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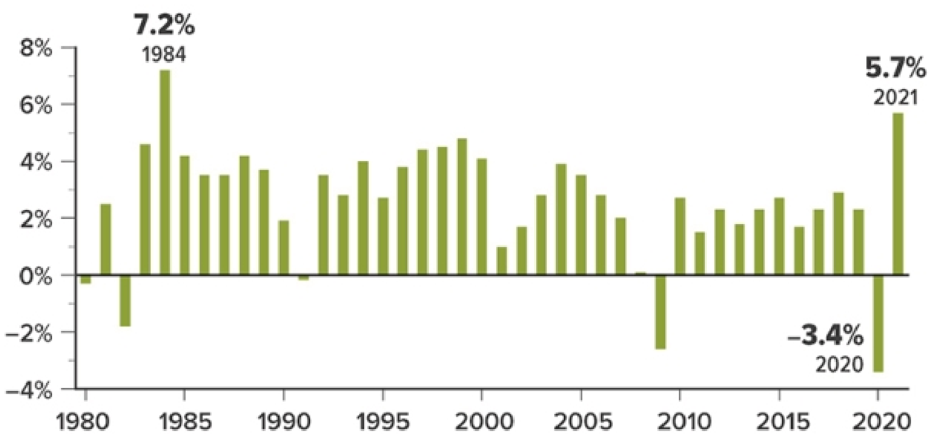
$23.0 trillion

Total value of 2021 U.S. GDP expressed in current dollars, an increase of $2.1 trillion over 2020. Both real GDP (inflation-adjusted) and current-dollar GDP surpassed pre-pandemic levels.

Source: U.S. Bureau of Economic Analysis, 2022

GDP Growth Highest in 37 Years

In 2021, U.S. real gross domestic product (GDP) — the value of goods and services produced in the United States — grew by 5.7%, the highest annual rate since 1984. This marked a strong recovery from 2020, when GDP dropped by 3.4%. Real GDP is adjusted for inflation to more accurately compare economic output at different periods. Current-dollar GDP, typically used to measure the overall size of the economy, increased by an even more impressive 10.1%.



Source: U.S. Bureau of Economic Analysis, 2022

See disclaimer on final page

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.

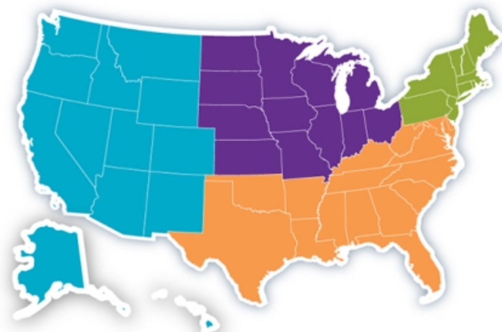
2. Home equity loan: With this type of loan, you would leave your current mortgage untouched and take out a separate loan against the equity in your home, with a fixed interest rate and fixed monthly payments.

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



	2019 median sales price	2022 median sales price	Percentage increase
U.S. national	$250,100	$357,300	42.9%
West	$379,200	$512,600	35.2%
Midwest	$188,800	$248,900	31.8%
South	$219,900	$318,800	45.0%
Northeast	$273,000	$383,700	40.5%

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.

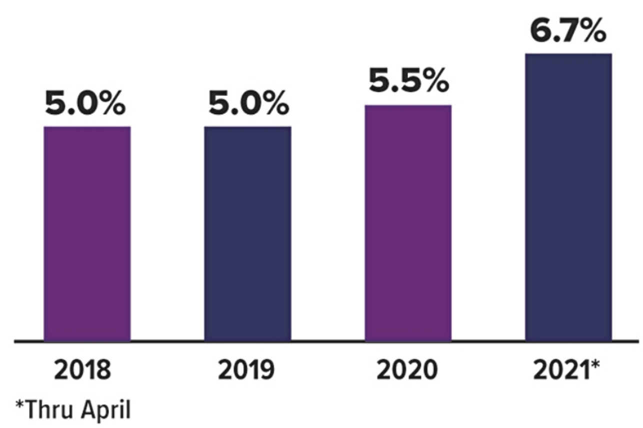
There are inherent risks associated with real estate investments and the real estate industry, each of which could have an adverse effect on the financial performance and value of a real estate investment. Some of these risks include: a deterioration in national, regional, and local economies; tenant 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

Adjusting Your Tax Withholding

Now that you've seen last year's tax results and can see where this year is heading, it may be a good time to consider adjustments to your income tax withholding.

Getting It Right

If you have too much tax withheld, you will receive a refund when you file your income tax return, but it might make more sense to reduce your withholding and receive more in your paycheck. However, if you have too little tax withheld, you will owe tax when you file your tax return and might owe a penalty.

Two tools — IRS Form W-4 and the Tax Withholding Estimator on irs.gov — can be used to help figure out the right amount of federal income tax to have withheld from your paycheck. This can be beneficial when tax laws change, your filing status changes, you start a new job, or there are other changes in your personal situation.

You might make a more concerted effort to review your withholding if any of the following situations apply to you:

- File as a two-income family
- Hold more than one job at the same time
- Work for only part of the year
- Claim credits, such as the child tax credit
- Itemize deductions
- Have a high income and a complex return

Form W-4

In some circumstances, you will need to give your employer a new Form W-4 within 10 days (for example, if the number of allowances you are allowed to claim is reduced or your filing status changes from married to single). In other circumstances, you can submit a new Form W-4 whenever you wish. See IRS Publication 505 for more information.

Your employer will withhold tax from your paycheck based on the information you provide on Form W-4 and the IRS withholding tables.

If you have a large amount of nonwage income, such as interest, dividends, or capital gains, you might want to increase the tax withheld or claim fewer allowances. In this situation, also consider making estimated tax payments using IRS Form 1040-ES.

You can claim exemption from federal tax withholding on Form W-4 if both of these situations apply: (1) in the prior tax year, you were entitled to a refund of all federal income tax withheld because you had no tax liability, and (2) for the current year, you expect a refund of all federal income tax withheld because you anticipate having no tax liability.