

FHA Allowance of FTHB Tax Credit

This update from Mortgagee Letter 2009-15 (Copy Attached) establishes guidelines for use of the first-time home buyer tax credit as settlement funds.

Here are the 10 things you need to know about these changes:

- 1. The IRS tax credit refund can be made only to the taxpayer and not a third party.**
- 2. Government agencies may offer tax credit advances with second liens.**
- 3. The buyer cannot get cash back through the tax credit advance.**
- 4. The 2nd lien may not exceed the down payment, closing costs, and prepaid expenses.**
- 5. The 2nd lien may be "soft" or require payments.**
- 6. Payments on 2nd liens must be included in ratios unless deferred for at least 36 months.**
- 7. Balloon payments on 2nd liens may not be before 10 years.**
- 8. FHA approved lenders and FHA approved non-profits may purchase the tax credit.**
- 9. Tax credit purchaser may not charge more than 2.5% of the tax credit as a fee.**
- 10. IRS may deduct from the tax credit: unpaid student loans, tax liens and garnishments.**