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State partnership finds way to turn federal tax credit into down-payment assistance.

OLYMPIA, Wash. - The Senate Ways and Means Committee last night unanimously approved a measure designed to help first-time homebuyers come up with a down-payment. The committee adopted the measure as an amendment to the proposed Senate biennial operating budget.

The proposal would make the \$8000 federal tax credit for first-time home buyers available at the closing of a home sale instead of when a buyer files a tax return. Homebuyers would repay the \$8000 after filing for and receiving a tax refund. The amendment creates a Tax Credit Advance Loan Program and authorizes the State Treasurer to deposit \$25 million in a financial institution giving it the ability to open a line of credit to the State Housing Finance Commission to provide the down payment loans. The deposit would not deplete state funds, but would provide liquidity for the financial Institution to lend its own funds.

The program is the first of its kind in the nation and would work as follows:

- The State Treasurer's Office would make an off-setting deposit in an FDIC-insured short-term account with a selected financial institution. The investment would earn a low interest rate to stay fully insured under federal guidelines.
- Realtors and other stakeholders back the loans with funds to provide security against losses.
- The financial institution provides the Washington State Housing Finance Commission a line of credit to advance up to \$8000 to qualified first-time home buyers for a down-payment.
- Buyers repay the advance loan after filing for and receiving the tax credit.

The amendment is the result of the efforts of the Washington REALTORS®, Washington State Treasurer's office, and Washington State Housing Finance Commission. State Treasurer James McIntire wrote the budget proviso and is helping to advance the measure through the state legislature.

State Sen. Steve Hobbs (D-Lake Stevens), who offered the amendment, said that using the \$8,000 tax credit to help first-time homebuyers make down payments could help jump-start the economy. Hobbs noted that home purchases have a significant impact on the retail and banking sectors of the economy and on state and local coffers. "In this recession we need to find new and innovative ways to stimulate the economy. This proviso will slow the decline of our housing market and stimulate the economy," Hobbs told the Senate Ways and Means Committee.

"Down-payment assistance to our first-time home buyers is the key we need to unlock economic activity throughout the state," said Greg Wright, President of the Washington Realtors. "This tax credit is new money that we can put to work now to help the housing market and ignite economic action statewide." According to a study by the Washington Research Council, each home sale by a first-time

buyer generates \$11,100 in state and local tax revenue. Every 1,000 home sales generate \$126 million in general economic activity, supporting 711 jobs.

The goal of the program is to get the money to buyers efficiently and return the federal refund quickly so that the HFC can turn it around to provide more assistance. The funds may revolve as many as three times before the tax credit expires, reaching up to 9000 first-time homebuyers. These "bridge loans" would expire at the same time as the federal tax credit, on November 30, 2009. All of the bridge loan funds return to the state system by early 2010 to use for capital projects in 2010-11.

"With homes at affordable prices and interest rates at historic lows the \$8,000 tax credit opens a window of opportunity that may never be seen again," said Wright, a Chelan Realtor. "The Senate's budget helps bring that opportunity to families throughout our state."

Lack of a down-payment is the only barrier to home ownership for up to 50 percent of first-time home buyers, according to J. Lennox Scott, Chairman and CEO of John L. Scott Real Estate. A recent study by the Federal Reserve Board showed that home ownership for people 35 years and younger increased by as much as 43 percent when a primary mortgage was combined with a down-payment assistance loan.

"First-time homebuyers are the most critical to the recovery of the housing market and our overall economy, because their purchases set off a chain reaction of buying and selling," Scott explained. "The first step toward stimulating the state housing market is making the federal tax credit available at the closing table and increasing down-payment assistance."

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