

106TH CONGRESS  
1ST SESSION

# S. 1336

To amend the Internal Revenue Code of 1986 to provide a credit to promote home ownership among low-income individuals.

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## IN THE SENATE OF THE UNITED STATES

JULY 1, 1999

Mr. REED (for himself, Mr. SCHUMER, and Mr. EDWARDS) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to provide a credit to promote home ownership among low-income individuals.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE; FINDINGS; PURPOSES.**

4       (a) SHORT TITLE.—This Act may be cited as the  
5       “Home Ownership Tax Credit Act of 1999”.

6       (b) FINDINGS.—Congress finds the following:

7               (1) Home ownership is of primary importance  
8       in building wealth in low-income families.

9               (2) 67 percent of the wealth that is owned by  
10       non-elderly low-income households consists of the eq-

1 uity in their residences and the median wealth of  
2 such non-elderly low-income households is 12 times  
3 greater than the median wealth for non-elderly rent-  
4 ers with the same level of income.

5 (3) Only 45 percent of low-income households  
6 live in owner-occupied homes, as compared to 66  
7 percent of all households, and 86 percent of high-in-  
8 come households.

9 (4) According to the Bureau of the Census, in  
10 1993, 88 percent of all renters and 93 percent of  
11 renters earning less than \$20,000 could not afford  
12 a house selling for half of the regional median house  
13 price.

14 (5) There is a 23 percentage point difference in  
15 home ownership rates between central cities and  
16 suburban cities which is largely the result of the  
17 concentration of low-income households in central  
18 cities.

19 (6) The cost of the largest Federal tax incen-  
20 tives for home ownership, the mortgage interest de-  
21 duction and the real estate tax deduction, is equal  
22 to approximately twice the amount of Federal ex-  
23 penditures for direct Federal housing assistance  
24 which benefits low-income households.

1           (7) The mortgage interest deduction and the  
2           real estate tax deduction have little value to low-in-  
3           come households because the itemized tax deductions  
4           of low-income households generally do not exceed the  
5           standard deduction.

6           (8) Over 90 percent of the total benefits of the  
7           mortgage interest deduction accrue to home buyers  
8           with incomes greater than \$40,000.

9           (9) Current provisions in the Federal tax code  
10          to promote home ownership among low-income  
11          households, such as the mortgage revenue bond pro-  
12          gram, the mortgage credit certificate program, and  
13          the low-income housing credit, fail to simultaneously  
14          attack the twin constraints of lack of wealth and low  
15          income that prevent many low-income households  
16          from becoming homeowners.

17          (c) PURPOSES.—The purposes of this Act are—

18               (1) to establish a decentralized, market-driven  
19               approach to increasing home ownership among low-  
20               income households,

21               (2) to enable low-income households to over-  
22               come the wealth and income constraints that fre-  
23               quently prevent such households from becoming  
24               homeowners, and

1           (3) to reduce the disparities in home ownership  
 2           between low-income households and higher-income  
 3           households and between central cities and suburban  
 4           cities.

5 **SEC. 2. HOME OWNERSHIP TAX CREDIT.**

6           (a) IN GENERAL.—Subpart D of part IV of sub-  
 7 chapter A of chapter 1 of the Internal Revenue Code of  
 8 1986 (relating to business related credits) is amended by  
 9 adding at the end the following:

10 **“SEC. 45D. HOME OWNERSHIP TAX CREDIT.**

11           “(a) ALLOWANCE OF CREDIT.—

12                   “(1) IN GENERAL.—For purposes of section 38,  
 13 the amount of the home ownership tax credit deter-  
 14 mined under this section for any taxable year in the  
 15 credit period shall be an amount equal to the appli-  
 16 cable percentage of the home ownership tax credit  
 17 amount allocated such taxpayer by a State housing  
 18 finance agency in the credit allocation year under  
 19 subsection (b).

20                   “(2) APPLICABLE PERCENTAGE.—For purposes  
 21 of this section, the Secretary shall prescribe the ap-  
 22 plicable percentage for any year in which the tax-  
 23 payer is a qualified lender. Such percentage with re-  
 24 spect to any month in the credit period with respect  
 25 to such taxpayer shall be percentages which will

1       yield over such period amounts of credit under para-  
 2       graph (1) which have a present value equal to 100  
 3       percent of the home ownership tax credit amount al-  
 4       located such taxpayer under subsection (b).

5               “(3) METHOD OF DISCOUNTING.—The present  
 6       value under paragraph (2) shall be determined in  
 7       the same manner as the low-income housing credit  
 8       under section 42(b)(2)(C).

9               “(b) ALLOCATION OF HOME OWNERSHIP TAX CRED-  
 10      IT AMOUNTS.—

11              “(1) AMOUNT OF CREDIT.—Each qualified  
 12      State shall receive a home ownership tax credit dol-  
 13      lar amount for each calendar year in an amount  
 14      equal to the sum of—

15                      “(A) an amount equal to—

16                              “(i) 40 cents multiplied by the State  
 17                              population, multiplied by

18                              “(ii) 10, plus

19                      “(B) the unused home ownership tax credit  
 20      dollar amount (if any) of such State for the  
 21      preceding year.

22              “(2) QUALIFIED STATE.—For purposes of this  
 23      section—

24                      “(A) IN GENERAL.—The term ‘qualified  
 25      State’ means a State with an approved alloca-

1           tion plan to allocate home ownership tax credits  
2           to qualified lenders through the State housing  
3           finance agency.

4           “(B) APPROVED ALLOCATION PLAN.—For  
5           purposes of this paragraph, the term ‘approved  
6           allocation plan’ means a written plan, certified  
7           by the Secretary, which includes—

8                   “(i) selection criteria for the allocation  
9                   of credits to qualified lenders—

10                          “(I) based on a process in which  
11                          lenders submit bids for the value of  
12                          the credit, and

13                          “(II) which gives priority to  
14                          qualified lenders with qualified home  
15                          ownership tax credit loans which are  
16                          prepaid during a calendar year, for  
17                          credit allocations in the succeeding  
18                          calendar year,

19                          “(ii) an assurance that the State will  
20                          not allocate in excess of 10 percent of the  
21                          home ownership tax credit amount for the  
22                          calendar year for qualified home ownership  
23                          tax credit loans which are neighborhood re-  
24                          vitalization project loans,

1 “(iii) a procedure that the agency (or  
 2 an agent or other private contractor of  
 3 such agency) will follow in monitoring for  
 4 noncompliance with the provisions of this  
 5 section and in notifying the Internal Rev-  
 6 enue Service of such noncompliance with  
 7 respect to which such agency becomes  
 8 aware, and

9 “(iv) such other assurances as the  
 10 Secretary may require.

11 “(3) QUALIFIED LENDER.—For purposes of  
 12 this section, the term ‘qualified lender’ means a  
 13 lender which—

14 “(A) is an insured depository institution  
 15 (as defined in section 3 of the Federal Deposit  
 16 Insurance Act), insured credit union (as defined  
 17 in section 101 of the Federal Credit Union  
 18 Act), community development financial institu-  
 19 tion (as defined in section 103 of the Commu-  
 20 nity Development Banking and Financial Insti-  
 21 tutions Act of 1994 (12 U.S.C. 4702)), or non-  
 22 profit community development corporation (as  
 23 defined in section 613 of the Community Eco-  
 24 nomic Development Act of 1981 (42 U.S.C.  
 25 9802)),

1           “(B) makes available, through such lender  
 2           or the lender’s designee, pre-purchase home-  
 3           ownership counseling for mortgagors, and

4           “(C) during the 1-year period beginning on  
 5           the date of the credit allocation, originates not  
 6           less than 100 qualified home ownership tax  
 7           credit loans in an aggregate amount not less  
 8           than the amount of the bid of such lender for  
 9           such credit allocation.

10          “(4) CARRYOVER OF CREDIT.—A home owner-  
 11          ship tax credit amount received by a State for any  
 12          calendar year and not allocated in such year shall  
 13          remain available to be allocated in the succeeding  
 14          calendar year.

15          “(5) POPULATION.—For purposes of this sec-  
 16          tion, population shall be determined in accordance  
 17          with section 146(j).

18          “(6) COST-OF-LIVING ADJUSTMENT.—

19                 “(A) IN GENERAL.—In the case of a cal-  
 20                 endar year after 2000, the 40 cent amount con-  
 21                 tained in paragraph (1)(A)(i) shall be increased  
 22                 by an amount equal to—

23                         “(i) such amount, multiplied by

24                         “(ii) the cost-of-living adjustment de-  
 25                         termined under section 1(f)(3) for such



1           calendar year by substituting ‘calendar  
2           year 1999’ for ‘calendar year 1992’ in sub-  
3           paragraph (B) thereof.

4           “(B) ROUNDING.—If any amount as ad-  
5           justed under subparagraph (A) is not a multiple  
6           of 5 cents, such amount shall be rounded to the  
7           next lowest multiple of 5 cents.

8           “(c) QUALIFIED HOME OWNERSHIP TAX CREDIT  
9    LOAN DEFINED.—For purposes of this section—

10          “(1) IN GENERAL.—The term ‘qualified home  
11          ownership tax credit loan’ means a loan originated  
12          and funded by a qualified lender which is secured by  
13          a second lien on a residence, but only if—

14               “(A) the requirements of subsections (d),  
15               (e), and (f) are met,

16               “(B) subject to subparagraphs (F), (H),  
17               and (I), the proceeds from such loan are ap-  
18               plied exclusively—

19                       “(i) to acquire such residence, or

20                       “(ii) to substantially improve such  
21                       residence in connection with a neighbor-  
22                       hood revitalization project,

23               “(C) the principal amount of the loan is  
24               equal to an amount which is—

1 “(i) not less than 18 percent of the  
2 purchase price of the residence securing  
3 the loan, and

4 “(ii) not more than the lesser of—

5 “(I) 22 percent of such purchase  
6 price, or

7 “(II) \$25,000,

8 “(D) in the case of a neighborhood revital-  
9 ization project loan, subparagraph (C) is ap-  
10 plied by substituting—

11 “(i) ‘purchase price or appraised  
12 value’ for ‘purchase price’, and

13 “(ii) ‘\$40,000’ for ‘\$25,000’,

14 “(E) the loan is—

15 “(i) amortized over a period of not  
16 more than 30 years (or any lesser period  
17 of time as determined by the lender or the  
18 State housing finance agency (as applica-  
19 ble)), or

20 “(ii) described in paragraph (2),

21 “(F) the proceeds of such loan are not  
22 used for settlement or other closing costs of the  
23 transaction in an amount in excess of 4 percent  
24 of the purchase price of the residence securing  
25 the loan,

1           “(G) the rate of interest of the loan does  
2 not exceed the greater of—

3           “(i) the excess of—

4           “(I) the prime lending rate in ef-  
5 fect as of the date on which the loan  
6 is originated, over

7           “(II) 5.5 percent, or

8           “(ii) 3 percent,

9           “(H) the origination fee paid with respect  
10 to the loan does not cause the aggregate  
11 amount of origination fees paid with respect to  
12 any loans secured by the residence—

13           “(i) in the case of a neighborhood re-  
14 vitalization project loan, to exceed 1 per-  
15 cent of the appraised value of the residence  
16 which secures the loan, and

17           “(ii) in the case of any other loan, to  
18 exceed 2 percent of the appraised value of  
19 such residence, and

20           “(I) the servicing fees of such loan—

21           “(i) are allocated from interest pay-  
22 ments made with respect to the loan, and

23           “(ii) may not—

1                   “(I) in the case of a neighbor-  
2                   hood revitalization project loan, ex-  
3                   ceed a total of 38 basis points, and

4                   “(II) in the case of any other  
5                   loan, when added to such fees of any  
6                   other loan secured by the residence,  
7                   exceed a total of 63 basis points.

8                   “(2) BALLOON PAYMENT LOAN.—

9                   “(A) IN GENERAL.—A loan is described in  
10                  this paragraph if such loan—

11                  “(i) meets the requirements of sub-  
12                  paragraphs (B) and (C),

13                  “(ii) is for a period of 25 years and,  
14                  except as provided in clause (iv), no pay-  
15                  ment is due on such loan until the sooner  
16                  of—

17                  “(I) the end of such period, or

18                  “(II) the date on which the resi-  
19                  dence which secures the loan is dis-  
20                  posed of,

21                  “(iii) does not prohibit early repay-  
22                  ment of such loan, and

23                  “(iv) requires payment on such loan if  
24                  the mortgagor receives any portion of the  
25                  equity of such residence as part of a refi-

1                   nancing of any loan secured by such resi-  
2                   dence.

3                   “(B) INTEREST.—Notwithstanding para-  
4                   graph (1)(G), the rate of interest of the loan is  
5                   zero percent.

6                   “(C) SERVICING FEES.—Notwithstanding  
7                   paragraph (1)(I), there shall be no servicing  
8                   fees in connection with the loan.

9                   “(3) INDEX OF AMOUNT.—

10                  “(A) IN GENERAL.—In the case of a cal-  
11                  endar year after 2000, the amounts under sub-  
12                  paragraphs (C) and (D) of paragraph (1) shall  
13                  be increased by an amount equal to—

14                         “(i) such amount, multiplied by

15                         “(ii) the housing price adjustment for  
16                         such calendar year.

17                  “(B) HOUSING PRICE ADJUSTMENT.—For  
18                  purposes of subparagraph (A), the housing  
19                  price adjustment for any calendar year is the  
20                  percentage (if any) by which—

21                         “(i) the housing price index for the  
22                         preceding calendar year, exceeds

23                         “(ii) the housing price index for cal-  
24                         endar year 2000.

1           “(C) HOUSING PRICE INDEX.—For pur-  
2           poses of subparagraph (B), the housing price  
3           index means the housing price index published  
4           by the Federal Housing Finance Board (as es-  
5           tablished in section 2A of the Federal Home  
6           Loan Bank Act (12 U.S.C. 1422a)) for the cal-  
7           endar year.

8           “(d) MORTGAGOR.—

9           “(1) IN GENERAL.—A loan meets the require-  
10          ments of this subsection if it is made to a  
11          mortgagor—

12               “(A) whose family income for the year in  
13               which the mortgagor applies for the loan is 80  
14               percent or less of the area median gross income  
15               for the area in which the residence which se-  
16               cures the mortgage is located,

17               “(B) for whom the loan would not result in  
18               a housing debt-to-income ratio, with respect to  
19               the residence securing the loan, or total debt-to-  
20               income ratio which is greater than the guide-  
21               lines set by the Federal Housing Administra-  
22               tion (or any other ratio as determined by the  
23               State housing finance agency or lender if such  
24               ratio is less than such guidelines), and

1           “(C) who attends pre-purchase home-  
 2           ownership counseling provided by the qualified  
 3           lender or the lender’s designee.

4           “(2) DETERMINATION OF FAMILY INCOME.—  
 5           For purposes of this subsection and subsection (h),  
 6           the family income of a mortgagor and area median  
 7           gross income shall be determined in accordance with  
 8           section 143(f)(2).

9           “(e) RESIDENCE REQUIREMENTS.—A loan meets the  
 10          requirements of this subsection if it is secured by a resi-  
 11          dence that is—

12           “(1) a single-family residence (including a man-  
 13          ufactured home (within the meaning of section  
 14          25(e)(10))) which is the principal residence (within  
 15          the meaning of section 121) of the mortgagor, or  
 16          can reasonably be expected to become the principal  
 17          residence of the mortgagor within a reasonable time  
 18          after the financing is provided,

19           “(2) purchased by the mortgagor with a down  
 20          payment in an amount not less than the lesser of—

21                   “(A) 2 percent of the purchase price, or

22                   “(B) \$1,000, and

23           “(3) in the case of a mortgagor with a family  
 24          income greater than 50 percent of the area median  
 25          gross income, as determined under subsection

1 (d)(1)(A), not financed in connection with a quali-  
 2 fied mortgage issued under section 143.

3 “(f) DEFINITION AND SPECIAL RULES RELATING TO  
 4 CREDIT PERIOD.—

5 “(1) CREDIT PERIOD DEFINED.—For purposes  
 6 of this section, the term ‘credit period’ means the  
 7 period of 10 taxable years beginning with the tax-  
 8 able year in which a home ownership tax credit  
 9 amount is allocated to the taxpayer.

10 “(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT  
 11 PERIOD.—

12 “(A) IN GENERAL.—The credit allowable  
 13 under subsection (a) with respect to any tax-  
 14 payer for the 1st taxable year of the credit pe-  
 15 riod shall be determined by substituting for the  
 16 applicable percentage under subsection (a)(2)  
 17 the fraction—

18 “(i) the numerator of which is the  
 19 sum of the applicable percentages deter-  
 20 mined under subsection (a)(2) as of the  
 21 close of each full month of such year, dur-  
 22 ing which the taxpayer was a qualified  
 23 lender, and

24 “(ii) the denominator of which is 12.



1                   “(B) DISALLOWED 1ST YEAR CREDIT AL-  
 2                   LOWED IN 11TH YEAR.—Any reduction by rea-  
 3                   son of subparagraph (A) in the credit allowable  
 4                   (without regard to subparagraph (A)) for the  
 5                   1st taxable year of the credit period shall be al-  
 6                   lowable under subsection (a) for the 1st taxable  
 7                   year following the credit period.

8                   “(3) DISPOSITION OF HOME OWNERSHIP TAX  
 9                   CREDIT LOANS.—If a qualified home ownership tax  
 10                  credit loan is disposed of during any year for which  
 11                  a credit is allowable under subsection (a), such cred-  
 12                  it shall be allocated between the parties on the basis  
 13                  of the number of days during such year the mort-  
 14                  gage was held by each and the portion of the total  
 15                  credit allocated to the qualified lender which is at-  
 16                  tributable to such mortgage.

17                  “(g) LOSS OF CREDIT.—If, during the taxable year,  
 18                  a qualified home ownership tax credit loan is repaid prior  
 19                  to the expiration of the credit period with respect to such  
 20                  loan, the amount of the home ownership tax credit attrib-  
 21                  utable to such loan is no longer available under subsection  
 22                  (a). For purposes of the preceding sentence, the tax credit  
 23                  is allowable for the portion of the year in which such re-  
 24                  payment occurs for which the loan is outstanding, deter-

1 mined in the same manner as provided in subsection  
2 (f)(2)(A).

3 “(h) RECAPTURE OF PORTION OF FEDERAL SUBSIDY  
4 FROM HOME-OWNER.—

5 “(1) IN GENERAL.—If, during the taxable year,  
6 any taxpayer described in paragraph (3) disposes of  
7 an interest in a residence with respect to which a  
8 home ownership tax credit amount applies, then the  
9 taxpayer’s tax imposed by this chapter for such tax-  
10 able year shall be increased by 50 percent of the  
11 gain (if any) on the disposition of such interest.

12 “(2) EXCEPTIONS.—Paragraph (1) shall not  
13 apply to any disposition—

14 “(A) by reason of death,

15 “(B) which is made on a date that is more  
16 than 10 years after the date on which the quali-  
17 fied home ownership tax credit loan secured by  
18 such residence was made, or

19 “(C) in which the purchaser of the resi-  
20 dence assumes the qualified home ownership  
21 tax credit loan secured by the residence.

22 “(3) INCOME LIMITATION.—A taxpayer is de-  
23 scribed in this paragraph if, on the date of the dis-  
24 position, the family income of the mortgagor is 115  
25 percent or more of the area median gross income as

determined under subsection (d)(1)(A) for the year in which the disposition occurs.

“(4) SPECIAL RULES RELATING TO LIMITATION ON RECAPTURE AMOUNT BASED ON GAIN REALIZED.—For purposes of this subsection, rules similar to the rules of section 143(m)(6) shall apply.

“(5) LENDER TO INFORM MORTGAGOR OF POTENTIAL RECAPTURE.—The qualified lender which makes a qualified home ownership tax credit loan to a mortgagor shall, at the time of settlement, provide a written statement informing the mortgagor of the potential recapture under this subsection.

“(6) SPECIAL RULES.—For purposes of this subsection, rules similar to the rules of section 143(m)(8) shall apply.

“(i) OTHER DEFINITIONS.—

“(1) NEIGHBORHOOD REVITALIZATION PROJECT LOAN.—

“(A) IN GENERAL.—The term ‘neighborhood revitalization project loan’ means a loan secured by a second lien on a residence, the proceeds of which are used to substantially improve such residence in connection with a neighborhood revitalization project.

1                   “(B) NEIGHBORHOOD REVITALIZATION  
 2 PROJECT.—The term ‘neighborhood revitaliza-  
 3 tion project’ means a project of sufficient size  
 4 and scope to alleviate physical deterioration and  
 5 stimulate investment in—

6                   “(i) a geographic location within the  
 7 jurisdiction of a unit of local government  
 8 (but not the entire jurisdiction) designated  
 9 in comprehensive plans, ordinances, or  
 10 other documents as a neighborhood, vil-  
 11 lage, or similar geographic designation, or

12                   “(ii) the entire jurisdiction of a unit  
 13 of local government if the population of  
 14 such jurisdiction is not in excess of 25,000.

15                   “(2) STATE.—The term ‘State’ includes a pos-  
 16 session of the United States.

17                   “(3) STATE HOUSING FINANCE AGENCY.—The  
 18 term ‘State housing finance agency’ means the pub-  
 19 lic agency, authority, corporation, or other instru-  
 20 mentality of a State that has the authority to pro-  
 21 vide residential mortgage loan financing throughout  
 22 the State.

23                   “(j) CERTIFICATION AND OTHER REPORTS TO THE  
 24 SECRETARY.—

1           “(1) CERTIFICATION WITH RESPECT TO STATE  
2       ALLOCATION OF HOME OWNERSHIP TAX CREDITS.—  
3       The Secretary may, upon a finding of noncompli-  
4       ance, revoke the certification of a qualified State and  
5       revoke any qualified home ownership tax credit  
6       amounts allocated to such State or allocated by such  
7       State to a qualified lender.

8           “(2) ANNUAL REPORT FROM HOUSING FINANCE  
9       AGENCIES.—Each State housing finance agency  
10      which allocates any home ownership tax credit  
11      amount to any qualified lender for any calendar year  
12      shall submit to the Secretary (at such time and in  
13      such manner as the Secretary shall prescribe) an an-  
14      nual report specifying—

15           “(A) the home ownership tax credit  
16           amount allocated to each qualified lender for  
17           such year, and

18           “(B) with respect to each qualified  
19           lender—

20           “(i) the principal amount of the ag-  
21           gregate qualified home ownership tax cred-  
22           it loans made by such lender in such year  
23           and the outstanding amount of such loans  
24           in such year, and

1                   “(ii) the number of qualified home  
2                   ownership tax credit loans made by such  
3                   lender in such year.

4           The penalty under section 6652(j) shall apply to any  
5           failure to submit the report required by this para-  
6           graph on the date prescribed therefore.

7           “(k) REGULATIONS.—The Secretary shall prescribe  
8           such regulations as may be necessary or appropriate to  
9           carry out the purposes of this section.”

10          (b) LIMITATION ON CARRYBACK OF UNUSED CRED-  
11          IT.—Subsection (d) of section 39 of the Internal Revenue  
12          Code of 1986 (relating to carryback and carryforward of  
13          unused credits) is amended by adding at the end the fol-  
14          lowing:

15                   “(9) NO CARRYBACK OF HOME OWNERSHIP TAX  
16                   CREDITS BEFORE EFFECTIVE DATE.—No portion of  
17                   the unused business credit for any taxable year  
18                   which is attributable to the home ownership tax  
19                   credit determined under section 45D may be carried  
20                   back to a taxable year ending before the date of the  
21                   enactment of section 45D.”

22          (c) CONFORMING AMENDMENTS.—

23                   (1) Section 38(b) of the Internal Revenue Code  
24                   of 1986 is amended—

1 (A) by striking “plus” at the end of para-  
2 graph (11),

3 (B) by striking the period at the end of  
4 paragraph (12), and inserting “, plus”, and

5 (C) by adding at the end the following:

6 “(13) the home ownership tax credit determined  
7 under section 45D.”

8 (2) The table of sections for subpart D of part  
9 IV of subchapter A of chapter 1 is amended by add-  
10 ing at the end the following:

“Sec. 45D. Home ownership tax credit.”

11 (d) EFFECTIVE DATE.—The amendments made by  
12 this section apply to calendar years after 1999.

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