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Market Conditions Perfect For Home Buyers

By Paul Jacob

Favorable events in the mortgage industry coupled with a significant tax credit and a buyer's market, have created a potential perfect storm for home buyers in 2009.

The phrase "perfect storm" refers to a simultaneous occurrence of events which, when occurring individually, have far less impact than when all the events are combined.

Buyer Benefits

Consider the events that are coming together to create unprecedented buyer benefits:

- Mortgage interest rates are at a record low – the lowest since Freddie Mac started tracking rates.
- Home prices are more affordable.
- Over the last several years, the market correction in home prices has created a wide range of affordable properties.
- There is less buying competition. The bidding wars that were common just a few years ago no longer occur as frequently. Buyers are not forced to make snap decisions and offer top dollar just to edge out other buyers.
- Increased government assistance is now available to buyers.

\$7,500 Income Tax Credit

The most significant government assistance available to first-time buyers is the \$7,500 income tax credit that is part of the Housing and Economic Recovery Act signed into law July 2008.

To qualify for the \$7,500, individuals must earn less than \$75,000 annually, and couples no more than \$150,000. Individual buyers with income of up to \$95,000 and couples with income up to \$170,000 are eligible for partial credit. The credit can be applied to homes purchased on after April 9, 2008 and before July 1, 2009.

Unlike tax deductions, which only offset taxes by lowering taxable income, the tax credit is a straight dollar-for-dollar deduction of your tax bill. So, if you would ordinarily pay \$8,000 in (total) taxes, with the credit you would pay only \$500. It is also refundable, which means if your taxes are less than \$7,500, the government will send you a check for the difference.

Record Low Interest Rates

The record low interest rates are another key factor working in favor of home buyers. Last week, Freddie Mac released its Weekly Primary Mortgage Market Survey, which showed that the average rate of a 30-year fixed-rate mortgage has dropped to a new low of 4.96% (with a processing fee), down from 5.01% a week ago.

Rates started falling in November when the Federal Reserve announced its plan to buy mortgage-backed securities. Then, in late December, when the Federal Reserve announced that it would spend \$500 billion in the first half of this year, the mortgage rates were driven down to the low levels they are today.

When you combine low interest rates and tax credits with the effects of a buyer's market, the net effect is an unparalleled opportunity for home buyers. We are seeing motivated sellers willing to negotiate price and often include extra incentives, such as paying the closing costs, or paying for home upgrades.

Ideal market conditions may have arrived. Loans are available, Greater Cincinnati market is among the most affordable markets in the country, and there is a wide range of competitively priced properties out there - plus the aforementioned motivated sellers, tax credits and record low interest rates.

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