



# Homebuyers

Do you hear Opportunity Knock, Knock, Knocking?

BY FRANK DEMARAIS

For individuals and families thinking about homeownership in 2010, the news seems to be full of opportunities knocking – home prices depressed by foreclosures, \$8,000 federal tax rebate and still low interest rates. If you have been shut out of owning your own home by the high prices of the past decade but feel you are ready for homeownership, you should really listen to that knocking and open the door to see if is right for you.

Home prices have become affordable for average income families.

The District has not had the same level of foreclosures as other areas, but the numbers indicate that a steady stream of property will be forced to sell due to foreclosure, unaffordable mortgage loans or job losses in the recession. A recent Urban Institute study (NeighborhoodInfoDC.org) indicates that almost 2 percent of all property in the District was in some state of foreclosure, totaling 2,300 homes, while only 3,400 homes and 2,800 condominiums sold last year. The trend in foreclosures is projected to keep pressure on home prices in 2010, with the foreclosure sales at below-market values affecting appraisals. In many neighborhoods the price reductions caused by the crisis have pushed prices down to levels of 2004 and has monthly payments on mortgages at or below comparable rent. A house price of \$225,000, with an FHA (Federal Housing Administration) loan of \$220,000, using \$7,875 down payment from personal funds or an HPAP (Home Purchase Assistance Program)/ EAHP (Employer-Assisted Housing Program) loan, has a total monthly payment of about \$1,450 (using a 5.25 percent rate) and requires an annual income of about \$45,000. Homes and condominiums in some neighborhoods are available for total monthly payments below \$1,100. If households have income below \$53,000, real estate taxes

can be cancelled (abated) for five years, lowering monthly payments by \$150 or more.

## \$8,000 Federal Tax Credit Extended for Contracts before April 30, 2010

The \$8,000 Federal Tax First Time Homebuyer Tax Credit, paid as a lump-sum check after documenting home purchase for first-time buyers, was extended for contracts before April 30, 2010, that settle before June 30, 2010. The extension of this credit is part of the Worker, Homeownership, and Business Assistance Act of 2009 and is free money that is not paid back unless you sell in less than three years. Incomes of buyers have to be less than \$125,000 for one person and \$225,000 for joint filers. A smaller \$6,500 credit is available for those moving from an existing longtime homeownership situation.

The key condition for eligibility is purchase of the home with a “binding contract” before April 30, 2010, and settlement before June 30, 2010. For anyone thinking of getting this \$8,000 credit, mortgage and realty professionals recommend first-time home buyers absolutely begin their process immediately – qualifying for a mortgage and applying for any eligible down payment assistance such as current DC resident HPAP or DC government employee EAHP programs. Buying a home is not like buying a car or a loaf of bread, it takes time to qualify for a mortgage, pull together down-payment money and then find a home you will be happy in for the long term. Plan on at least a three-month process from the point you start.

## Interest Rates Remain Low, and Low Down-Payment Loans Available

Current mortgage rates, even for first-time buyers with low down payment, remain at historically low levels. Rates are in the 5 percent to 5.5 per-



cent range with no lender points. This represents the low end of mortgage rates for the last 50 years and reflects the Federal Reserve and the US Treasury keeping rates low by buying up mortgage assets and other techniques. The federal government indicates it will keep rates low for the near term, but that might be three to six months.

Low down-payment options include using the HPAP for current low- and moderate-income DC residents and the EAHP that can lend deferred payment, 0 percent interest money that allows buyers to purchase with as little as \$500 of their own funds. The FHA program offers the lowest down payment and requires 3.5 percent of the sales price – for example, \$7,000 on a \$200,000 property – from persona, family gift funds or HPAP / EAHP funds.

FHA changes announced for loans registered after April 1 will make these loans a little more expensive – requiring an extra 0.50 percent upfront mortgage insurance premium (increasing the amount of that premium financed from 1.75 percent to 2.25 percent), increasing loans by \$500 for every \$100,000 of loan and increasing monthly payment by about \$3 per month. FHA will then also limit seller contributions to the closing cost to 3 percent of the sales price, from the current 6 percent, forcing buyers to use more money for down payment or take slightly higher rates to reduce closing costs.

If you hear homeownership knocking and really want to see what is behind that door in early 2010, Manna strongly recommends acting quickly, but not jumping before you are ready. We recommend starting with the homebuyer education programs available across the District. Every hour spent in homebuyer education can save thousands of dollars in costs, by making you an educated consumer. You don't want buyer's remorse on a home.

The District offers a number of free, reliable resources to assist prospective homeowners, with the city-wide Department of Housing and Urban Development (HUD)-approved housing counseling agencies: Housing Counseling Services, 2410 17th St. NW, 202-667-7006; Latino Economic Development Corporation, 2316 18th St. NW, 202-588-5102; Lydia's House, 3939 South Capitol St. SW, 202-373-1050; Manna Inc. Home Buyers Club, 828 Evarts St. NE 202-832-1845; Marshall Heights Community Development Organization, 3939 Benning Road NE, 202-396-1200; or University Legal Services, 220 I St. NE, 202-547-4747, and at 3220 Pennsylvania Ave. SE #4, 202-581-0600. Additional resources at [www.hud.gov](http://www.hud.gov).

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