Thank you, Jane. It is indeed my pleasure to introduce Randi Grant. Randi is an experienced accountant and financial planner, with more than 20 years of experience, and she provides tax and financial planning for individuals in closely held companies. She has been quoted on various topics by publications including *The Miami Herald*, *Fortune* magazine, and *Business Week*. Her article entitled “Fiscal Year Non-Conformity” was voted Best Article of the Year by *The Tax Advisor*.

Randi is also lecturing to professionals, businesses, and civic organizations regarding tax and personal financial planning matters. Randi is a Certified Public Accountant, Certified Financial Planner and Personal Financial Specialist. She holds a Life, Health and Variable Annuity License from the state of Florida, and she lives in Fort Lauderdale. It’s my pleasure to welcome Randi.

Thank you, Cindy. It’s my time to talk a little bit about taxes and personal financial planning as it pertains to ownership of real estate. First of all, one bias that I have is I tend to look at a residence as a home and not an investment. To the extent that your
residence increases in value, I look at that as a bonus and not a reason that -- You don’t buy a house to count on it to provide assets for the future because typically when most people sell a home, whatever they sell their home for, they’re going to probably spend that and more on their next home.

I’ll give you a little example just by way of myself, since our audience is between 22 and 35 for the most part. Whenever you buy your first home, it’s typically a stretch, no matter where you are in life and what stage of the game, unless you are ultra, ultra wealthy. Then history shows that it’s a stretch, you’re concerned about how you’re going to make your mortgage payments, but you find a way, you make it happen, and then you grow into the house.

When I bought my first home, I was 22 years old and just starting out in accounting. I knew I couldn’t afford – I bought a townhouse in, must have been in 1982, for 60 some thousand dollars in a nice neighborhood. It was pre-construction, and I had to figure out how I was going to do it. So what I did was, I found a friend – I was single at the time – found a friend to live with me and be my roommate. So she paid me rent and that paid most of the mortgage, and it worked out beautifully for me.
Later, after I married, my husband and I bought our first home. It was totally a stretch for us, but again, we grew into it. Now we’re sitting in very, very different times. Some of the big problems that are coming up with young people looking to buy homes is that real estate--and in my area, as in much of the country--South Florida--appraisals are not coming in--appraisals are coming in very low relative to the asking price of houses. So you’re not able to put down 5%, put down 10%, and the cost of homes is so high that you can’t qualify for special government subsidized mortgages [If appraisals are coming in low, the “loan to value ratio”—the relationship between the mortgage loan amount and the appraised value of the property, expressed as a percentage--will not support putting down only 5 or 10%].

In the past, we used to like things like adjustable [rate] mortgages [a mortgage in which the interest rate changes periodically, usually in relation to an index, and payments go up and down accordingly], interest-only loans. [Get more information on adjustable rate mortgages (ARMs) at www.hud.gov/cnsumgd.cfm.] They seemed to be a very comfortable place to be because most people were in a house seven years, and that was the norm. Now I think that the houses that people are buying, that they’re not going to grow into their payments as quickly as they did in the past. So I
don’t think it’s necessarily fair to still say that [as] a rule of thumb, to live in a home is seven years.

There is a little help out there for a first-time homebuyer. For example— and this is an opportunity to hit up some of your relatives— for example, if you have a Roth IRA, and you’re a first-time home buyer—which is defined in the Internal Revenue Code as not having had an interest in a residence within the last two years—you can withdraw $10,000 from your Roth IRA, use it towards your home, and not have to pay any penalties in taking the money out of the IRA.

Also, certain relatives, like parents, grandparents, can take money out of their Roth IRAs and give it to you towards buying a home. That’s a little source of obtaining some money.

Just to clarify a point that Susan brought up, for many, many, many years, the tax law was that if you buy a home and then replace it with a home that is more expensive than the home you bought, you just have a lower “tax cost” [amount upon which you would compute gain or loss] in your new home, but you don’t pay any tax until it’s your last home. Then at the end of the day, there was a $125,000 lifetime exclusion [i.e. for homeowners over the
age of 55, $125,000 of the gain on the sale of a home was not subject to tax once in the remainder of their lifetime]. That law was repealed several years ago, and what the law says right now is really much better, because what it says is that if you own your home – and to qualify for it being your home you have to have lived in it two out of the last five years – if you’re married and file a joint return, $500,000 of gain that you realize on that home is not subject to tax.

Also, if you’re single, $250,000 [of gain] is not subject to tax.

Now, you can do this every – you can do this every few years. For example, when this law was first passed, a cottage industry sprang up, with people buying fixer-up type houses, moving into the house, fixing it up while they lived there, getting their two out of five years in there, and then selling it at a big gain; not paying any tax on the gain and moving on. It was a very interesting approach. There were quite a few articles written on it at the time.

Something else to consider is, right now if you sell your home and you buy another home, many areas of the country have some type of property tax controls or ceilings, where your property taxes are capped and don’t increase consistent with the fair market value of your home. Again, we have that in South Florida, so your house, if
you bought your house let’s say for $300,000 15 years ago, your house is now worth $750,000, you’re still paying tax as though the house was a $300,000 house, but the second you sell your house for $750,000, move into a $750,000 house, you’re going to pay over double the real estate taxes. So you have to figure the other consequences of selling your home and moving to another home.

Something else that – getting away from homeownership for a second – or one more point on homeownership. In a lot of parts of the country, for purposes of asset protection, your home is a protected asset. So that, in effect, I guess the famous case in Florida was Key Biscayne. Bebe Rebozo, who was involved – probably most of you are too young to know about this, unless you read about it in history books--but Bebe Rebozo, who was involved in the Nixon Administration, was in bankruptcy and had a huge spread in Key Biscayne, and nobody could touch it because it was protected under homestead laws. For those of us in litigious fields where lawsuits are rampant--doctors, lawyers, other service providers-- your home is a very good source of being able to protect your assets.

Just getting away for a second--one of the things that’s been very hot lately is “flipping”-- buying a property as an investment and
then, for example-- let’s say a pre-construction condominium--
selling it before you even take title to it. So all that you’re really
doing is you’re buying a contract, you’re waiting for the price to
go up, and then you’re selling it and recognizing a gain.

It’s become too popular, to the point that people are doing this, and
it’s scary from a financial planning perspective because people are
doing this that can’t afford to actually close on the home if they’re
not able to flip the contract. I was in a beauty parlor the other day,
and one of the women that was providing services there started
telling me that she was going to buy a pre-construction home, pre-
construction condo contract, with her brother, and they were going
to flip it and make all kinds of money.

So I said to her, I said, “Rosa, if you can’t sell it--the contract--are
you and your brother going to be able to close on the home if you
have to?” She says, “No, we don’t have the money to do that, but
we’ll be able to flip it,” and that’s a very scary thing. I think that
story is very common. I think people have to be very careful when
they enter into these types of contracts that they will able to
execute on the contract if need be.
Another point that I wanted to mention was, as far as the emergency fund is concerned, that one thing that we suggest is--financial planners historically used to say--have six to nine months of living expenses put away in order to cover anything unforeseen, like the loss of a job. What we typically do is--provided that there is enough equity in the home--we typically like to have a line of credit available against the house that you can draw on, if you need, for an emergency fund. That’s pretty much it for my prepared remarks.

C. Dawkins Thank you, Randi, and now I want to turn it over to Blanche to instruct our participants on how to ask questions. Blanche?