes \$50 billion for foreclosure prevention programs.

The financial stability plan may also lead to an expansion of existing efforts by the Federal Reserve to drive down mortgage interest rates by buying mortgage-backed securities and debt issued by Fannie Mae, Freddie Mac and Ginnie Mae.

The version of the economic stimulus bill passed by the Senate in a [61-37 vote](#) relies less on government spending and more on tax cuts to kick-start the economy than the version passed by the House Jan. 28 ([see story](#)). Only two Republicans voted for the bill in the Senate -- Sen. Arlen Specter of Pennsylvania and Maine's Olympia Snowe -- and all 37 "no" votes were cast by members of the Grand Old Party.

Differences between the two versions of [H.R. 1](#), the American Recovery and Reinvestment Act of 2009, must now be ironed out in a conference committee.

[Advertise with Inman](#)

The House version of the bill would restore the upper limits for Fannie Mae, Freddie Mac and FHA loan guarantee programs to \$729,750 in high-cost housing markets, where they stood for much of 2008 before being reduced to \$625,500 -- a step endorsed by many real estate industry groups.

The House version of H.R. 1 also contains another provision backed by the housing industry -- elimination of the repayment requirement on an existing \$7,500 tax credit for first-time homebuyers that is scheduled to sunset on July 1. But the Senate version of H.R. 1 would go

farther, increasing the tax credit to \$15,000 and allowing all homebuyers purchasing a principal residence within a year of the bill's enactment to claim it on their 2008 or 2009 returns.

The National Association of Home Builders welcomed the Senate's move, saying a \$15,000 tax break for all homebuyers could generate nearly 500,000 home sales and create more than 255,000 jobs.

NAHB Chairman Joe Robson said the enhanced tax credit would be "a powerful incentive for homebuyers to get off the sidelines" and urged Congress to make sure the full \$15,000 tax credit is included in the final stimulus plan.

In a separate development, Treasury Secretary Timothy Geithner today released details of the Obama administration's new financial stability plan, a successor to the much maligned Troubled Asset Relief Program (TARP).

[Geithner said](#) the financial stability plan will include a comprehensive housing program that will provide \$50 billion for foreclosure prevention programs. In order to persuade Congress to release the second half of \$700 billion in TARP funding, the Obama administration had previously committed to spend \$50 billion to \$100 billion on a "sweeping effort" to address foreclosures ([see story](#)).

Geithner also alluded to a possible expansion of a \$600 billion Federal Reserve program to drive down mortgage rates through the purchase of mortgage backed securities and debt issued by Fannie Mae, Freddie Mac and Ginnie Mae ([see story](#)).

Further details of the housing program will be announced in coming weeks, Geithner said. According to a [fact sheet](#) issued by the Obama administration, the Treasury and Federal Reserve "remain committed to expand as necessary the current effort by the Federal Reserve to help drive down mortgage rates."

The housing program will also establish loan modification guidelines and standards for government and private programs, and require all institutions receiving assistance through the financial stability plan to participate in foreclosure mitigation plans. The Obama administration will also build additional flexibility into the FHA's Hope for Homeowners refinance program to enable more distressed borrowers to participate.

While the main goal of the stimulus bill is to create jobs, the financial stability plan is designed to strengthen banks and restart the flow of credit to homeowners and small businesses, Geithner said. Currently, the financial system is working against recovery, even as the recession puts greater pressure on banks, he said.

"This is a dangerous dynamic, and we need to arrest it," Geithner said. The battle for economic recovery must be fought on two fronts -- by jump-starting job creation and private investment, and by getting credit flowing again to businesses and families.

As it has done under the TARP program, the Treasury will continue to invest in banks that need additional capital, but will now impose conditions to ensure "every dollar of assistance" is used to generate additional lending, Geithner said.

In addition, the Treasury, Federal Reserve and Federal Deposit Insurance Corp. will establish a \$500 billion Public-Private Investment Fund to buy up toxic loans and assets. The fund could ultimately provide up to \$1 trillion in financing, Geithner said, helping to create a market for real estate-related assets that are "at the center of this crisis."

The Treasury and Federal Reserve will also commit up to \$1 trillion in backing for a consumer and business lending initiative, building on the Federal Reserve's Term Asset Backed Securities Loan Facility ([TALF](#)) announced in November. The program will be expanded to target markets for small business lending, student loans, consumer and auto finance, and commercial mortgag