

## First Time Homebuyer's Tax Credit Conference Call

HCS: Thank you very much for joining us today, I really appreciate you being on the call and being willing to help me understand more about tax credits that are available or may be available to first time home buyers. According to the article that I read from USA Today that says first time buyers are about 40% of all the buyers that buy homes today, so that's a big number, and certainly be a great benefit to be able to help first time home buyers to take advantage of these tax credits, but I'm sure they are, as most things are: they're complex and may or may not be difficult to obtain. So that's the reason I wanted to get you on the call, and I'm going to start and go down the list as I have you and I'll just read off my list then I'll come back and start: I have Charlie Anderson, David Lane, Tom Kelly, John Miller, Kim Mabry, Mary Ellen Wilkinson, Paula Taliaferro, and Jeff Callister from Utah. So Charlie let me come back and put you at the top of the list and talk with me about and help me as much as you can, on what's available as tax credits for home purchasers.

CA: Well it's my understanding, and I don't pretend to be a taxation lawyer, but I don't think you have to be a tax lawyer to understand that it's part of the stimulus that's been passed.

HCS: Right.

CA: Congress is allowing people that are buying first time residences for themselves and have never been a homeowner before, hadn't been through a default or foreclosure. Young families starting out or maybe somebody that's just never had the circumstances to buy their own home to live in. If they buy one now, then when tax time comes, if they file the appropriate return, they can claim up to that, I believe \$8,000 as a credit against their personal income taxes and that's a huge benefit; and I think the debate is whether to extend that from \$8,000 to \$15,000 and whether or not to allow it not just to first time homebuilders – excuse me, home buyers but anybody buying. And I think it's limited to *their own* residence. I don't think they're going to let commercial developers do it but that wouldn't be a bad thing either in these times. But, you know, that's part of the stimulus that everyday mainstreet people starting out, trying to establish in the new environment that we're in. And you know, and this legal plan, I was just thinking in anticipation of the call. No matter what the environment or the economic season we're in, you can use your plan to your benefit for help and counsel through that process if you've never bought a home, so that you're secure, that you know you're making the right decision. Not rushing into something that's going to end up a problem like what got us into the mess to begin with: A lot of people assuming more debt than they could service. So I think it's a good thing, and I hope they do expand it. It'll give us a lot to do, helping people understand the process.

HCS: Well...I-

Tom Kelly: This is Tom Kelly joining in on the telephone call from Portland, Maine.

HCS: Tom, we're glad have to you, I appreciate you joining and I'll be calling on you in just a second. And those of you on the call, that you may say, "Well, uh, Charlie's already covered all of it because he started off first." And if he did, that's great, but that's okay, you go ahead and repeat because I have to hear it several times before I become familiar with it. So...we'll go to David Lane out in California. David, is that basically your understanding? Is there anything you can add to that or take away from it?

David Lane: Yeah, a couple of things. First of all, it doesn't have to be your first home ever. You just cannot have owned a house as a primary residence in the *last three years*. So if you previously had owned a house years ago, sold it, and you have not had a primary home that you've owned in the last three years, then you still qualify for the credit. Additionally, you could own a rental property and if that rental property had not been your primary home. Let's say you were renting an apartment for the last three years but you did own a rental property somewhere else, you technically would still qualify for the credit. So it's not, you know you could've owned a house in the past, you just can't not have owned anything in the last three years.

HCS: Okay, one more time David, on the rental property that you talked about, explain that to me.

David Lane: The rule says basically that you cannot have owned a primary home in the last three years in order to qualify for the credit.

HCS: Okay

DL: And if you owned a rental property that's just been a rental for the last three years; and it's not your primary residence, then you've not owned a primary residence for the last three years. So you would still technically qualify for the credit.

HCS: Okay. Alright, I so...

DL: uh...

HCS: go ahead.

DL: The bigger problem at least for higher income regions like out here in California is that the phase out levels for the incomes are relatively low, by standards of say California/LA. So whereas, you may be buying a first time home; given the cost of homes in California and the incomes, quite oftentimes, that in order to be able to qualify for the mortgage to buy the house out here, your income has to be high enough that you're beyond where the phase outs are for these credits. But, you know when Congress passes this stuff they look at it on a national guideline not necessarily looking at geographical disparity of incomes. So I, for one, would love it if they would remove the

income caps, because that out here would do us a lot of good, probably in the northeast too; in the higher, more higher income areas. Because it doesn't have all the bang for the buck that it wanted to for places like California because of the income phase out. But, those are the kind of things that I see. \$15,000 over eight would be great, definitely would be stimulus. The only downside is I don't know if Congress is going to go for it given the budgetary constraints. Because they had to close some loopholes when they passed this, they had to modify some of the 121 rules which are the primary residence exclusion rules. So it's kind of like if they're going to pass this and give away another, you know, another \$7,000 on the credit, they're going to have to take it somewhere else to make up the revenue. And who knows what they're going to do there.

HCS: Right. Alright. Well, that's very helpful, David, and I appreciate that. And, Tom as I said earlier, maybe they've covered everything. But anything you want to go back over I'll be glad to listen to. And if there's anything else you can add, certainly do that.

DL: Oh, One other thing I was going to mention, if you don't mind, it was: If you buy the house before December 1st, which is when the credit expires, if you buy it now in 2009 you have choice of either claiming the credit on your 2009 return that you file next year, or you could still go back, amend your 2008 return and claim it for 2008 so you could put the money in your pocket right now.

HCS: Okay, that's another great point. And Tom, I'll move to you, Tom Kelly. It sounds as though this expires as of the end of this year. And we don't know if they're going to renew it, raise it, or whatever. Is that pretty well your understanding?

Tom Kelly: That's correct. It expires at the end of November of this year. The prior point actually, an interesting point, and it's a good transition to the point I was going to make, which is the idea that one could amend your 2008 return and immediately get a credit for this, in fact, that's been taken one step further. Obviously amending your return and then waiting for the \$8,000 dollars to come back to you is going to take a few weeks, or a month, or however long it takes the IRS to process the amended return and give you additional money. There are some programs out there, I believe, sponsored at least through some federal agencies to actually allow a loan to the homeowner at the time of closing that actually – loan's the wrong word - it's the right word, really – to finance this \$8,000. So the idea would be, the home owner has to put \$8,000 less into the purchase of the money- the purchase of the home, because there's a loan which is going to bridge the gap between the time of closing and when the refund or credit check comes back to the homeowner. And that loan could be structured in a couple different ways. There's a couple different programs out there mostly through federal agencies as I understand it, or sponsored in some way through federal agencies. But the idea being that either the money gets paid back to the temporary lender as soon as you get the credit, or the money gets paid back over time, so that it's kind of stretched out.

Another point that I think is interesting from a practitioner's standpoint, an attorney's stand point, serving Pre-Paid Legal Members, is that there are some aspects of the

program that if the homeowner's not careful, can lead to some problems. And that, it's another instance of where if the Pre-Paid Legal Member consults with the law firm before getting into it, we can provide them some advice. One example is the income limits that were mentioned at the prior, call- prior participant. It's easy enough to know if you have a regular salary, it's easy enough to know that your income limits are going to make you ineligible for the credit, but if in fact instead, you have a salary which has spikes and falls, and bonuses at the end of the year, or has some other changes in the fluctuation of your income, you could find out that you might not in fact be eligible, for the credit. Of course if you amend your 2008 return you'll know what your income is then. But if you're relying on what you expect your income to be in 2009, you could have some difficulty. There's some other, there's some other wrinkles, that I think someone who consults with an attorney beforehand would be well-advised to know, as you go into the process. Just to keep yourself out of trouble.

The last thing I might want to point out is simply that among the options that congress could consider is how much of the credit is refundable or non-refundable. What that means is that some credit, the credit is currently in place is a non-refundable credit, meaning that-

DL: You sure?

- if the homeowner qualifies for the \$8,000 and gets the check for the \$8,000 for the current time, that \$8,000 does not have to be paid back, right?

When this credit was initially put into place last year, and before an amendment that went into effect early this year, it was a refundable credit, meaning that the home owner would have some additional taxes to pay over a 15 or 16 year period to kind of pay back the credit over time.

DL: Be careful with that term, because normally when you say "refundable" that means that you get the credit even if you don't pay taxes. Whereas, I think you're talking about-

TK: Oh yeah, no, that's a good point. That's a good point. I wasn't talking about that aspect of it. "Recapture" might be a better word.

DL: There's a better word.

TK: Recapture, might be a better word. And, in fact, that statute as it's drafted has some recapture provisions in it that simply are, for a period of time. For a period of time those recapture provisions are not being applied. That period of time falls through the end of November. And that's when the statute expires also. But that may be something that goes into the mix. Where if they're looking for ways to finance and come up with the money to make this credit work, they may end up going back to some type of recapture, where the homeowner needs to, in essence, pay some additional taxes overtime, whether it's at 100% or 50% or something else along those lines.

HCS: Okay. Alright, well Tom some good points. We'll move on down, and of course I'll give everyone an opportunity here before the end of the call to recap and make statements ask questions, etc. Again, maybe repeat for those of you. But that's fine, go ahead and repeat those points that you think are important, and if you have something else to add, that'll be great also. So from New Jersey: John Miller.

JM: Thank you. Actually I think everyone so far has done a great job. Everybody sort of stole the thunder. I hate to be the black cloud in the group, but the \$15,000 tax credit was originally the proposal that was introduced in the stimulus bill way back when, which was actually worked down to this \$8,000. So originally the concept that was originally proposed was in fact, to give the full \$15,000 and it was dwindled down. So I'm not sure, that, it depends on the comment made earlier about budgetary constraints; I'm not too sure that this will pass as \$15,000. But I certainly think the concept, as a tax credit, will continue to be around at least for, you know, until the economy gets itself into position where everyone has some faith, and there's a feeling that we're going to see the end of the tunnel here and that there's some confidence level in the real estate business. So whether or not it's \$8,000 or \$15,000 or something mixed in there, I think that the credit will continue to go forward. And the thing I wanted to point out I think was well pointed out last, between the last two speakers was the fact that the credit itself is actually, could be cashed to the homebuyer. If at the end of the year, they owe no taxes, unlike a deduction, this is a full credit; they would get \$8,000 back from the IRS. If they owed \$2,000 at the end of the year, they would get back \$6,000 they wouldn't have to pay the two. So even if it's not direct dollars, it's an offset against taxes so at the end of the day the full impact to the home owner, the home buyer would be the full \$8,000 dollars. So I think it's a great program, I think that it really needs to, you know, the competence level in the economy has to come back to really see this thing go forward. Because, even though first time homebuyers represent 40%, I mean, as a practitioner, it is very difficult today even to get first time homebuyers qualified. The mortgage money itself is somewhat difficult, too. So you take the credit, it sort of gives you the people, an incentive to get into the marketplace. It's still difficult to in the marketplace and a lot of people are still standing on the sidelines waiting to see where the market sort of bottoms out. So I think that this program, in some form, is still going to be around for at least the next couple of years.

HCS: Alright, well John, thank you very much. Very good information. Alright, we'll go to Virginia with Kim Mabry. Kim, anything you'd repeat that's been brought out, or anything new that you might add?

KM: Yes, thank you. Yeah I agree with the last attorney, in that, the credit will certainly be extended. Just because our recession and our economy is not really showing signs of recovery, like we would like to see. So I definitely think it will be extended. So far as some of the other changes, I also agree that it will more than likely stay at the amount that it currently is, just because of the budget constraints. And I do not think that the decision will be made or on passage of the bill or presentation of the bill in the first place,

until probably close to the end of the time when it's set to expire, just because of the congressional process.

One of the things though, that I do think they may consider is: As opposed to making the credit available to all home buyers, they may consider including the customers that are in a position to refinance, and maybe allow those customers to have access to a \$3,000 tax credit as opposed to a full \$8,000. So that way it may expand to other customers who have a home and they want to take advantage of the lower interest rates, and thereby freeing up some extra cash so they can stimulate the economy a little bit better. So I think if anything is changed, that may be considered. I don't know, but I think that's more likely than increasing the amount of the credit. Everything else is, in addition to that, I think that they will definitely, like I said, extend it, at least until the economy starts to look a little better.

HCS: Okay. Some of the things you're talking about Kim, is what you think may happen, and not necessarily has or will. Correct?

KM: Well, certainly, certainly. But, I definitely think that there may be some expansion, it certainly may benefit the economy if maybe customers who can refi. will have some availability to them as well, some benefit to them.

HCS: I would agree, and hope that happens. Well, Kim thank you very much, good points. Mary Ellen, anything you can add to your colleagues' points, or repeat, etc?

ME: I do not have anything much to add to the points they've made about the bills. I'm an old banker, and what I realize in the income maxes, is that for a couple, a \$170,000, that's the good old days when the bankers were conservative. The maximum mortgage that they would more or less qualify for would be in the \$3,500 to \$4,000 range. So in CA when you were talking about that income level is not adequate. The difficulty, and we're of course here in Virginia, where half the congressman live up there. The difficulty is we're talking about the credit and how it will be balanced in the budget for people who can afford potentially, to the max: \$3,000 to \$4,000 a month mortgage. And that's a pretty high dollar mortgage. So obviously the real benefit is under the max, and I think that those are just questions that you target, who is going to help. But you're probably not really wanting to target the people who can afford \$4,000/\$5,000 a month mortgages.

DL: Yeah, but...Just a comment on that. Out here in California that's your average mortgage, for your average first time home.

ME: But, that's what made me, that's part of what got me thinking about it is that unfortunately, California, it competes with the attention of the rest of the country. And that's the difficulty that you would have, is that if it's the national legislation; they're not going to make a special exception, for how wonderful the real estate costs, or how expensive the real estate costs are in CA. Although sometimes they actually can build it in, if they're willing to do the administrative gobbledy-gook that in the western part of the country, which would be the max, and in the eastern part. But that's really so administratively difficult it's where we are on that whole bankruptcy legislation, that you

have to be within the income in order to take Chapter 7. And they had to make that regionally specific. Because you couldn't just say for the whole country, "If this is your income, you can take Chapter 7." But whether they would want to get into that level of detail, in terms of a straight out credit for stimulating house sales, is hard to imagine.

HCS: Okay. Mary Ellen. Thank you for that, and Paulette, and I apologize, I think I said Paula a minute ago, but I do know it's Paulette. So, Paulette, anything you would add or repeat, that's been said so far?

PT: I think I agree with most of what's been said, Mr. Stonecipher. The one thing that I just want to point out: When the attorney was talking about the government allowing individual borrowers to take their advances on the tax credit now. Well, the FHA is allowing borrowers to do that, and they said the borrowers can receive advances on their tax credits through lenders, so they don't have to wait until the next tax year to get the money back from the IRS. And I think that's a good thing. So they're still going to have to come up with the 3.5% down payment but if they can come up with that, and you know, that's a requirement anyway for most FHA loans. They can get their money now, instead of waiting, and they can use that for their closing costs and their fees. Which a lot of people, they may be able to come up with the 3.5, but then they don't have the additional money for the closing costs and the fees. So that's a good thing.

HCS: That's a great point. And I appreciate you bringing that out. Alright, let me, I appreciate everything, oh I'm sorry. Utah, Jeff Callister, your thoughts, Jeff?

JC: You know, I don't think I have anything additional to add. Although, unfortunately I think I might be more with maybe some of the attorneys that said they were maybe in the rainy cloud camp. You know, I wouldn't be surprised to see this extended out a little bit. But I think I might be a little bit surprised to see it go as high as the \$15,000 that was discussed in that article that was emailed to me yesterday, anyway. But you know I'd be hopeful, because I do think, obviously the greater it is, that would be more help, I think, to potential home buyers. But I'm just not sure the government's going to be willing to open it up that large. But other than that, I don't think I have anything more to add to what's already been said. I think I agree with what most of the previous provider firm attorneys have already said about that. So...

HCS: Okay, Jeff. I appreciate that. Let me go back now, and see if anyone would like to comment additionally. One of the things that, was mentioned was that there was a way to apply for the tax credit and to get that almost immediately. If you could help me a little bit with that, that would be appreciated. Anyone want to go back and touch on that just a little bit?

TK: Sure, this is Tom Kelly from Portland, Maine. I can think of two ways that that could happen. One way is that, let's say, let's give an example. Let's say that I filed mine in April of this year, I filed my 2008 return for taxes. Alright, and I paid all the taxes I needed to pay. I evened up with the government in 2008. I buy a home in 2009, I'm a first time home buyer. Immediately after buying the home, I can amend my 2008 return,

and treat the purchase that I just undertook, as if it happened in 2008. And qualify for the credit as if the entire transaction happened in 2008. In which case I will then, having amended my return, the IRS processes it, and in due course I receive a check for \$8,000. So that's one example.

HCS: Okay.

TK: Another example is that some lenders through the, I believe it's the FHA program, have established a program where they will lend me the money as part of financing the purchase. So that I'm borrowing enough money, in anticipation of getting that check a month from now. So there's some programs out there that actually enable me to actually borrow and get the money now. Now, I think that there can only be used...if I remember correctly, that loan can be used to help to finance closing costs, rather than to put money in my pocket. If somebody else can double check whether that's right, but I think that's correct. In other words, let's say I'm buying the house, and I need to put in \$4,000 worth of closing costs. Alright, I need to come up with cash out of my pocket of \$4,000 or some other down payment amount. Alright, that actually comes, that's part of my savings. And I'm putting that in there. The loan for the credit amount can cover what I'm otherwise, what I have to put in as part of my down payment and closing costs. I can't put money back into my pocket so that I now have, let's say I have \$4,000 of down payment in closing costs that I was going to put in, it can cover that. It won't allow me to process a loan for the additional \$4,000 so that I can go out and buy, you know, whatever I can buy for \$4,000. Now I can, I may be able to apply for the credit for the remaining \$4,000 and get that in a month or so from now. But, if I understand the loan program correctly, the loan program only replaces money that I otherwise would be putting in myself.

HCS: Okay, that's very good. Any other comments before we close the call? Anything else that you would add?

Well, I really appreciate it ladies and gentlemen. There's, I knew that I could get information from you because I'm sure that all of you as providers have had some of your members talking to you about this. But I wanted to make sure that I understood it. So as I talked to our sales associates, and again I won't try to be the lawyer, I will refer them back to you, but it will help me at least, give them enough information, that they would know what questions to ask. Yes?

Alan Isaacs (Provider Quality/Referral Division Supervisor): Mr. Stonecipher, I have a question, it's my understanding also that if you're purchasing the home from an immediate family member, that you are excluded from this benefit. I was just wondering if the attorneys could comment on that right quick.

HCS: Okay, Could you year the question?

KM: Yes, this is Kim Mabry from Virginia.

HCS: Yes.

KM: You cannot purchase a home from a spouse or a direct ancestor, or lineal descendent. But I believe you can qualify for the credit if you purchase from a sibling or nephew or niece.

HCS: Okay, Okay, a good point. That's very helpful also. Alright anything else, any other questions or comments from any of the rest of you in the room? Well alright, I really appreciate you very much being on the call with me. Helping me out on this. And hopefully I can pass enough along to our Sales Associates that they can talk to potential members out there that may be looking to buy a first time home and this would be something that would be of interest to them and of course, then as member they could pick up the phone and call you folks and get help. And I will, Leslie, what I would like to do is maybe refer the rest of our lawyers to this call, if they would like to listen to it. They may all be well versed, I'm sure they are, but if not. This would be, I think, good for us to encourage our other providers to take a listen to it, so they will be familiar with it.

Well, all right again, I thank you very much, and I will talk to you again sometime in the near future!