

## SPECIALIST OF MONTH

by Kelly Lynch

## The Year in Review: The 2009 Stimulus Package

2009 saw many changes in the mortgage and real estate industries. The most significant changes affecting the mortgage industry were a result of the stimulus bill (The American Recovery and Reinvestment Act of 2009) passed by Congress on February 13 and signed into law by President Obama four days later. There were several items introduced that were designed to stimulate the housing market and we saw a definite uptick in sales and refinances this year and since the bill's introduction.

### Homebuyer Tax Credit

The centerpiece of the stimulus package as it related to the housing market was a refundable tax credit of up to \$8,000 for qualified buyers purchasing a house (e.g., closing escrow) before the end of November. The property had to be the first house the buyer had owned in the past three years and the buyer had to meet certain income requirements.

Initially, the bill applied to those earning up to \$95,000, with those earning less than \$75,000 qualifying for the full credit and those earning between \$75,000 and \$95,000 qualifying to receive a smaller percentage back. For married couples, the income threshold was set at \$150,000 for a full credit, and up to \$170,000 to get a smaller credit back.

This credit improved on a first-time homebuyer credit passed in 2008. That credit had to be paid back over a period of 15 years, making it more of a loan than a true credit.

In November the 2009 the homebuyer tax credit was extended from November 30 to April 30, 2010. Buyers may now get a tax credit if they are in escrow by April 30 and close escrow by June 30, 2010. Significantly, the homebuyer tax credit also was expanded beyond first time buyers to include a credit of up to \$6,500 to homeowners who have lived in their current home for at least five years and are seeking to relocate into a home priced at \$800,000 or less.

Another important modification to the original legislation raised the income limits for eligibility for the maximum credit (of \$8,000 for first time buyers and \$6,500 for owners relocating) from \$75,000 for a single purchaser to \$125,000 and from \$125,000 for a married couple to \$225,000. There are also credits available on a diminishing basis above those income limits.

We expect the increase to the income limitations to have a particularly strong impact on the California real estate market where incomes are among the highest in the country. The conundrum of the tax credit previously was that people who could most afford to purchase a home were the ones who were most restricted in taking advantage of the tax credit. Because of income caps, many homebuyers in markets such as California – which were also most in need of a boost in sales – were unable to take advantage of the credit previously. With the increased income limits, we are anticipating stronger sales in California at least through the first half of 2010.

### Increased Loan Limits

Stimulus legislation passed by Congress in the first half of 2008 temporarily raised the Federal Housing Administration loan cap for single family homes from \$362,790 to \$729,750 in cities where housing is particularly expensive – like much of California. However, the higher loan limit expired in January and was replaced by a lower loan limit of \$625,000.

The 2009 stimulus package restored the 2008 limits in February through 2009 and, in November, the higher loan limits were extended through 2010. These higher limits function to keep a greater percentage of loans in expensive cities within the “conforming loan” category. Conforming loans are eligible for guarantees from mortgage giants Fannie Mae and Freddie Mac. Such guarantees help reduce mortgage rates on conforming loans. Non-conforming or “jumbo loans” typically carry higher mortgage interest rates than conforming loans, increasing monthly payments and hampering the ability of families living in expensive parts of the country to purchase homes by making them less affordable. This increased loan limit has had a tremendous impact on California.

Loan limits for reverse mortgages insured by the Federal Housing Administration also were increased. They are now \$625,500 across the country and will remain at that level through 2010. The previous limit was \$417,000, which meant that in markets where homes are more costly FHA-insured reverse mortgages were not available for many seniors.

### Home Improvement Tax Credit

The tax credit for making energy-efficient home improvements was raised to 30 percent of the cost of the improvements, up to a maximum

of \$1,500. Eligible improvements – which must meet the standards established by the federal government – include replacing doors and windows, adding insulation, and installing new heating and air conditioning systems and water heaters. The fact that these incentives are “credits” rather than “deductions” makes them very appealing. Homeowners also will have the benefit of reduced utility bills in future years.

### Looking Forward to 2010

In October, the Federal Reserve announced that they will be phasing out their program of purchasing mortgage backed securities next year. As a result, only private investors will be purchasing mortgage backed securities and such investors likely will demand a higher rate of return than the government. Thus, we are expecting this to translate into higher interest rates to the consumer in 2010. We are not expecting this to happen quickly but we may see a slow increase in rates as the Federal Reserve phases out of the market.

On the other hand, we do expect the extension and expansion of the homebuyer tax credit and the extension of the loan limit increases to have a direct positive effect on the real estate market in southern California at least during the first half of 2010. Both should function to increase sales and stabilize both the real estate and mortgage markets by making it more attractive for buyers to purchase and easier for borrowers to get financing.

### About the author:

Kelly Lynch is the founder of KPL Select Mortgage, Inc., a mortgage brokerage company licensed by the California Department of Real Estate, with offices in Los Angeles and Palm Springs. Since its formation in 1992, KPL Select Mortgage has facilitated well over a billion dollars in residential loans and is consistently ranked among the upper echelon of approved correspondents receiving numerous honors. Kelly is a member of the California Association of Mortgage Brokers and the National Association of Mortgage Brokers. She graduated from California State University, Northridge with a degree in business and is a licensed Real Estate Broker in the State of California.

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