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For the week of Apr 23, 2007 --- Vol. 5, Issue 17

### Last Week in Review ▶

#### **"ANYTHING THAT BEGINS WITH 'I DON'T KNOW HOW TO TELL YOU THIS' IS NEVER GOOD NEWS"**

**Ruth Gordon** But after a trend of gradually worsening over the past month, Bond prices and home loan rates finally got the good news they'd been waiting for...that pesky inflation rate finally appears to be moving lower. Early last week, the Consumer Price Index (CPI) showed core consumer price inflation as better than anticipated, falling to a year-over-year 2.5% rate, down from 2.7% reported last month. While lower prices on goods and services are certainly good news for all of us, the consumers; it was especially welcome for inflation-hating Bonds and home loan rates. **Following the news, home loan rates improved by .125%, and appeared destined to improve even more.**

But this wasn't to be - what happened? Bond prices were feeling the love, home loan rates were improving - but right in the middle of the party, Bonds ran dead into a tough ceiling of technical resistance, stopping them cold and turning them back, causing them to lose some of the nice ground they'd made in the first part of the week. The path of least resistance ahead appears to be that Bond prices and home loan rates may worsen before they get better...but it all depends on the flavor of the news ahead.

**FOR MOST AMERICANS, TAX SEASON IS OVER...BUT MORE PEOPLE THAN EVER ARE HEARING THEIR CPA SAY, "I DON'T KNOW HOW TO TELL YOU THIS...BUT YOU'RE GOING TO HAVE TO PAY ALTERNATIVE MINIMUM TAX THIS YEAR". NOT GOOD NEWS. WHAT'S THE STORY? THIS WEEK'S MORTGAGE MARKET VIEW EXPLAINS.**

### Forecast for the Week ▶

The week's economic calendar contains mostly mid-level reports, but will provide an always-interesting look at the housing market, with Existing Home Sales on Tuesday and New Home Sales on Wednesday.

Unless any of the news and releases this week prove to be surprises, Bond prices and home loan rates are likely to respond to technical factors. The chart below shows how Bond prices made a strong move higher this week, helping home loan rates improve - but now appear to be trapped beneath a tough layer of overhead resistance. What does this mean? That it will take some very "Bond-friendly" news to help Bonds muster up the strength to mount a successful attack against that ceiling of resistance, and help home loan rates improve.

**Bottom line: If the news this week tends to be economically weak or negative, or otherwise helps reduce the fears of inflation - Bonds would make another run at the ceiling. But if the news is economically positive - or even moderate - Bonds will likely follow the path of least resistance they are on presently, moving lower and causing home loan rates to rise.**

**Chart: Fannie Mae 5.5% Mortgage Bond (Friday Apr 20, 2007)**



### The Mortgage Market View... ▶

Remember the old tag line from the show "Lifestyles of the Rich and Famous", as Robin Leach wished us all "champagne wishes and caviar dreams"? And sure enough, these days more and more people have the trappings of the rich. But is it the new home, maybe a shiny BMW, or more vacations? No. It's getting hit by the AMT or Alternative Minimum Tax, originally designed to hit only the ultra-wealthy. Not really the "you have arrived" feeling you had hoped for.

The nasty AMT isn't just for the wealthy anymore, as it is trapping an alarming amount of the middle class, especially those who own homes and live in states with high income tax rates. And it's getting worse. Pretty soon, over half those with incomes between \$75k - \$100k will be victimized by the AMT.

### So what's the scoop with AMT, and what do we need to watch out for?

The AMT was first enacted nearly 40 years ago to ensure that wealthy taxpayers pay at least some federal income tax versus sheltering their entire income with big write-offs. This strategy worked at the time, but AMT has never been indexed for inflation, resulting in more middle-income taxpayers owing the additional tax.

All of us go through the AMT test each year. Our income is matched up with the tax brackets it falls into and the tax owed is calculated. But we also go through a second calculation - The AMT calculation. Many deductions are eliminated and the tax brackets are reduced. The tax owed under AMT is then compared to the tax owed under the bracket calculation. And guess which one you owe? The higher tax, of course.

More individuals will pay the higher AMT tax since it does not allow deductions such as certain interest on some home loans, property taxes, state and local income taxes, standard deductions, or personal exemptions for children and dependents that are normally deductible under the regular tax brackets. As stated earlier, certain interest on some home loans will be wiped out under the AMT. There are two types of home loans that can be eligible for tax deductibility.

First, there is **Acquisition Debt**, which allows interest to be deductible on a loan used to acquire or improve

your primary or second home, with a loan limit of \$1 million dollars. The good news about Acquisition Debt is that it remains deductible, even if you are subject to AMT. This makes Acquisition Debt very valuable. But once you pay off or reduce the balance of your Acquisition Debt, it is gone and only the interest on the remaining portion is deductible. So taking out a new loan at a higher amount will not give you that precious Acquisition Debt back.

The next best thing to Acquisition Debt is **Home Equity Debt**. Home Equity Debt has a limit of \$100,000, which can be used over and above the Acquisition Debt Balance. And Home Equity Debt is flexible in that you can pay it down and pull it back out, which is not allowable for Acquisition Debt. But Home Equity Debt is eliminated under AMT...ouch. And with so many people being trapped by the AMT and also having loan amounts higher than what was used to acquire the property, the lost deduction is significant.

**It's always good to check with a tax professional about your own personal scenario, and learn how this impacts you. If you need a referral to a tax pro, I'd be more than happy to make a suggestion, just give me a call!**

### The Week's Economic Indicator Calendar ▶

**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 April 23 – April 27

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Tue. April 24	10:00	Consumer Confidence	Apr	105.0		107.2	Moderate
Wed. April 25	08:30	Durable Goods Orders	Mar	2.5%		2.5%	Moderate
Wed. April 25	10:00	Existing Home Sales	Mar	6.50M		6.69M	Moderate
Wed. April 25	10:00	New Home Sales	Mar	885K		848K	Moderate
Wed. April 25	10:30	Crude Inventories	4/20	NA		-994K	Moderate
Wed. April 25	02:00	Beige Book					Moderate
Thu. April 26	08:30	Jobless Claims (Initial)	4/21	325K		339K	Moderate
Fri. April 27	08:30	Gross Domestic Product (GDP)	Q1	2.0%		2.5%	Moderate
Fri. April 27	08:30	GDP Chain Deflator	Q1	3.0%		1.7%	HIGH
Fri. April 27	08:30	Employment Cost Index (ECI)	Q1	0.9%		0.8%	HIGH
Fri. April 27	10:00	Consumer Sentiment Index (UoM)	Apr	85.3		85.3	Moderate

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