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Buying a Home in Time to Get Credit

By AMY HOAK

House hunting usually slows down this time of year, as people put their searches on hold during the holidays.

This winter could be different, however, thanks to the extension -- and expansion -- of the first-time home-buyer tax credit.

"We're going to see far more interest in the fourth quarter than we generally do because of the tax credit," says Heather Fernandez, vice president of Trulia.com, a real-estate search engine. Traffic surged on the site on Nov. 5, the day Congress approved the credit extension, she says.

The new law extends the tax credit for first-time home buyers and opens it up to some existing homeowners as well: The credit is now up to \$8,000 for first-time buyers and up to \$6,500 for repeat buyers.

All buyers must have a binding contract on a house in place on or before April 30. The purchase must be for a principal residence and must close on or before June 30.

To be considered a first-time home buyer, an individual must not have owned a home in the past three years. And to be eligible, existing homeowners need to have lived in the same principal residence for five consecutive years during the eight-year period that ends when the new home is purchased.

Income limits have risen as well. According to the Internal Revenue Service's Web site, www.irs.gov, the home-buyer tax credit phases out for individuals with modified adjusted gross incomes between \$125,000 and \$145,000, and between \$225,000 and \$245,000 for people filing joint returns.

The inclusion of move-up buyers might inspire homeowners to take action and list their house if they've been putting it off, says Carolyn Warren, a Seattle mortgage broker.

"If people love their home, it's not going to entice them to sell," Ms. Warren says. "If they've had it in the back of their minds and really would like to move up, it might push them into doing it sooner than later."

If you're thinking of purchasing a home, here are five tips:

Don't procrastinate

Start your house search now. Getting an early start will give you a better chance of finding the right house before the credit deadline.

When first-time buyers thought that the credit would expire Nov. 30, people scrambled to find properties in September and October, says Pat Lashinsky, chief executive of ZipRealty, a residential real-estate brokerage firm. In some cases, "there wasn't inventory that fit people's needs," he says. In some markets, including Phoenix, Chicago and parts of California, for example, properties had multiple bidders, Mr. Lashinsky adds.

Before you start house hunting, get preapproved for a mortgage, says Eddie Fadel, a Miami-based mortgage banker. And do a realistic assessment of what you can afford.

Buyers who have to sell an existing home should price it aggressively from the beginning to drum up interest and get a buyer as soon as possible, Ms. Fernandez says.

Don't count on another extension

The credit won't be available forever, Mr. Fadel says.

"This is a medication for the housing crisis," he says, "Once the patient -- which is the housing market -- is cured, there will be no medication needed."

Be mindful of interest rates

Interest rates are low right now, but will likely rise next year, Ms. Warren says. Higher rates will affect your monthly mortgage payments, thus the affordability of the house you are buying.

"It's pretty universally accepted that rates will be higher next year," she says. "What is unknown is how fast and by how much."

Average rates on 30-year fixed-rate mortgages have been hovering around 5%. But when the Federal Reserve stops buying large amounts of mortgage-backed securities next year, interest rates could rise, Ms. Warren points out. The Fed plans to end its purchase program in March.

Communicate with your lender

Make sure you're speaking with your lender regularly to avoid any delays. If the lender asks for any additional documentation, turn it in as soon as possible, says Doug Heddings, a New York-based real-estate agent with Charles Rutenberg Realty.

And think twice before pursuing a short sale. That's where someone sells a home for less than what he or she owes on a mortgage, with permission of the lender. The process can be lengthy and unpredictable because the homeowner's lender has to approve any deal, Ms. Warren says, and it can get complicated when there is a second mortgage associated with the property.

Don't take shortcuts

Don't forgo any of the steps you would normally take just to make the tax-credit deadline. That means making sure the house is a good fit and is in the right location and getting a home inspection, Mr. Lashinsky says. Skipping steps could cost you in the long run.

"Don't let the tax credit get you to make a decision to buy a house that you wouldn't otherwise want to buy," he says. "Don't shortcut the process to get the tax credit."

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