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TitleTRACK

Fiscal cliff averted: What does that mean for real estate?

In the December Title Track column, John Nitsche talked about the "fiscal cliff" and what could happen if Congress did not come up with a new plan. As has become the norm for American politics, Congress did come through with a last minute plan that, at the very least, helps the housing market.

Apparently, compromise and bipartisanship only works when the clock is ready to strike midnight for our lawmakers these days. As for the housing market, there were two important tax provisions in the new plan that helped to avoid what could have resulted in a disastrous year for the mortgage and housing industries and which could have had a crippling effect on the economy as a whole.

By TOM CALI
Daily Record Columnist

The first provision deals with the mortgage interest deduction, which as you know was thought to be on its way out of our tax codes. There was talk from some lawmakers that a decrease in income taxes along with the elimination of the mortgage interest deduction would be more beneficial to taxpayers. That methodology did not make the cut in this new plan.

In fact, the change made was to allow borrowers to deduct not only mortgage interest but also to deduct what they pay in private mortgage insurance as well. Private mortgage insurance has become much more prevalent in today's mortgage environment so this change is helpful to not only home buyers but to those refinancing loans as well.

The second provision allows for the extension of the tax relief for mortgage debt forgiveness which was signed into law back in 2007 and set to expire at the end of 2012. This relief affected those with loan modifications, short sales or foreclosures. If this tax break was not extended, homeowners may not have agreed to short sales because they would face a tax bill. There was also fear that homeowners would not agree to principal reduction loan modifications which have been more successful than the traditional loan modification programs.

According to Amherst Securities Group, banks completed 13,351 principal reduction loan modifications in November alone. As part of the $25 billion mortgage servicing settlement, borrowers had received $6.3 billion in mortgage principal relief with the average reduction being $150,000.

The industry has also seen an increase in short sales thanks in part to the mortgage servicing settlement and to better procedures instituted by many of the large lenders. According to Realty Trac there were 98,000 short sales in the 3rd quarter alone last year. All of this means that the "shadow inventory" of homes is finally decreasing.

Shadow inventory represents homes that are either seriously delinquent in mortgage payments, are actually in foreclosure, or are owned by the banks and not listed for sale as yet. This is all positive news for the housing industry and helps to continue the road back to recovery, albeit a slow road for now.

With the fiscal cliff averted and these tax provisions in place, we can at least say that the housing market should stay on a better path this year much like 2012. Of course there are still a lot of decisions and compromise yet to come from our lawmakers much of which will affect the economy. For the housing market to improve at a faster rate we will need these future decisions to spur job growth and consumer confidence once again. Until that time we must be patient and hold our representatives accountable to get the economy growing.

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