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## First-time home buyers scramble to beat deadline for \$8,000 tax credit

By Michelle Jarboe, The Plain Dealer September 20, 2009, 1:40AM



Lonnie Timmons III, The Plain Dealer

Ashley Johnson and her boyfriend, Dave Seese, review a checklist during their final walk-through at a ranch home in Eastlake. Johnson, a first-time home buyer, recently bought the house with help from an \$8,000 federal income tax credit.

Ashley Johnson took a whirlwind tour of roughly 40 homes this summer.

The 26-year-old was staring down a deadline: Buy a home by the end of November in order to get \$8,000 in free money from the federal government.

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### About the credit

**What it is:** A federal income tax credit equal to 10 percent of a home's purchase price, up to \$8,000. Available to buyers who close by Nov. 30.

**Who qualifies:** First-time buyers and those who have not owned a home in three years. To claim the full amount, single buyers must have a modified adjusted gross income of \$75,000 or less; for married buyers, that number is \$150,000. Single buyers making

First-time homebuyers like Johnson, who closed this month on a three-bedroom ranch in Eastlake, have been scurrying to make their purchases before a federal income tax credit program expires Nov. 30.

Buyers, builders, analysts and economists laud the credit for putting a spark back into the nation's stricken housing market. Trade groups, including those representing Ohio builders and real estate agents, are lobbying Congress to extend the credit, and the Obama administration is taking a close look at it.

The issue frames a common debate in this recession: How much should we spend to spur the sputtering economy? The credit's proponents worry that

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when it disappears, improvements in the housing market - and the broader economy - will fade away. But skeptics question whether it's worth spending billions of dollars to sustain the program.

There are no firm statistics showing how the credit has affected home sales since its debut in late February. The Internal Revenue Service says 48,671 Ohio taxpayers have taken advantage of either this year's credit or a \$7,500 interest-free loan the government offered first-time home buyers last year. Nationwide, 1.4 million families have filed for the credit or the loan.

Real estate groups estimate that up to 40 percent of all home buyers this year will qualify for the credit, of up to \$8,000. That shakes out to 1.8 million to 2 million buyers, according to estimates from the National Association of Realtors. The trade group, leading the push to extend the credit, admits that many of those people would have bought a home anyway. But the Realtors estimate that the credit could be solely responsible for 350,000 or so sales -- not a shabby number during a housing slump.

"We think it's gone very far toward stopping the downward spiral," said Jerry Howard, president and chief executive officer of the National Association of Home Builders.

Data from a Northeast Ohio real estate listing service shows that contracts for single-family homes priced between \$100,000 and \$150,000 -- a popular price range for first-time buyers -- jumped in March and April and held steady throughout the summer. Houses that might have lingered on the market in 2008 are now the objects of bidding wars between aspiring homeowners.

Real estate powerhouse Howard Hanna Real Estate Services says 46 percent of its Ohio mortgage business from March through August involved buyers who had not owned a home in at least three years -- a condition for the credit.

Johnson, a true first-time buyer, had been living with her parents in Willoughby. Her boyfriend, Dave Seese, also was living at home. Last week, the couple moved into a tidy, one-story home with a small yard.

"Buying a home is definitely a major milestone in my life, but it's not for the faint of heart," said Johnson, who spent months trekking across Lake County with Realtor Rhonda Battig of Prudential Select Properties.

Johnson bought the house for \$109,000 and paid about 10 percent up front. Factoring the federal tax credit into the deal, she could make a larger down payment and still have six months of living expenses in the bank. "The \$8,000 was really a deciding factor," she said.

That's what Realtors including Scott Phillips have been hearing all year. Phillips, of Keller Williams Realty Greater Cleveland, mainly works with buyers interested in new construction. At the Battery Park development on Cleveland's West Side, Phillips has sold about \$2.2 million worth of homes to first-time buyers since the credit kicked in.

Some first-time buyers are borrowing down-payment cash from relatives and promising to pay back the loans when they claim the credit. Others are saving or investing their windfall. And Phillips has encountered some buyers who rush to spend their anticipated credit -- on student loan payments, a new car, wedding expenses or an engagement ring.

The Ohio Housing Finance Agency has helped some buyers turn that credit into a down payment. The agency has been working with lenders to offer its first-time buyers a second-mortgage loan of up to 3 percent of a home's purchase price. That loan carries no interest for a year, and the agency hopes buyers will repay it when they claim the credit.

As of Aug. 31, the agency had approved 168 such loans, totaling \$508,004. More than 415 loans -- for roughly \$1.15 million -- were in the pipeline.

The window for nabbing the credit is narrowing quickly. Builders say first-time buyers interested in new homes already have run out of time. Buyers of existing homes need to have a purchase contract by mid-October, at the latest, if they hope to close by Nov. 30.

A handful of bills to sustain the program are being considered in Congress. Their backers argue that the housing market remains fragile, and letting the credit expire will threaten any nascent economic recovery. But this year's program alone could cost more than \$14 billion. And opponents are squeamish about pouring more money into housing when other, high-cost issues are on the federal government's agenda.

"It helped give the economy a boost, but all good things have to come to an end," said Phillips, the Realtor. "So when it does, it does."

During a conference call Thursday about housing and the economy, Ohio home builders stressed their support for extending the credit through Nov. 30, 2010,

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and offering it to all buyers, not just people who have not owned a home recently. The home builders claim an extension will increase nationwide sales by 383,000 homes and create more than 347,000 jobs.

Avon builder Greg Romes, who is president of the Ohio Home Builders Association, described housing as one of the "few sectors that can revive the lackluster economy and put America back to work."

"Housing," he said, "can and will drive the country out of recession."

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Posted by **Dennis Norman**  
September 20, 2009, 3:45PM

This week the IRS announced that 1.4 million families had taken advantage of the first-time home buyer credit. They issued some last minute guidelines and even a video to help homebuyers understand the credit and how to claim it. I wrote about it and included the IRS video this week in a post at <http://realestateconsumernews.com/home-buyers/first-time-homebuyer-credit-provides-tax-benefits-to-1-4-million-families-to-date-according-to-the-irs/>

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Posted by **Michelle Jarboe, The Plain Dealer**  
September 21, 2009, 3:56PM

**From reporter Michelle Jarboe:**

Hi Dennis -

Thanks for posting the video.

That 1.4 million figure is the one I reference in the story. Unfortunately, that number doesn't give a clear indication of how many people actually have used the \$8,000 tax credit. I talked to the IRS about it last week, and the 1.4 million includes not only people who have claimed the credit but also people who claimed a \$7,500 "credit" that was available to first-time home buyers from April 9, 2008 to July 1 of this year.

The same goes for the Ohio number -- the IRS said that 48,671 Ohio taxpayers claimed either credit.

But the two incentives were extremely different. The \$7,500 was really an interest-free loan that reduced or eliminated what a buyer owed in federal income taxes. Buyers had to repay the loan, at a rate of 6.67 percent or \$500 a year, for 15 years, starting with their 2010 tax filing.

The current credit does not have to be repaid. I've received e-mails from quite a few home buyers who purchased houses last year and claimed the \$7,500 benefit. They're frustrated that buyers are getting

a better deal this year.

Hopefully the IRS will provide better detail on use of the credit, so we can see how buyer interest was impacted by the change to an \$8,000 credit that does not have to be repaid.

Michelle

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Posted by **rpuck1**  
September 21, 2009, 10:33AM

a sillimar ohio program in october is being rolled out for recent college grads.....need to stay in home for five years.....

smart money applies for both programs if possible...

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