ITI Financial Management

Planning Your Financial Future

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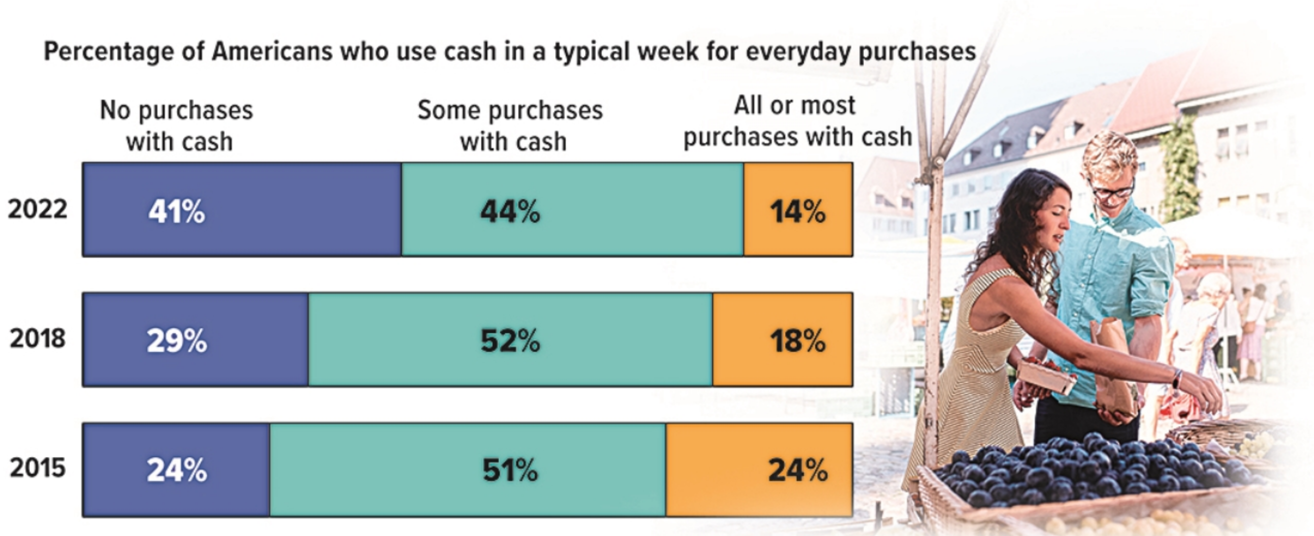
More Americans Embrace the Cashless Economy

A growing number of Americans are going "cashless" for everyday purchases like groceries, gas, services, and meals compared to previous years. A cashless payment might be made using a debit or credit card, or a payment app or mobile wallet on a smartphone.

In 2022, about 41% of Americans said none of their purchases in a typical week were paid for using cash, up from 29% in 2018 and 24% in 2015. Among affluent households, 59% said they didn't use cash for any typical weekly purchases. The trend of not carrying cash varies by age, with 54% of people under age 50 saying they don't worry much about whether they have cash on hand compared to 28% of people 50 and older.



Source: Pew Research Center, 2022 (numbers do not equal 100% due to rounding)

Financing Options to Help You Ride the Mortgage Rate Roller Coaster

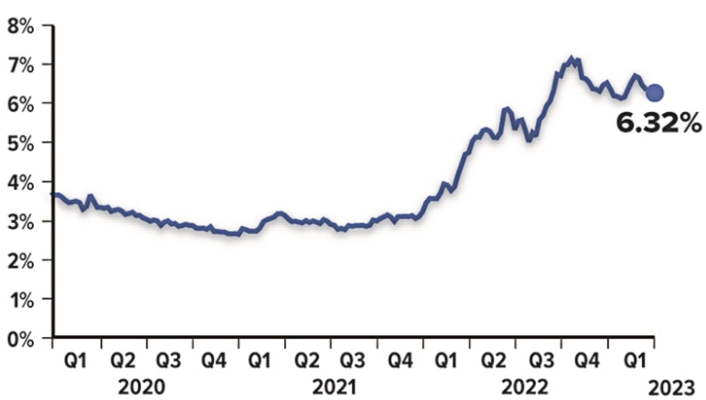
The mortgage industry has been on a roller coaster ride over the last couple of years. Interest rates for fixed-rate mortgage loans were at historical lows during the beginning of the pandemic in 2020, rising to a 20-year high in late 2022 — and fluctuating ever since.[1] Many buyers are finding it difficult to afford a new home with traditional fixed-rate mortgage loans in such a high interest rate environment. As a result, more buyers are relying on alternative financing options to help lower their interest rates.[2]

Adjustable-Rate Mortgages

With an adjustable-rate mortgage (ARM), also referred to as a variable-rate mortgage, there is a fixed interest rate at the beginning of the loan which then adjusts annually for the remainder of the loan term. ARM rates are usually tied to the performance of an index. To determine the ARM rate, the lender will take the index rate and add it to an agreed-upon percentage rate, referred to as the margin. Most lenders offer ARMs with fixed-rate periods of five, seven or 10 years, along with caps that limit the amount by which rates and payments can change.

The initial interest rate on an ARM is generally lower than the rate on a traditional fixed-rate mortgage, which will result in a lower monthly mortgage payment. However, depending on interest rates, buyers with ARMs may find themselves with significantly higher mortgage payments once the fixed-rate period ends. Buyers should only consider ARMs if they can tolerate fluctuations in their mortgage payments or plan on refinancing or selling the home before the initial interest rate period ends.

30-Year Fixed Mortgage Interest Rates, January 2020 to March 2023



Source: Freddie Mac, 2023 (data through March)

Temporary Buydowns

A temporary buydown provides the buyer with a lower interest rate on a fixed-rate mortgage during the beginning of the loan period (e.g., the first one or two years) in exchange for an upfront fee or higher interest rate once the buydown feature expires. Buydowns typically offer large interest rate discounts (e.g., up to one to three percentage points, depending on the type of buydown). The costs associated with the buydown feature can be paid for by the home buyer, seller, builder, or mortgage lender.

While a buydown can make a home purchase more affordable at the beginning of the loan period, the long-term interest rates and mortgage payments on the loan can end up being substantially higher. This is why a borrower usually must initially qualify for the loan based on the full interest rate in effect after the buydown expires.

Assumable Mortgages

Assumable mortgages may be another way for buyers to circumvent high mortgage rates. An assumable mortgage is when a buyer takes over a seller's existing loan and loan terms and pays cash or takes out a second mortgage to cover the remainder of the purchase price.

This type of loan could be advantageous if the existing loan has a low enough interest rate, and the buyer has enough access to cash or financing to cover the difference between the sale price and outstanding balance of the assumed loan. Not all mortgage loans are assumable — generally they are limited to certain types of government-backed loans (e.g., FHA, VA loans).

Other Incentives

One type of incentive offered by lenders is for a buyer to pay an upfront fee at closing, also known as points. By paying points at closing, buyers can reduce their interest rates — usually by around .25 percent per point — and lower their monthly mortgage loan payments. To make paying points cost effective, buyers should plan on staying in the home for several years so that they can recoup the costs. Sometimes a home builder or seller will offer to pay for points on a mortgage in order to attract more potential buyers.

Another incentive, often referred to as a "future refi," is one that allows borrowers to purchase a home at current interest rates, with the ability to refinance their loans at a later date. The refinancing can be free or the costs can be rolled into the new loan, depending on the lender and loan type. Keep in mind that there is typically a set time period for refinancing with these types of loans.

1-2) Consumer Financial Protection Bureau, 2022

Mutual Funds: What's in Your Portfolio?

Mutual funds pool investment dollars from many individual investors to purchase a group of selected securities aimed at meeting a particular objective. This offers a convenient way to invest across a wide range of market activity that would be difficult for most investors to do by purchasing individual securities. More than 52% of U.S. households owned mutual funds in 2022.[1]

Here are some basic types of funds in order of typical risk, from lowest to highest. This is just an overview — with over 7,000 funds to choose from, you should be able to find appropriate investments to pursue your financial goals.[2]

Money market funds invest in short-term debt such as commercial paper and certificates of deposit (which generally provide a fixed rate of return). They are typically used as a cash alternative and/or as a fund for settling brokerage transactions.

Municipal bond funds generally offer income that is free of federal income tax and may be free of state income tax if the bonds in the fund were issued from your state. Although interest income from municipal bond funds may be tax exempt, any capital gains are subject to tax. Income for some investors may be subject to state and local taxes and the federal alternative minimum tax.

Income funds concentrate on bonds, Treasury securities, and other income-oriented securities, and may also include stocks that have a history of paying high dividends.

Balanced funds, hybrid funds, and **growth and income funds** seek the middle ground between growth funds and income funds. They include a mix of stocks and bonds aimed at combining moderate growth potential with modest income.

Value funds invest in stocks of companies that appear to be undervalued by the market. They are more volatile than balanced funds, but typically offer dividend income and may have solid growth potential if the market recognizes the underlying value.

Growth funds invest in the stock of companies with a high potential for appreciation but low emphasis on income. They are more volatile than many types of funds.

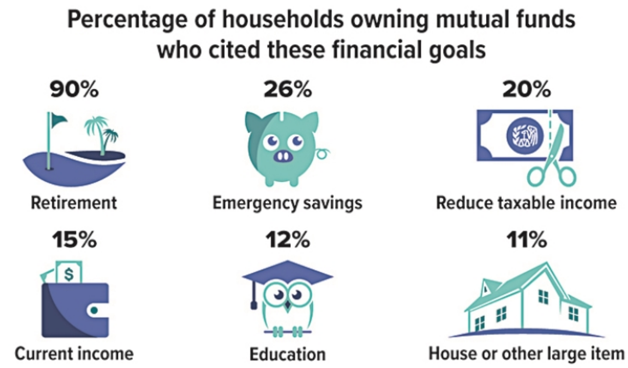
Global funds invest in a combination of domestic and foreign securities. **International funds** invest primarily in foreign stock and bond markets, sometimes in specific regions or countries. There are increased risks associated with international investing, including differences in financial reporting, currency exchange risk, economic and political risk unique to a specific country, and greater share price volatility.

Sector funds invest almost exclusively in a particular industry or sector of the economy. Although they offer greater appreciation potential, the volatility and risk level are also higher because they are less diversified.

Aggressive growth funds aim for maximum growth. They typically distribute little income, have very high growth potential, tend to be more volatile, and are considered to be very high risk.

Reasons to Invest

Four out of five households who own mutual funds cited retirement as their *primary* reason for investing. However, many investors own funds to pursue multiple financial goals.



Source: Investment Company Institute, 2022 (multiple responses allowed)

Bond funds (including funds that contain both stocks and bonds) are subject to the interest-rate, inflation, and credit risks associated with the underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. Dividends are typically not guaranteed.

Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. Mutual fund shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher returns also carry an increased level of risk.

Money market funds are neither insured nor guaranteed by the FDIC or any other government agency. Although a money market fund attempts to maintain a stable $1 share price, you can lose money by investing in such a fund.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1–2) Investment Company Institute, 2022–2023

Home Energy Tax Credits

A couple of federal personal tax credits are available for the installation of certain energy efficient or clean energy property in your home. The energy efficient home improvement credit is available for qualifying expenditures incurred for an existing home or for an addition to or renovation of an existing home, but not for a newly constructed home. The residential clean energy property credit is available for qualifying expenditures incurred for either an existing home or a newly constructed home. For both credits, the home must be located in the United States and used as a residence by the taxpayer.

Energy Efficient Home Improvement Credit

The energy efficient home improvement credit is equal to 30% of the sum of amounts paid by the taxpayer for certain qualified expenditures. There are limits on the allowable annual credit and on the amount of credit for certain types of qualified expenditures. The maximum annual credit amount may be up to $3,200.

An annual $1,200 aggregate credit limit applies to all building envelope components, energy property, and home energy audits (30% of costs up to $150 for such audits). Building envelope components include exterior doors (30% of costs up to $250 per door, up to a total of $500); exterior windows and skylights (30% of costs up to $600); and insulation materials or systems and air sealing materials or systems (30% of costs).

Energy property (30% of costs, including labor, up to $600 for each item) includes central air conditioners; natural gas, propane, or oil water heaters, furnaces, and hot water boilers; and certain other improvements or replacements installed in connection with building envelope components or other energy property.

A separate annual $2,000 aggregate credit limit (30% of costs, including labor) applies to electric or natural gas heat pump water heaters; electric or natural gas heat pumps; and biomass stoves and boilers.

The credit is not available after 2032.

Residential Clean Energy Property Credit

A 30% credit is available for certain qualified expenditures made by a taxpayer for residential clean energy property. This includes expenditures for solar panels, solar water heaters, fuel cell property, wind turbines, geothermal heat pump property, battery storage technology, and labor costs allocable to such property.

There is no overall dollar limit for this credit. For qualified fuel cell property, there is a general credit limit of $500 for each half kilowatt of capacity. The credit is reduced to 26% for property placed in service in 2033, 22% for property placed in service in 2034, and no credit is available for property placed in service after 2034.