



Nation's Housing



\$8K tax credit shape-shifts into down payment

By Kenneth Harney

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WASHINGTON – The \$8,000 federal tax credit for first-time home purchasers is about to morph into a ready-cash down-payment source, thanks to a new federal policy change.

Buyers eligible for the credit who apply for mortgages insured by the Federal Housing Administration (FHA) may soon also be eligible for bridge loans or cash advances – up to \$8,000 – that they can use for the down payment, closing costs or other loan expenses pending receipt of their tax credit check from the IRS.

Housing and Urban Development Secretary Shaun Donovan announced the FHA change May 12 in a speech to the midyear convention of the National Association of Realtors. The idea, he said, is to “monetize” – turn into immediately spendable cash – a tax credit that often is not received until months after the settlement date.

As many as half of all would-be first-time buyers do not have enough cash on hand for a down payment and closing costs, according to building and real estate industry estimates. By advancing these consumers as much as \$8,000 at closing, many more would be able to afford the purchase.

Officials at the National Association of Home Builders say the bridge loan feature could double the total number of home purchases stimulated by the 2009 tax credit program to more than 300,000, depending on how many private lenders and state housing agencies participate.

Under guidance drafted by the FHA, all lenders approved to do business with the agency will be authorized to provide bridge loans at closing – secured solely by the tax credit the borrower anticipates receiving from the IRS. State and local government agencies and nonprofit organizations approved by FHA will be allowed to offer either bridge loans or second mortgages secured by the house.

Though the \$8,000 tax credit carries the name “first-time home buyer,” eligibility extends to anyone who hasn't owned a principal residence during the past three years. The credit amount from the IRS is the lesser of 10 percent of the purchase price of the dwelling or \$8,000.

Donovan's announcement came as a small but growing number of states have begun bridge loan programs on their own to help stimulate home purchases. California has even created its own state-funded tax credit program – a 10 percent credit payable to the buyer over three years – but has limited it

to newly built houses .

Bob Rivinius, president and CEO of the California Building Industry Association, said the new FHA credit monetization program “should provide a great combination” with the California credit. Some first-time purchasers using FHA loans could even qualify for what he called “a trifecta”: They could buy their new house and claim the 10 percent state credit. On top of that, they could file for the \$8,000 federal tax credit, and then turn the federal credit into instant cash for use on a down payment or for closing costs.

Rivinius said funding for the state tax credit is being depleted fast, but legislation is now pending in Sacramento that would add another \$200 million – and that “should allow buyers to receive credits” through the end of the year. The federal \$8,000 credit only covers purchases closed by Nov. 30. Unless Congress extends the credit, it will disappear Dec. 1.

The new bridge loans and cash advance features of the federal credit may not be available immediately through private lenders, say mortgage industry leaders. Among the key questions yet to be answered: Where will nondepository mortgage companies get the \$8,000 in advance money to provide upfront to buyers? Although most major banks offer second mortgage programs, the FHA guidelines stipulate that the tax credit advances cannot be secured by a lien on the property, but only by the tax credit to be received by the purchaser.

Many mortgage companies, which do not have banking deposits to tap, will need a few weeks to prepare documentation for what will essentially be secured personal loans. Plus they'll need to locate a source of funds for their advances. In the meantime, however, would-be buyers who believe they are eligible for the federal credit shouldn't sit around. They should shift into high gear shopping for a house – the Cinderella date of Nov. 30 is looming – even if they'll need a bridge loan or cash advance to complete the deal.

The odds are good that by the time they're ready to get a mortgage and go to closing, at least some local FHA-approved lenders will be actively in the market with bridge loans.

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