

March 27, 2014

The Honorable Ron Wyden  
Chairman, Senate Finance Committee  
221 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Orrin Hatch  
Ranking Member, Senate Finance Committee  
104 Hart Senate Office Building  
Washington, DC 20510

Dear Chairman Wyden and Ranking Member Hatch:

The undersigned organizations, representing REALTORS®, mortgage lenders, servicers, investors, settlement service providers, housing and community counselors, and consumer and civil rights advocates urge you to act quickly to extend tax relief from mortgage debt forgiveness, which expired on December 31, 2013. First passed in 2007, this provision has helped to ensure that distressed homeowners who modify their existing mortgage through principal forgiveness or through the completion of a short sale do not face income tax on the amount of the loan that has been forgiven.

Unfortunately, the lapse of this important tax relief provision has now created a disincentive for tens of thousands of American homeowners to modify their existing mortgage agreements or complete a short sale in the face of likely foreclosure. The possibility of a huge tax bill on the forgiven debt creates too steep a hill to climb for many in this situation. Families facing economic crisis and the loss of their home should not also fear a devastating tax bill from the IRS - penalty for taking control of their financial situation.

Despite significant recovery in house prices, the National Association of REALTORS® estimates that there are still roughly 6.5 million homeowners whose homes are worth less than the outstanding mortgage balance. This means 13 percent of all homeowners with a mortgage are still “under water.” While unemployment has decreased from the height of the Great Recession, millions of Americans still find themselves out of work or underemployed. This combination of underwater mortgages and economic distress has resulted in 2 million Americans who are seriously delinquent or in foreclosure on their mortgages.

The federal government and mortgage servicers, through programs such the Home Affordable Modification Program (HAMP), Home Affordable Refinance Plan (HARP) and GSE modification programs have worked with distressed homeowners to modify existing mortgage agreements or provide debt forgiveness. Sometimes these arrangements help home owners keep their homes under more manageable payment terms; in other cases, these arrangements result in a “short sale” where the home is sold for less than the original mortgage amount. For those who must sell their homes and are currently underwater, a short sale may be the only alternative.

Yet, because the tax relief from mortgage debt forgiveness has been allowed to expire, the federal government is now spending money on programs to prevent foreclosures while threatening to tax the very homeowners they are trying to help. Members of the undersigned organizations report that this threat of being taxed on the “phantom income” from debt forgiveness is causing many homeowners to

think twice about modifying their loan or completing a short sale. Instead, they are choosing to continue on a path toward foreclosure or to simply walk away, further harming their family finances, as well as the neighborhoods and communities where those homes are located.

Working with consumers on a daily basis to find solutions, we know first-hand the importance of extending this provision. We urge you to support a two-year extension of the provision to provide tax relief from mortgage debt forgiveness, retroactive to January 1, 2014. We hope you can move quickly to provide certainty for struggling homeowners, and stability for our housing markets and local communities.

Sincerely,

Action for the Common Good  
American Bankers Association  
American Land Title Association  
Center for American Progress  
Center for Popular Democracy  
Center for Responsible Lending  
Consumer Federation of America  
Home Defenders League  
Homeownership Preservation Foundation  
Housing Policy Council at the Financial Services Roundtable  
Leadership Conference on Civil and Human Rights  
Mortgage Bankers Association  
National Association of Consumer Advocates  
National Association of REALTORS®  
National Community Reinvestment Coalition  
National Consumer Law Center for Community Self-Help  
National Housing Conference  
National Housing Resource Center  
National People's Action

cc: Senate Finance Committee Members