MORTGAGE DEBT RELIEF ACT EXTENDED THRU 2013

YOUWALKAWAY a foreclosure agency, conducted a survey of its clients and revealed 78 percent of those who responded said they were walking away from their primary residence. In addition, at least 74 percent of all respondents would be eligible for tax relief through the Mortgage Debt Relief Act of 2007.

The Mortgage Debt Relief Act allows forgiven debt through a short sale, loan modification, or foreclosure to be excluded as taxable income.

The act faced expiration December 31, 2012, but Congress extended the act for another year on January 1.

"This extension hasn't been well publicized but it is important to homeowners and realtors nationwide. Had this law not been

extended, it could have brought a drastic halt to short sales and had a devastating effect on underwater homeowners," said Chad Ruyle, YouWalkAway.com co-founder.

In a report, the foreclosure agency explained the one-year extension is not likely to encourage a new wave of mortgage defaults in early 2013.

While it could be argued that extending the act will encourage underwater homeowners to strategically default, YouWalkAway.com does not expect to see new defaults. Strategic default occurs when borrowers decide to stop making payments on a mortgage they can afford.

Rather than seeing new defaults, YouWalkAway.com expects the one-year extension to provide tax forgiveness for just the homeowners currently in the foreclosure process since new defaulters would have only a year to receive tax forgiveness, which is not enough in certain states with lengthy foreclosure timelines that exceed a one-year period.

On average, 85 percent of YouWalkAway.com clients have not made a monthly mortgage payment in 14 months. Thus, the agency concludes, a 12-month extension is not encourage new strategic defaulters.

Instead, the 12-month extension will motivate homeowners to seek options outside of the lengthy foreclosure process and seek alternatives such as a short sale, deed-in-lieu, or a modification, the agency explained.