

## New tax deduction created for mortgage insurance

### GOOD NEWS FOR 2007 HOME BUYERS – Mortgage Insurance is Tax-Deductible!

Private mortgage insurance, or PMI, is a type of insurance that insures the lender in case the buyer defaults on the loan. The lender, or bank, requires PMI when the buyer has a down payment less than 20% of the asking price of the home. Private mortgage insurance has good and bad points, and there are ways to avoid paying it without putting down the required 20%.

To avoid paying PMI, a lot of home buyers have been using piggyback loans. A Piggyback loan is where you can take 80% of the purchase price and put it on a traditional mortgage and take the remaining 10% and place it on a second mortgage.

Congress has recently passed a law that will **let homeowners deduct their mortgage insurance on their 2007 taxes** (filed in 2008). Depending on your tax situation, the deduction for PMI could be significant, possibly making getting mortgage insurance a better option than a piggyback loan. So, if you are home buying or refinancing in 2007, review all your options with your bank to see what will be the best savings for you.

#### IMPORTANT CAVEATS:

**Caveat No. 1:** The tax deduction applies only to mortgages that are closed in 2007. If you have a loan with mortgage insurance in 2006, you won't be able to deduct the premiums in the 2007 tax year unless you refinance in 2007.

**Caveat No. 2:** There are income limits. You get the full deduction if your adjusted gross income is \$100,000 or less. The amount you can deduct phases out rapidly after that, and no mortgage insurance deduction is available if you make more than \$110,000.

**Caveat No. 3:** This is a one-year deal, and Congress would have to renew the deduction to make it apply for the 2008 tax year and beyond. Congress probably will extend the deduction, but you can't know for sure.

**Caveat No. 4:** If you take the standard deduction instead of itemizing deductions, the new law makes no difference to you. "You need to have a mortgage of about \$130,000 or so to even pay enough interest to hurdle the standard deduction," says Bob Walters, chief economist for Quicken Loans. In practice, he says, this means that the deduction is available to households with incomes between \$50,000 and \$100,000.

*For more information ask your mortgage consultant at Capital Financial Bancorp.*

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