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The Housing Market Gets A Boost

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Homeownership moved a giant step forward as the U.S Senate recently passed the Housing and Economic Recovery Act of 2008. The changes being put forth in the housing bill, such as the first time homebuyer tax credit, will create an advantageous opportunity for first time buyers to purchase a home. Homes in the median price ranges have already adjusted and the new housing legislation will continue to boost this positive momentum. The ripple effect of increased sales in the more affordable markets will eventually be felt up the rising price points, helping to stabilize the entire housing economy. The passing of this legislation marks the beginning phase of the next ten-year housing cycle in which prices in the more affordable markets will only continue to appreciate.

There are significant benefits included in this bill that will positively affect consumers, creating new opportunities for buyers, sellers, and homeowners alike. These include offering a first-time homebuyer tax credit in the amount of \$7,500 for first-timers buying a house between April 9, 2008 and April 1, 2009. Buyers who are purchasing for the first time or who haven't owned property in the last three years would qualify for a tax credit equal to 10% of their home purchase price, up to \$7,500.

Further qualification requires that the home purchase be made between April 9, 2008 and July 1, 2009. The credit phases out if the buyer's income exceeds \$75,000 for an individual or \$150,000 for a couple filing jointly and it must be paid back over a 15 year period in equal installments. The credit can be claimed on the buyer's 2008 tax return even if the purchase is made in 2009 (it's important to note that this is a tax credit and not a tax deduction). The ripple effect of the tax credit will be felt all the way up the price ladder; as buyers purchase homes in the more moderate price ranges, the sellers of those homes then become buyers in median price ranges, and so on.

Another component of the housing bill includes much needed FHA modernization which aims to adjust loan limits so that they are more in sync with current home values. It also provides \$300 billion for FHA to back loans and help as many as 400,000 homeowners refinance into more affordable mortgages. The bill will also allow Fannie Mae and Freddie Mac to serve more families by raising their loan limits in high cost areas above the standard conforming limit to 115 percent of the median house prices and up to 150 percent of the conforming loan limit. In King, Pierce, and Snohomish Counties, this amount will increase from \$417,000 to \$522,100. Furthermore, GSEs like Fannie and Freddie will be strengthened by the establishment of a new regulator and other reforms that will help make them more relevant to today's housing industry.

The legislation also allows for a temporary increase in mortgage revenue bonds because many states have already reached their limit in 2008 for the annual amount of tax-exempt housing bonds that they may issue. The bill would increase the limit for both small and large population states in 2008 to allow for the issuance of an additional \$11 billion of tax-exempt bonds to provide loans to first-time homebuyers.

The Housing and Economic Recovery Act will play a critical role in strengthening the housing market and overall economy. It's worth noting that the last time Congress passed legislation like this in the 1970s, the housing market saw a significant increase in activity. Using history as a guide, Lawrence Yun, chief economist of the National Association of Realtors believes the Housing Act could represent a boost of 10% in the number of homes sold.

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