

Congress of the United States
Washington, DC 20515

December 19, 2013

The Honorable Max Baucus
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington D.C. 20510

The Honorable Orrin Hatch
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington D.C. 20510

The Honorable Dave Camp
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington D.C. 20515

The Honorable Sander M. Levin
Ranking Member
House Committee on Ways and Means
1106 Longworth House Office Building
Washington D.C. 20515

Dear Colleagues,

We are writing to express our support for the Mortgage Forgiveness Tax Relief Act (S.1187; H.R.2788; H.R.2994). This Act would preserve opportunities for struggling homeowners to negotiate a resolution with their lenders on their underwater mortgages without the threat of a large tax bill. Should Congress fail to enact this legislation, current protections afforded to borrowers will expire on the first day of next year and homeowners that subsequently negotiate a resolution with their lenders to reduce the debt owed on their mortgage may find themselves laden with a large tax liability, compromising their economic stability.

In 2007, Congress passed legislation to provide tax relief on income derived from the cancellation of debt on a principal residence.¹ This legislation recognized the imprudence of compounding the effects of the housing crisis by saddling homeowners with tax obligations in addition to their mortgage debt. Congress extended this exclusion of canceled mortgage indebtedness from gross income on two subsequent occasions, resulting in the current extension through January 1, 2014.² In 2012, the Maryland General Assembly enacted a similar law that prevents the State from collecting income tax on forgiven mortgage debt.

The foreclosure crisis continues to have devastating impacts on homeowners throughout our state and the nation. Since the outset of the crisis, the State of Maryland has worked tirelessly with our Federal partners, non-profit organizations and others to keep families in their homes and avoid unnecessary foreclosures. State and federal policies have promoted such outcomes

¹ Mortgage Forgiveness Debt Relief Act of 2007, Pub. L. No. 110 – 142.

² Emergency Economic Stabilization Act of 2008, Pub. L. No. 110 – 343; American Taxpayer Relief Act of 2012, Pub. L. No. 112 – 240.

through initiatives such as the provision of free housing counseling assistance and the HAMP program, and through incentives created under the National Mortgage Servicing Settlement. Yet, absent additional legislative action, borrowers who are able to achieve such outcomes in the future will face the prospect of future tax liability as forgiven amounts will create imputed taxable income. Federal tax policy will create a disincentive to the same alternatives that we have been working for years to promote. Clearly, a homeowner who lacks the financial capacity to pay a mortgage is in no position to pay taxes owed on forgiven mortgage debt.

The fight to maintain homeownership or, worse, the loss of a home to foreclosure is a traumatic event for any citizen. Requiring the homeowner to pay income tax in the aftermath of such an event merely compounds the family's problems. Moreover, at a broader level, it further stunts economic recovery by levying a future tax burden on those who may finally have the opportunity to get back on their feet.

We urge your Committees to move quickly to act on the Mortgage Forgiveness Tax Relief Act. It is essential that we preserve taxpayer protections to mitigate the costs a foreclosure imposes on homeowners, lenders and the overall economy.

Sincerely,



ELIJAH E. CUMMINGS
Member of Congress



STENY H. HOYER
Member of Congress



CHRIS VAN HOLLEN
Member of Congress



C.A. "DUTCH" RUPPERSBERGER
Member of Congress



DONNA F. EDWARDS
Member of Congress



JOHN P. SARBANES
Member of Congress



JOHN DELANEY
Member of Congress



MARTIN O'MALLEY
Governor of Maryland