

Consumer Implications:

American Reinvestment and Recovery Act & Homeowner Affordability and Stability Plan



Taxes

- **No stimulus check this year.**
 - Simply less taxes withheld from paychecks
- **Making Work Pay (\$116 billion)**
 - Payroll Tax refundable credit of \$400, or \$800 for married couples. 6.2% of income.
 - Phase out for single taxpayers with adjusted gross incomes of \$75,000 to \$90,000 and married couples with AGI of \$150,000 to \$190,000.
 - additional \$11 per week
 - begins April 1, 2009
- **An expanded earned income tax credit (EITC) and child tax credit (CTC) for low-income families.**
 - New EITC tier for 3+ kids; higher maximum income for couples
 - CTC refundable for lower incomes

Alternative Minimum Tax (AMT) relief

- Higher exemption limit on the AMT.
 - Average tax savings of \$503 on taxable income levels between \$66,354 and \$111,645.

Homebuyers

- First-time home buyers receive an \$8,000 tax credit
 - NOT repaid as is required for the 2008 \$7,500 credit.
 - For 2008 the limit is \$7500 for FTB between April 9 and December 31. The credit is repaid at no interest at \$500 per year starting in 2010. If the home is sold at a profit, the remaining balance is due. This "credit" is more like a cheap loan.
 - For 2009 the limit is \$8000 (10% of purchase price). It is not repaid. You can apply it to your 08 or 09 taxes. Must buy in 2009.
 - Cannot have owned home in last 3 years; must be owner-occupant

Energy

- Tax credits to weatherize their homes
 - Previously effective for 2009, have been extended to 2010
 - credit raised from 10% to 30%
 - 30% of the cost of improvements
 - maximum credit \$1500 for the two years (2009–2010)
 - geothermal heat pumps, solar water heaters, and solar panels are not subject to the \$1,500 maximum.
 - \$200 cap on windows has been removed for 2009.
 - A Manufacturer's Certification
 - signed statement from the manufacturer certifying that the product or component qualifies for the tax credit on company websites
 - Taxpayers must keep a copy of the certification statement for their records, but do not have to submit a copy with their tax return.
- Providing a tax credit of up to \$7,500 for families that buy plug-in hybrids
 - \$2,500 to \$7,500 based on the capacity of the battery system. The first 250,000 vehicles sold get the full tax credit then it phases out

<http://www.energystar.gov/>

Unemployment

- Unemployment Compensation
 - \$25 increase in weekly benefit checks through 2009
 - Beginning the week of February 22, 2009.
- Extended period for claims and payouts
 - Wisconsin provides up to 26 weeks of regular benefits with the maximum payment currently at \$363.
 - Increase from 7 weeks of additional benefits available once standard benefits exhausted to up to 13 weeks
 - DWD will be contacting those that may be eligible for extended benefits by mail
- Tax exemption on first \$2,400 in unemployment benefits.
- States may extend coverage

SSI and Social Security

- All recipients will receive a one time payment of \$250 around May 1st.
 - Retirees, disabled individuals and Supplemental Security Income (SSI) recipients receiving benefits from the Social Security Administration
 - Disabled veterans with Veterans Affairs
 - Railroad Retirement beneficiaries.
- No action is required.

www.socialsecurity.gov

Food Support (SNAP)

- Increasing the maximum monthly food-stamp benefit by 13.6%
 - estimated to help 31 million Americans, half of them children.
 - BUT, future increases for inflation will not occur until current increase is reached
 - Maximum monthly benefit for a family of 4 increases by \$80, going from \$588 to \$668
 - Average benefit increase of approximately \$25 in Wisconsin

COBRA Subsidy

- Cover 65% of a worker's COBRA health insurance premiums for up to nine months.
- COBRA lets workers continue their former employer's coverage for at least 18 months.
- Covers workers involuntarily laid off from Sept 1st 2008 to Dec. 31 2009.
 - does not cover non-profit organizations.
 - Subsidy goes to employer
 - Unclear how will administer, especially if employer gone

Education

- American Opportunity Tax credits (\$14 billion)
 - Individuals making less than \$80,000 or families making less than \$160,000
 - up to \$2,500 in tax credits for college tuition available in 2009 and 2010
 - 40 percent (\$1,000) of the credit is refundable.
 - More than Hope Scholarship Tax Credit, which maxes out at \$1,800
- Pell grants (\$16 billion)
 - Pell grant increases to \$5,350 per student for the 2009-2010 school year.
 - *Free Application for Federal Student Aid (FAFSA)* to determine eligibility
- Funding to States to plug holes in budget
 - Still may result in higher state/local tax rates

Car Purchase

- Average new car: \$28,280
 - Trade in \$15,000
 - Tax the difference — \$13,000 in this case
 - A 5% rate would be approx. \$650
 - deduction reduces taxable income by \$650
- Eligible vehicles include new cars, motorcycles, light vehicles, and RV's.
- Income limitations involved:
 - individuals earning less than \$125,000
 - \$250,000 for joint filers.
- Don't have to itemize your taxes

Small Businesses

- Increase in loan guarantees of SBA loan providers.
- Tax credit for hiring workers with disabilities.
- Tax deduction of \$250,000 for capital investments.

Related Topics

- Recovery Rebate Credit
- Tax Treatment of released debt
- Homeowner Affordability and Stability

Recovery Rebate Credit

- One-time benefit for people who didn't receive the full economic stimulus payment last year (in 2008)
- Circumstances changed, making them eligible now for some or all of the unpaid portion
 - Lost job, had child, etc
- See IRS.gov: [Recovery Rebate Credit Information Center](#)
 - [How Much Was My Stimulus Payment?](#)
 - Individuals can call the IRS at 1-866-234-2942.

Stimulus Payment Scams

- No need to file this year (unlike 2008) to get stimulus
- IRS warns taxpayers to be on the alert for e-mails and phone calls
 - The IRS and other federal agency are not calling consumers
 - scams to obtain personal and financial information — such as name, Social Security number, bank account
 - Usually say “IRS needs the information to process a refund” or stimulus payment or deposit it into the taxpayer's bank account.
- The IRS does not send taxpayers e-mails about their tax accounts.
- The way to get a tax refund is to file a tax return

Homeowner Affordability and Stability Plan

- Many Provisions
- See: <http://www.ustreas.gov/index.html>

Two Key Parts

- 1. Refinancing GSE loans
- 2. Modifications of other loans

Refinance “Underwater” GSE Loans

- Fannie Mae and Freddie Mac (GSEs) will refinance their own loans using a streamlined program
 - “under water borrowers” (loan-to-value ratios above 80 percent up to 105 percent).
 - For “responsible homeowners”
- Reduces the homeowner’s monthly payments.
 - No income ceiling for beneficiaries
 - Mortgages must be held by or guaranteed by Fannie Mae or Freddie Mac
 - Cannot owe more than 105% of the current value of home.

Comprehensive \$75 Billion Homeowner Stability Initiative

- Available for home owner-occupants "at risk of imminent default"
 - even if they are current in making mortgage payments, as well as those already delinquent
 - applies to mortgages at or below \$729,750.
 - all lenders NOT JUST GSEs
- Borrowers will have to sign affidavits attesting to their financial hardships.
 - documenting 'hardship' which clearly intends to avoid 'undeserving' borrowers from getting help
 - 1-strike and you are out for re-default.
- Interest rates could be lowered to 2%
 - Emphasis on using the FHA Hope for Homeowners loan program to refinance underwater loans

Homeowner Stability Modifications

- Goal: bringing their monthly payments to 31% of their income
 - Required to reduce interest rates, without subsidy, so the monthly payment does not exceed 38 percent of borrower income.
 - Federal subsidy would be used to match, on a dollar-for-dollar basis, further reductions to bring the debt-to-income ratio down to 31 percent.
- After 5 years, the rate could increase gradually to the loan rate in effect at the time of the modification.
- Lenders may also reduce principal and receive a subsidy of an equal amount – so long as reduction lowers payments to 31% of income.
- Currently only first mortgages
 - Second mortgage plan coming mid-March



Modification Incentives

- Loan servicers will receive \$1,000 up front for each qualified loan modification.
 - For borrowers who stay current on the modified loan, servicers will receive a monthly "pay for success" fees up to \$1,000 a year for 3 years.
 - Servicers will also receive \$500 if they modify "at-risk" mortgages before the borrower becomes delinquent.
 - Companies could receive up to \$3,500
- Borrowers will receive a monthly reduction in their mortgage balance, up to \$1,000 a year for 5 years.
- Also: 'Insurance fund' for lenders against losses if home prices decline more than expected linked to home price index declines.

Who Would Qualify



Loan modification

For homeowners who are having trouble making mortgage payments because their interest rate has risen or their income has shrunk*

 QUALIFY	Have payments of more than 31% of pretax monthly income and can prove hardship	Occupy a single-family home	Can prove the home is primary residence	Have an unpaid principal balance of \$729,750 or less†	Have a mortgage originated on or before Jan. 1, 2009	Make all modified payments over a trial period of three months or more
 DON'T QUALIFY	Aren't about to default	Are an investor with a home that isn't owner-occupied	Have a home that is vacant or condemned	Have an unpaid principal balance of more than \$729,750†	Have a mortgage packaged into securities whose rules explicitly forbid modification	Have loan servicers who can't be reached or are unwilling to consider modification

Loan refinancing

For borrowers who aren't able to refinance, perhaps due to a decrease in the value of their home

 QUALIFY	Have loans owned or guaranteed by Fannie Mae or Freddie Mac	Are current on mortgage payments	Can prove the ability to afford the new mortgage debt	Mortgage balance of no more than 105% of current estimated home value	
 DON'T QUALIFY	Have loans owned or guaranteed by a company other than Fannie or Freddie	Have been more than 30 days late on a payment in the past 12 months	Can't afford the new mortgage debt	Home price has fallen so that the loan is more than 105% of the market price	*Missed payments or current bankruptcy proceedings may not disqualify a borrower † On a first lien on a one-unit home Source: Treasury Department

<http://online.wsj.com/article/SB123617623602129441.html?mod=rss> Page One

Mortgage Bailout to Aid 1 in 9 U.S. Homeowners by MICHAEL M. PHILLIPS and RUTH SIMON *Wall Street Journal* * MARCH 5, 2009

HAS Scams

- Beware of any organization charging an upfront fee or advising homeowners to skip mortgage payments.
 - No fees in HAS
 - Intentionally not paying never a strategy

Where to send consumers?

- To their lender/servicer - hold times over an hour are common; check the lender website first
- 888-995 HOPE. This is the first line of triage - we need to be clear this is not detailed counseling or a way to work around a lender. It is just a first step.
- [Wisconsin](#) Housing Counselors
- Borrowers will need:
 - Documentation of gross monthly income of all borrowers
 - most recent income tax return
 - information about any mortgages on the house – not just the one in question
 - statements for credit cards with balances
 - statements on other loans such as student loans and car loans.

Help for Borrowers

- The "counseling" piece is simply a referral requirement to a HUD certified agency and ONLY if payment ratios are > 55% (very high!)
- "Every potentially eligible borrower who calls or writes in to their servicer in reference to a modification must be screened for hardship."
- The borrower must help the servicer document income and assets, and current expenses as well as the specific circumstances relating to the claimed financial hardship.
 - - change in circumstances that causes financial hardship (income reduction or loss)
 - - facing a recent or imminent increase in the payment (payment shock).
- Basic budgeting and review of debt would be helpful.
 - This maybe a role Extension educators can help provide information on.

Proposal:

WHPE - Wisconsin Homeowner Preservation Education

1. Understanding the issues and monitoring the market

- Building on existing efforts by the Center for Community and Economic Development (<http://www.uwex.edu/ces/cced/>) county level data on foreclosure and foreclosure trends will be available to Extension educators for community use
- Through periodic WisLines and seminars, Extension Educators will be trained on the issues related to family economic stability

2. Homeowner Preservation Education workshops (HPE workshops)

- Participating educators will offer 60 minute education sessions (generally in a small group setting) covering the basics of budgeting, credit management and understanding foreclosure and bankruptcy using a standardized content outline.
- These workshops will serve as a complement to counseling, loan modification or foreclosure mediation work and will be suitable for borrowers in default or at-risk of default.

3. Homeowner Preservation Events

- Building on Extension's relationships with community partners, lenders, WHEDA and other community organizations, local collaboratives will work to publicize one day or evening events to help connect homeowners to services which may serve to prevent foreclosure. Extension educators may be part of organizing these efforts, including providing a location for the event and delivering onsite HPE workshops.

Proposed HPE Workshops

- Cash Flow Management:
 - Develop and analyze monthly spending plan including current net income, living expenses, and debt payments.
 - Identify record keeping methods to monitor and control spending.
 - Explore options for increasing income and/or reducing expenses.
 - Increase awareness of existing state and local resources using Wisconsin Access and other tools.
- Credit and Debt Management:
 - Review debt management strategies and consequences for default.
 - Review the impact of debt repayment options on credit history and credit score.
 - Increase awareness surrounding consumer credit protection regulations.
- Understanding Debt Terms and Options:
 - Review mortgage, credit and bankruptcy terms and definitions
 - Overview of foreclosure timeline in Wisconsin
 - Identify informational and financial assistance available
 - Refer client to resources related to foreclosure prevention, bankruptcy, debt management programs, and others as appropriate.