IOWA STATE UNIVERSITY
University Extension

Money for Life

February 2009

Dear Readers,
Many Iowans feel added stress and anxiety about their financial future as talk of rising consumer debt, falling housing prices, rising costs of living, and declining retail sales create worries about the nation's economic health. To learn positive money management techniques that can help you and your family adapt to tough economic times, go to: http://www.extension.org/pages/Financial_Security:_Managing_Money_in_Tough_Times

EITC is a refundable credit, meaning workers can reduce their tax to zero and then receive a refund of any remaining credit.

Families with one child who earn less than $33,995 (or less than $36,995 for married filing jointly status workers) are eligible for a credit of up to $2,917.

Families with two or more children who earn less than $38,646 in 2008 (or less than $41,646 for married filing jointly status) are eligible for a credit of up to $4,824.

Workers without a qualifying child who earn less than $12,880 in 2008 (or less than $15,880 for married workers) are eligible for a credit of up to $438.

To be eligible, investment income must not exceed $2,950.

Another important credit is the Child Tax Credit. Parents with children under age 17 would qualify for up to $1,000 per child. Workers who earn over $8,500 in 2008 qualify for the refundable Additional Child Tax Credit.

How Much Was Your Economic Stimulus Payment?

The amount of your 2008 Economic Stimulus Payment is a piece of information that will be needed when filing taxes this year. You may have received it as a check in the mail, a direct deposit into your checking or savings account or was taken for debt owed on child support, student loans or tax debt.

If you didn't get it or did not get the maximum amount, you may qualify for the Recovery Rebate Credit on your 2008 tax return. Your financial situation or number of dependents may have changed from 2007 to 2008 which might result in you qualifying for the Recovery Rebate Credit.

Taxpayers had to have a minimum of $3,000 of wage income, social security disability, social security retirement or certain Veteran's or Railroad retirement benefits to receive the Economic Stimulus Payment.

Should You Refinance?

Home owners have been rushing to refinance lately because interest rates have dropped sharply. Trimming a single percentage point from a $200,000 loan can save more than $1,500 per year, but it may be difficult to obtain refinancing in the current tight credit markets.

Homeowners owing more on their mortgages than their home is currently worth will not be able to refinance unless they can provide enough cash to rebuild their home equity. Mortgage lenders now refuse to refinance mortgages for more than 90% of the current, depressed value of a property and many homes currently do not exceed 80%.

Lenders will take a hard look at your personal finances. You will need proof of employment or two years worth of tax returns if self-employed. Your total debt burden, mortgage payments included, must not exceed 40% of your gross pretax income and some lenders might shy away if your debt burden exceeds 33%. You must have savings equal to at least three months worth of mortgage payments and a credit score of at least 680. Some are requiring a score above 720.

Refinancing means paying closing costs; usually totaling several thousand dollars. It is often worth refinancing even with closing costs when your current fixed rate is at least one-half a percentage point above the new rate and you expect to remain in your current home for at least two years.

If your current mortgage is an adjustable-rate mortgage (ARM), it might be worth refinancing to lock in the security of a fixed rate even if your current interest rate is very reasonable. Refinancing an ARM makes less sense if the ARM is still many years from its reset date or you know that it will reset to an affordable rate or you do not expect to stay in the home much beyond the reset date. For a more precise analysis speak to a mortgage lender.

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Alternative Mortgages

Refinancing loans backed by the Federal Housing Administration (FHA) require as little as a 3% down payment. FHA mortgages are likely to be the only option for those without the minimum credit score of 680 and a 10% down payment. FHA lenders look at the total credit picture rather than just the raw score making it difficult to gauge in advance who will be accepted.

FHA mortgages have high mortgage insurance costs. Between the required up-front premium, its higher monthly premium and the strict requirements for how long this insurance must remain in effect, the added costs can total thousands of dollars over the loan's life. Because of these costs, FHA refinancing makes sense only if you can't get other financing. For information, go to www.fha.com.

Tax Strategies

- A tax credit of up to $7500 is available for first-time home buyers who purchased a primary residence after April 8, 2008. A "first-time" buyer is defined as one who has not owned a residence in the US during the prior three years. The credit is better than a deduction because it reduces your tax bill dollar-for-dollar. The credit is phased out as adjusted gross income rises from $75,000 to $95,000 on a single return and $150,000 to $170,000 on a joint return.
- In 2008, disaster losses occurring in federally declared disaster areas are deductible without being subject to the 10%-of-AGI rule. Non-itemizers can claim the deduction as an addition to the standard deduction, eliminating the need to itemize.

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