

The Housing and Economic Recovery Act of 2008

A Brief Summary of Significant Provisions

- Higher Loan Limits
- Government Sponsored Enterprise (GSE) Regulatory Reform
- FHA Modernization
- HOPE for Homeowners
- Licensing
- Veteran and Service Member Issues
- Miscellaneous and Tax Provisions

- GSE Single-Family Loan Limits – effective **January 1, 2009**
 - Standard conforming loan limit → **\$417,000**
 - “High cost area” conforming loan limit → **\$625,500**
- FHA Single-Family Loan Limit – effective **January 1, 2009**
 - HERA increases loan limit to the lesser of:
 - 115% of local area median home price (determined by HUD, not lower than 65% of \$417,000 = 271,050); or
 - 150% of GSE limit of \$417,000 (or \$625,500)
 - Mortgage amount **CANNOT** exceed 100% of the appraised value
- HOPE for Homeowners Loan Limit = 132% of the 2007 Freddie Mac loan limits (or \$550,440)
- HECM Loan Limit = GSE limit (or \$417,000)
- FHA Repair/Improvement Limit = \$25,090 (increased from \$17,500)
- FHA Manufactured Housing Limit = \$69,678 (increased from \$48,600)

- Increased Regulation of GSEs by a new regulator and regulatory requirements.
- Establishes a new, stronger regulator, the Federal Housing Finance Agency (FHFA), to replace OFHEO, HUD and FHFB (OFHEO and FHFB merged and abolished).
- FHFA has greater discretion to impose restrictions on the amount and type of mortgages the GSEs' retain in their portfolios.
- Fannie and Freddie are required to seek prior approval before offering many new products.
- FHFA must seek input from the public prior to making a decision on new products.
- FHFA has authority to review existing activities of the GSEs and set GSE capital requirements.
- HERA retools existing goals to address housing needs of low- and very low-income families.
- HERA creates a duty for GSEs to lead in developing new products.
- Treasury Secretary has authority to increase existing lines of credit of GSEs and standby authority to purchase GSE stock to stabilize markets and provide confidence.
- GSEs to set aside 4.2 basis points of each new dollar of “new business purchases” and transfer 65% to HUD for an Affordable Housing Trust Fund.

- New FHA program established by HERA with additional \$300B in mortgage issuance authority.
- Principal balance and interest rate for eligible borrowers is reduced through refinancing into new FHA-insured loans based on current property values (also eligible for securitization with Ginnie).
- Mortgages eligible for refinance must have been originated on or before January 1, 2008.
- Borrowers must have debt-to-income ratio greater than 31% to obtain the FHA loan.
- Required 30-year fixed-rate loan not exceeding 90% of the property's current value.
- Principal amount cannot exceed 132% of Freddie Mac 2007 loan limits, or \$550,440.
- Participating noteholders required to take a write-down in principal to achieve 90% LTV ratio.
- Required 3% upfront premium from refinance proceeds; borrower pays 1.5% premium annually.
- Program runs from October 1, 2008 through September 30, 2011.

- Encourages states to establish a Nationwide Mortgage Licensing and Registry system.
- Covers all persons taking a residential loan applications and who offer or negotiate loan terms.
- Establishes minimum standards for licensing and registration as State-licensed loan originators.
- HUD is required to establish backup licensing and registry system.
- Federal banking regulators to jointly establish a registry for federally regulated institutions.
- HUD is required to report annually on the effectiveness of the licensing and registry.

- HERA increases FHA loan limits and eliminates percentage limits on financing.
- HERA requires at least 3.5% cash (or equivalent) downpayment by mortgagor.
- Seller-funded downpayment assistance is **prohibited** (effective October 1, 2008).
- Home Equity Conversion Mortgages (HECMs) are limited to GSE loan limits and eliminates the ability of an institution to require mortgagees to purchase other products as condition to receiving a HECM loan.
 - This provision does not restrict title insurance, hazard, flood or other peril insurance or other customary or normal products.
- A homeowner can purchase a home and convert to HECM in the same transaction.

- HUD is prevented from increasing multifamily mortgage insurance premiums above limits as of October 1, 2006, until October 1, 2009.
- HUD is prohibited from taking any action to implement or carry out a risk-based premium program for 12 months beginning October 1, 2008.
- HERA authorizes \$4 billion in block grants to be spent for the redevelopment of abandoned and foreclosed homes and residential properties.
- HERA amends the Truth in Lending Act (TILA) to expand the mortgage loans subject to early disclosures within three days of application. Adds new disclosure seven days out from closing.

- HERA mortgage foreclosure protections for service members:
 - Defense Secretary to develop a counseling program to prevent/forestall foreclosures on military personnel homes.
 - HERA extends the stay of foreclosure and other legal proceedings from 90 days to **9 months** following the termination of a service member's active duty.
 - HERA extends the 6% mortgage interest rate cap to one year after the termination of active duty.
- Veterans Housing Matters:
 - HERA authorizes the Defense Secretary to furnish improvements and structural alterations to residences of permanently disabled veterans.
 - HUD to establish a residential cost-of-construction index for specially adapted housing for disabled veterans.

- Tax Provisions under HERA:

- First-time homebuyer tax credit not to exceed \$7,500 (to be paid back over 15 years).
- Increase in the dollar amount of the Low-Income Housing Tax Credit ceiling for each state in 2008 and 2009.
- Prohibition against using tax credits with Section 8 moderate rehabilitation projects is repealed.
- Increase in the state ceiling on tax free mortgage revenue bonds for every state with a statutory calculation.
- Allow State HFAs to use tax-advantaged mortgage revenue bonds for refinance funding.

- Miscellaneous Provisions under HERA

- Reform of certain rules for Real Estate Investment Trusts (REITs).
- Increases the public debt limit to \$10.6 trillion.
- HUD is required to implement changes to expedite approval of multifamily housing projects involving:
 - low-income housing tax credits;
 - existing public housing; and
 - assisted housing projects.
- HUD required to submit RESPA reform legislative recommendations to Congress within 6 months.
- HERA authorizes \$100 million for the Neighborhood Reinvestment Corporation (NRC) to be available through December 31, 2008 for foreclosure mitigation activities.

www.mortgagebankers.org/HERA

www.mortgagebankers.org/GSE

Josh Denney

Associate Vice President of Public Policy

Mortgage Bankers Association

JDenney@mortgagebankers.org

(202) 557-2700