

## USING THE FIRST-TIME HOME BUYER TAX CREDIT AS DOWN PAYMENT ON A FHA-INSURED MORTGAGE

On May 29, 2009, the U.S. Department of Housing and Urban Development (HUD) announced a program that allows borrowers to use the first-time home buyer tax credit for a down payment or closing costs on a FHA-insured mortgage. Since the announcement NAR has received many inquiries from our members regarding how this impacts first-time homebuyers in their state.

### HOW TO USE THE CREDIT

Currently, 11 state housing finance agencies (HFAs) offer a product buyers can use that will effectively monetize the tax credit for down payment purposes. Generally, these programs offer tax credit advances with second liens on the home being purchased. The second lien may be "soft" (silent) or require monthly payments but may not result in cash back to the borrower and may not exceed the total amount needed for the down payment, closing costs, and prepaid expenses. The 11 states offering these programs are Colorado, Delaware, Idaho, Illinois, Kentucky, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, Tennessee, and Virginia. Other states are developing programs so members are encouraged to regularly follow up with their respective HFA.

### STATES WITHOUT A HFA PROGRAM

For all other states where such HFA programs do not exist the tax credit may not be used to fund the 3.5 percent downpayment required for FHA loans. As always, the 3.5 percent down payment may be a gift from a family member, employer or nonprofit, charitable organization. FHA-approved nonprofit organizations and FHA-approved lenders may monetize the tax credit for down payments in excess of 3.5 percent, closing costs and interest rate buy downs. Mortgage industry leaders have indicated that this type of product may not be immediately available to consumers.

### EXAMPLE OF TAX CREDIT IN USE WITHOUT HFA PROGRAM

In conjunction with an IdaMortgage loan, a subordinate loan will be offered to qualified first-time home buyers a maximum of 5% of the sales price up to \$7,000, not to exceed 100% combined loan to value. A fee will be charged of \$250 with \$150 refunded upon repayment of the loan on or before the loan due date. The loan will accrue interest at 3.0% with a due date of July 1, 2010. The Tax Credit Second Loan is expected to be paid off from the borrower's tax refund obtained through the application of the federal tax credit. Borrower must be a first-time home buyer and qualify for an IdaMortgage loan.

"Welcome Home Idaho". Idaho REALTORS® will pay off the interest for first-time buyers using IdaMortgage program.

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