

First-time buyers taking advantage of tax credit

By Shonda Novak
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In August, Helen Rodriguez bought a one-bedroom unit in the Monte Vista Condominiums in Northwest Austin near RM 2222 and Loop 360 (Capital of Texas Highway).

She paid \$121,000 for the condo, which has a fireplace and Hill Country views. She also got an \$8,000 tax credit under a federal program designed to spur home sales to first-time buyers.

"It's the cushion that made me comfortable making this purchase at this point in my life," said Rodriguez, 25, a senior account executive at Pierpont Communications Inc., a marketing and public relations agency. "Without it, I don't think I would have been comfortable buying."

The program gives first-time buyers a credit for 10 percent of the home price, up to \$8,000. There are some income limits, and the closing must occur by Nov. 30. Given the amount of time that it takes to process a mortgage application, some buyers may be scrambling to make the deadline.

However, there are several proposals in Congress to extend the tax credit, including some that would expand it to all buyers. Developers, builders and real estate agents hope that comes to pass.

Kenton Brown, vice president of Sente Mortgage in Austin, said that 45 percent of home-purchase loans that Sente has made this year have been for first-time buyers. An end to the program, he said, "could slow sales pretty substantially."

"That's a majority of the purchase activity we're seeing now," Brown said. Not only that, but the tax credit is "creating a trickle-up effect," as owners are able to sell their entry-level homes and move into larger homes.

Brown and others are concerned that the program will lapse at a time of the year when home sales already tend to experience a decline, in the late fall and winter months.

"It will take a lot of first-time homebuyers out of the picture," said Richard deVarga, developer and architect of Cobra Studios, a condominium project with 24 live-work units in East Austin. "It's the one little carrot we've got right now, and that carrot is shriveling."

DeVarga said half of the 10 units that he has sold since late July went to first-time buyers who made the purchases mainly because of the credit. Prices range from about \$130,000 to \$170,000.

Artists Tim and Carli Price were among the buyers. The couple paid \$129,000 for a unit with 840 square feet. They plan to use their tax credit to create their "dream space," said Tim Price, a painter. His wife makes jewelry.

The couple had been house-hunting for about two years but "could never find anything in our price range that wasn't ready for a bulldozer," Tim Price said. When the tax credit passed, "we knew we had to step up our efforts."

Price said he was riding his bicycle and looking for houses being sold by their owners when he came across Cobra Studios, a no-frills project with open floor plans, a metal roof, rainwater collection tanks and glass-paned garage doors that open up the living room to the outside.

"Not only did we love the architecture, but we loved the price just as much," Tim Price said. "For being as close to downtown as it is, we couldn't have found a better setup."

The National Association of Realtors estimates that in Texas, 189,200 first-time buyers will be able to take advantage of the tax credit.

Locally, real estate agents say the tax credit has been responsible for much of the strength in the resale and new-home market. Critics, however, say the program is too costly, with much of the money going to people who would have bought a house anyway.

Ed Solter, president of Presidential Mortgage Co. in Austin, said the absence of the credit would be a test of the market, to see "if it can stand on its own wobbly legs."

Solter said the health of the local economy, including its housing market, hinges on job growth, and the region is losing jobs.

In addition, Solter said he expects a 1 percentage point bump in mortgage interest rates during the first quarter of next year, which could also hurt home sales. Some other experts think that mortgage rates won't tick up until next summer.

David Reed, senior loan officer with Integrity Home Mortgage in Austin, thinks that the credit will be extended and noted that there is bipartisan support to do so.

"I'd hate to see it go away," Reed said. "Of all the government programs aimed at helping the economy, I feel this one is right on the mark. Not only does it get first-timers in the market as homeowners, but the tax credit acts as a boost to consumer spending when they get their refund check from the IRS."

If the program does end, Reed said, "the government will have really dropped the ball. The last thing we need right now is for any housing momentum to reverse course. It will definitely hurt."

At Cobra Studios, deVarga said the credit is enabling young couples and others who are entrepreneurs or in the creative arts to purchase condos there.

He originally hoped to have all 24 units sold by last month, but the recession, real estate slump and much more stringent lending rules on home mortgages changed all that. He has seven units left.

"My goal was to be 'unemployed' in September, and I'm still dealing with this," deVarga said.

But he considers himself fortunate to have 70 percent of the units sold or under contract. That means he will be able to pay off his construction loan.

"We are doing well. Flat is the new up," he said. "Doing OK today is just getting through and paying your debt."

Tax credit details

Amount: 10 percent of the home price, up to \$8,000. Townhouses, condominiums and mobile homes qualify as well as single-family homes.

Who qualifies: First-time buyers or anyone who has not owned a home in the past three years. There are some income limits.

Details: The house must be your primary residence. The seller cannot be a close relative. You must repay the credit if you sell or rent the house within three years.

Timing: *Don't dawdle* — it takes at least four to five weeks to process a mortgage application and hold the closing. The closing must occur before Dec. 1 to get the credit.

Payoff: You can file an amendment to your 2008 taxes to get the money now or wait and file it with your 2009 tax return. You will be filing Form 5405. For more information, go to www.irs.gov.

Courtesy of JB Goodwin