

Homebuyer tax credit can immediately help first-time homebuyers

- FHA plan will stimulate new home sales and help stabilize housing market -

Speaking at the National Association of Home Builders Spring Board of Directors meeting, U.S. Housing and Urban Development Secretary Shaun Donovan announced that the Federal Housing Administration (FHA) will allow homebuyers to apply the Obama Administration's new \$8,000 first-time homebuyer tax credit toward the purchase costs of a FHA-insured home. Donovan said the action will help stabilize the nation's housing market by stimulating home sales across the country.

The American Recovery and Reinvestment Act of 2009 offers homebuyers a tax credit of up to \$8,000 for purchasing their first home. Families can only access this credit after filing their tax returns with the IRS. The announcement details FHA's rules allowing state Housing Finance Agencies and certain non-profits to "monetize" up to the full amount of the tax credit (depending on the amount of the mortgage) so that borrowers can immediately apply the funds toward their down payments.

Home buyers using FHA-approved lenders can apply the tax credit to their down payment in excess of 3.5 percent of appraised value or their closing costs, which can help achieve a lower interest rate. To read the FHA's new mortgagee letter, visit HUD's website at www.hud.gov.

"We believe this is a real win for everyone," said Donovan. "Today, the Obama Administration is taking another important step toward accelerating the recovery of the nation's housing market. Families will now

be able to apply their anticipated tax credit toward their home purchase right away. At the same time we are putting safeguards in place to ensure that consumers will be protected from unscrupulous lenders. What we're doing today will not only help these families to purchase their first home but will present an enormous benefit for communities struggling to deal with an oversupply of housing."

Currently, borrowers applying for an FHA-insured mortgage are required to make a minimum 3.5 percent down payment on the purchase of their home. Current law does not permit approved lenders to monetize the tax credit to meet the required 3.5 percent minimum down payment, but, under the terms of this announcement, lenders can now monetize the tax credit for use as additional down payment, or for other closing costs, which can help achieve a lower interest rate.

Buyers financing through state Housing Finance Agencies and certain non-profits will be able to use the tax credit for their down payments via secondary financing provided by the FHA or non-profit. In addition to the borrower's own cash investment, FHA allows parents, employers and other governmental entities to contribute towards the down payment.

Today's action permits the first-time homebuyer's anticipated tax credit under the Recovery Act to be applied toward the family's home purchase right away. Unlike seller-funded down-payment assistance, which was a vehicle for abuse, this program

will allow homebuyers to shop for the best home price and services using their anticipated tax credit.

According to estimates by the National Association of Home Builders, the Administration's homebuyer tax credit will stimulate 160,000 home sales across the nation - 101,000 of which will be first-time buyers who will receive the credit. Another 59,000 existing homeowners will be able to buy another home because a first-time buyer purchased their home. Given FHA's current market share, it's estimated that thousands of families will be able to purchase a home by allowing the anticipated tax credit to be applied toward their purchase together with an FHA-insured mortgage.

Homebuyers should beware of mortgage scams and carefully compare benefits and costs when seeking out tax credit monetization services. Programs will vary from organization to organization and borrowers should consider whether the services make sense for them, as well as what company offers the most suitable and affordable option.

For every FHA borrower who is assisted through the tax credit program, FHA will collect the name and employer identification number of the organization providing the service as well as associated fees and charges. FHA will use this information to track the business closely and will refer any questionable practices to the appropriate regulatory agencies, as necessary.

FAQ on Monetization

1. What exactly does “monetizing” the tax credit mean?

The term “monetization” is defined as the act of converting something into money. In the context of the first time home buyer tax credit, monetization means to treat the payment of the credit as if it was cash and allow its use as a payment for certain closing and downpayment expenses.

2. What is a “bridge” loan?

A bridge loan is a type of loan that is intended to be outstanding for a very short time period, often only a few days or weeks. Bridge loans are used to provide funds in situations where the borrower is expected to receive funds, such as the payment of this tax credit, within a very short time.

3. What is a state housing finance agency?

A state housing finance agency, often referred to as an “HFA,” is an organization that provides funding for a variety of loan and grant activities related to for-sale and rental housing. HFAs are also typically responsible to distribute grant funds from federal agencies, such as the U.S. Department of Housing and Urban Development (HUD).

4. How do I find out if my state housing finance agency is providing this service?

The best way to locate information about your state’s HFA is via the Internet. The National Council of State Housing Agencies (NCSHA) maintains a directory of state HFAs at: <http://www.ncsha.org/section.cfm/4/39/187>

5. What kinds of lenders are doing this? How can I find a list of lenders who are providing these short-term loans?

Many state housing finance agencies are either running or sponsoring programs that will use a tax credit for a downpayment. These programs often place a second lien on the home as collateral to secure the eventual repayment of the tax credit funds. Some state HFAs lend directly to home buyers while other HFAs work through networks of state-approved lenders.

In addition to state agencies, FHA-approved lenders may be offering to purchase a first time home buyer’s tax credit in conjunction with an FHA-insured mortgage loan.

Interested buyers should check with area lenders, home builders, or real estate agents for the names of participating lenders.

The Federal Housing Administration (FHA) also has an online tool to find FHA-approved lenders: <http://www.fhaoutreach.gov/FHALookup/>

6. What types of loans qualify?

Any lender could offer a program that would permit a first-time home buyer to apply the tax credit to funds needed for a loan that is obtained in conjunction with a home purchase. At this time, however, only the Federal Housing Administration (FHA) has issued guidance regarding the monetization of the first-time home buyer tax credit in conjunction with FHA-insured mortgage loans.

7. Can this short-term loan be applied to the minimum 3.5% downpayment required by my FHA loan or is it only available above and beyond the initial downpayment required?

If an FHA-approved lender or state housing finance agency is purchasing a tax credit and therefore making a short-term loan that is secured only by the repayment of the first-time home buyer tax credit, these funds cannot be applied to a downpayment in lieu of the home buyer's funds. A home buyer still has to provide the 3.5 percent downpayment from his or her own funds. The money from the short-term loan can be used to pay closing costs and prepaid expenses, such as escrows for taxes, insurance, and community association assessments. These funds could also be used to make a larger downpayment or to "buy down" the interest rate on the mortgage loan.

However, many HFAs are offering tax credit loan programs that offer home buyers a short-term loan backed by the anticipated tax credit and secured by a second lien, which in general will be paid off after the homebuyer receives their income tax credit from the IRS. The proceeds of these loans *may be used to satisfy the 3.5 percent downpayment* requirement for FHA-insured loans. The National Council of State Housing Agencies (NCSHA) maintains a list of such tax credit loans programs at: <http://www.ncsha.org/section.cfm/3/34/2920>.

8. Who should I contact at my state housing finance agency to urge them to participate in this program if they don't already do so? What should I say?

The best way to locate information about your state's HFA is via the Internet. The National Council of State Housing Agencies (NCSHA) maintains a directory of state HFAs at: <http://www.ncsha.org/section.cfm/4/39/187>

Most state HFA web sites include phone numbers and email addresses by which they can be contacted.

9. Is this an interest-free loan or are there fees associated with this type of short-term loan?

If a governmental agency, such as a state housing finance agency, or an FHA-approved lender purchase a first-time home buyer tax credit, they are allowed to charge no more than 2.5 percent of amount of the credit.

10. How can I tell if the short-term loan on the tax credit is being offered by a reputable company?

If the organization is a unit of state government, it is safe to say that it is reputable. Otherwise, a home buyer may want to check with their local Better Business Bureau or through a state or local government's department of consumer affairs.