

The Real Estate Update

Brought to you by Mount Vernon Mortgage Corporation

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The Fed Pushes Rates Down

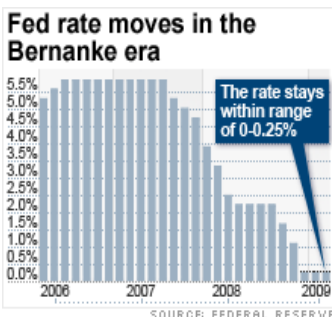
The Federal Reserve Board has pushed short-term rates down close to zero. They have done all they can do in order to get the economy jump-started. Or have they? Apparently, they believe that there is more they can do. At their meeting in March, the Fed announced that they would be buying Treasuries—by the truck load. We are not sure how many trucks would carry \$300 billion in Treasuries.



What does that mean? In the short run, it means lower long-term rates. Even though the announcement came as no surprise, long-term rates dropped close to .50% immediately. We have said all along that low rates are a requisite for an economic recovery that must start within the housing sector. This day has come.

In the long-run, the Fed printing money should mean a heightened risk of inflation. The markets had recognized this and long-term rates were drifting up over the past two months. Yet the movements were reversed in a matter of hours. We believe that the markets will still experience this tug of war between the Fed pushing rates down and the markets becoming worried.

Even the stock market has joined in the party. A mid-March rally had moved the Dow up close to 1,000 points. Does this mean that our troubles are over? We are far from moving out of the recession we are experiencing. However, the markets are usually the first to predict a recovery. The stock market is likely to move much more quickly than the average consumer.



Rising stock investments and lower rates can lead to confidence and a confident consumer is exactly what is needed to start on the road to recovery. It will be interesting to see if the economy also experiences a bounce this Spring. □

Inside this Issue . . .

- The Fed Pushes Rates Down
- President Releases Housing Plan
- The First Time Homebuyer Tax Credit
- Development: At The "Core"

President Releases Housing Plan

President Obama has unveiled a \$75 billion multi-pronged plan that seeks to help up to nine million borrowers suffering from falling home prices and unaffordable monthly payments. The plan will make it easier for homeowners to afford their monthly payments either by redoing their mortgages or having their loans modified.



The President is vastly broadening the scope of the government rescue by focusing on those who are still current in their payments but at risk of default. He puts billions of federal funds into enticing servicers to modify these loans as well as modifying loans for those who've already stopped paying. While still voluntary, the program contains incentives for banks which have been resistant to modifications. The program gives servicers payments for each modification and would give them additional payments for three years if the borrower stays current. There are also incentives if banks modify at-risk loans before the borrower falls behind.

The plan also announced that the conforming mortgage agencies will allow refinances up to 105% of the value of the property. Conforming mortgage limits range from \$417,000 to \$729,750. Modifications are also limited to conforming loan amounts. □

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Did you know...?

- Real estate experts agree that the best hope for avoiding a commercial real estate crisis similar to the residential one is another bailout from the federal government. Federal Reserve chair Ben Bernanke has suggested at least \$1 trillion in credit would be forthcoming in order to avoid a "looming crisis." Analysts say that while delinquencies are few, office vacancy rates are nearing record levels. (Source: Christian Science Monitor)
- The Department of Housing and Urban Development has made plans to temporarily tighten its rules on the FHA cash-out refinancings due to falling house prices and rising defaults on refis. Starting April 1, the loan-to-value ratio on a Federal Housing Administration cash-out refinancing cannot exceed 85% of the appraised value of the one-to-four family property, according to a HUD letter to FHA lenders. Previously, the limit was 95%. (Source: HUD) □

The \$8000 Tax Credit for first-time buyers is a great reason why NOW is the right time to buy a home! And don't forget about low interest rates, lots of inventory, and stable prices! Call today to get pre-approved and experience firsthand the benefits of owning vs. the cost of renting.

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If people you care about are in need of expert mortgage advice, it would be my pleasure to provide them with an exceptional mortgage experience. Your referral is the greatest compliment I can receive!

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The First Time Homebuyer Tax Credit

In 2008, Congress enacted a \$7500 tax credit designed to be an incentive for first-time homebuyers to purchase a home. For 2009, Congress has increased the credit to \$8000 and made several additional improvements. This revised \$8000 tax credit applies to purchases on or after January 1, 2009 and before December 1, 2009.

Tax Credits: The Basics

1. What's this new homebuyer tax incentive for 2009? The 2008 \$7500 repayable credit is increased to \$8000 and the repayment feature is eliminated for 2009 purchasers. Any home that is purchased for \$80,000 or more qualifies for the full \$8000 amount. If the house costs less than \$80,000, the credit will be 10% of the cost.

2. Who is eligible? Only first-time homebuyers are eligible. A person is considered a first-time buyer if he/she has not had any ownership interest in a home in the three years previous to the day of the 2009 purchase.

3. How does a tax credit work? Every dollar of a tax credit reduces income taxes by a dollar. Credits are claimed on an individual's income tax return. Thus, a qualified purchaser would figure out all the income items and exemptions and make all the calculations required to figure out his/her total tax due. Then, once the total tax owed has been computed, tax credits are applied to reduce the total tax bill. So, if before taking any credits on a tax return, a person has a total tax liability of \$9500, an \$8000 credit would wipe out all but \$1500 of the tax due.

4. So what happens if the purchaser is eligible for an \$8000 credit but his/her income tax liability is only \$6000? This tax credit is what is called a "refundable" credit. Thus, if the eligible purchaser's total tax liability was \$6000, the IRS would send the purchaser a check for \$2000. The refundable amount is the difference between the \$8000 credit amount and the amount of tax liability.

5. Is there an income restriction? Yes. Individuals filing Form 1040 as Single (or Head of Household) are eligible for the credit if their income is no more than \$75,000. Married couples who file a Joint return may have income of no more than \$150,000.

6. Do individuals with incomes higher than these limits lose all the benefit? The credit phases-out between \$75,000 - \$95,000 for singles and \$150,000 - \$170,000 for married filing joint. The closer a buyer comes to the maximum phase-out amount, the smaller the credit will be. The law provides a formula to gradually withdraw the credit.

7. What's the definition of "principal residence?" Generally, a principal residence is the home where an individual spends most of his/her time (generally defined as more than 50%). It is also defined as "owner-occupied" housing. The term includes single-family detached housing, condos or co-ops, townhouses or any similar type of new or existing dwelling.

8. Are there restrictions related to the financing on the property? Congress eliminated the financing restriction that applied in 2008 that disallowed the credit if the financing was obtained by means of tax exempt mortgage revenue bonds.

9. Do I have to repay the tax credit? There is no repayment for 2009 tax credits. However, if the home is sold within three years, the credit must be recaptured upon sale.

10. Do 2008 purchasers still have to repay their tax credit? The \$7500 credit in 2008 was more like an interest-free loan. All eligible purchasers who claimed the 2008 credit will still be required to repay it over 15 years, starting with their 2010 tax return.

11. Can I use the credit amount as part of my downpayment? Congress tried hard to devise a mechanism that would make the funds available for closing costs but found that pre-funding would require cumbersome processes that would, in effect, bring the IRS into the purchase and settlement phase of the transaction.

12. Is there a way to get any cash flow benefits before I file my tax return? Any first-time homebuyers who believe they are eligible for all or part of the credit can modify their income tax withholding or adjust their quarterly estimated tax payments. Individuals subject to withholding would get an IRS Form W-4 from their employer. □

Source: National Association of Realtors®. To obtain the entire document, please contact us.

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www.MtVernonMortgage.com

Selected Interest Rates March 19, 2009

30 Year Mortgages	4.98%
2008 High (July 24)	6.63%
2008 Low (Dec 31)	5.10%
15 Year Mortgages	4.61%
5/1 Hybrid ARMs	4.98%
1 Year Adjustables	4.91%
10 Year Treasuries	2.59%

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.

Development: At The "Core"

Redevelopment of the urban core of more than half of the 50 most populous metropolitan areas in the U.S. is a "striking trend," says John Thomas, an EPA policy analyst and author of a report on housing trends. Cities seeing the most urban growth include New York, Miami, Chicago, Los Angeles, Portland, Denver, Sacramento, Milwaukee and Atlanta. These cities have captured a larger share of their region's new residential building permits than suburban areas since 2002, the study reports.

Growth in urban areas didn't take off until developers began to build the kinds of homes that appealed to buyers—homes close to public transportation in areas with lots of amenities that meet the needs of a changing population. "Demographics have really changed," says Dan Reuter, Land Use Chief at the Atlanta Regional Commission. "People are waiting longer to get married, longer to have children, and once children are grown up, we're living longer." □

Source: USA Today