

# NORTH AMERICAN LAND TRANSFER TITLE NEWS & NOTES

## Welcome!

We are pleased to present the inaugural issue of North American Land Transfer's Title News & Notes. From time to time we'll share items that we believe are interesting or important in the world of real estate.

The real estate industry is experiencing a significant slowdown. In an effort to resuscitate the housing market, the President has signed into law a large and complex housing stimulus package with a broad range of provisions. In this issue of News & Notes, we outline three provisions that may have a direct impact on you or your clients.

We realize your time is valuable and hope you will remain a subscriber; however, you can always use the links both at the top and the bottom of this message to unsubscribe. Please feel free to forward Title News & Notes to a friend or colleague.

Thank you for your time, please don't hesitate to contact us, we'd love to hear from you.

Enjoy!

Francine D'Elia Wirsching

## In This Issue of Title News and Notes

- [FHA Downpayment Changes](#)
- [Revisions to Capital Gains Exclusions on the Way](#)
- [Credit for First Time Home Buyers](#)
- [You Might not Know](#)

## Changes to FHA Downpayments

### *DAP Disappearing, Down Amount to Go Up*

Starting in October of this year, seller-funded Down-Payment Assistance Programs (DAP), a popular marketing tool of builders and residential sellers will be not allowed where mortgages are backed by the Federal Housing Administration (FHA). The FHA had requested elimination of these programs citing an extraordinarily high default rate on loans using DAP. The real estate industry, especially builders, unsuccessfully lobbied to have the provision removed.

Another significant change is that FHA purchase money mortgage down-payment requirements will increase from 3% to 3.5%.

## Significant Changes to Capital Gains Exclusions

### *New Rules Next Year*



NORTH AMERICAN  
Land Transfer

August 13, 2008

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Under the existing capital gains exclusion rule, a seller can claim a maximum exemption of \$250,000 (\$500,000 if filing jointly) if he had resided in the property as his primary residence for at least 2 years.

Effective January 1, 2009, a new formula will apply and will take into account the ratio between the time a seller has lived in the residence over its qualified life.

For Example, an individual sells a property which he had owned for 8 years and used as his primary residence for the last 2 years. In our example, the seller realizes a gain of \$200,000 upon the sale of the property. This year he can exclude the entire gain from income tax. Sell the house next year, different story. Only \$50,000 of the \$200,000 can be excluded from capital gains tax. Here is the math: the 2 years he occupied the residence equals 25% of the total years he owned the property and 25% of the \$200,000 gain is \$50,000.

The IRS hasn't published its final rules and each situation is different, please consult a tax professional before making any decisions.

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## First Time Home Buyer Purchase Credits

### *Tax "Credit" Available Retroactively*

Also in the housing bill is a program to provide what amounts to an interest free loan for first time home buyers or buyers who have not owned a home within the last three years. The program runs from April 9, 2008 through June 30, 2009. The "credit" is 10% of the purchase price not to exceed \$7,500 (joint filing - subject to income and other criteria), and is taken as a credit on your federal tax return. If a couple purchases a home priced at \$100,000, they could be eligible to take a maximum credit against their federal taxes of \$7,500. For example, if the buyers have a tax liability of \$2,000 and they qualify for the full \$7,500 tax credit, they will receive a refund of \$5,500. The total credit of \$7,500 will be "paid back" through one's tax return filing over a 15-year period at 6.67% per year of the total "credit" or in full if the home is sold again subject to certain parameters.

Again, the IRS has not published any rules around this change, and you should consult a tax professional before taking the credit.

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## You might not know

That on March 28, 1876, the Governor of Pennsylvania authorized the first title insurance company franchise.