

MORTGAGE LENDING UPDATE

By David Griffin

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Cash for Clapboards

As you now know, the homebuyer tax credit has been extended and expanded. The tax credits will expire on April 30, 2010, but homebuyers under contract by April 30, 2010 would qualify as long as they complete the contracted purchase within 60 days of April 30th.

For the first time since these homebuyer tax credits began in mid 2008, move-up buyers, in addition to first-time buyers, are eligible for a credit. The \$8,000 (or 10% of the purchase price) maximum first-timer credit continues and is now be available to couples with joint income up to \$225,000, a nearly \$55,000 increase above the level allowed in the prior legislation. A \$6,500 (or 10% of the purchase price) maximum credit is now available to move-up homeowners who have lived in their current residence for five of the prior eight years.

For homebuyers across the country, the expanded tax credit allows more people to qualify for the credit. While two-thirds of American families own their own home, and most earn less than the income limits that have been established within the extension, more buyers are eligible. Move-up buyers don't have to sell their current home to qualify for the new credit, but the money cannot be used to buy a vacation home.

"It's only for a primary residence," said Regan Lachapelle, a spokeswoman for Sen. Harry Reid (D-Nev.), who helped engineer the deal. "In expanding the tax credit, we are helping first-time home buyers, as well as homeowners looking to move up to a new home, but we would exclude from the credit speculators who may have recently purchased a home intending to flip it for a fast profit," said Senator Max Baucus, Democrat of Montana and chairman of the Finance Committee.

Keep in mind, this is the third roll out of a home buyer tax credit. Sen. Johnny Isakson, a staunch advocate of the credit, promises that this will be the "last extension" of the credit. "Tax credits like this only work by creating the sense of urgency to take advantage of it," Sen. Isakson said.

So, here's my recommendation. Ignore the automobile ads on television, suggesting that you bring in your W-2 for down payment on a new car. Consider buying and recommend to your friends and family that they consider buying something that will last. Consider a home of your own, especially during the next 3 and a half months while "Cash for Clapboards" (good old real estate welfare) remains. Because when it's gone this time, it's gone.

Your first step will be to sit down with a lender. Make sure that your chosen lender is a member of the Mortgage Bankers Association of Georgia (mbag.org) or a member of the Georgia Association of Mortgage Brokers (gamb.org). Pre-planning is a great idea. You might need to work on your credit to get your scores up to where they need to be. You might need that tax refund check to fix some past credit mistakes. Sitting down with a reputable mortgage lender now will give you sufficient time to work out a plan.

Furthermore, despite HUD's nearly year old announcement allowing lenders to "monetize" the tax credit "up front", you still can't readily use the \$8,000 or \$6,500 for a down payment on a new home. At least not as far as I've been able to determine. This is because the tax credit comes from the IRS. The IRS won't allow you to claim the credit on your upcoming return for 2009 or an amended return for 2008 until you can provide the IRS documentation of a closed home purchase. You can't supply that required information until after you close on the home. HUD's prior announcement of the monetization allows FHA-approved lenders, HUD-approved non-profits, as well as state and local governmental entities to monetize the tax credit through short term bridge loans. But, I've not been able to find a source for such temporary funding. (Perhaps H&R Block will come out with a "homebuyer's tax credit anticipation loan".)

For more information about the homebuyer tax credit program, please visit the National Association of Home Builder's website, www.federalhousingtaxcredit.com. Your local reputable mortgage lender will also be able to share good advice on other strategies to help you get your foot in the door.

David Griffin has been financing homes in Macon, Warner Robins and all of Middle Georgia since 1983 and is a member of the Mortgage Bankers Association of Georgia, mbag.org. For an archive of past articles visit mbag.org/ML_Update.htm. (1-14-10)