Need-to-Know Basis

What builders need to know about the bailout

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Unless you have been hiding in a cave, almost every day you are hearing about new or expanded programs by the new Obama administration to help stabilize and rejuvenate the housing industry and assist those individuals and businesses who have been affected by the downturn in the housing industry and the U.S. economy in general. There have been tax credits, special appropriations, tax-deferrals, an increase in net operating losses carrybacks, delays on contractor withholding requirements, neighborhood stabilization programs, energy and Green investment programs, loan guaranty programs—the list goes on and on.

Unless you are a financial specialist, it is almost impossible to understand the individual aspects of each program. More important, it is hard to understand how each of these programs can work together to bring the housing industry back to any position of strength and possible profits to each of us as builders and remodelers. It is difficult in a short article to summarize everything that is happening as a result of government actions; however, this article should give you an overview of the most important aspects of the Troubled Asset Relief Program and the American Recovery and Reinvestment Act of 2009. In future issues we will cover and summarize the Mortgage-Assistance Program, Mortgage Bailout Program, the Foreclosure Prevention Plan and other related government plans that directly relate to the housing industry. You will see many other plans and programs mentioned as part of these plans, but only the major programs will be reviewed in this article.

TROUBLED ASSET RELIEF PROGRAM

TARP allowed the United States Department of the Treasury to purchase or insure up to $700 billion of "troubled" assets. These are defined as "(A) residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case was originated or issued on or before March 14, 2008, the purchase of which the Secretary determines promotes financial market stability; and (B) any other financial instrument that the Secretary, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, determines the purchase of which is necessary to promote financial market stability, but only upon transmittal of such determination, in writing, to the appropriate committees of Congress." In short, this allows the Treasury to purchase nonliquid, difficult-to-value assets from banks and other financial institutions. The targeted assets can be collateralized debt obligations, which were sold in a booming market until 2007, when they were hit by widespread foreclosures on the underlying loans. TARP is intended to improve the

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liquidity of these assets by purchasing them using secondary market mechanisms, thus allowing participating institutions to stabilize their balance sheets and avoid further losses.

Another important goal of TARP is to encourage banks to resume lending again at levels seen before the crisis, both to each other and to consumers and businesses. If TARP can stabilize bank capital ratios, it should theoretically allow them to increase lending instead of hoarding cash to cushion against future, unforeseen losses from troubled assets. Increased lending equates to loosening of credit, which the government hopes will restore order to the financial markets and improve investor confidence in financial institutions and the markets. As banks gain increased lending confidence, the interbank lending interest rates (the rates at which the banks lend to each other on a short-term basis) should decrease, further facilitating lending.

Keep in mind that the TARP Program was begun under the Bush administration and has been expanded and further defined during the Obama administration. The authority of the Treasury to establish and manage TARP under a newly created Office of Financial Stability became law October 3, 2008, the result of an initial proposal that ultimately was passed by Congress as H.R. 1424, enacting the Emergency Economic Stabilization Act of 2008 and several other acts.

On Feb. 17, 2009, less than one month after the inauguration of President Obama, Congress passed the American Recovery and Reinvestment Act of 2009 to further develop the TARP Program and to offer additional programs to assist the U.S. economy, and especially the housing industry, in gaining its stability and credibility. Rather than give a detailed explanation of the entire plan, I have listed the major provisions here.

American Recovery and Reinvestment Act

TAX PROVISIONS

- $8,000 first-time homebuyer, true tax credit (no repayment) for the purchase of a principal residence between Jan. 1 and Dec. 1, 2009. Recaptured if home is sold within three years.
- Short-term gap financing for Low Income Housing Tax Credit projects:
    1. Provision allowing states to turn in portion of 2009 LIHTC allocations for cash.
    2. Special appropriation of $2 billion in HOME funds.
- Up to a 10-year deferral of tax from business debt canceled as part of a repurchase or restructuring.
- Five-year carryback of 2008 net operating losses for businesses with gross receipts of less than $15 million (three-year average).
- Extension of enhanced bonus depreciation.
- Extension of increased small-business expensing.
- Enhancements to the section 25C program for energy efficiency remodeling improvements to existing homes.
- One-year patch of the Alternative Minimum Tax.
- Increase New Markets Tax Credit allocating authority for 2008 and 2009.
- Delays for one year the start of 3 percent government contractor withholding requirement.

APPROPRIATIONS PROVISIONS

- $2 billion for full-year payments to owners of Section 8 project-based rental assistance properties.
- $2.25 billion through HOME program and Low Income Housing Tax Credit program to fill financing gaps.
- $1 billion for Community Development Block Grant.
- $2 billion for Neighborhood Stabilization program.
- $1.5 billion for homelessness prevention activities (help with rents, etc.).
- $250 million for energy retrofitting and Green investments in HUD assisted projects.
- $1 billion for Section 502 direct loans under the Rural Housing Service.
- $10.4 billion for Section 502 guaranteed loans under the Rural Housing Service.
- $27.5 billion for highway spending.

OTHER PROVISIONS

- Increases in FHA, Fannie Mae and Freddie Mac loan limits to 2008 levels.

A Breakdown of the Major Provisions in the Bailout Plan

First-Time Homebuyer $8,000 Tax Credit

Last year, Congress provided taxpayers with a refundable tax credit that was equivalent to an interest-free loan equal to 10 percent of the purchase of a home (up to $7,500) by first-time buyers. The provision applies to homes purchased on or after April 9, 2008, and before July 1, 2009. Taxpayers receiving this tax credit are currently required to repay any amount received under this provision back to the government over 15 years in equal installments, or, if earlier, when the home is sold. This new bill eliminates the repayment obligation for taxpayers that purchase homes after Jan. 1, 2009, increases the maximum value of the credit to $8,000, removes the prohibition on financing by mortgage revenue bonds, and extends the availability of the credit for homes purchased before Dec. 1, 2009.

Bonus Depreciation

Allows builders to expense 50 percent of capital expenditures as opposed to standard depreciation.

Expansion of Extension of the Existing Homes Energy Tax Credit

Extends through 2010 the tax credit for existing homeowners to remodel their homes with energy-efficient property, including windows, hot water heaters and other appliances. The provision increases the lifetime cap for the credit from $500 to $1,500 and increases the percentage of the credit from 10 to 30 percent.

Rural Housing Insurance Fund

Provides $200 million to help rural households to purchase homes.

Expansion of the Residential Solar, Wind and Geothermal Energy Tax Credit

Lifts all of the caps for the installation of certain solar, wind and geothermal power-producing equipment in homes. The provision also eliminates the prohibition of claiming the credit when benefiting from certain energy substitutes.

Neighborhood Stabilization

Provides $2 billion for the purchase and rehabilitation of foreclosed and vacant properties to promote affordable housing. Clarifies that funds used for the redevelopment of demolished or vacant properties must be for housing.

Lead Paint Program

Provides $100 million in competitive grants to local governments and nonprofits to remove lead paint hazards in low-income housing.

Local Government Efficiency Grants

Provides $6.3 billion for state and local governments to make energy-efficient improvements

Energy Efficiency Housing Retrofits

Provides $250 million allocated through competitive awards to HUD-assisted projects for energy-efficient improvements.

Home Weatherization

Provides $5 billion for low-income families to make their homes more energy efficient.

Smart Appliances

Provides $300 million for rebates for consumers to replace old appliances with new energy-efficient appliances.

Environmental Cleanup

Provides $7.1 billion for Superfund, brownfield and other cleanup programs to promote community development.

As you can see, there are literally billions of dollars available for various programs that should provide builders and remodelers with additional funds to increase their business. It might seem complicated, however, if you look into these available funds, you should be able to offer special tax credits or even direct funds to encourage your customers to build or remodel, especially with Green or energy-efficient products.

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