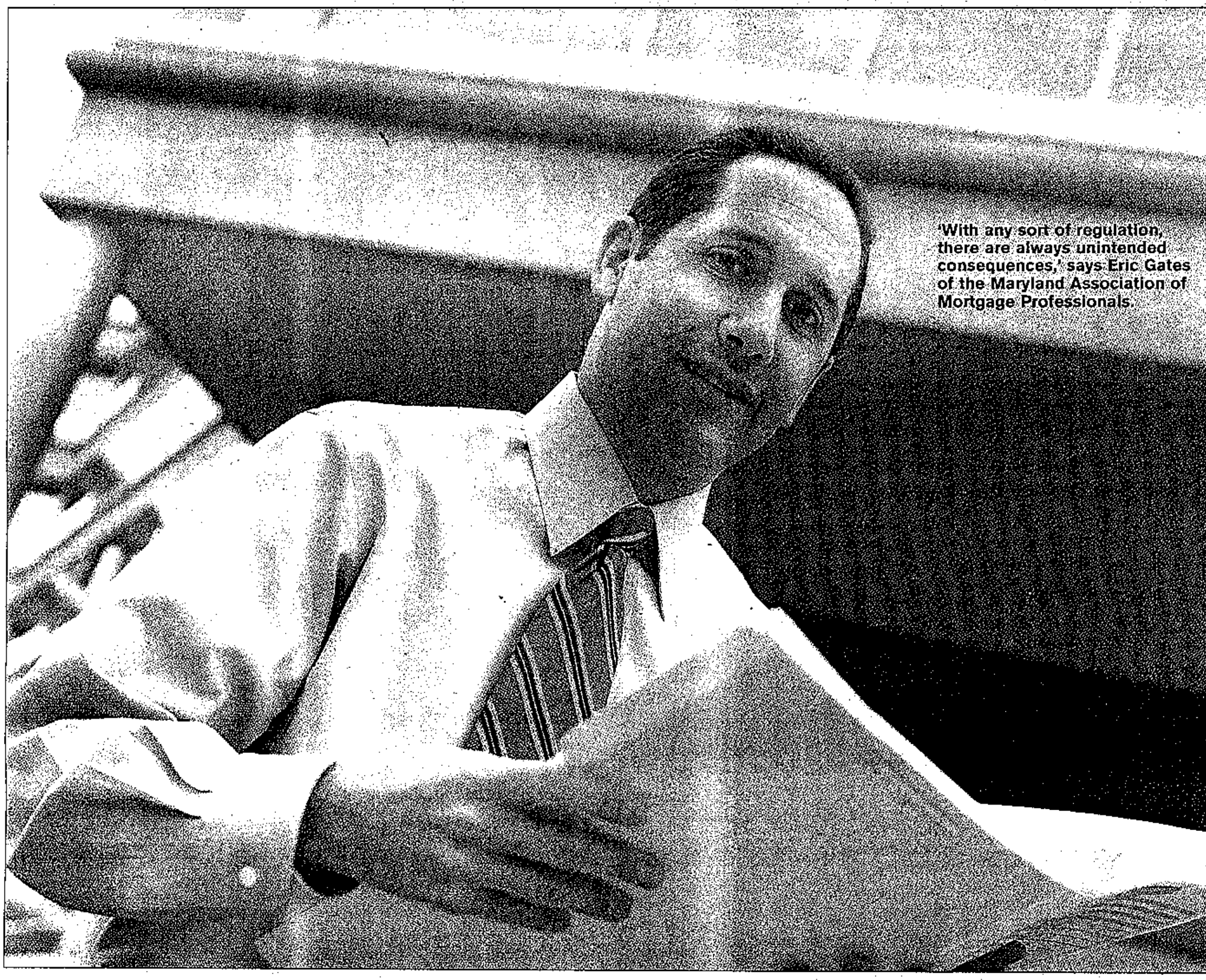

'With any sort of regulation, there are always unintended consequences,' says Eric Gates of the Maryland Association of Mortgage Professionals.

NICHOLAS GRIFFIN | STAFF

Mixed reviews for real estate reforms

Industry wants tax credit extended and tweaked while appraisal code draws fire

ELIZABETH HEUBECK | CONTRIBUTOR

Recent reforms designed to spur the real estate market, protect consumers, and prevent another housing crisis are producing a range of intense reactions among local real estate professionals — from sighs of relief to frustration.

Two reforms in particular — the Federal Housing Tax Credit and the Home Valuation Code of Conduct — have raised the hopes and the ire of professionals from various pockets of the local real estate industry.

The Federal Homebuyer Tax Credit, a provision of the American Recovery and Reinvestment Act of 2009, has proven popular among industry professionals and consumers. Providing an $8,000 tax credit to first-time homebuyers within certain income limits when they purchase a home priced at or above $80,000, the credit has kickstarted an otherwise languishing housing market.

In June 2009, home sales in the Baltimore metropolitan area rose by 2 percent over June 2008 — the first such increase since 2005. The pattern continued in July and August, with increases of 10 and 5 percent, respectively, according to data from the Metropolitan Regional Information Systems (MRIS).

"It's really been the driving force behind most of our business right now," said Jim Stewart, senior vice president of

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Minority Business

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Reforms: Home builders push for tax credit expansion for higher incomes

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Bay National Bank, who estimates that the credit has generated about 70 percent of the bank's mortgage business, excluding refinancing, in recent months.

Others agree that the tax credit has helped bring otherwise hesitant homebuyers to the settlement table. Live Baltimore, a nonprofit that markets city living, has been promoting economic incentives to prospective city homebuyers for years. But these incentives suddenly appear more attractive, said Executive Director Anna Custer, thanks to the addition of the Federal Homebuyer Tax Credit.

"People are combining incentives; they're being savvy about the credit. It's about maximizing the opportunities you can get," Custer said.

Some qualified homebuyers have combined the city's Buying into Baltimore — a $3,000 city-funded incentive toward a down payment or closing costs, in place since 1998 — with a $5,000 Community Development Block Grant. Coupled with the $8,000 Federal tax credit, these incentives significantly boost the money a homebuyer brings to the settlement table.

But they won't last forever. The current deadline for the tax credit is Nov. 30 — for settlement, not contracts. That deadline is making some nervous.

"The tax credit has resulted in across-the-board stimulation of the market. Now, we're scrambling; time's getting short. A lot of contracts are contingent on that Nov. 30 deadline," said Greater Baltimore Board of Realtors (GBBR) President David McIlvaine.

Not surprisingly, many local industry advocates are pushing to continue the tax credit past its Nov. 30 expiration date.

"We're trying to get it extended and expanded through next year," said Michael Harrison, director of policy and governmental affairs for the Maryland Home Builders Association.

'IT'S ABOUT MAXIMIZING THE OPPORTUNITIES YOU CAN GET.'

Anna Custer
Live Baltimore

The association also would like to see the tax credit expanded to include all homebuyers with a combined salary level of $300,000. Currently, full credit is available to married couples who make less than $150,000 annually and file taxes jointly, and to individuals who make less than $75,000.

Other aspects of the tax credit could also use tweaking, say some. As it stands now, Maryland residents who take advantage of the tax credit must wait until filing their taxes to receive the money. But this summer, the federal government instituted changes to the tax credit rule, allowing state governments to "monetize" the tax credits by funding short-term second loans that first-time homebuyers can use toward their down payment. Maryland's state agency is not among the several participating.

It could make a difference for would-be first-time homebuyers. Home loans backed by the Federal Housing Administration (FHA) require a minimum down payment of 3.5 percent. For a $200,000 house, receiving the $8,000 tax credit up front would more than cover the $7,000 required for a down payment.

The art of the deal

Glitches aside, the tax credit has been a welcome reform overall. The same cannot be said for the Home Valuation Code of Conduct, known in real estate circles as the HVCC.

The result of an agreement between Freddie Mac, the Federal Housing Finance Agency and the New York State Attorney General, the HVCC is intended to make the appraisal process more independent and accurate. It prohibits lenders from selecting an appraiser and strictly limits communication between lenders and an appraiser or an appraisal management company.

While most real estate professionals agree that the HVCC was in theory a sound idea, it's proven quite controversial in practice.

"The goal — to protect people from illegally putting pressure on appraisers to hit certain values, make deals — is valid. But as with any sort of regulation, there are always unintended consequences. We feel, in this case, they significantly outweigh potential benefits," said Eric Gates, president of the Maryland Association of Mortgage Professionals.

Gates argues that the HVCC has forced brokers to sever long-term relationships with appraisers and given rise to a surge of appraisal management companies, which act as middlemen who then assign the work to appraisers. He believes these companies are likely to work with appraisers who bid lowest and are, presumably, the least experienced.

That's not the only argument against the new criteria.

"HVCC is requiring appraisers from outside the area. That's the problem. We all know real estate and valuation is local. It can change by the block," McIlvaine, of the Greater Baltimore Board of Realtors, said.

Gates and others say the code punishes the wrong people — consumers instead of banks. Kathleen Murphy, CEO of the Maryland Bankers Association, points out that while the HVCC is being blamed for low appraisals, it's not that simple.

The HVCC came into effect in May, "at a time when the valuation of real estate was in a significant state of flux."

The members of Murphy's organization see a "firewall" as critical to ensuring "we are pristine in the selection of appraisers."

Other real estate reforms are far less controversial, and have the good of the consumer — and the environment — in mind. Homeowners who buy energy-efficient replacement windows or insulation through 2010 can receive a federal tax credit of 30 percent of the cost, up to $1,500.

In another effort to reduce energy usage, the Maryland Energy Administration (MEA) has allocated $10.5 million to conduct energy-efficiency weatherization to apartment units statewide in hopes of reducing energy bills for low-and moderate-income families.