

## New tax incentives and lending policy for housing

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Attempts by Federal and State governments in the first quarter of 2009 to stimulate home sales have resulted in the creation of significant incentives for buyers seeking to take advantage of attractive housing prices and interest rates across the United States. In order to reduce the large inventories of available homes for sale and thereby stabilize housing values that serve as security for loans held by financial institutions and investors around the world, an irresistible environment for real estate investment has been established that deserves closer examination.

### American Recovery and Reinvestment Act of 2009

Included in what has become otherwise known as the Federal Economic Stimulus Plan, the United States federal government increased the first-time home buyer tax credit previously implemented by The Housing & Economic Recovery Act of 2008 (Summer 2008) from \$7,500 to \$8,000, and removed the requirement that the credit be paid back in the future. The expiration date for receipt of the credit has also been extended from July 1, 2008 to Dec. 1, 2009. Consequently, homebuyers must have purchased a home after January 1, 2009 and before December 1, 2009 to be eligible for the \$8,000 cred-

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it. This credit only applies to first-time home buyers purchasing owner-occupied homes and not investment properties.

### State Tax Incentives

Many state governments are also independently attempting to address housing market distress within their own state lines by enacting legislation that provides further tax incentives for

prospective home buyers. For example, the California state legislature just recently passed a new-home buyer tax incentive as a portion of the state's 2009-2010 budget. According to this incentive, purchasers of new single-family homes, that have never been previously occupied, as their principal residence between March 1, 2009 and March 1, 2010 will receive a tax credit equal to the lower of 5% of the purchase price or \$10,000. Therefore, first-time home buyers in California who purchase a new

home as their single family residence between March 1, 2009 and December 1, 2009 should qualify for both the Federal \$8,000 tax credit and the State of California \$10,000 tax credit at the same time, resulting in a combined \$18,000 tax savings.

### FNMA Lending Requirements Relaxed For Investors

Federal government sponsored enterprises have also reached out to real estate investors by providing them with increased ability to

leverage funds and purchase more investment properties. Fannie Mae (FNMA) has announced that on March 1, 2009 it will increase the maximum number of permissible financed properties from 4 home loans to 10 home loans for borrowers seeking to purchase non-owner occupied properties. Investors attempting to take advantage of this policy revision must: have a 720 FICO score or higher, show funds in reserve to cover six months of future payments, pay a 25% down payment, have no history of

foreclosure or bankruptcy, have no delinquent payments within twelve months, and provide full documentation of all rental income.

Time will only tell as to whether these bold incentives will serve to generate the requisite number of home sales to effectively stabilize housing prices and the economy as a whole. Regardless of whether these enticements will succeed on a macro-economic level, the cumulative effect of astonishing low housing prices and interest rates combined with these

new measures has clearly created a housing market ripe for prospective buyers.

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