

Financial Strategies

News You Can Use!!

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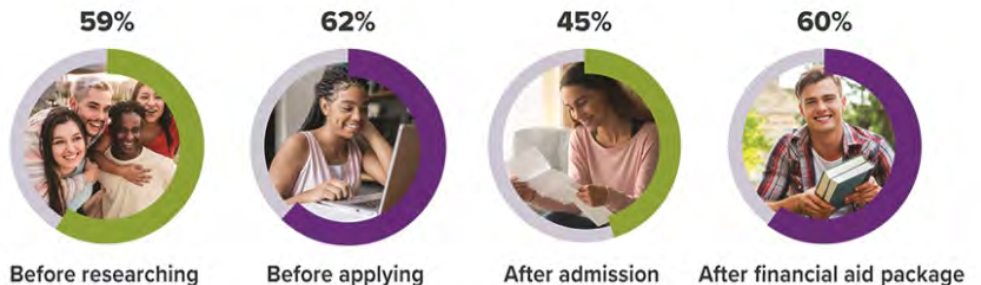
Families who appealed to their college for more financial aid due to the pandemic. Of the families who appealed for more aid, 71% received additional aid, with 52% receiving a higher grant amount.

Source: *How America Pays for College*, 2021, Sallie Mae

Cost Is a Big Factor in College Decisions

For many high school seniors and their families, the period of time from receiving college acceptances to officially committing to a single school can be intense, as they analyze and weigh various factors to arrive at a final decision. In this analysis, cost is a significant factor. But cost often comes into play earlier too, influencing what colleges a student even researches or applies to. At every step of the college process, families crossed schools off their list based on cost.

Percentage of families who eliminated colleges based on cost



Source: *How America Pays for College*, 2021, Sallie Mae

Should You Consider Tapping the Equity in Your Home?

With home values skyrocketing recently, your home may be one of your largest assets. Using home equity to help finance other financial objectives is a strategy many people consider, but before doing so be sure you understand the risks as well as the potential benefits.

Home equity is the difference between how much your home is worth, based on current market conditions, minus your mortgage balance. Let's say your home is worth \$450,000 in the current market and your outstanding mortgage is \$250,000. That means you have \$200,000 in equity.

In most cases, lenders will allow you to borrow up to 80% of your home's value minus your mortgage balance. In the example above, the total amount you might borrow would be \$110,000 (assuming you qualify).

It's probably best to be as conservative as possible when using home equity. There's no guarantee that your home will maintain its current market value, so you could end up owing more than it's worth. Moreover, in the unfortunate event of default, you could lose your house.

How to Access Home Equity

Generally, there are three ways to access home equity:

1. Cash-out refinance: In a cash-out refinance, you would refinance your mortgage for more than what you owe and take the difference in cash.

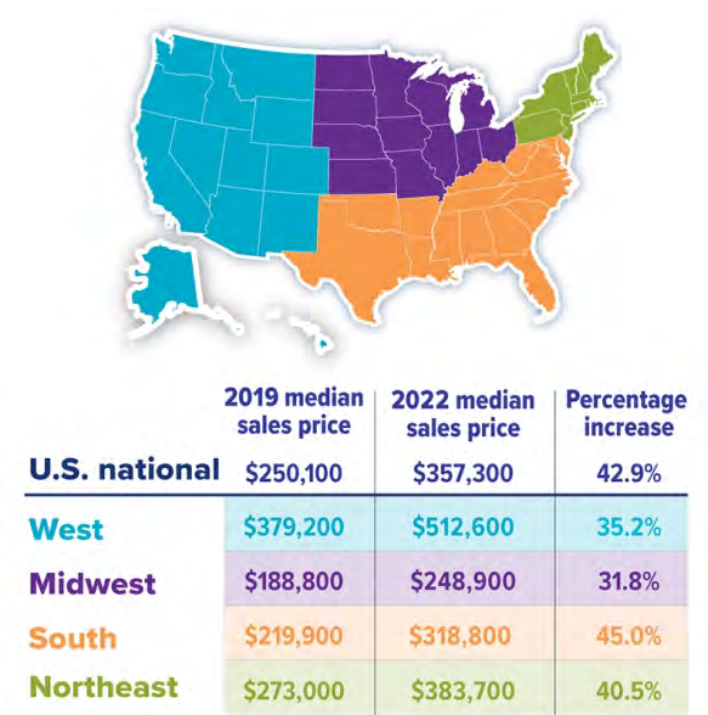
2. Home equity loan: With this type of loan, you would leave your current mortgage untouched and take out a separate loan against the equity in your home, with a fixed interest rate and fixed monthly payments.

3. Home equity line of credit: A HELOC works much like a credit card. You apply for a revolving credit amount up to a certain limit and, upon approval, have access to that money for a specific period, known as the *draw period* (usually 10 years). HELOC funds don't all have to be used right away or at the same time. You can usually access the funds as needed by writing a check or using a linked credit card. Interest rates are variable; required payments will depend on how much you borrow and the prevailing rate. When the draw period ends, all outstanding balances need to be repaid.

Keep in mind that each of these options will have specific fees, including appraisal fees. A refinance could also require closing costs, which can equal thousands of dollars, depending on the amount borrowed.

The best type of loan will depend on your specific situation. If you need a fixed amount of money, a cash-out refinance or home equity loan might be appropriate. If you need an indeterminate amount over time or seek an emergency cash reserve, a HELOC might better serve your needs.

Growth in Home Sales Prices Since 2019



Source: National Association of Realtors, 2020-2022 (median existing-home sales data as of February 2019 and 2022)

When Using Home Equity Might Make Sense

Because you're putting your home at risk, it's important to think critically and strategically when using home equity. Are you using the funds in a way that could reap future financial benefits, such as home repairs and improvements, helping to pay for a child's college education, or consolidating high-interest debt? Then it might make sense. (A loan used for home repairs may also offer tax benefits; talk to a tax professional.) On the other hand, it might not be in your best financial interest if you're thinking of using the money to fund an extravagant purchase, such as an expensive vacation or new luxury car.

Home equity loans and lines of credit that are not used to buy, build, or substantially improve your primary home (or a second home) are considered home equity debt; you cannot deduct the interest on home equity debt. With a cash-out refinance, you can only deduct interest on the new loan if you use the cash to make a capital improvement on your property.

Three Things to Consider Before Buying a Vacation Home

The arrival of the COVID-19 pandemic in 2020 led to a surge in demand for vacation/second homes — mainly spurred by government shutdowns and stay-at-home advisories. Whether working remotely, attending school online, or meeting up with friends and family virtually, people found themselves spending more time than ever at home.¹ If you are thinking about buying a vacation home, here are three things to consider before taking the plunge.

Tax Benefits

The tax treatment of your home will depend largely on how much time you (or a family member) use the property for personal purposes relative to the amount of time you rent it to others. If you plan to use the home for your personal use only, or rent it to others for fewer than 15 days per year, you can typically deduct property taxes, qualified residence interest, and casualty loss deductions. Rental income from a second home under these circumstances is not taxable and rental expenses are not deductible.

When you rent out your home for more than 15 days during the year, and your personal use of the home exceeds the greater of 14 days during the year or 10% of the days rented, then the property is considered a vacation home for tax purposes. You may deduct property taxes, qualified residence interest, and casualty loss deductions. However, rental expenses must be divided between personal and rental use, and deductible expenses are generally limited to the amount of income generated by the property. In addition, all rental income is reportable. Consider seeking advice from an independent tax or legal professional.

There are inherent risks associated with real estate investments and the real estate industry, each of which could have an adverse effect on the financial performance and value of a real estate investment. Some of these risks include: a deterioration in national, regional, and local economies; tenant defaults; local real estate conditions, such as an oversupply of, or a reduction in demand for, rental space; property mismanagement; changes in operating costs and expenses, including increasing insurance costs, energy prices, real estate taxes, and the costs of compliance with laws, regulations, and government policies. Real estate investments may not be appropriate for all investors.

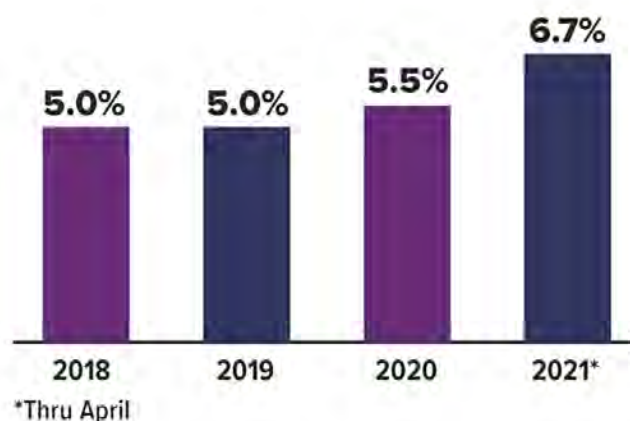
Affordability

Though there may be some financial benefits to owning your own small piece of paradise (e.g., rental income, increase in property value), you should only purchase a vacation home if you crunched the numbers and find that you can truly afford it. In addition to a mortgage, you'll have to pay property taxes and, depending on where the home is located, a

higher premium for hazard and liability insurance. The amount of money you pay for electricity, heat, sewer, water, phone, and other utilities will depend on how frequently and how many people use/occupy the vacation home. And unless your home comes furnished, initially you will need to spend money on furniture, bedding, and housewares to make sure that your home is equipped and ready for use/occupancy.

You'll also have to spend money on keeping up the home. Maintenance costs can include cleaning, yard work, pool or spa maintenance, plowing, and both major and minor repairs. If you're buying a condo or a home that is part of a homeowners association, you'll have to pay a monthly fee to cover maintenance/upkeep. Finally, if you are plan to rent out your vacation home, you may need to hire a property management company that will help you market, list, and maintain your rental property for a fee.

Share of Vacation Home Sales to Total Existing Home Sales



Source: National Association of Realtors, 2021

Investment Potential

Is the property located near a highly sought-after vacation destination? If so, it may turn out to be a good investment. Popular vacation rentals tend to increase in value over time, helping you build equity and accumulate wealth. In addition, it could generate enough rental income to help cover your mortgage and property taxes throughout the year.

If you vacation often enough, owning a vacation home could also end up saving you money in the long run. Compare the cost of your annual mortgage payments to what you normally pay for vacations during the year. You may be surprised to find that the costs are similar. Are you are planning for or nearing retirement? If so, you could buy a vacation home with the goal of eventually using it as your primary residence when you retire.

1) National Association of Realtors, 2021

Naming a Trusted Contact

When you open an account or update an existing account at a brokerage or a financial firm, you may be asked you if you want to designate a "trusted contact." This individual may be contacted in certain situations such as when financial exploitation is suspected or there are other concerns about your health, welfare, or whereabouts. Naming a trusted contact is optional, but may help protect your account assets.

The person you name as a trusted contact must be at least 18 years old. You'll want to choose someone who can handle the responsibility and who will always act in your best interest — this might be a family member, close friend, attorney, or third-party professional. You may also name more than one trusted contact.

Understandably, you might be concerned that the person you name could make transactions in your account but that's not the case. Your trusted contact will not be able to access your account or make financial decisions on your behalf (unless you previously authorized that person to do so). You are simply giving the financial firm permission to contact the person you have named.

Here are some examples of times when a financial firm might need to reach out to your trusted contact.

- To confirm current contact information when you can't be reached
- If financial exploitation or fraud is suspected
- To validate your health status if the firm suspects you're sick or showing signs of cognitive decline
- To identify any legal guardian, executor, trustee, or holder of a power of attorney on your account

A firm may only share reasonable types of information with your trusted contact. U.S. broker-dealers are required to provide a written disclosure that includes details about when information might be shared. Ask your financial firm or professional if you have any questions about the trusted contact agreement.

You may add, remove, or change your trusted contact at any time, and you'll need to keep your contact's information up-to-date. It's also a good idea to let the person you've chosen know so that he or she is prepared to help if necessary.



To help protect investors against financial fraud or exploitation, The Financial Industry Regulatory Authority (FINRA) requires that investment firms make a reasonable effort to obtain trusted contact information.

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