

## What the new housing law means for you

By [Holden Lewis](#) • Bankrate.com

The housing rescue bill, signed into law July 30, 2008, is full of goodies and not-so-goodies for homeowners and those who aspire to be homeowners. Here are some highlights.

### First-time homeowner tax credit

The law will extend a tax credit of up to \$7,500 to first-time homebuyers. A first-time homebuyer is defined as someone who hasn't owned a home in three years.

The tax credit is for 10 percent of the purchase price, up to \$7,500, but phases out for higher-income homeowners. Homeowners are eligible for the tax credit if they bought after April 8 of this year and before July 1, 2009.

This is a tax credit, not a deduction. It reduces the homeowners' tax bill by up to \$7,500 for the tax year in which the purchase was made. If you buy a house this year, you get the tax credit for the 2008 tax year -- the one with a filing deadline of April 15, 2009. If you buy a house next year by the end of June, you get the tax credit for the 2009 tax year. It's a one-time credit; you don't get to keep taking it year after year.

There is a catch, and that is that the money has to be repaid over 15 years, starting two years after you buy the house. That makes the tax credit an interest-free loan. If you take the full \$7,500 tax credit, your income tax bill will increase by \$500 a year for 15 years. If you sell the house before then, you'll have to pay Uncle Sam the remaining balance.

Complex issues, such as divorce, death, sale of the house at a loss and conversion of the house into a vacation home are accounted for in the law.

### Forgiveness to allow refinancing into FHA

A lot of people have fallen behind on their mortgage payments after the rates went up on their adjustable-rate mortgages, or ARMs. And they can't refinance into fixed-rate loans because their homes have lost value, and they owe more than their houses are worth.

The housing rescue law seeks to help these people get out of trouble. It encourages lenders to forgive some of their debt so they can refinance at lower amounts into mortgages insured by the Federal Housing Administration, or FHA.

It works like this: The lender has to forgive all the debt above 90 percent of the home's current appraised value. If that leaves you scratching your head, here is a hypothetical example, using round numbers:

Sometime before Jan. 1 this year, you bought a house for \$125,000 and got an ARM for \$110,000 after making a \$15,000 down payment. But the house lost value. Now it's worth \$100,000, based on an appraisal. Meanwhile, the ARM's rate went up and you can't afford the full payment every month.

Under this law, the lender would forgive everything you owe above \$90,000. Let's say that you owe \$105,000 of that original \$110,000 loan. The lender would forgive \$15,000, and let you pay off the loan for \$90,000. The lender would not be allowed to seek any of that \$15,000 later.

That allows you to find another lender who would underwrite a \$90,000 mortgage to be insured by the FHA. That loan amount would include the upfront FHA insurance premium of roughly \$2,700.



EQUITY TITLE  
CHERRY CREEK