



# What's New?

December 14, 2009

## KEYS TO THE BEGINNING OF A RECOVERY:

1. *The Real Estate market must stabilize. If not reversing, at least not continuing to fall. **NEW HOUSING STARTS UP** this past Spring and Summer because of seasonal factors but inventory still huge! The Nationwide COMMERCIAL COLLAPSE IS JUST BEGINNING!*
2. *Unemployment must stabilize. If not reversing, at least not continuing to rise. Last report was lower! **IT'S ACTUALLY WORSE** as a "%," Back to near 11% - AND IT CONTINUES TO MOUNT @ OVER 250,000+ weekly.*
3. *Corporate Earnings (profits) must stabilize. If not reversing, at least not continuing to fall. **SOME POSITIVE SIGNS** but mainly in **TECHNOLOGY.***
4. *Banks must begin to make loans again (especially to small businesses and potential home owners...albeit under ancient premises of buyers being qualified and of all things, a down-payment! **Lots of "hoopla"** from the mega banks, but it appears that there's no real progress. They're "hoarding" any cash they can get their hands on. And now here comes the Regional problems compounded by **PRIME** loan and **Alt-A** resets!*
5. *The **DOLLAR** has to decline. **It's started for REAL!***
6. *Auto sales must stabilize at some **NEW** level. **Maybe started!***
7. *The consumer must get "back in the game of consumin'" **NO WAY!***

**ANALYSIS OF THE ABOVE: No Real Hope YET! -12/14/2009**

## FREE MONEY...the Best Kind!

Spread the Word: 'Free Money' for homes is one of those "perks" from the recent Government "spending binge."

You may have no idea that "free money" is now available for the purchase of a home. We're looking aggressively to develop a seminar series to present to you on "How to Take Advantage of the FREE Money" with a potential real estate professional and CPA.

We are doing this to make sure you and your relatives/friends know what significant tax benefits may be available to them in 2009 and 2010 as a result of the American Recovery and Reinvestment Act—also known as the stimulus bill.

## **Managing Mortgage Debt in Retirement**

Typically, a client has three choices on how to manage a mortgage in retirement: pay it off before retiring, buy an annuity to cover payments, or draw on the investment portfolio over time. What's the best way to go? It's a discussion you need to have with every pre-retiree before the big day.

## **The Market vs. the Mortgage—How Should You Advise?**

To invest in the market or pay off that mortgage—it's a question that presents a clear conflict of interest for advisors. The best approach: Help clients make their own decisions by mapping out the issues at stake.

## **Tapping Home Equity in Retirement**

Home equity is an important asset when drafting a retirement plan. How to use it, when to use it, and what products you should use will vary depending on your circumstances and the markets. Here are some suggestions and a good variety of links to help you guide retirees to the best decision possible.

On Nov. 6, 2009, President Obama signed into law the Worker, Homeownership, and Business Assistance Act of 2009. One of the key provisions of the new law was an extension and modification of the first-time homebuyer credit.

## **Background**

To fully understand the new law, it helps to understand the evolution of the first-time homebuyer credit.

**First-time homebuyer credit #1.** This was authorized by the Housing Assistance Tax Act of 2008, signed into law by President Obama on July 30, 2008. It provided for a \$7,500 tax credit to first-time homebuyers—defined as not having owned a home in the past three years—who purchased a home on or after April 9, 2008 and before July 1, 2009. The credit phased out for single taxpayers with modified adjusted gross income (MAGI) of \$75,000-\$95,000 and for married couples with MAGI of \$150,000-\$170,000. The credit was really a loan, however, because it had to be paid back over a 15-year period. For obvious reasons, this credit wasn't very popular and didn't do much to stimulate the housing market.

**First-time homebuyer credit #2.** This was authorized by the American Recovery and Reinvestment Act, also known as the stimulus bill, signed by President Obama on Feb. 17, 2009. This law made the first-time homebuyer credit a true credit in that it did not have to be paid back. It also increased the amount to \$8,000 and extended the deadline for purchasing a home to Nov. 30, 2009. This credit has been very popular, especially among fraudsters, who found plenty of

loopholes, such as having their preschoolers buy the home if their income exceeded the phase-out ranges.

**First-time homebuyer credit #3.** Authorized by the Worker, Homeownership, and Business Assistance Act of 2009 and signed by President Obama on Nov. 6, 2009, this law extends the deadline to April 30, 2010, for the \$8,000 first-time homebuyer credit and raises the MAGI income limits to \$125,000-\$145,000 for single taxpayers and \$225,000-\$245,000 for joint filers. It also provides a new credit of up to \$6,500 for "long-time residents" who have owned and lived in their home for five out of the last eight years. Furthermore, it closed some of the loopholes that made it possible for fraudsters to claim the credit.

### **Who qualifies?**

A single law that applies to both first-time homebuyers and long-time homeowners really needs to be broken down so you can target the respective audience with the appropriate information and advice.

#### **Long-time homeowners**

Many of your existing clients—as well as prospects who have no idea that there is free money waiting for them—may now be eligible for a \$6,500 tax credit arising from the purchase of a home. The main requirement is that they must have owned and lived in their principal residence for five out of the last eight years. Key groups you might target for this message are:

#### **Retirees and pre-retirees.**

People over 50 may be thinking about downsizing into smaller quarters or moving to a new location as part of a lifestyle change. Ask clients and prospects if they have been thinking about moving. If so, urge them to start the process of preparing their home for sale and looking for a replacement home so they'll be able to have documents signed by the deadline date of April 30, 2010.

#### **Families with children.**

Growing families need more space, and with housing prices in a slump, this could be a good time to move up, especially with a \$6,500 tax credit available to help with the down payment or home improvements. Make sure everyone you meet is aware of this tax credit: you never know who might be thinking of trading up.

The latest version of the first-time homebuyer credit still applies to people who have not owned a home within the three-year period ending on the date of purchase. These might include:

Young people who have never owned a home. Ask your clients if they have children or grandchildren who might want to seize this opportunity to buy a home for the first time. Keep in mind, however, that the new rules prohibit the credit

from being claimed by anyone who is under 18 or claimed as a dependent on another person's tax return.

### **Previous homeowners taking a break from homeownership.**

Some people wisely sold their homes near the peak of the bubble and have been renting while the housing market cooled off. The \$8,000 tax credit—not to mention attractive home prices and low mortgage rates—could be the stimulus they need to resume homeownership.

### **Provisions of the new law**

Here is a rundown of the expansion and modification of the first-time homebuyer credit: The effective date is the date of enactment, Nov. 6, 2009, and applies to purchases after that date.

The maximum credit is 10% of the purchase price. For first-time homebuyers, the maximum credit is still \$8,000 (\$4,000 for a married person filing a separate return). For long-time homeowners, the maximum credit is \$6,500 (\$3,250 for married filing separately)

The home purchased must be the taxpayer's principal residence. This is defined as the home where the person spends most of his or her time.

The credit is available to (1) first-time homebuyers, defined as not having owned a principal residence in the three-year period ending on the date of purchase; and (2) longtime homeowners who have owned their principal residence for any five-year consecutive period during the eight-year period ending on the date of purchase.

The purchase contract must be signed on or before April 30, 2010, and the deal must close on or before June 30, 2010. Members of the armed forces and other individuals on qualified official extended duty outside the U.S. have an additional year, until April 30, 2011, to make the purchase.

If the home ceases to be the taxpayer's principal residence within 36 months of the date of purchase, the tax credit will be recaptured. The recapture is waived for members of the U.S. uniformed services, Foreign Service, and intelligence community who are called to duty before 36 months after the date of purchase.

For qualifying purchases made in 2010, the taxpayer may elect to treat the purchase as made on Dec. 31, 2009, in order to claim the tax credit on his or her 2009 tax return.

The credit phases out for individual taxpayers with modified adjusted gross income (MAGI) between \$125,000 and \$145,000, and for married couples filing jointly who have MAGI between \$225,000 and \$245,000.

**No credit may be claimed if the purchase price exceeds \$800,000. This provision took effect immediately after the date of enactment and applies to purchases made after Nov. 6, 2009. It is a "cliff" amount, meaning that no credit will be allowed if the purchase price is even one dollar over \$800,000. There are no adjustments for regional factors.**

**No credit is allowed if the taxpayer is under age 18 on the date of purchase (in the case of married couples, only one spouse needs to meet the age requirement).**

**Property purchased from a family member does not qualify for the credit. No credit is allowed to a dependent of another taxpayer.**

**The credit is claimed using Form 5404; a new version of this form will be released by the IRS within the next few weeks. The new form is used to claim the credit for purchases made after Nov. 6, 2009, even if the credit is being claimed for 2009. The previous version of Form 5404 may be used for purchases made on or before Nov. 6. Taxpayers claiming the credit for 2009 will not be able to file electronically. A properly executed copy of the settlement statement must be attached to the tax return.**

**The IRS has "math error authority" to disallow a credit. This is retroactive to April 9, 2008, and allows the IRS to assess additional tax without using deficiency procedures.**

**Real estate agents are furiously trying to get the message out to potential buyers and sellers. Be aware that real estate agents may be familiar with the basic provisions of the new law, but they may not be up to speed on overall tax rules, such as how tax credits actually work and how modified adjusted gross income (MAGI) is calculated.**

**Our seminar idea will also feature a CPA who will offer to help educate real estate agents and their clients about the tax credits and other financial planning issues affecting first-time homebuyers and long-time homeowners. Call us if you have an interest -END**

**Our past Newsletters are available on our Website at: [www.fedderngroup.com](http://www.fedderngroup.com)**

We continue to receive more and more inquiries about our Down-side Risk Management disciplines along with our group of recommended money managers. We appreciate your "referrals." It's the main way we continue to build our business.

*Call us anytime: 502.442-0363 Direct 800/258-1502 Toll Free 502/442-0365 Fax 502/552-2049 Cell*

This document represents our views at the time of publication. The document has been prepared as information for our clients, prospects, and friends and it is not a recommendation to buy or sell any particular security or to adopt any investment strategy. Our views are subject to change without notice to the recipients of this document. This material has been prepared using sources of information generally believed to be reliable.

\*No representation can be made as to its accuracy. The forecasts (if any) in this piece may not actually come to pass.