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Clock Is Ticking for First-Home Buyers

\$8,000 Tax Credit Is Set to Expire Nov. 30 -- Unless Congress Extends It

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First-time home buyers are scrambling to take advantage of an \$8,000 tax credit set to expire in coming weeks, while Congress considers whether to extend the program or risk removing what may be one of the few supports underpinning the housing market.

Data released Thursday show how delicate the housing market is these days. Sales of existing homes unexpectedly dipped 2.7 percent in August from July after four months of steady gains, according to the National Association of Realtors.

The tax credit was designed to help jump-start the housing market, and it has been credited by the real estate industry for boosting sales. Roughly 1.4 million people took advantage of the program since its enactment early last year, according to the IRS, and more are rushing to do the same.

Given that it can take more than a month to close on a home after a contract is accepted, prospective buyers are running out of time. The program ends Nov. 30.

Robbie Pettit has made offers on six Prince William County homes in the past two months in a desperate effort to beat the clock. But each time, he's been outbid by competing house hunters equally eager to cash in on the program, he said.

"I'm praying for an extension of this credit, praying," said Pettit, 27, who is living with his wife, three children and their dog in a cramped, rented townhouse.

Lawmakers have offered nearly two dozen bills to extend the tax credit or expand it. A bipartisan group that includes Senate Majority Leader Harry M. Reid (D-Nev.), have offered a measure that would maintain the tax credit in its current form until June.

But vigorous lobbying by the real estate industry to keep the credit in place has yielded no action on any of the bills, and the Obama administration is mum on its position.

Supporters of the tax credit argue that it has succeeded in energizing buyers and helping clear a glut of lower-priced homes, including foreclosed properties, that are dragging down home values.

But critics, including some policy analysts at Washington think tanks, balk at the program's projected \$15 billion price tag, and they do not want taxpayers to be further burdened. These dissenters attribute the previous pickup in sales to plunging home prices and record-low interest rates. The tax credit, they say, is nothing more than a freebie for people who were going to buy regardless.

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Marisa Sandler and her fiance expect to close on a condominium in Friendship Heights on Friday. They plan to use the tax credit to invest in the stock market or pay down their mortgage principal.

"We probably would have bought without the tax credit, but it was the extra push that made us do it this year," she said.

When the tax credit took effect in April 2008, it was part of a broader housing rescue bill adopted by Congress. Only borrowers who had not owned a home in the previous three years qualified for the refund, which was capped at \$7,500 at the time. But that credit failed to motivate buyers, mostly because it had to be paid back.

To make it more appealing, Congress scrapped the repayment requirement and raised the cap to \$8,000 starting Jan. 1, but continued to exclude investors, second-home buyers and people earning more than \$95,000 a year.

The National Association of Realtors said that of the nearly 2 million people who buy their first homes this year, about 350,000 will have done so only because of the tax credit.

An analysis by Mark Zandi, chief economist at Moody's Economy.com, reached similar conclusions. The tax credit motivated 172,000 people to buy homes this year through July, and it could lure 375,000 more by the time it expires in November, he said. The program is on track to cost \$15 billion, as initially projected, and another \$15 billion if it is extended through May, Zandi said.

"It's a relatively cheap way to keep sales strong through the middle of next year when the job market will hopefully improve," he said.

Lucien Salvant, a spokesman for the realtors group, called critics of the program's cost "penny wise, pound foolish." He said the \$15 billion pales in comparison to the \$700 billion bailout Congress provided to financial firms.

Sen. Johnny Isakson (R-Ga), a veteran of the real estate business, has offered a bill that would expand the tax credit to \$15,000 and make any buyer of any home eligible.

That would cost a projected \$38.5 billion if the program is in effect for a full year, he said. But it would also help stimulate home buying at all price levels and bolster related consumer spending on furniture and landscaping, for instance, he said. But critics say it's time for the government to step aside, especially now that the housing market is showing signs of improvement.

"We need to stop creating artificial floors to the housing market and just let it adjust," said Mark A. Calabria of the Cato Institute. "If you had just let prices fall by \$8,000, you probably would have gotten the same number of people to buy."

The real winners with this tax credit are the banks that own the foreclosures, Calabria said. "I would rather the banks take a hit and sell their homes cheaper after all the bail-out money they got."

Ted Gayer, a senior fellow at the Brookings Institution, said the tax credit has probably done nothing more than pull people into the market sooner. "So we'll have a price to pay for it later," he said.

While many consumers are probably oblivious to the politics behind the tax credit, they appear to be acutely aware of the deadline.

"Everyone coming through the door is talking about this tax credit," said Brad Cohen of Mason Dixon Funding in Rockville. "They know exactly what it is and when it expires, and they're rushing."

Vivianne Coutts, a Northern Virginia real estate agent, said she's watched people make irrational decisions to get in under the deadline.

"In some cases, the people are overbidding by more than they would be saving," Coutts said.

Pettit said he's lost out on several bids for that very reason, but he's pressing ahead. He's looking for a home in the \$165,000 price range in Prince William County, which limits him to foreclosed homes in dire need of repair, he said. Pettit figures the \$8,000 tax credit is about the only way he can afford to make the needed fixes.

"I'm counting the days," Pettit said. "If we don't get the tax credit, we'll have to put everything off for a few years. By then, home prices will probably go back up again and I won't be able to afford a house."

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