Dear Majority Leader Reid, Minority Leader McConnell, Speaker Boehner, Minority Leader Pelosi, Committee Chairman Baucus, Committee Ranking Member Hatch, Committee Chairman Camp, and Committee Ranking Member Levin,

As signatories to the National Mortgage Settlement, we the undersigned state attorneys general write to urge you to pass legislation extending tax relief for citizens who have mortgage debt canceled or forgiven because of financial hardship or a decline in housing values. Such legislation is currently included in Section 112 of the Family and Business Tax Cut Certainty Act of 2012 (S. 3521), which was recently passed out of the Senate Finance Committee with bipartisan support. We strongly urge Congress to extend this critical tax exclusion, which expires on December 31, 2012, so that distressed homeowners are not stuck with an unexpected tax bill or deterred from participating in this historic settlement.

On February 9, 2012, 49 state attorneys general and the federal government signed a National Mortgage Settlement requiring five of the nation’s largest banks to provide $17 billion in debt reduction and other relief to homeowners. Many other banks around the county also offer programs that forgive or cancel mortgage debt through loan modifications or short sales. During the first six months of the National Mortgage Settlement’s implementation, the nation’s five largest banks have provided billions of dollars in debt forgiveness or cancellation to American families. These mortgage modification and debt relief
programs provide real relief to homeowners fighting to keep their homes or trying to get back on their feet.

Under the federal Mortgage Debt Relief Act, in effect since 2007, mortgage debt that is forgiven after a foreclosure or short sale or through a loan modification provided to a homeowner in financial hardship may be excluded from a taxpayer’s calculation of taxable income. This exclusion only applies to mortgage debt forgiven on primary residences, not second homes. Unfortunately, this tax exclusion expires on December 31, 2012. Therefore, unless Congress acts, all of the remaining debt relief to be provided in 2013 under the National Mortgage Settlement, as well as other mortgage debt relief programs, will likely be considered taxable income. According to the Congressional Budget Office, failure to extend this tax exclusion will result in $1.3 billion in tax increases on the very families who can least afford it.

Each of our offices receives calls every day from homeowners trying to save their homes or struggling to recover from losing their homes. A home lost to foreclosure depresses future home sale prices, damages the value of surrounding homes, and harms families, neighborhoods and our general economy. Requiring a homeowner to pay income tax on forgiven or canceled mortgage debt would make the National Mortgage Settlement much less effective.

Congress must act. We urge you to extend the existing exclusion of forgiven or cancelled mortgage debt from taxable income under federal law before it expires at the end of this calendar year.

Sincerely,

George Jepsen
Connecticut Attorney General

Michael Geraghty
Alaska Attorney General

Dustin McDaniel
Arkansas Attorney General

John W. Suthers
Colorado Attorney General

Pam Bondi
Florida Attorney General

Tom Horne
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Joseph R. “Beau” Biden III
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