

2 reasons to buy a home now: Rates low, tax credit ends soon

Your friend Walter is a real estate agent, and every time you run into him at the grocery store he suggests that this is an excellent time to buy a house. That's not surprising, because Walter, like most real estate agents, is an eternal optimist. This time, though, he may be on to something.

While some economists believe home prices will remain low for the foreseeable future, other buyer-friendly incentives could disappear soon. If you've been on the fence about buying a home, here are some reasons to explore the other side:

- Record low interest rates.** The average rate for a 30-year fixed mortgage was 5.12% last week, the lowest level since the end of May, according to mortgage giant Freddie Mac.

The average rate for a 5/1 hybrid adjustable-rate mortgage — which offers a fixed rate for five years and then adjusts — was 4.57%, the lowest since January 2005, according to Freddie Mac.

While the credit crisis exposed the risk of short-term ARMs, a 5/1 hybrid is still a good option for borrowers who don't expect to stay in their home longer than five years, says Bob Walters, chief economist for [Quicken Loans](#), an online mortgage lender based in Livonia, Mich.

"If you're a young couple purchasing a home, and in the next five years you'll need a larger place, or it's highly likely you'll be moving, it makes all the sense in the world" to use a five-year hybrid ARM, he says.

These low interest rates are unlikely to last, says Lawrence Yun, chief economist for the National Association of Realtors. Rising budget deficits will likely push rates higher over the next few years, he says.

- The first-time home buyer's tax credit.** The economic stimulus package signed into law provides a tax credit of up to \$8,000 for first-time buyers who purchase a home before Dec. 1. Unlike an earlier tax credit, this one doesn't have to be repaid. The credit phases out for taxpayers whose adjusted gross income exceeds \$75,000, or \$150,000 for married couples.

The term "first-time home buyer" is a bit of a misnomer. If you haven't owned a home in the past three years, you qualify. If your spouse has owned a home in the past three years, however, you're not eligible.

The credit is refundable, which means that even if you owe less than \$8,000 when you file your 2009 tax return, you'll receive a refund for the balance. This feature makes the credit a valuable tax break for middle- or low-income families who pay little or no federal income tax.

To qualify for this tax break, you must close on the home by Dec. 1.

That may seem like a long way away, but the wheels of real estate transactions grind slowly these days, says Steven Fischer, president of the Georgia Association of Realtors.

In the wake of the credit crunch, lenders have tightened lending standards, which means it takes longer to get a loan approved, Fischer says. In addition, "There's always that chance you will have that extra week or couple of weeks going back and forth trying to get documents at the last minute," he says.

In the past, home buyers could usually close on the deal within 45 days after signing a contract to buy, Yun says. But these days, buyers should give themselves at least 60 days, he says.

You'll need to give yourself even more time if you're interested in buying a home that's in foreclosure or is a "real estate owned" property (REO) — a home the bank repossessed after failing to sell it at a foreclosure auction.

"The window of opportunity is closing fast unless the tax credit is extended," Yun says.

The NAR and other real estate trade groups are lobbying hard to get lawmakers to extend the credit into 2010. However, Congress has a busy schedule when it returns from the August recess, so there's no guarantee the credit will be extended.

One downside to the tax credit is that you can't claim it until you've closed on your home, which means you can't use the money for your down payment. However, some state housing finance agencies are offering bridge loans to home buyers who qualify for the credit.

Some of these loans are interest-free; others charge a modest interest rate. Borrowers repay the money when they receive the tax credit. Some states require borrowers to contribute some funds toward the down payment.

The National Council of State Housing Agencies offers a list of agencies that offer loans at www.ncsha.org. Click on the link for "HFA First-Time Homebuyer Tax Credit Loan Programs."

Courtesy of JB Goodwin