

The MFAC Report

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Debt Crisis from another Perspective

By Eva Meza

We know that those who have poor credit are suffering the consequences of stricter lending standards. However, for those with good and even great credit, it seems as if they're getting the short end of the stick. What we are observing is that during these turbulent economic times; nobody is immune from actions being undertaken by lenders.

Starting from about mid-2008, credit card companies have been lowering credit limits, raising interest rates, penalties and fees or closing accounts altogether – not just for poor credit risks, but even for those with pristine credit. Mortgage lenders have even applied this so-called "logic" to Home Equity Lines of Credit (HELOCs). This could have the unexpected result of a borrower having to stop a home improvement project in its tracks!

There is hope on the horizon because new Federal rules that take affect in July 2010 will prohibit lenders from raising interest rates on existing balances unless a cardholder is more than 30 days in arrears on payments. Additionally, Congress is evaluating the current practices to determine why interest rates must be so high at a time when lenders have the lowest costs of capital in generations.

The harsh reality is that credit card companies and lenders are passing

on to the consumers the losses that they have incurred from betting wrong on the failed housing boom. This of course minimizes their risks of possible non-payment as they claim that they anticipate large scale defaults on the part of borrowers and

credit card users.



Borrowers feel that the actions taken by the lenders is unfair, but if they had read the fine print in the contracts that they have with such lenders they would have known that the credit card companies and lenders are exercising contractual rights that they have. Thus, it seems that there's really not much one can do but succumb to these new policies. One can also write to her elected leaders in Washington to complain and to try to influence Congress to take further action.

So, what can you do? You can and should be pro-active if you receive a notice from your credit card company. Call them and discuss

why they are changing your limit or rate. Calmly inform them that you have not had past credit problems and request that they re-install your original credit limits. Many times they will be responsive. However, we have observed that some of our clients have had no success dealing with their credit card companies and they have not even been given reasons for the actions of the lenders.

If a lender's rules don't work for you consider taking your business elsewhere and closing the account.

We're always looking for a few new good clients. Your referrals will be appreciated.

Tips and Alerts

Consider Protecting Your Travel With Insurance

By Tad Jakes, CFP®

Your bags are packed, the trip is paid for and you're about to leave for the airport, only you hear on the news that a hurricane is approaching the resort island on which you be staying. What do you do? If you have travel insurance, you cancel the trip and get a refund. If you don't have travel insurance, you go anyway and hope for the best, or you cancel the trip and forfeit any non-refundable airfares, hotel and other deposits.

With travel season upon us, would-be travelers should evaluate if they want to purchase travel insurance for their next trip.

There are two types of travel insurance, and given your destination, one or both should be considered. The first type includes trip cancellations or interruptions and the second is for medical emergencies and evacuations.

Trip cancellation and interruption insurance can be useful to protect you against unexpected situations that cause you to miss, delay, or leave early from your travel. However, when buying cancellation and interruption insurance, it is imperative that you read the fine print because you will only be reimbursed for a covered loss.

Depending on the coverage you have with your current insurance provider or guild, it is possible that you have some level of emergency medical insurance when you travel abroad. This should be researched

prior to buying emergency medical insurance. If your medical insurance provider does not cover you or the level of coverage isn't sufficient, emergency medical insurance could be valuable.



The cost of comprehensive travel insurance can run between 5 and 7 percent of the cost of the trip. Many tour companies, travel agencies and cruise lines offer insurance, however, keep in mind that if the tour company or travel agency goes bankrupt, chances are your travel insurance will no longer stand. For this reason it is best to purchase travel insurance through an insurance company. Whether it's just for peace of mind, or to protect yourself against a loss you can't afford, it's a good idea to research travel insurance before booking your next vacation or business trip.



Tax Notes

No Required Minimum Distribution From Deferred Accounts for 2009

By Tom Trent, EA

Ordinarily, account holders of Individual Retirement Accounts (IRAs) and other retirement plans are required to begin taking a required minimum distribution annually once they reach age 70½. If the taxpayer fails to take that required distribution, there is a penalty of 50%, in the form of a tax, of the amount that was required to be taken. However, a provision in the Worker, Retiree, and Employer Recovery Act of 2008, which was signed into law on December 23, 2008, temporarily suspends the penalty for 2009, which means that retirees and other IRA owners may choose to forgo all or part of this year's distribution without penalty, creating an opportunity to reduce their taxable income for 2009. This also helps affected taxpayers avoid the need to liquidate investments in a down market. Without the suspension, they could be forced to sell, possibly at a steep loss due to the market downturn.

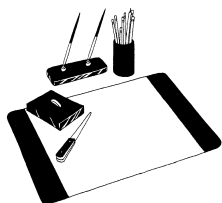
The suspension applies to tax qualified plans, §403(a) annuity contracts, §403(b) plans, §457 plans maintained by a government employer, and individual retirement plans, including IRAs.

At MFAC we are evaluating portfolios on a case by case basis. In most cases we are recommending that a distribution be taken only if there is a cash need that cannot be met by other means.

From The Corner Office

Cheap at Half the Price

By Mitchell Freedman, CPA/PFS, AIF®



The title of this article, "Cheap at Half the Price" is a play on words. That confusing statement most often connotes that something is highly over priced. Thus if it's cheap at half the price it was expensive at full price. That's something to ponder in light of current residential real estate and stock markets. When real estate prices were going through the roof and people were bidding up the values of such properties it seemed as if they could never go down. When the stock markets reached lofty levels many people forgot the lessons of past overheated markets and were willing to throw more and more money at securities with ever-higher valuations. So is (was?) real estate cheap at half the price? Let's take a look.

DataQuick recently indicated that in February 2009 the median price of homes sold in Southern California had dropped to \$250,000 from a high of \$505,000 in mid 2007. While the median price is not necessarily reflective of the entire market for a variety of reasons it does indeed mean that this mid point at which half the homes sold

for more and half the homes sold for less had indeed dropped 51% - half the price.

Is there a corollary with respect to the stock markets? The Standard and Poors 500 Index reached an intra-day high of 1576 on October 11, 2007. Recently, on March 6, 2009, that same Index reached an intra-day low of 667, a drop of 58% from the high some 17 months earlier. The Index has been trading up since March 6th and reached an intra-day high of 846 on April 2, 2009 - an increase of nearly 27% from the low. At this writing, April 6th 2009, The Standard and Poors 500 Index closed at 835, more than 25% higher than the March low. Was the March Index price "cheap at half the price?"

The only way we will know if stocks and homes were "cheap at half the price," will be to look back in retrospect at some time in the future. We are still in

the depths of a massive global recession so we don't know if we have hit the troughs, or will we continue to see further declines, or, for that matter, if we may be on the way back up? Frankly, if we had the magic bullet to know at the precise time that the bottoms are hit we'd be the smartest people on the planet.



Heard In The Hall

Mitch Freedman attended a meeting of The All-Star Financial Group, Inc. on January 16 and 17, 2009 in San Diego. He also attended the AICPA Advanced PFP Conference in San Diego January 19-21, 2009. At that conference Mitch was a co-presenter of two sessions titled, "Advanced Issues in Property and Casualty Insurance: Insuring Unusual Assets and Risks," and "Planning for the Future Former Spouse: Issues Seniors Face to Protect Income, Assets, and Estates." Mitch gave presentations for the Committee of Interns & Residents in Los Angeles and Oakland on January 4 and February 7,

2009 on the subject "Personal Finance for Doctors." On February 18th he attended a Board of Directors Meeting of California Jump\$tart Coalition in Rancho Cucamonga, CA. On March 5th he gave a presentation in Los Angeles that was sponsored by the California Department of Corporations titled, "Smart Investment Practices." Mitch attended the City National Bank "Economic Forecast & Market Update" on March 19th in Tazana, CA.

Join us in congratulating Karin Sheard on becoming a grandmother for the first time. Jayden David Sheard was

born April 2nd. His vital statistics are: weight: 8 Pounds 6 ounces. and length: 19 ½ inches. When you next see her, we're certain she'll have lots of pictures to show you.

ERRATA

In the Winter 2009 issue of The MFAC Report in the Tax Tips, there should have been a limit stated for Defined Contribution Plans. The article had indicated that the limit was for Defined Benefit Plans.

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