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In This Issue... [+](#)

Last Week in Review: Mortgage Bonds were pushed and pulled by fear and uncertainty. Read what it means to home loan rates.

Forecast for the Week: It doesn't get much bigger than this! Here's a sneak peek of the high-impact reports due out this week.

View: You could slash your tax bill by up to \$1,000 for each qualifying child! Read below to find out how.

Last Week in Review [+](#)

"Fear comes from uncertainty," wrote the poet William Congreve. Last week, however, the markets were moved by fear and by uncertainty that were unrelated. On the one hand, unrest in the Middle East drove up Oil prices and pushed investors into the safety of Bonds - while on the other hand, fear of inflation limited the gains that Bonds experienced. To see how those elements impacted home loan rates, let's take a deeper look at each.



First, the global unrest in the Middle East continues to impact the markets. The protests that started a few weeks ago in Tunisia and Egypt have now spread to Bahrain, Yemen and Libya. Libya is of particular concern to the markets, since it is the largest holder of oil reserves in Africa.

With the thought of Oil fields at risk and with no foreseeable resolution in the near term, Oil spiked as much as \$12 a barrel higher last week - climbing over the mark of \$100 per barrel. Remember, high oil prices aren't good for anything; they're tough on the economic recovery, and they're inflationary. **And in terms of your wallet, the recent spike in oil has only just begun to translate to pumps across the country, so you can expect to see higher**

prices in the coming weeks.

In addition to higher Oil prices, the unrest is creating fear and doubt in Traders' minds about what might happen. And when Traders are uncertain, they tend to move money into the relative safety of Bonds, which offer lower returns but also lower risks. This flood of money into Bonds - including Mortgage Bonds - helps prices and home loan rates improve. And sure enough, last week Mortgage Bonds traded higher, as protests and uncertainty permeated throughout the Middle East.

On the other hand, those gains in Bonds have been limited by fears of inflation down the road. That's because investors demand a higher yield now to offset their concerns that future inflation will eat into their returns. That was evidenced by the tepid buying demand in last week's Treasury auctions. **And as the economy continues to slowly expand and inflation fears grow, rates will gradually move higher over time.**

The bottom line is that global unrest has been a driving force behind improvement in the Bond market... and that it may continue to do so in the coming weeks. But at the same time, it's important to remember that those gains are fleeting and have even been limited by inflation fears - so the positive picture for Mortgage Bonds and home loan rates won't last long.

Now's the time to look at your unique situation and take action. It only takes a few moments to sit down and see how the national and international news may help you benefit from a refinance or the purchase of a new home. Call or email today to get started. Or forward this newsletter on to someone you know who may benefit from today's historically low rates.

Forecast for the Week

In addition to monitoring the unrest in the Middle East, we have a big week of economic reports on our hands - with the big news coming on Friday! Here's a highlight of what to watch:

- The week starts off Monday morning with reports on **Personal Spending** and **Personal Income**, as well as **Pending Home Sales**. The Pending Home Sales report comes after last week's Existing Home Sales release, which came in better than anticipated... but the National Association of Realtors who reports all these numbers is under fire for possible overestimation in the past few years.
- On Monday, we'll also see the **Personal Consumption Expenditures (PCE) Index**, which is the Fed's favorite gauge of inflation. Remember, inflation fears have grown and have been limiting the gains that Bonds experience. In fact, the inflation reading in last week's GDP release was hotter than previously reported - and that coincides with the recent Consumer Price Index trend, which saw a hot 0.4% month-over-month gain during each of the past two months. So the markets and the Fed will definitely be keeping a close eye out for the PCE report this week!
- Manufacturing reports will also hit the newswires this week. On Monday, we'll see the **Chicago PMI**, which reports on manufacturing in Chicago and is a good indicator of overall economic activity. Then on Tuesday, we'll see the **ISM Index**, which is the king of all manufacturing indices and is considered the single best snapshot of the factory sector.
- The big topic of the week will be employment. First up is the **ADP National Employment Report** on Wednesday, which measures non-farm private employment, followed by another round of **Initial Jobless Claims** on Thursday. In last week's report, Initial Jobless Claims were reported lower than the expectations. Normally, this would have applied pressure on the Bond market, but again the unrest in the Middle East is trumping this

data.

- Finally, the busy week culminates with the highly anticipated monthly **Jobs Report** on Friday. This report features new data regarding job growth and the unemployment rate - needless to say, this report can be a big market mover!

Remember: Weak economic news normally causes money to flow out of Stocks and into Bonds, helping Bonds and home loan rates improve, while strong economic news normally has the opposite result.

The important thing to notice in the chart below is the direction on the right side of the chart. As you can see, Bond prices moved upward, which is good news for home loan rates. One of the major reasons for this movement was the ongoing unrest and uncertainty in the Middle East, which prompted Traders to move money into the relative safety of Bonds.

As a result, now is an ideal time to take advantage of the historically low home loan rates. If you or someone you know is looking to refinance or purchase a home, call or email to find out how you can benefit.

Chart: Fannie Mae 4.0% Mortgage Bond (Friday Feb 25, 2011)

Turmoil in the Mid East helped to push Bond prices higher early last week.



Take Credit for Your Kids

Each qualifying child could slash your tax bill by up to \$1,000.

By Mary Beth Franklin, Kiplinger.com

Thanks to a flurry of year-end tax legislation, eligible families will continue to benefit from a \$1,000 tax credit for each child under age 17 when they file their 2010 taxes -- and for each of the next two years. (A tax credit, which reduces your tax bill dollar-for-dollar, is more valuable than a tax deduction, which merely reduces the amount of income that is taxed.)

In these tough economic times, when many families have seen their income slashed, some taxpayers also may qualify for an expanded Additional Child Tax Credit, which could trigger a refund even if no tax is due.

Basic child credit

You can claim a tax credit of up to \$1,000 for each of your children under age 17 as long as you meet the income eligibility requirements. The qualifying child must satisfy the relationship and residency test and not have provided more than half of his or her own support. Barring further congressional action, the child tax credit is scheduled to revert to \$500 per qualifying child on January 1, 2013.

The child credit phases out in \$50 increments for each \$1,000 (or fraction thereof) by which your adjusted gross income (AGI) exceeds \$75,000 for individuals or \$110,000 for married couples filing jointly (\$55,000 for married filing separately). The income level at which the credit completely disappears depends on the number of qualifying children.

For example, a married couple filing jointly with one child would lose the credit completely when their income topped \$129,001. But with two children, they could claim at least part of the child credit until their income exceeded \$149,001, and with three children, the credit would disappear once their AGI topped \$169,001. Use Form 8812 to claim the child tax credit.

Refundable credit

Some low-income families qualify for a refundable child tax credit, which was increased significantly as a result of the economic stimulus package passed in 2009. Lowering the income threshold to \$3,000 boosts the size of the refund available to qualifying taxpayers. It's designed to put cash in the hands of Americans who may have lost their jobs or had their hours cut back during this recession.

For example, a single mother of two children with \$10,000 of earned income would owe no tax after claiming a standard deduction and personal exemptions for each member of her household. So the \$2,000 child credit normally would go to waste because she owes no tax. But under the revised law, she is able to claim a refundable tax credit worth the lesser of the unused child tax credit - in this case \$2,000 - or 15% of her earned income that exceeds the \$3,000 threshold. In this example, her \$7,000 of income over the threshold would translate into a refund of \$1,050.

Child-Care credit

If you pay someone to watch your child while you and your spouse work - or while you are looking for work - you may be able to write off some of your expenses for children up to age

13 or older children who are physically or mentally disabled. You can claim a tax credit for a portion of your expenses or use a flexible spending account at work, which allows you to pay your child-care costs with pretax dollars.

The child-care tax credit covers 20% to 35% of what you spend, depending on income. Taxpayers with AGIs of \$15,000 or less get the top credit of 35%, and the rate gradually declines until it bottoms out at 20% for taxpayers with income above \$43,000. The maximum credit is \$3,000 for one child and \$6,000 for two or more children.

The flex plan is often a better deal for higher-income workers because the money set aside for child-care costs not only escapes income tax, it also avoids the 7.65% Social Security and Medicare tax. So if you're in the 25% federal tax bracket, running the maximum \$5,000 of child-care expenses through your flex plan avoids a 32.65% tax hit, lowering your tax bill by \$1,633. You'll save even more if your FSA contribution escapes state income taxes, too.

If the flex plan is better for you, note this twist: Although you can't shelter more than \$5,000 in a flex plan, the maximum child-care credit for two or more children is \$6,000. So even if you max out your flex plan, you may be able to claim up to \$1,000 of additional expenses through the child-care credit. That could lower your tax bill by \$200 or more.

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Economic Calendar for the Week of February 28 - March 4, 2011

Remember, as a general rule, weaker than expected economic data is good for rates, while positive data causes rates to rise.

Economic Calendar for the Week of February 28 - March 04

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Mon. February 28	08:30	Personal Income	Jan	0.1%		0.4%	Moderate
Mon. February 28	08:30	Personal Spending	Jan	0.4%		0.7%	Moderate
Mon. February 28	08:30	Personal Consumption Expenditures and Core PCE	Jan	0.1%		0.0%	HIGH
Mon. February 28	08:30	Personal Consumption Expenditures and Core PCE	YOY	NA		0.7%	HIGH
Mon. February 28	09:45	Chicago PMI	Feb	67.5		68.8	HIGH
Mon.	10:00	Pending Home	Dec	-3.2%		2.0%	Moderate

February 28		Sales					
Tue. March 01	10:00	ISM Index	Feb	60.5	60.8	HIGH	
Wed. March 02	08:15	ADP National Employment Report	Feb	163K	187K	HIGH	
Wed. March 02	02:00	Beige Book				Moderate	
Thu. March 03	08:30	Jobless Claims (Initial)	2/26	400K	391K	Moderate	
Thu. March 03	08:30	Productivity	Q4	2.7%	2.6%	Moderate	
Thu. March 03	10:00	ISM Services Index	Feb	59.0	59.4	Moderate	
Fri. March 04	08:30	Non-farm Payrolls	Feb	172K	36K	HIGH	
Fri. March 04	08:30	Unemployment Rate	Feb	9.1%	9.0%	HIGH	
Fri. March 04	08:30	Average Work Week	Feb	34.2	34.2	HIGH	
Fri. March 04	08:30	Hourly Earnings	Feb	0.2%	0.4%	HIGH	

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As your trusted advisor, I am sending you the *MMG WEEKLY* because I am committed to keeping you updated on the economic events that impact interest rates and how they may affect you.

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