

Four Ways Home Owners, Buyers Benefit from Stimulus Plan

Four primary sections of the recently enacted economic stimulus plan will benefit home owners and buyers, according to the CMPS Institute, an organization that certifies mortgage bankers and brokers.

The key benefits CMPS cites are expansion of the home improvement tax credit, expansion of the first-time home buyer tax credit, increased limits for reverse mortgages, and higher FHA loan limits.

Benefit #1 – Expansion of Home Improvement Tax Credit

The tax credit for making energy efficient home improvements is now 30 percent of the cost of the improvements up to a maximum of \$1,500. Previously, homeowners could get a tax credit worth just 10 percent of an upgrade cost and the credit was capped at \$500. Eligible improvements include energy efficient exterior doors and windows, roofs, insulation, heating and air conditioning systems and hot water heaters. In general the improvements must pass the International Energy Conservation Code or qualify for an Energy Star rating.

The stimulus also lifts tax credit caps for certain alternative-energy improvements for businesses and individuals. Under the new law, owners may claim a 30 percent tax credit for qualified solar water heating systems, small wind energy systems and geothermal heat pumps.

Benefit #2 – Expansion of First-time Home Buyer Tax Credit

The tax credit available to first time home buyers was increased from \$7,500 to \$8,000 for homes purchased between Jan. 1, 2009, and Dec. 1, 2009. Also, the credit no longer needs to be paid back as long as the buyers live in the home without selling it for at least three years. The previous version of the credit required home buyers to pay the funds back over a 15 year time frame, making it an interest free government loan.

The income limits are unchanged from the previous version (\$75,000 for single tax payers claiming the full credit and \$150,000 for married tax payers), as are most other qualification requirements. Also, the credit remains refundable. The credit may be claimed on 2008 tax returns that are filed by April 15 of this year, even if the home is purchased in 2009, according to CMPS.

One catch: if you bought the home in 2008, the credit remains \$7,500, and still needs to be paid back over a 15 year timeframe beginning in 2011 when you file returns for 2010.

Benefit #3 – Higher Reverse Mortgage Loan Limits

Loan limits on Home Equity Conversion Mortgage (HECM) - or "reverse mortgage" loans - will rise to \$625,500 until the end of 2009. Current limits, which mirror conforming loan limits, will be raised to open up reverse mortgage options for many seniors who may want to rely on home equity as a stable source of income.

Loan limits for FHA-insured reverse mortgages are increased to the \$625,000 level nationwide, not just the higher cost areas. The previous limit was \$417,000 across the country.

Nancy Stelow

CMPS officials called this "especially important because the FHA program is virtually the only game in town as private and jumbo reverse mortgage programs have nearly all evaporated."

This increased limit coincides with another little-known change in the reverse mortgage arena: the availability of reverse mortgages on home purchase transactions. "This is a fantastic opportunity for senior citizens to buy a new home and be relieved of mortgage payments without having to wait for their old home to sell," said Gibran Nicholas, chairman of the CMPS Institute. He suggested seniors could also use this strategy to buy a new home and turn the old home into a rental or otherwise wait for market conditions to improve before trying to sell the old home."

Benefit #4 – \$729,750 FHA and Conforming Loan Limits Restored in High Cost Areas

"The \$729,750 maximum loan limit had been in force throughout 2008, but was reduced to \$625,500 in 2009," Nicholas said. "The economic stimulus plan restores the \$729,750 maximum in high-cost areas (King County is \$567,500)." This makes higher cost homes more affordable – especially in the coastal housing markets that tend to have above-average home values. Now, residents in these areas will benefit from FHA's lower rates and easier qualification standards.

The bill also provides the option, if warranted, to increase loan limits for any "sub-area," i.e. an area smaller than a county. These limits will expire December 31, 2009.

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