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Buying a home on deadline

What you need to know about the extended, expanded home-buyer tax credit



By Amy Hoak, MarketWatch

CHICAGO (MarketWatch) -- House shopping usually slows down in the winter, as people put their home searches on hold to trim the tree, buy presents to put under it and avoid the chilly weather.

This winter, however, might be different, thanks to the extended -- and expanded -- first-time home-buyer tax credit.

"We're going to see far more interest in the fourth quarter than we generally do because of the tax credit," said Heather Fernandez, vice president of Trulia.com, a real estate search engine. Traffic surged on the site on Nov. 5, the day Congress approved the credit extension, she said.

The new law extends the tax credit for first-time home buyers and opens it up to some existing homeowners as well: The credit is now 10% of the home price, up to \$8,000 for first-time buyers and up to \$6,500 for repeat buyers.

All buyers must have a binding contract on a house in place on or before April 30. The sale must close on or before June 30.

To be considered a first-time home buyer, an individual must not have owned a home in the past three years. And to be eligible, existing homeowners need to have lived in the same principal residence for five consecutive years during the eight-year period that ends when the new home is purchased. The credit is only for principal residences.

Income limits have risen as well. According to the IRS, the home-buyer tax credit now phases out for individuals with modified adjusted gross incomes between

\$125,000 and \$145,000, and between \$225,000 and \$245,000 for people filing joint returns.

Will credit spur more buyers?

The inclusion of move-up buyers might inspire homeowners to take action and list their house if they've been putting it off, said Carolyn Warren, a Seattle, Wash.-based mortgage broker and banker and author of the book "Homebuyers Beware."

"If somebody loves their home, it's not going to entice them to sell. If they've had it on the back of their minds and really would like to move up, it might push them into doing it sooner than later," Warren said.

The credit isn't expected to have as large of an effect on move-up buyers as it has on first-time buyers, according to the Campbell/Inside Mortgage Finance Monthly Survey of Real Estate Market Conditions. The maximum tax credit is about 4% of the average purchase price for first-time buyers, but about 2% of the average purchase price for move-up buyers.

"We estimate that the first-time home-buyer tax credit will result in a 10% increase in home sales from March through November of 2009," said Thomas Popik, research director for Campbell Surveys, in a news release. "We'd expect the effect of the proposed tax credit for current homeowners to be about half as large -- from December until the tax credit expiration in the spring of next year, it might be 5% of 3 million transactions, or about 150,000 incremental home sales. Incremental sales to first-time home buyers could be an additional 300,000, for a total of 450,000 incremental sales due to the tax credit extension."

Tips for buyers

Interested in buying a home and claiming the home-buyer tax credit? Below are five tips:

1. Don't procrastinate

Get searching now. Getting an early start will give you a better chance of finding the right house before the credit deadline.

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"Go out and start as soon as possible. There will be people waiting until the end," said Pat Lashinsky, chief executive of ZipRealty, a residential real-estate brokerage firm.

When first-time buyers thought the credit would expire Nov. 30, people scrambled to find properties in September and October, he said. In some cases, "there wasn't inventory that fit people's needs," he said. In Phoenix, Chicago and parts of California, for example, some properties even had multiple bidders, Lashinsky said.

Before you start house hunting, get preapproved for a mortgage, said Eddie Fadel, a Miami-based mortgage banker and author of the book "Don't Rent, Buy!" And do a realistic assessment of what you can afford.

Buyers who have to sell an existing home should price it aggressively from the beginning to drum up interest and get a buyer as soon as possible, Fernandez said.

2. Don't count on another extension

The credit won't be available forever, Fadel said. If you want to take advantage, be sure to make that spring deadline.

"This is a medication for the housing crisis. Once the patient -- which is the housing market -- cures, there will be no medication needed," he said.

3. Mind the interest rates

Mortgage interest rates are low right now, but will likely rise next year, Warren said. Higher rates will affect your monthly mortgage payments, thus the affordability of the house you are buying.

"It's pretty universally accepted that rates will be higher next year. What is unknown is how fast and by how much," Warren said.

Average rates on the 30-year fixed-rate mortgage have been hovering around 5%, but when the government stops buying large amounts of mortgage-backed securities, rates could rise, she said. The Federal Reserve plans to end its purchase program in March.

4. Communicate with your lender

Throughout the process, make sure you're communicating with your lender regularly; if there's a piece of documentation you're asked for, get it turned in as soon as possible, said Doug Heddings, a New York-based real estate agent with Charles Rutenberg Realty. Good communication is important in making sure the loan closes on time.

And think twice before pursuing a short sale if you want to make the credit deadline. That's where someone sells a home for less than what he or she owes on a mortgage, with permission of the lender. The process can be lengthy and unpredictable because the homeowner's lender has to approve any deal, and can be complicated when there is a second mortgage associated with the property, Warren said.

5. Don't take shortcuts

Don't forgo any of the steps you would normally take just to make the tax-credit deadline. Make sure the house is a good fit for your needs and get a home inspection, Lashinsky said. Skipping steps could cost you in the long run.

"Don't let the tax credit get you to make a decision to buy a house that you wouldn't otherwise want to buy," he said. "Don't shortcut the process to get the tax credit."

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