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"New Housing Bill Criticized As Scant Help for Distressed"

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For anyone hoping to buy a home, sell one or hold onto the one they have, the $15 billion housing bill unveiled in the Senate yesterday may mean nothing more than a bit of extra cash in the pocket.

The housing bill, hastily cobbled together by Republican and Democratic leaders, would allow state and local property tax deductions this year of up to $1,000 for families and $500 for individuals who now can't deduct that money.

It also aims to spur demand for homes by providing a $7,000 tax break, split over two years, to anyone who buys a foreclosed home within a year of the bill's enactment.

But many consumer advocates say the Senate's "Foreclosure Prevention Act" does not live up to its name. They say it fails to deliver swift help to the most distressed homeowners and is of limited use to borrowers who may soon be in trouble.

"Anybody who gets money in their hands out of this bill will be happy, but that does not mean it will solve the larger social problem or larger economic problem," said Peter Morici, economist and business school professor at the University of Maryland.

Those who stand to benefit the most are home builders and businesses hit by the economic downturn. Through 2010, the entire tax package would cost about $28.8 billion, of which $25.5 billion would go to money-losing businesses in the form of tax rebates. They would give up other tax breaks, reducing the cost of the entire housing bill to $15 billion by 2018.

The House plans to offer its own version of the legislation, and Democratic leaders said they would focus on different priorities. "Hopefully, the balance will swing to be in favor of the families who are in danger of losing their homes," House Speaker Nancy Pelosi (D-Calif.) said.

For consumer groups, the biggest setback was the Senate's decision to strip the bill of a provision that would have allowed bankruptcy court judges to rewrite the terms of troubled loans for people who filed for personal bankruptcy. The Senate yesterday killed an effort to restore the measure.

The measure could have saved more than half a million borrowers from foreclosure through 2009, according to its supporters, by allowing judges to lower the interest rates of mortgages, extend the life of the loans or forgive part of the debts.

Of all the legislative proposals aimed at helping homeowners, consumer advocates said this one offered the most relief.

But the lending industry lobbied against it, saying it would increase borrowing costs and encourage some to use bankruptcy as a cheap alternative to refinancing.

Without the provision, "there's no guarantee of any help whatsoever for many of the clients I work with," said Nancy Ryan, a bankruptcy lawyer in Fairfax.

Even the $100 million set aside for housing counselors received only a half-hearted endorsement from some counseling groups, which say they need more options to offer borrowers.

"We want to be able to counsel them into something that's going to help them and get them into good loans," said John E. Taylor, chief executive of the nonprofit National Community Reinvestment Coalition. "But you've got to stop the bleeding before you pump more blood into the system."

On Capitol Hill, the Senate bill's supporters acknowledged its shortcomings but insisted it was useful.

They said the proposed property tax deductions for families and individuals this year would benefit more than 28 million mostly low-income households that pay property taxes but cannot deduct them on their federal tax returns because they do not itemize.

The proposal offers "broad-based tax relief for low-income individuals and those who have already paid off their mortgages," said Senate Finance Committee Chairman Max Baucus (D-Mont.).

The $7,000 tax credit for those who buy foreclosed properties should stimulate demand for them and prevent their prices from falling further, said Sen. Johnny Isakson (R-Ga.).

All this sounds "wonderful" to Elizabeth Garechu of Falls Church, who is shopping for her first home and is more than willing to consider a foreclosure. She wants to move fast, when interest rates are low. (Lord and Saunders client).

"I'm looking for any kind of break I can get, any kind of incentive I can get, anything at all to get my foot in the door," said Garechu, a waitress and single mother.

Other house-hunters were less enthusiastic, including David Meeker, 40, who is looking for a home in Prince William County in the $500,000 to $600,000 price range. (Lord and Saunders client).

"A $7,000 tax break, quite frankly, is not going to do a whole lot for a buyer," Meeker said. "It's not cash that's available for the transaction. It comes after the fact."

In the Washington area, where the median price of a home is $420,000, the tax break is "peanuts," said Jim Whitehead, a real estate agent at Lord and Saunders in Woodbridge.

"It might help move lower-priced homes in less expensive areas," Whitehead said. "But in more expensive areas of Northern Virginia, it's going to have minimal impact." (Lord and Saunders, Associate Broker)Emphasis added.

Some states have struck out on their own. Maryland lawmakers this week passed ambitious measures that would make the most egregious mortgage schemes subject to criminal prosecution, extend the foreclosure timetable from 15 to 150 days and prohibit pre-payment penalties and transactions in which homeowners are tricked into signing over their houses to third parties.

To help localities cope, the U.S. Senate bill would make an additional $10 billion in tax-exempt revenue bonds available to state and local housing finance authorities. The proposal would also authorize the agencies to help troubled subprime borrowers.

Sen. John Kerry (D-Mass.) and his co-sponsor, Sen. Gordon Smith (R-Ore.), said the measure could make low-cost loans available to as many as 80,000 families who, on average, earn about $45,000 a year.

"It's not enough money" to solve the nation's housing troubles, Kerry said. "But it's the most we could get."