

How Your Tax Credit Can Pay Your Down Payment and Closing Costs

To help buyers who want down payment and closing cost assistance, including those who qualify for the Federal homebuyer tax credit, 19 state housing finance agencies (HFAs) offer special short-term second loans to qualified buyers. These loans are available for little or no interest and may be repaid when borrowers receive their homebuyer tax credit refund.

Terms differ state-by-state, but most require borrowers to financing their home through a state mortgage finance program, which provides financing through approved lenders and generally features below market rates. However, to be eligible, borrowers have to meet limits on income and on the cost of the property or size of the loan. These limits can vary by locale, and will be higher in urban and suburban areas than in rural communities.

Most state down payment assistance programs are also restricted to first-time buyers despite the recent inclusion of existing buyers in the Federal legislation. Some are reviewing their programs and including existing buyers, like Kentucky, which included existing buyers in its program as of December 1.

Colorado offers homebuyers a 30 year competitive fixed interest rate first mortgage and a second mortgage for \$6,000 or 3.5 percent of the home, whichever is less, to be used for down payment and closing costs. The second mortgage will be offered with a zero percent interest rate. For more information on the Colorado Housing and Finance Authority: www.chfainfo.com.

In Delaware, the Delaware State Housing Authority (www.destatehousing.com) provides 8 percent second mortgage loans up to \$10,000 to help pay down payment and settlement costs. Borrowers must meet income and purchase size requirements. The program is open to existing as well as new buyers, but they must participate in homeownership education and the property must be inspected,

Idaho's Housing and Finance Association (www.ihfa.org) provides down payment assistance at zero percent interest, due on sale. Assistance, based on need, can range from \$1,000 to \$20,000 but it is limited to borrowers who earn less than 80 percent of the Area Median Income. It is also limited to first-time homebuyer, displaced homemakers or single parents with custody of children. Borrowers must take homebuyer education.

The Illinois Housing Development Authority (<http://www.ihda.org/>) offers a second loan for down payment assistance through its Home Start program for first-time homebuyers. The DPA Loan is a 10-year, zero percent, non-amortizing, forgivable loan in the amount of 3 percent of the purchase price up to \$6,000. Income and purchase price guidelines must be met and Homeownership counseling is required.

Kentucky provides first and existing home buyers six percent loans for down payments and closing costs that are not due until July 1, 2010. Home buyers must obtain a Kentucky Housing Corporation (KHC) first mortgage through an approved KHC lender, and they must meet KHC income and purchase price guidelines. Find out more here: www.kyhousing.org.

In Massachusetts, to qualify for the state-backed second mortgage the buyer must first receive a MassHousing loan through the state housing finance agency. These mortgages have loan limits and income limits ranging from \$119,000 to \$80,300 and are limited to first-time buyers (www.masshousing.com). Illinois also restricts participations to borrowers using state housing loans, which are available through approved lenders and have income limits. The Illinois Housing Development Authority is at: (www.ihda.org).

Maine gives a \$2500 cash grant and a \$500 coupon for an energy audit to buyers using state loans, pay at least

1 percent of the down payment from personal resources, take a homeownership education class. (www.maine-housing.org)

Missouri gives qualified, eligible first-time homebuyers a second mortgage of 3% of the loan amount to be used for down payment and closing costs. The second mortgage is forgiven after five years of ownership. Buyers who don't need down payment cash can use the second mortgage to reduce their primary loan. Missouri also offers an advance in the form of a second mortgage at the time of closing worth up to 6 percent of the home purchase price or a maximum of \$6,750, which is used to cover down payment and closing costs. The homebuyer then files for the federal tax credit and uses the credit refund to pay off the MHDC tax credit advance loan. The Missouri Housing Development Commission is at (www.mhdc.com).

For first-time buyers who are using state financing, Nebraska offers a second mortgage loan that advances up to 85 percent of the borrower's tax credit at the time the regular first mortgage is closed. The loan bears interest at rates set periodically, with a maximum term of 10 years. If the homebuyer uses the tax credit refund from the IRS to repay the ABC-2 mortgage loan within 180 days of loan closing, the state will send a \$500 "incentive" check to the homebuyer within 60 days of loan repayment. (www.nifa.org),

New Jersey's "Prefund" program provides a loan to pay your down payment and/or closing costs. It is limited to first-time home buyers who meet all of the requirements of the state financing, including income limits, and who are eligible for the Federal The loan is limited to \$5,000 and secured by a second mortgage. Find out more at the New Jersey Housing and Mortgage Finance Agency (www.nj-hmfa.com).

New Mexico (www.housingnm.org) limits its tax credit down payment loans by the size of the property purchase price, ranging from \$343,799 in Santa Fee to \$237,031 elsewhere, and by income. Income limits range from \$46,600 to \$65,550. The Tax Credit Loan Program provides a first-time homebuyer with a loan of 8 percent of the sales price or \$6,500, whichever is less, to cover the down payment and closing costs associated with purchasing a home. After loan closing, the homebuyer may file for the federal first-time homebuyer tax credit and use the tax refund to pay off the Tax Credit Loan.

As of January 1, New York State (www.nyhomes.org) will offer cash advances of up to \$8,000 on the Federal homebuyer tax credit for borrowers using a State of New York Mortgage Agency (SONYMA) mortgage to purchase a home. The advance can be repaid without interest when homeowners receive their Federal homebuyer tax credit after filing their annual tax return.

The Ohio Housing Finance Agency (www.ohiohome.org) offers second mortgages to first-time buyers for up to 3 percent of the purchase price of the home. Funds can be used for down payment, closing costs, or other prepaid expenses incurred prior to closing. Borrowers must already be participating in the state's first time buyers program, which has loan and purchase limits. If a borrower takes advantage of the loan, the second mortgage interest rate will be fixed at 1 percent higher than OHFA's current mortgage rates and payments will begin August 1, 2010.

Oklahoma (<http://ohfa.org>) also offers a homebuyer tax featuring no interest and no loan payments until August 2010. Eligible borrowers participating in the state financing program can get a second mortgage up to 3 percent fixed at 1 percent higher than OHFA's current mortgage rates and you will begin paying August 1, 2010.

Pennsylvania (<http://www.phfa.org/>) is one of the few states that includes existing home buyers in its tax credit program. It allows borrowers participating in its first mortgage program to apply a portion of their 2009 or 2010 first-time homebuyer tax credit towards the purchase of their home by providing an advance in the form of a zero-interest loan. First-time homebuyers are eligible for the lesser of 10 percent of the purchase price OR \$6,000 for newly constructed homes, \$5,000 for existing homes. Non first-time homebuyers are eligible for the lesser of 10 percent of the purchase price OR \$4,000 for newly constructed homes, \$3,000 for existing homes.

Borrowers must invest a minimum of \$1,000 of their own funds towards the purchase of their first home and the TCA can not be used to fund a down payment of over five percent. Due to limited funding, the program will be available to homebuyers on a first-come, first-served basis. Loans closed in 2010 are due to be paid back to PHFA by June 30, 2011,

The South Dakota Housing Development Agency (<http://www.sdhda.org>) allows first-time buyers to use a portion of their First-time Homebuyer Tax Credit for down payment and closing costs in conjunction with a South Dakota Housing Development Administration First-time Homebuyer loan. SDHDA loans have income and purchase size limits. If the loan is not paid prior to June 1, 2011, interest of 6 percent will begin to accrue and monthly payments, for 5 years, will begin on July 1, 2011. The maturity date of the ATC Loan is June 1, 2016. Eligible Properties include properties that were not acquired from a related person, which includes a corporation or partnership, or by a gift of inheritance.

The Tennessee Housing Development Agency's (www.thda.org) Great Advantage Program offers a slightly higher interest rate loan secured by a first mortgage for down payment and closing costs. The program, limited to low- and moderate-income borrowers, provides down payment and closing cost assistance of 2 percent. The Great Start program offers a loan at a slightly higher interest rate, secured by a first mortgage, but offers assistance with down payment and closing costs of 4%. The Stimulus second mortgage program -- available only in conjunction with Great Rate and Great Advantage -- offers assistance with down payment and closing costs of up to 3.5% of the property's purchase price.

The Texas Department of Housing and Community Affairs (www.tdhca.state.tx.us) recently released a new First Time Homebuyer Program that offers a 10-year deferred forgivable 2nd lien for down payment and closing cost assistance. The amount of assistance is up to 4 percent of the 1st lien mortgage amount. The 30-year first lien fixed interest rate is a competitive 6.25%. The program is limited to first-time buyers, and has limits on income and purchase price. Pre-purchase homebuyer education course required.

In Virginia, the Virginia Housing Development Authority (<http://www.vhda.com>) offers a First-time Homebuyer Tax Credit Plus loan that allows borrowers to use the federal First-time Homebuyer Tax Credit for a down payment on a VHDA mortgage up to 5 percent of the sales price. The loan has a built-in second mortgage to help cover the down payment and closing costs, with zero interest and no payments for the first 12 months. It has income and purchase price limits, and is available only to first-time buyers.

Here's another site to check for updated information on state housing programs. <http://www.ncsha.org/resource-center>.

For further information, contact Steve Cook Real Estate Economy Watch.