

# Tax credit ineligible for down payment

## Feds reverse rule to assist first-time home buyers

by **J. Craig Anderson** - May. 19, 2009 12:00 AM  
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Federal officials on Monday reversed an earlier decision to allow first-time home buyers to use an \$8,000 tax credit to borrow the down payment on a home.

A week earlier, U.S. Department of Housing and Urban Development Secretary Shaun Donovan had told the National Association of Home Builders that HUD would let banks and local governments offer short-term "bridge loans" to cover the down payment for first-time buyers eligible for the tax credit. The loans would have been available to applicants for federally insured mortgages such as Federal Housing Administration loans.

Lenders, home builders and real-estate agents had reacted favorably to the bridge-loan proposal, saying it would open up the housing market to more first-time buyers.

However, not everyone was in favor of using the tax credit as collateral on a down-payment loan.

"That tax credit should be savings, not debt," said Patricia Garcia-Duarte, executive director of Neighborhood Housing Services in Phoenix.

Garcia-Duarte said the proposal too closely resembled a now-illegal practice known as seller-funded down-payment assistance, which allowed a home's seller to "gift" the down payment to a specific buyer through a non-profit organization.

Phoenix loan originator Dean Wegner was among the housing-industry professionals who had expressed enthusiasm about the bridge-loan plan.

Wegner said the program would have boosted local home sales, but he added that the bridge loans likely would have come with a high interest rate.

The loans also could have created income-tax issues, according to the IRS officials who shot down HUD's plan.