

HUD: Tax Credit Can Be Used on Closing Costs

FHA-approved lenders received the go-ahead to develop bridge-loan products that enable first-time buyers to use the benefits of the federal tax credit upfront, according to eagerly awaited guidance from the U.S. Department of Housing and Urban Development on so-called home buyer tax credit loans that was released today.

Under the guidance, FHA-approved lenders can develop bridge loans that home buyers can use to help cover their closing costs, buy down their interest rate, or put down more than the minimum 3.5 percent.

The loans can't be used to cover the minimum 3.5 percent, senior HUD officials told reporters on a conference call Friday morning.

Thus, buyers applying for FHA-backed financing with an FHA-approved lender that offers a bridge-loan program can get a bridge loan to bring down the upfront costs of buying a home significantly but would still have to come up with the minimum 3.5 percent downpayment.

There remain many sources of assistance for buyers needing help with the 3.5 percent downpayment, including many state and local government instrumentalities and nonprofit lenders.

In addition, [some state housing finance agencies](#) have developed their own tax credit bridge loan programs, so buyers in states whose HFAs offer such programs can monetize the tax credit upfront to cover all or part of their downpayment. These programs are separate from what HUD announced today.

The first-time homebuyer tax credit was enacted last year--and improved upon earlier this year--to help encourage households to enter the housing market while interest rates are low and affordability is high. The credit is worth up to \$8,000 and is available to households that haven't owned a home in at least three years. The credit does not have to be repaid, and is fully reimbursable, so households can get their credit returned to them in the form of a payment.

Learn more about the credit, including how to apply for it this year even if you've already filed your taxes, at [REALTOR.org](https://www.realtor.org).

Source: Robert Freedman, REALTOR® Magazine Online