Jane Walstedt: And now I'd like to ask Gail Patterson-Shipp, a member of the team that plans our Wi$eUp teleconference calls, to introduce our second speaker. Gail.

Gail Patterson-Shipp: Thank you, Jane. Our next speaker is Donna M. Wood. Ms. Wood specializes in financial planning and investment advisory services focusing on life financial planning for entrepreneurs and women. A Certified Financial Planner and Certified Public Accountant, she brings more than 25 years experience in business management, financial planning, and financial consulting to her clients. Ms. Wood has also earned a certificate from the American College on Special Needs Financial Planning.

She received her BBA from the University of Michigan, and her experience includes work for KPMG, a global Big Four accounting firm. She has held numerous finance, administration, and executive management positions in Fortune 500, mid-size, and startup companies. Ms. Wood also currently serves on the Board of Breast Cancer Network of Strength, a national breast cancer organization. And she is the past President of Executive Women's Golf Association's DC Metro Chapter.

She is also a member of the American Institute of CPA's Personal Financial Planning section, and the Financial Planning Association, and is an active member of her church. An avid golfer, Ms. Wood and her husband Jeff enjoy spending time together with their four grown children in Haymarket, Virginia. Welcome, Ms. Wood.

Donna M. Wood: Thank you, Gail. I'd like to start by talking about the First-Time Homebuyer Tax Credit that we've all been hearing about. In February 2009 the Internal
Revenue Service announced that taxpayers who qualify for the first-time homebuyer credit and purchase a home this year before December 1 have a special option available for claiming a refundable tax credit either on their 2008 tax return or on their 2009 tax return.

Qualifying taxpayers who buy a home this year can get a credit of up to 10% of the purchase price, up to $8,000 if you're an individual or married filing jointly, or $4,000 each for married taxpayers filing separately. The credit will not have to be repaid provided the home remains their main home for three years after the purchase date.

The definition of a first-time homebuyer for this credit may be a bit confusing. You're considered to be a first-time homebuyer if you and your spouse if you are married-- it's very important that it's both of you if you're married-- did not own any other main home during the three-year period ending on the date of purchase of this new home. And I learned recently that the Secretary of Housing and Urban Development, Shaun Donovan, indicated that this tax credit may be used as a down payment on FHA-insured loans. So that's an important item to remember.

Also as with many tax deductions that are available, the amount of this 2009 credit will begin to phase out, which means you can't deduct the full amount possibly if you file a modified adjusted gross income on your tax return of more than $75,000 as an individual or $150,000 for joint filers. So it's important to note that you may not qualify for 100% of the tax credit.

A similar credit was actually available in 2008 with some slightly different conditions. That covered a home purchase after April 8, 2008, and on or before December 31 of 2008 and provided a credit of 10% of the purchase price up to $7500. The primary difference is that this credit from 2008 must be repaid in 15 equal installments over 15 years beginning in 2010.
Moving on to financing options for the first-time homebuyer, there are tax incentives available if you choose to use retirement savings to help fund a home purchase. Now this should be used as, I would say, a last resort, but it's something that is available to you. The IRS allows for an up to $10,000 lifetime limit to be withdrawn early from an IRA account before you're age 59-1/2 as an exception without the usual 10% early withdrawal penalty.

There are different conditions you need to consider. One is if you use your traditional IRA, which is the IRA that is generally deductible on your tax return, the first-time homebuyer can take up to $10,000, and although there is no 10% early withdrawal penalty for this, you will still have to pay any applicable income taxes on the amount withdrawn.

If you decide to use a Roth IRA--if you have a Roth IRA--there are some other a little bit more complicated items to remember. One is it is important to know if you have had this Roth IRA account open for at least five years. If it's been five years, then there is no penalty or tax for the first-time homebuyer, but the IRS requires a specific preset order of withdrawal for your Roth IRA to get the $10,000 out.

For example, your annual contributions come first. That doesn't include rollovers. That's number two. So if your $10,000 isn't made up of your annual contributions, then you go to you rollover contributions. And from there you go to the earnings on those contributions. If you've had your Roth IRA for less than five years there is no penalty, but you will - you possibly will--pay taxes on the earned income of your contributions if you use that.

And interestingly enough the definition of a first-time homebuyer for purposes of an IRA withdrawal is that you haven't owned a home in the previous two years prior to this purchase as compared to the three-year requirement for the
Distributions from your Roth or traditional IRA can be used to cover the cost of a home for you, your spouse, your parents, your children and your grandchildren. So, for example, if you're a grandparent and want to help a grandchild with the purchase of their first home you may be able to withdraw up to $10,000 under this exception. Funds must be used for qualified acquisition costs that are reasonable settlement, financing and other acquisition costs to buy, build or rebuild a home. And it's very important to note that the funds must be used within 120 days of their withdrawal from an IRA.

Another option beyond IRAs that you may consider is the use of a 401(k) or 403(b) loan to help fund the purchase. Not all 401(k)'s or 403(b)'s have loan features; however, with some plans you may be able to borrow up to 50% of your vested account balance, or up to $50,000 in some cases, with a repayment period of 10 to 15 years. There are no penalties or taxes assessed. You are essentially borrowing from and repaying yourself with this loan.

There may be some costs to take out the loan, and it is generally obtained at an interest rate that is market competitive, such as prime plus a percent, and the loan is usually repaid through payroll deductions, but you can repay it early if you're able to.

Some things I want to mention that are very important specifically for the loans is you must be very careful to note that if you leave your job for any reason, and you haven't repaid that loan, it may default as an early distribution. It will default as an early distribution if it's not repaid. And the unpaid amount will be subject to the 10% penalty and income tax.

Also, you're taking funds out of your retirement savings plan, so you need to
replace these funds to possibly reach your retirement goals. Also, again, you must be very careful to follow the rules specifically or you may lose the exception status and be required to pay the penalty and taxes. So that's what the government allows for you to do in the way of tax credits and tax incentives as a first-time homebuyer.

The third item that I wanted to discuss is really the financial considerations of homeownership besides again, as Ann mentioned and Jane--being totally realistic about the price of the home you can afford. You need to be realistic about what happens once you get into that dream home of yours. Consider the cash flow that you will need to live in a home that you own. Things are different than living in an apartment where you can call the landlord and have him take care of, or her take care of, any problems that arise. You will be responsible for the care and upkeep of your new home.

Budgeting is essential, and here are some items that you should budget for: items like homeowners’ and condo fees, home maintenance for your heating and air conditioning, your painting, your trim, your lawn care, utilities. Utilities may be higher than where you used to live. Definitely you need to set up an emergency reserve for that leaky roof or plumbing problem or the appliance that quits on you. Savings for improvements and decorating.

New homes can be a surprising source of credit card debt. Many times when you move into your first home, you realize that you need things that aren't there when you move in, simple everyday items such as light bulbs, ceiling fans, shades, curtains, rugs. They all add up. There is a tendency to buy more than your budget will allow. So be prudent about your spending and try to space it out to coincide with your paychecks and disposable income.

You will probably have to curb your appetite for outside entertainment for a while also to offset the cost of living in your new home. Really try hard to
live within your means. And do not add debt if at all possible, because you have a significant new payment that is a very important part of your life. Look at ways to decrease the cost of living in your home. You may be able to do some energy-saving insulation or appliances or even light bulbs that will help reduce the cost of living.

There are also some tax advantages to homeownership. Right now your mortgage interest and property taxes are currently deductible on Schedule A of your tax return. Also in 2009 and 2010 if you make energy saving improvements to your home, you may be eligible for some tax credits. And if you work out of your home you may be able to deduct some of the cost of your home beyond just interest and taxes. Again there are conditions that must be met to do this, but it's important to be aware of these opportunities.

So buying your first home is very exciting. It's important to go into this major life transaction with your eyes open for the upside and the downside. Being aware of the tax benefits and their deadlines is critical to taking advantage of the upside. Knowing what kind of money you may need to spend after getting into your house is also very important, so that you plan accordingly for what you will spend on your new home.

Thank you very much, and I look forward to your questions.

Jane Walstedt: Thank you, Donna. That was also very helpful information.