

1) In April, a full 60% of buyers put 6% or less down. Only 14% put more than 20% down.

Based upon these stats housing would have never responded to the tax credit without FHA lending...the weight of the housing market really does sit squarely on Government's shoulders. And without little to no money out of pocket needed due to special downpayment monetization guidelines for tax-credit purchases only, it is questionable how many of the buyers would have been able to buy otherwise. When the tax credit -- and virtual downpayment -- goes away, the number of qualified buyers may fall more than anybody expects.

Special tax-credit monetization programs: For this tax-credit ending April 30th, **the IRS, HUD, state finance agencies, and FHA lenders encouraged the monetization of the tax credit** by various means never seen before. With the gift then considered "seasoned funds" for downpayment purposes, countless numbers of borrowers who would have otherwise never been able to save a seasoned FHA downpayment and closing costs were instantly turned into eligible buyers. This was a primary driver of tax-credit effectiveness and much more important than historically low rates for the first-timer cohort. It is also why post-tax credit sales may fall much further than most expect.

The four methods of monetizing the tax gift are as follows (you can bet the builders were all over these):

- 1)** Prospective home buyers who believe they qualified for the tax credit were permitted and encouraged to **temporarily reduce their income tax withholding or claim 'exempt'** in order to quickly save the downpayment.
 - 2)** Rule changes made as part of the economic stimulus legislation allowed home buyers to claim the tax credit and participate in a program financed by tax-exempt bonds. As a result, **various state housing finance agencies introduced programs that provided short-term second mortgage loans used for the downpayment.** At last count there were **18 state agencies offering tax credit assistance programs.**
 - 3)** Under HUD's guidelines, **non-profits and FHA-approved lenders were allowed to give home buyers short-term loans of up to \$8,000.** The guidelines also allowed government agencies, such as state housing finance agencies, to facilitate home sales by providing **longer term loans secured by second mortgages.**
 - 4)** Lastly, **approved FHA lenders were allowed to purchase a home buyer's anticipated tax credit to pay closing costs and downpayment costs** above the 3.5 percent downpayment that is required for FHA-insured homes.
- 1a)** Data from the most recent (April) NAR Realtor Confidence Index report is alarming and points to a much greater drop in sales than most are anticipating:

If the buyer obtained a loan, what percent was the down payment?

Buyer did not make a down payment	14%
Buyer made a down payment of 1% to 2%	4%
Buyer made a down payment of 3% to 6%	42%
Buyer made a down payment of 7% to 10%	8%
Buyer made a down payment of 11% to 20%	19%
Buyer made a down payment of 21% to 99%	14%

1b) 65% were first-timer buyers or investors, the most volatile groups who have been known to turn off the demand literal overnight in the past.

Buyer was a first-time purchaser	49%
Buyer purchased an foreclosed home	21%
Buyer purchased a short-sale home	12%
Buyer was an investment purchaser	15%
Buyer paid all cash	26%

2) **Reed's tax-credit extension proposal** does not change much because the deadline to get into contract was April 30th and remains that even if Reed's proposal is adopted. It simply allows more time to close than the June 30th deadline. **If passed, this will benefit purchase contract back-dating fraudsters and some short-sales that legitimately did not close in time.**

Granted, short-sales typically have a longer closing period but this time around, lenders have bent over backward giving borrowers priority underwriting and short-sale processing. **If it doesn't close by June 30th, it is likely more about the offer price being too low for the lender to accept than the amount of time allowed to close.**

If not passed, the small percentage of houses that do not close by June 30th, which I believe will be less than the amount of back-dating fraud that will occur if passed, should not mean much to sales volume. I highly doubt that after the buyers found a house they liked, got lucky enough to have their offer accepted by the listing agent over a dozen others, went back and forth with the bank for several weeks before the offer was accepted, and put earnest money into escrow that just because they don't receive the tax credit the deal is blown.

In the event a credit eligible deal does not close by June 30th the buyer would probably just instruct the Realtor to counter back to the bank \$8k lower to compensate, if in fact it was

the bank's fault. If they didn't get the reduction the deal would probably close anyway, as emotions kick in forcing the buyer to make a bad decision, and the Realtor says "remember, there are 10 people waiting behind for the privilege of buying a rare short sale". .