



## **FIRST-TIME HOMEBUYER CREDIT EXTENSION ACT**

### **Congressman Joe Courtney**

#### **Congressman Courtney's First-Time Homebuyer Credit Extension Act of 2009 would:**

- Extend the existing credit from November 30, 2009 to December 31, 2010.
- Retroactively extend the waiver of recapture of the pre-ARRA tax credit to all purchases made after April 8, 2008.
- Allows 2010 homebuyers to elect to use the credit for 2009 or 2010.

#### **Background:**

The first-time homebuyer tax credit was established by the Housing and Economic Recovery Act (HERA, PL 110-289), which was signed into law July 30, 2008. The tax credit allowed first-time homebuyers who purchased a home after April 8, 2009 and before July 1, 2009 to receive a \$7,500 tax credit. The law also included a recapture provision which, after a one year grace period, required the homebuyer to repay the credit in equal installments over 15 years. Essentially, it is a \$7,500 no interest loan that must be repaid to the government 16 years from the date the home was purchased.

While most are eligible, some stipulations apply. The house must be the taxpayer's principal residence. A first-time homebuyer is defined as anyone who has not owned a home within the last three years. There is a phase-out for individuals whose modified adjusted gross income is greater than \$75,000 (or \$150,000 for joint filers). A single filer making \$95,000 and above would not be eligible for any of the tax credit. If the house is sold within three years of using the credit, in most cases it must be repaid. In addition, non-resident aliens are ineligible for the tax credit.

The American Recovery and Reinvestment Act (ARRA, PL 111-5), signed into law on February 17, 2009, amended the tax credit by increasing the limit to \$8,000 from \$7,500, extending it from June 30, 2009 to November 30, 2009, and waiving the recapture requirement for all purchases in 2009. In addition, homebuyers who purchase in 2009 can elect to take the credit in 2008 or 2009.

#### **Why this bill is being introduced:**

**The tax credit addresses the heart of the financial crisis, the housing market, by assisting regular Americans.** Many believe that our economy will not rebound until the housing market is addressed. The tax credit will help to stimulate housing demand, to stabilize home prices, and to lower the rate of foreclosures. Securing the housing market is essential to the financial industry whose institutions continue to be weighed down in by millions of dollars in tax assets with unknown values.

**More time is needed to help maximize the impact of the credit on our housing market.**

Housing prices may just now be hitting bottom. The Commerce Department announced that sales rose 4.7 percent in February from January of 2009. While this is good news, it was still the second lowest rate to date. There is more time for the tax credit to realize its full potential.

**Despite a deadline of November 30, 2009, the tax credit's effectiveness will be ending soon.**

Closing on a home will normally take two to three months. Given the amount of time necessary for house hunting, those looking to utilize the tax credit should be actively looking right now. Those who were in the process of house searching when ARRA was passed are more likely to have heard of the tax credit. While the tax credit has given an encouraging boost to close on a house, the real aim of a stimulus is to bring the thousands of financially stable Americans who were not considering entering the housing market. Therefore, extending the credit through 2010 will capture the full potential of the program.

**Extending the credit is ideal for re-inhabiting foreclosed homes.** Waiting for mortgage approval can often take more than three months to close on a foreclosed home because of necessary repairs. Foreclosed homes have been a targeted concern in the Housing and Economic Recovery Act (HERA) and the American Recovery and Reinvestment Act (ARRA), as Congress appropriated billions in extra Community Development Block Grant and Neighborhoods Stabilization Program funds for the purpose of renovating and re-inhabiting foreclosed homes.

**Waiving the recapture provision for homebuyers in 2008 is the fair thing to do.** Many homebuyers who bought in 2008 feel slighted because they are stuck paying back their \$7,500 tax credit, when if they had waited a month or two could have received \$8,000 without the recapture provision.

**Consumers and the private sector are just now fully excited.** All too often tax credits are too complicated or simply go unrecognized by consumers. Unlike the original \$7,500 first-time homebuyer tax credit, the \$8,000 credit included in ARRA does not need to be repaid and that has created a lot of attention. Homebuyers, realtors, and builders have all been more aware and vocal of the tax credit, thereby capitalizing on efforts initiated by Congress.

# The Day

## First-time home buyers spurred on by tax credits

*New London Day*

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Michael and Dianne Page took more than two years to look for a home before finally closing on a 3,000-square-foot ranch in East Lyme last month.

During their long search, the Pages and their two young children stayed with Dianne's parents in Windham, saving up money and watching real estate prices and interest rates nosedive. Finally, just as they narrowed their search for a home - and as the seller accepted an offer for \$200,000 less than a previous asking price - Congress passed a housing-stimulus bill that offered first-time home buyers like themselves up to \$8,000 in tax credits.

And there was one added bonus: the stimulus bill allowed the Pages to amend their 2008 tax returns and get an \$8,000 bonus from the government this year. While other people who close on homes later this year will have to wait until next year for their government payments, the Pages expect a check sometime in the next few weeks.

"It was great," Michael, 33, a United Parcel Service employee, said of the tax credit. "It made a lot of things possible."

For one, the money will ease concerns about a 10 percent down payment on the house depleting their financial cushion. The extra money also may come in handy if the Pages decide to make some needed cosmetic changes.

Real estate agents say the \$8,000 tax credit is helping to drive new interest in home buying as the busy spring selling season gears up. It doesn't hurt that interest rates are hovering around historic lows, prices are down to 2004 levels and the number of homes on the market offers buyers many choices.

"This is like a perfect storm to buy a house," said Neal Kachinsky of Weichert Realtors in Mystic. "People buying now will, in a few years, be rewarded. You need to buy things when nobody wants them."

Kachinsky and other agents said the new tax credit, which replaces a \$7,500 tax deferment offered last year that amounted to an interest-free loan, is bringing out new buyers who have been sitting on the sidelines during a lull in the real estate market.

### FIRST-TIME HOMEBUYER CREDITS

- The tax credit is equal to 10 percent of the home's purchase price up to a maximum of \$8,000. Any home above \$80,000 would be eligible for the full credit.
- The tax credit is for first-time home buyers only, which is defined as anyone who hasn't owned a home in the past three years. Spouses of homeowners are ineligible, but their children or parents may be eligible.
- The tax credit is not a loan and never has to be repaid, unless a house is sold within three years. If the home is sold in the first three years after it was purchased, the owner will owe the government the full tax credit they receive.
- The credit will be given to first-time buyers of homes in which closings are conducted on or after Jan. 1 and before Dec. 1.
- Unmarried people with incomes \$75,000 or less and married couples with incomes up to \$150,000 will get the full tax credit. People with higher salaries will get progressively smaller credits as their income goes up.
- Only single-family residences are eligible, including condos, co-ops and townhouses, if they are used as a principal residence.

SOURCE: EASTERN CONNECTICUT  
ASSOCIATION OF REALTORS WEB SITE

It's also bringing out singles like 23-year-old Zachary Withrow, who said he never really thought of buying a house until the tax credit came to light. He figures to take the \$8,000 credit and use it for some kind of investment, whether it be a long-term Individual Retirement Account or a bet on the stock market.

"It was actually a suggestion from my parents that got me thinking about it," Withrow said. "They said the government probably would never give you money again like this."

Withrow, a mechanical engineer for Dominion at the Millstone power station in Waterford, said he is getting ready to close on an 1,100-square-foot home in Ledyard that he is buying for \$215,000, as opposed to a price closer to \$300,000 he would have paid a couple of years ago.

Amanda and Dwight Snowberger, a couple in their 20s who expect to close on a house in Gales Ferry by the end of the month, said they believe they are paying about \$50,000 less for a four-bedroom foreclosed home than they would have spent a few years ago.

"It's not going to get any lower," Amanda said.

Amanda could have been talking just as well about interest rates: The couple found a Federal Housing Administration loan at 5 percent interest.

The Snowbergers didn't move into the real estate market because of the tax credit. Their main motivation was to improve their quality of life, get a good-sized yard for their nearly 3-year-old son, Steve, and have room in case another child should arrive.

"The \$8,000 credit was icing on the cake," said Dwight, an Electric Boat engineer, who found his home through buyers agent Joanne Kelley of RE/MAX Realty Group in Gales Ferry. "It was a nice surprise."

U.S. Rep. Joe Courtney, D-2nd District, said he believes the tax credit was one of the best parts of the economic-stimulus legislation Congress passed last year. He said bankers, mortgage brokers and real estate agents are crediting the stimulus with helping jump-start housing sales locally.

Rheo Brouillard, president of the Savings Institute Bank and Trust, said 22 percent of his mortgage business is with first-time homebuyers, a rate that is higher than normal, Courtney reported.

"I think it's creating more of a buzz, more of a conversation," said Ed Siciliano, a Weichert agent.

That's not to say closing a deal is easy for first-time buyers - or for anyone - these days. Those ready to buy must have excellent credit, hope that the properties they want to buy appraise at the price they offer and will need to bring some serious money to the table.

"A year ago, you could get 100 percent financing," said Siciliano. "Now, it's 3 1/2 to 5 percent down plus closing costs."

"Lenders are still lending," said Carol Christiansen, president of the Eastern Connecticut Association of Realtors. "If you can afford it, you can still get a loan at a pretty good interest rate."

And the deals available on homes today may well be worth the price. Kachinsky, a former certified public accountant, pointed out that the cost of a mortgage, taxes and insurance on one \$140,000 home he analyzed locally would be a little more than \$1,100 a month, well under standard rents for similar housing,

and meaning that a new homeowner with the \$8,000 tax credit essentially will be getting seven months of free housing.

Kachinsky points out, however, that time is running out on the tax credit. Those who don't have an offer on a house accepted by Sept. 15 likely will be out of luck, he said, since it usually takes 45 days to arrange financing.

John Bolduc, executive vice president of the local Realtors group, believes time is even more critical, saying home buyers who don't find a house in the next 10 weeks or less might have trouble getting in under the deadline.

Courtney said it's possible that Congress will extend the tax credit beyond Dec. 1, but he encouraged potential home buyers to assume that the deadline won't be changed.

"Everything is starting to turn around," Kachinsky said. "The stock market has had a nice rally, and that's a leading indicator. Housing will catch up, but people here have a little reprieve of about six months before prices start stabilizing and moving higher."