

## Economist's Quick Take on the Economy

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### **Economic Stimulus - Home Buyer Tax Credit**

- With President Obama's signature, the massive \$787 billion stimulus package becomes law today. Some aspects of the package are debatable on the true stimulating impact, but the housing component is clearly the best measure to turn the economy around.
- Many first-time home buyers will now be able to claim the tax credit of up to \$8,000 for buying and closing on a home by December 1st of this year. Though the government cost of the program of \$3.7 billion is less than 1 percent of the overall stimulus package, and sounds like a miniscule benefit at first glance, the impact will be felt widely among REALTOR® members. (Note that much of the stimulus package goes out broadly to the wide population in terms of tax cuts and unemployment/health care spending with no specific industry benefitting directly.)
- The \$8,000 tax credit is a clean refundable credit, unlike the one that was passed last summer. In other words, if you qualify as a first-time buyer (i.e., haven't been a homeowner in the past 3 years), then you can claim the \$8,000 to reduce your tax burden. If the \$8,000 is greater than the tax you paid, then you will get a refund check for the difference. Example: you owe \$2,000 in taxes on April 15, 2010. But if you bought a home before the stimulus expiration then you will in essence get a tax refund check for \$6,000 from the IRS. Some individual variations will apply, so consult with a tax expert.
- The \$7,500 'tax credit' that was made available last summer was not a true credit, as it required repaying that credit back to the government over time. Many, therefore, viewed it as an additional debt burden and the impact on the market was marginal at best.
- The current clean \$8,000 tax credit is likely to boost home sales by 300,000 from first-time buyers in 2009. That will further trigger trade-up purchases. Those home buyers requiring mortgages must meet the current market qualifying standards. Those who are unqualified and those who are not mentally and financially ready to take on the responsibility of homeownership should not be entering the market.

### **Economic Stimulus - Higher Loan Limit**

- The stimulus package also includes a raise of the conforming loan limit to that of last year. In January, the loan limit fell in many markets. For example, the limit fell from \$729,000 in the DC region to \$625,000. The stimulus bill re-raises the loan limit back to the last year's higher levels.
- The higher loan limit will permit more home buyers and homeowners to access lower interest rate loans as Fannie and Freddie will now be able to buy those loans. The loans for amounts above the limit are jumbo loans, and these loans carry very high interest rates.

- More people getting the ability to refinance at a lower rate and more people able to lock-in lower interest rate loans for home buying is great news for those in the higher-end of the market. The high-end market had been stalled and some relief (at least up to the new higher loan limit) is now underway.
- The higher loan limit is likely to raise home sales on the high-end by 150,000 among qualified home buyers in 2009.

### **Economic Stimulus - TARP**

- Though not part of the \$787 billion package, the next use of TARP money could further bolster the housing market. President Obama will provide concrete details on Wednesday.
- A good portion of the next TARP spending will be used to lower mortgage rates in order to lessen preventable foreclosures. Fewer foreclosures will help not only the families directly involved, but will also reduce inventory, which will in turn help better stabilize home prices.
- In addition to lowering mortgage rates for distressed homeowners, the lower rates through subsidization from TARP funds should be made available for all home buyers and non-distressed homeowners. Not only is it a more equal opportunity program, but the lowering of rates for all will speed the housing market recovery process.

### **What does today's data mean for REALTORS® and consumers?**

- Home sales increases as a result of the first-time home buyer tax credit, subsequent releasing of trade-up buying, higher loan limits, and already very low mortgage rates could easily raise home sales by 850,000 in 2009 (compared to if there was no credit, lower loan limits, and mortgage rates at 6% as was the case before the TARP was used to push down rates).
- These three policy impacts were the exact policy issues that NAR has been lobbying for in the past several months, with NAR achieving most of the initial plan for its members.
- The nation's 75 million homeowners also will benefit. The rising sales will lead to home prices to stabilizing much sooner, possibly as latter part of this year (rather than a 10% fall as many economists forecast). Then each homeowning family in America will benefit \$18,000 on average in housing value preservation as a result of NAR's lobbying efforts.