

The Real Estate Update

Brought to you by Mount Vernon Mortgage Corporation

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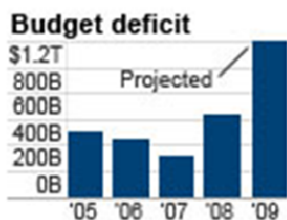
Government Declares War!

That is right. Congress and the President have declared war on the weak economy and especially on the housing market. That makes sense because it is the housing market that caused the economy to collapse and we will not have a recovery without a healthy or at least stable housing sector. Immediately after signing the stimulus bill and putting into law a stronger tax credit and higher allowable loan limits for Fannie Mae, Freddie Mac and FHA, the President wasted no time delivering the second of two strong punches. His housing rescue plan contained several elements that should help the housing market, though it remains to be seen how many will actually be helped.



The stimulus bill will cost over \$750 billion and together with the President's mortgage plan, the total cost will be over \$1 trillion. This is piled on top of last year's stimulus bill and the hundreds of billions being spent to rescue banks, automobile companies and more through the TARP program.

The goal of the housing plan is to help nine million homeowners. That is a very ambitious number, especially considering the fact that there are less than 100 million homeowners in the United States. If 10% to 20% of the homeowners are assisted, certainly it will help bring about economic recovery more quickly. The number is not too ambitious considering the fact that millions of homes have already gone into foreclosure and millions more are waiting in the wings. Our news this month will contain a description of the elements of the stimulus package and next month we will cover the President's housing plan in more detail. We caution that since the final regulations are not published, these details may change in the coming weeks and months. □



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Stimulus Summary

President Obama signed into law the American Recovery and Reinvestment Act of 2009. The following is a list of some of the major provisions of the new law. Note that many of the benefits are temporary and/or are phased out for higher income individuals.



Higher Loan Limits. Conforming and FHA mortgage limits in high-cost areas were temporarily raised back to the limits which expired at the end of 2008. This will mean an increase from \$625,000 to just under \$730,000 in higher cost-of-living areas such as Northern California and New York City. The result will be lower rates in high-cost areas for these loan amounts as "jumbo" loans carry higher rates.

"Making Work Pay" Tax Credit. For 2009 and 2010, the Act creates a refundable tax credit of up to \$400 for working individuals or \$800 for couples respectively. An additional credit was passed for those who do not work, such as the retired and the disabled.

AMT Exemption Raised. The Act raises AMT exemption amounts above 2008 levels to \$70,950 for joint filers and surviving spouses (up from \$69,950 in 2008); and \$46,700 for single filers and heads of households (up from \$46,200).

First-Time Homebuyer Tax Credit. The Act expands the low-to-moderate income first-time homebuyer tax credit, originally enacted under the Housing Assistance Tax Act of 2008. The maximum amount of the credit is increased to \$8,000 and the Act also eliminates the repayment obligation for qualified principal residences purchased from January 1, 2009 through November 30, 2009. To be exempt from repayment, the homebuyer must stay in the home for three years. The Act also removes the requirement that the home not be purchased using a mortgage revenue bond program available through state and local housing agencies.

New Car Deduction. Effective for new vehicle purchases on or after February 17, 2009, the Act allows qualified taxpayers an above-the-line deduction for all state, local sales and excise taxes paid relating to the first \$49,500 of the purchase price of a new car, light truck or other vehicle through the end of the year.

Education Tax Credit. For 2009 and 2010, the Act expands and renames the existing HOPE education credit, increasing the credit amount (subject to income limits) from \$1,800 to \$2,500 a year and applying the credit to

all four years of college. The Act also makes 40% of the credit refundable and adds course materials as qualifying expenses.

Bonus Depreciation. The Act extends the first-year 50% bonus depreciation enacted under the 2008 Economic Stimulus Act for new business equipment purchases through December 31, 2009. The Act also extends through 2010 bonus depreciation for other qualified property.

Net Operating Loss Carryback. The Act enables qualified small businesses with average gross receipts of \$15 million or less to carry net operating losses back for up to five years. The carryback provision applies to any NOL for tax years beginning or ending in 2008. □

Source: From Various News Sources

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Want To Purchase? FHA Requires Less Cash. . .

Fannie Mae has conducted national surveys regarding the obstacles potential homeowners have to overcome when trying to purchase their first home. The findings showed that there are many obstacles to home ownership ranging from credit to income, yet, there is no obstacle more important than finding the cash necessary to close.

The cash necessary to close is comprised of these components—

- Downpayment
- Closing costs
- Reserves required after closing

The current fiscal crisis has made it much tougher from a cash perspective. A few years ago, just about anyone could find a loan program that would enable one to purchase with no money down. Programs were available for those with poor credit and whose incomes could not be verified. Now, there are very few no-downpayment programs available and most of the programs remaining service very specific segments of the population such as veterans and rural housing.

Most programs require at least a five percent downpayment and together with closing costs and required reserves, might result in the need for \$15,000 or more on a \$200,000 home purchase. Coming up with that much cash is a hardship for many Americans, especially with the economy contracting.

We are here to tell you that a long-standing governmental program is proving to be the answer for many Americans in 2009. The Department of Housing and Urban Development (HUD) houses an agency called the Federal Housing Administration which insures mortgages made by lenders. Why is FHA so important? Let's just look at the cash requirements...

Lower downpayment. The required downpayment on an FHA loan is 3.5%, instead of 5.0%. That is a savings of \$1,500 on a \$200,000 purchase price.

Alternatives to coming up with the downpayment. FHA not only requires a smaller downpayment than most, they also are more liberal as to "where" the potential purchaser can come up with the cash—

- **Gifts.** One hundred percent of the required cash can come from a gift from a relative or someone with a "family-type" relationship. Most other programs allow gifts, but may require that the purchaser have a certain percentage of his/her own money in the deal. FHA allows 100% of the money required to come from a gift.
- **Grants from Governmental Agencies.** FHA did tighten its requirements which had previously allowed the downpayment to come from non-profits that collected the money from the seller. However, grants and loans for the down payment (and closing costs) are still allowed from government agencies. States and some localities have agencies that are authorized to raise money by selling non-taxable bonds under the Federal Bond Subsidy Act. This money can be used to provide below interest loans to finance real estate outright or grants for cash to close.

Closing costs. The most popular alternatives for funding closing costs include—

- **Seller Contributions.** Especially in a buyers' market such as we are experiencing presently, many sellers are willing to pay closing costs to entice a purchaser to buy their home. FHA again is more liberal than most programs in this regard. FHA allows the seller to pay up to 6.0% of the sales price toward closing costs. Many other programs cap this contribution at 3.0%. This means that the seller can typically cover all closing costs and might even provide a subsidy for a lower interest rate.
- **Lender rebates.** Using a slightly higher interest rate, the lender can also sometimes use a "rebate" or "yield spread" to pay closing costs. This rebate is made possible because the higher rate brings a better price when the loan is sold on the secondary markets. FHA allows the lender to pay all closing costs in this way.

Reserves. Many loan programs require that the purchaser have up to two months payments in reserve after closing. FHA does not have such a requirement. However, that does not mean that having money left is not a good idea. It is always a good idea to have cash available as a "cushion" after closing.

How much cash can you save purchasing using the FHA program? On a \$200,000 sales price, the requirement of \$15,000 or more could be reduced to \$7,000 or even less. That is a significant savings and coupled with available tax incentives could reduce your net cost to zero! ☐



Selected Interest Rates

February 19, 2009

30 Year Mortgages	5.04%
2008 High (July 24)	6.63%
2008 Low (Dec 31)	5.10%
15 Year Mortgages	4.68%
5/1 Hybrid ARMs	5.04%
1 Year Adjustables	4.80%
10 Year Treasuries	2.81%

Sources—Fed Reserve, Freddie Mac
Note: Average rates do not include fees and points. Information is provided for indicating trends only and should not be used for comparison purposes.



Don't Miss Out On March Homebuyer Seminars!

Why is **NOW** the right time to buy a home?

- Low interest rates.
- Great prices.
- \$8K tax credit for first time buyers.

Buying a home may be the biggest investment you'll ever make. Now, more than ever, it's important to be prepared and have the facts. Learn what you need to know about the homebuying process from local industry experts.

Don't miss out! Seminar is free, but seating is limited.

Choose from three dates: Sat. 3/14 (Quincy), Thu. 3/19 (Weymouth), Thu. 3/26 (Weymouth).

Get more info or register online at www.MtVernonMortgage.com/Events. Phone registration 24/7 at 781-337-2432 x16.

So...you like numbers?
Did you know that 3/3/09 was a Square Root Day? What? You missed it? Don't worry—it will happen again in seven years on 4/4/16!