“What if the tax laws change?”

One thing you can count on is that the tax laws will change. This brochure is not intended to make you an expert in tax law or even in mortgage interest deduction. Your CPA will stay on top of the ever changing landscape of tax legislation. It is important however, for you to know the basics so that you know what questions to ask and when you should ask them. Your mortgage professional can work closely with you and your CPA to ensure you’re taking full advantage of the opportunities available.

Your home may be the biggest investment you’ll ever make. How that investment is handled can impact your taxes, your income and your peace of mind. We’ll help you stay on top of the market and the legislation and help ensure you’re always getting the best value.

For expert tax advice, rely on your CPA
for expert mortgage advice, contact
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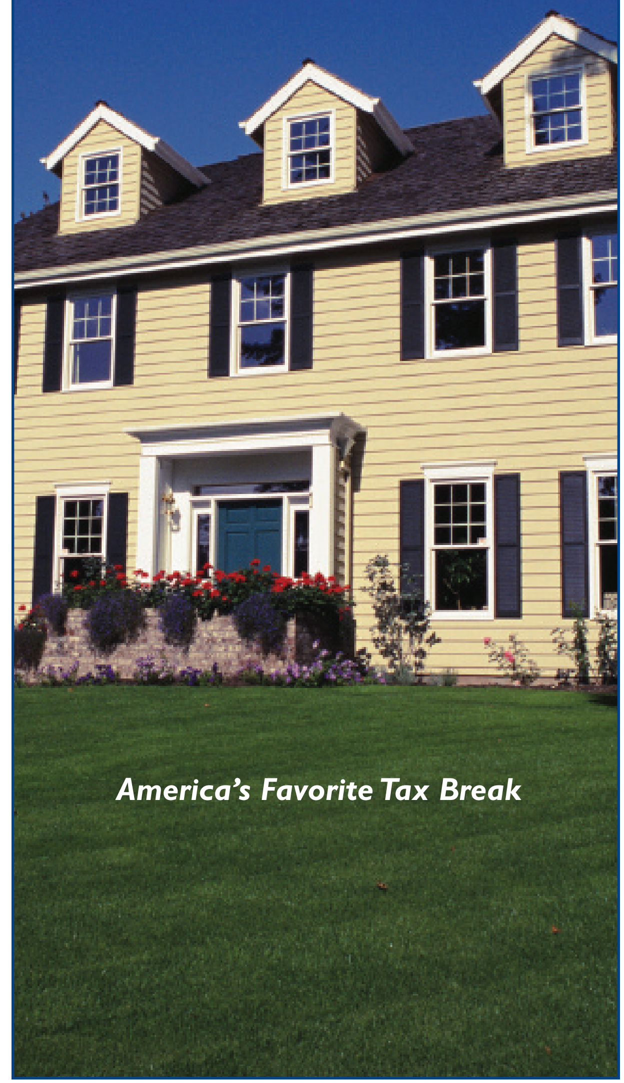
Making Sense of the

Mortgage Interest Deduction



The mortgage interest deduction was introduced in 1913, along with the income tax. Millions of U.S. homeowners employ the deduction every year. To take full advantage of the mortgage interest deduction, you should start with a basic understanding of how it works. Here are the fundamentals.

“Who can benefit from the mortgage interest deduction?

The morgage interest deduction applies when your itemized deductions exceed the standard deduction. In 2008 the standard deductions are $10,950 for married couples filing jointly and $5,450 for married couples filing separately and singles, $8.000 for heads of household. If your total itemized deductions including mortgage interest fall below those amounts, the deduction does not come into play. Also, very high income filers whose allowable deductions have phased out may not benefit.

“What type of debt qualifies for the deduction?”

Two types of debt generate tax-deductible interest; debt that was taken out in order to buy, build or improve your home (aquisition debt) and debt that was taken out for other purposes through a home equity loan or line of credit (equity debt). To qualify as a home for this purpose the property must have sleeping, cooking and toilet facilities. This can include primary residence, second home, condo, mobile home, house trailer or even a boat.

“Is there a limit on how much I can deduct?”

You may deduct up the interest on debt up to $1,000,000 for aquisition debt (for married couples) and on debt up to $100,000 on equity debt for a combined total of $1.1 million for married couples or $550,000 for singles and married couples filing separately. You may not deduct interest on debt exceeding the fair market value of the home. Note: Interest on mortgage debt incurred prior to October 13, 1987 has no limit on deductability, however it does impact the deductability of post October 1987 debt. Your CPA can explain this further.

“If I’m already deducting interest on a home, can I also deduct the interest on a second home?”

Yes, you can deduct the interest from one second home provided you use that property at least 14 days during the year. If your second home is a rental property, you must use it more than 10% of the time that the property is rented out. If your rental property does not meet these criteria, the interest cannot be listed on Schedule A but may be listed on Schedule E.

“If I took out a home equity loan to pay off personal debts. Is this interest deductible?”

Yes. Home equity debt is deductable up to $100,000 for married couples or $50,000 for indviduals or married persons filing separately, regardless of how the money is used, to the extent that it does not exceed the fair market value of the house.

“I paid points to lower my mortgage interest rate. How does this effect my deduction?”

Discount points are a fee paid to the lender to lower your mortgage interest rate. Each point costs 1% of the total loan amount. For tax purposes, this is considered interest and is deductible in the year that it is paid on your original mortgage. If you refinance, points must be deducted on a pro-rata basis (spread over the life of the loan). However, if you refinance again or sell your home, all remaining non-deducted points may be deducted that year.

“What if I pay off my mortgage early?”

Depending on the terms of your mortgage, you may incur a pre-payment penalty for paying off your mortgage ahead of schedule. This is considered interest expense for tax purposes and is deductable in the year that it occurs.

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