

Mortgage Market Monthly

Bridging Mortgage Planning
& Your Financial Future

Rutherford-Dunn Group



WESTBRIDGE
BANK AND TRUST



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Paying PMI? New law allows for tax deductible mortgage insurance

On January 1st, 2007, a new law went into effect making Private Mortgage Insurance (PMI) tax-deductible for new borrowers whose personal adjusted gross income is \$100,000 or less. Designed to protect the lender from default and foreclosure, PMI was viewed as a double-edged sword by consumers for many years. On the one hand, PMI was a requirement for loans exceeding 80% of a home's value or sales price. On the other hand, many consumers could not afford or even qualify to purchase a home without PMI. The new law makes PMI more beneficial, creating an opportunity to finance a more expensive home or to potentially obtain lower payments for the same-priced home, while reducing income taxes. And, while those who financed their home prior to 2007 cannot take the deduction, more options are available under the new law when it comes to buying or upgrading to a new home with a minimal down payment, or refinancing and pulling cash out for other investments. Either way, talk to your Mortgage Professional to learn more about this incredible gift from Congress.

Other Tax Saving Tips for Your 2006 Return

Retirement Accounts: The deadline to contribute to IRA accounts for your 2006 tax return is April 16, 2007. For traditional IRAs, qualified contributions are typically tax deductible, which can help lower your gross income and save on your overall tax bill. For Roth IRAs, contributions are not deductible, but can lead to significant

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The Sub-Prime Meltdown's Impact on the General Economy

Many of you have probably heard on the news recently that the state of the "Sub-Prime" lending industry is currently in flux. The Sub-Prime market consists of non-traditional mortgages to consumers with below average credit. The reason for the sharp pullback in this segment of the mortgage industry stems from the fact that increased delinquencies, defaults, and foreclosure rates among these loans have caused Sub-Prime investors to deploy their funds into alternative investments. Couple this decreased portfolio performance with the current level of uncertainty within the housing industry, and investors have either decided to invest in other securities or have been forced out of the industry altogether (New Century, the 2nd largest provider of these loans has been de-listed from the NYSE and is facing bankruptcy proceedings. Several other Sub-Prime lenders have also witnessed a rapid decline in stock price due to similar performance issues). Products that were previously available have been yanked from the marketplace as a result of the investor reaction, as well as the fallout among many of the providers of these types of mortgages.

While many believe that this Sub-Prime meltdown will spell disaster for the overall economy, I believe that its impact will be somewhat muted. Estimates of the size of the Sub-Prime industry range from 10-20% of the overall mortgage lending industry – while certainly not insignificant, at the end of the day the holders of this paper have security in the tangible nature of the underlying real estate assets. *Continued on page 2*

tax savings down the road, when distributions begin. **Itemize:** According to the IRS, the largest itemized deduction claimed by most Americans is their mortgage interest. Talk to your Tax Professional to learn more about this and other potential deductions which may help to lower your tax bill. Examples include medical & dental care, charitable contributions, business expenses, tax preparation services, and casualty losses as a result of property theft or destruction taxes. Certain tax expenses may also be deductible, including personal property, real estate, local, and state income or sales tax

In the past increasing housing values have covered up the poor underwriting practices associated with these products, but this time around the investors will indeed sustain losses. The liquidity issues facing these consumers will certainly impact overall spending, but this will be more than offset by the fact that interest rates in the much larger “Prime” lending sector have actually decreased throughout this meltdown (they should continue to drop in the near term as well). The investor losses will also be curtailed by the value of the collateral and won’t spread as deeply into the Prime sector as forecast, mitigating the impact of the Sub-Prime fallout on the overall economy.

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