



The economic stimulus package, now more formally known as the American Recovery and Reinvestment act, is great news for home-buyers. This legislation makes supportive changes that will help facilitate home buying and prevent further erosion of property values.

Direct Assistance to Home Buyers

The economic stimulus package helps free up the financing and end the credit crunch by raising HUD/FHA loans from their current ceiling of 625,500 to 729,750 in high-cost metropolitan areas such as Las Angeles, New York, Washington D.C. and San Francisco. The FHA has been filling the void left by the banking system, writing over \$97 Billion dollars in mortgages in the last quarter of 2008. FHA loans have the advantage of being 30-year fixed loans with a low down payment of just over 3%, and lacking the exotic risks of the subprime loans that have proved so problematic for the average family.

Tax-Relief for Home Buyers

The TARP had included an \$7,500 tax credit for new home buyers. The ARRA legislation raises that to \$8,000 and eliminates any requirement to repay the tax credit and extends the period of this tax credit availability to through 2009. A new home buyer is defined as someone who has not held an ownership interest in a principle residence for over 3 years.

Tax credits are a dollar for dollar credit against your Federal Tax liability. If you earn less than \$75,000 per year as a single filer, or up to \$150,000 as a married couple filing jointly, you may take a tax credit to 10% of the purchase price of your home, up to a limit of \$8,000. This increases the total tax credit by \$500.

The American Recovery and Reinvestment act actually modifies this tax credit into one that does not require repayment. In the original form, this tax credit was a 15-year interest free loan from the government that required repayment. The version offered for first-time home buyers in 2008 required repayment of the tax credit over 15 years. Now, if the home was purchased after January 1st, 2009, there is no repayment requirement for this credit.

Neighborhood Stabilization Program Grants

This program provides federal funds to state and local governments to purchase and rehabilitate, redevelop or resell foreclosed properties. This will allow local communities to reduce the impact that foreclosed and abandoned properties have on the surrounding neighborhood property values. The rehabilitated properties or redeveloped properties can also be leveraged to provide low and moderate income housing. Overall, this will help stabilize property values and stem the downward slide of prices from the glut of foreclosed properties currently on the market. With the government as a new pool of buyers, the supply of foreclosed homes will likely slow in growth, perhaps even shrink, raising prices and values on the remaining properties.

HOME Program Grants

This is federal monies made available for State and local government to offer home purchase grant programs, home rehabilitation grants to existing home owners, build affordable housing within the confines of certain unit subsidy limits and for home buyers/renters that meet certain HUD income limits.

Whether it is the increased availability of down-payment assistance, community home-purchase grants for moderate income families, or the significant first-time home buyer tax credit, the Obama administration has taken action that has the capability to stabilize the housing market, take some of the price risk of buying a home, and the potential to put money back into the pockets of first time home buyers. Now is the time to dip your toes back in the home-buying waters.