

NJSCPA's "Do it Herself - A Journey to Financial Freedom"

Home Buying & Mortgage Tips in the Current Economy

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Introduction

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Session Objectives

- How can you maximize the opportunity to own a home without jeopardizing your financial security?
- If everything that can go wrong does go wrong - will you still be okay financially?

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Agenda

- General Introduction & Audience Survey
- State of "the Mess"
- Economic Overview & Expectations
- Fundamental Planning Concepts
 - Pros & Cons of Home Ownership
 - Tax Considerations
- Update - State of the Mortgage Markets
 - Foreclosure & Loan Modification Program
 - Qualifying Criteria for Mortgage Financing
- Questions

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Informal Survey

- Who Owns their Homes?
- Who would be a 1st-Time Buyer?
- Who is a "real estate investor" or wants to become one?
- Who is here to learn about the government's loan modification program?
- What specific questions would you like to have answered during the session?

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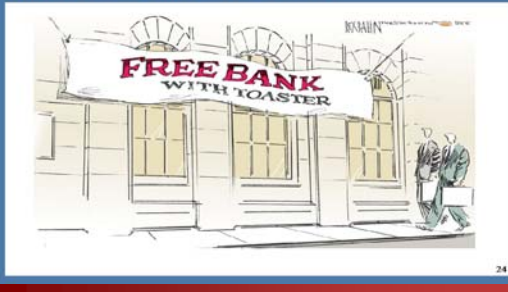
Review of Recent History

Quick Summary of
What Took Place
and
What We Know

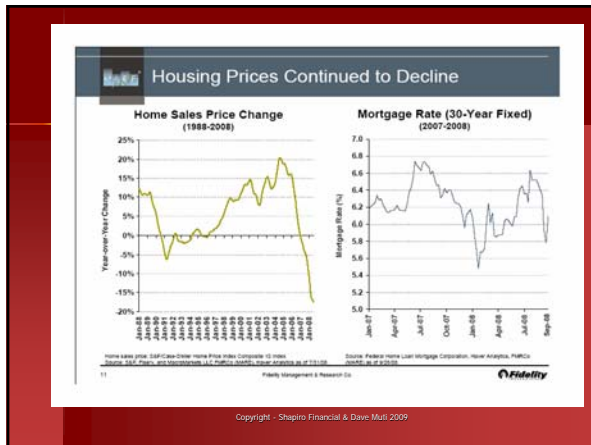
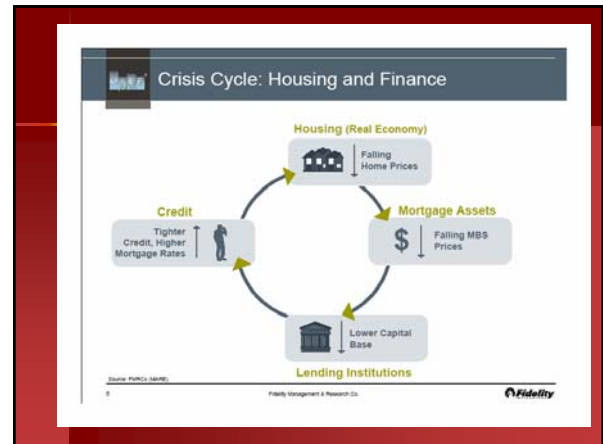
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How Did We Get Into This Mess?

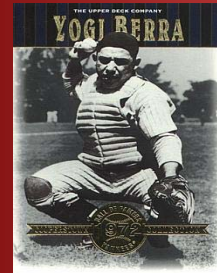
The Fixed Income Environment



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Yogi-ism
 "its very hard to make predictions;
 especially about the future"



AICPA/CPA2Biz Article

- By Kenneth B. Shapiro, CPA/PFS, CFP
- AICPA Wealth Management Insider
- October 16, 2008
- "Weathering the Economic Storm"
 - It's not always about growing wealth -
 - Sometimes its about keeping it

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Area of Discomfort

- "We were told by prominent investment professionals for almost a year that this pending correction was going to be one of the worst since the Great Depression.
- People today are fearful of a total collapse and the word panic is appearing in the media with greater frequency.
- Why did it take so long for people to listen?"
 - KBS 10/16/08

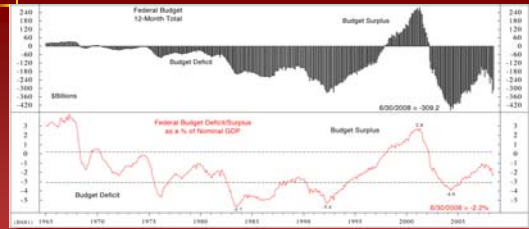
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Economic Overview & Expectations for 2009

- Recession finally declared as of 12/07
- Eerily similar to early 1973-1982
- Banking system still a mess
- Rising Unemployment
- Consumer's Problems
 - Pre-existing debt levels
 - Lack of savings & emergency reserves

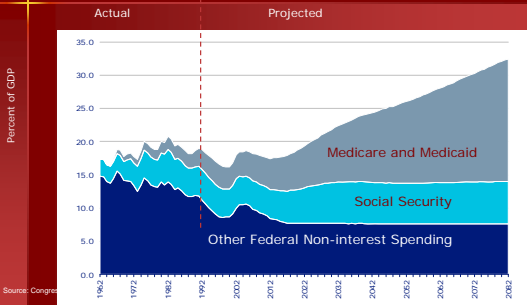
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Federal Budget Deficits Presently in good shape ???



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Congressional Budget Office Spending Projections



Source: Congress

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Financial literacy isn't just a matter of knowing what you have and knowing your options. It is a matter of planning for life's emergencies & milestones.

Email from friend – 01/21/09

We've had 2 suicides in town due to job loss. Both men were making big bucks, but living in huge houses.

Probably were living paycheck to paycheck.

A police officer commented the home was sparse of furnishings, but had Cadillac Escalade & Jaguar in driveway.

Other house was a "McMansion" with permits to construct a heated inground pool with waterfalls, had Bentley in the driveway, but interior was in dire need of work

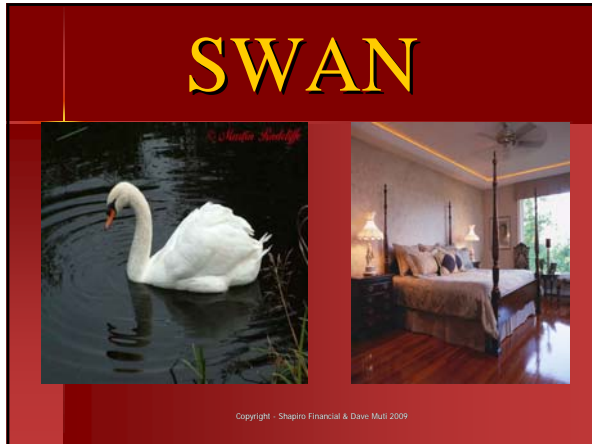
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Social Pressure

People relate spending with social status.

Remember, you are not what you buy.

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What is Financial Planning?

- Setting of Objectives/Goals
- Identifying Constraints
 - Liquidity (How fast can you obtain cash)
 - Marketability (How fast can you sell your assets)
 - Risk Tolerance
 - Diversification
 - Tax Rates
 - Time Horizon (Retirement = 1 yr to ???)
- Review Alternative Strategies
- Implementation
- Monitoring of Results

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How Much Cash Do I Need?

- Most expenses can be anticipated.
 - There are very few expenses that should be a "surprise".
- Emergency Fund – Depends upon your situation (Rule of thumb – 3-6 months of income).
- Short-term: Needs within 1 – 3 years
- Mid-term: Needs in 3 – 7 years (New Car)
- Long-term – Expenses > 7 years (Retirement, College Funding, Children's Weddings)
- Determine: How much you need to save every month to satisfy these goals.

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Planning Advice for Buying a Home

- Why are you buying the home?
- What do you need in a home?
- Focus on what you can afford to buy instead of how big a mortgage you can qualify for.
- Only seek to buy a home after other fundamental planning concerns are properly addressed

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Pros & Cons of Home Ownership

<u>Pros</u>	<u>Cons</u>
<ol style="list-style-type: none"> 1. Not making any more land 2. Inflationary impact on rising costs 3. Tax Incentives 4. Pride of Ownership 	<ol style="list-style-type: none"> 1. Maintenance Requirements 2. Size of Downpayments 3. Marketability Issues 4. Job Stability & Emergency Cash Reserve Needs

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Tax Considerations

- Deduction of Mortgage Interest & Real Estate Taxes
 - Acquisition Indebtedness - \$1M mortgage
 - Equity Indebtedness - \$100K mortgage
 - **New Law – Claim real estate tax deduction in addition to standard deduction**
- Deferred taxes on FMV Appreciation
 - \$250K/\$500K Exclusion of Gain Rules
 - Ownership & Use Tests – 2 out of 5 yrs
 - “Like-Kind” Exchange opportunities
- **New Temporary Credit for First-time Homeowners**

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Temporary First-Time Home Buyer Credit

- Available for homes purchased after 4/08/08 and before 07/01/09.
- Must be principal residence
 - Vacation/second homes and rentals do not qualify
- **Refundable** tax credit
 - Equal to 10% of home purchase price,
 - up to a limit of \$7,500 (credit reduces tax liability or increases refund)
- Essentially an interest-free loan
 - Must be paid back to the government, over a 15-year period.
- Phased out for higher income taxpayers
 - AGI between \$75,000 and \$95,000 for single
 - AGI between \$150,000 to \$170,000 for Married.

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Temporary First-Time Home Buyer Credit

- Who is “first-time” home buyer
 - Never owned a home as a principal residence
 - Owned home before
 - but not as principal residence
 - during the 3 years prior to the purchase
 - For married couples
 - both must meet the 3-year rule

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Temporary First-Time Home Buyer Credit

- 2009 purchases prior to July 1, 2009
 - can claim credit on either 2008 or 2009 tax return
- 1/15th of credit recaptured annually
 - begins two years after year credit claimed (e.g., 2008 credit, then first repayment with 2010 return)
- Repayment to be paid added as part of tax liability.
 - Could increase balance due
 - may need to increase withholding or make estimated tax payments to avoid under-withholding penalties.
- **IMPORTANT:** Payment of remaining balance of credit is due on the tax return for year the house is no longer your principal residence, sold, or converted to a rental

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Temporary First-Time Home Buyer Credit

- If home owner dies
 - credit balance does not need to be repaid
- In case of a divorce
 - responsibility for future credit repayments goes with person who gets the house
- **Other house purchases that do not qualify:**
 - Purchases from close relatives
 - Purchases financed from tax-exempt mortgage revenue bonds

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Mortgage Markets

- State of the Industry
- Qualifying Criteria for Mortgage Loans
- Credit Scores & What Affects Them

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Reverse Mortgages as a Planning Tool

- Up until now, the HOME EQUITY CONVERSION MORTGAGE (HECM) (REVERSE MORTGAGE) was only able to be used as a REFINANCE, allowing senior homeowners the ability to pull equity out of their existing home to use however they wish.
- With the passage of the new HOUSING & ECONOMIC RECOVERY ACT in August 2008, the HECM is now also available for PURCHASE TRANSACTIONS, which will give seniors even more FLEXIBILITY and more BENEFITS when choosing a REVERSE.

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Special Recommendations

- Remove Emotions from Buying Decision
 - Slow Down & Review Impact of Decision
 - Financial
 - Packing, Unpacking & Decorating
 - Other Lifestyle Adjustments
 - Schools
 - Support Network – Family & Friends
 - Commuting – Time & Money
- Research Mortgage Loan Alternatives
 - Work with local mortgage loan broker

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Financing Mistakes

- Top 10 Mistakes When Buying a Home

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Questions ??

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