

Managing Your Mortgage

For most of us, a home mortgage represents our single largest liability. But mortgage debt shouldn't necessarily be viewed only as a liability. You might also think of a mortgage or home equity line of credit as a financial-planning tool that deserves as much attention and consideration as your retirement plan savings.

Income tax basics

Home mortgage debt remains one of a few sources of tax-deductible interest expense left for most individuals. For home mortgage debt, IRS rules say you can deduct the interest expense on up to \$1 million (\$500,000 for married taxpayers filing separately) of home-secured debt if you used the money to purchase or make capital improvements on your qualified principal and/or second residence.

You can also deduct the interest expense on up to \$100,000 (\$50,000 for married taxpayers filing separately) of home equity debt secured by your home, either as a regular loan or as a revolving line of credit. Furthermore, the \$100,000 home equity debt limit is not subject to tracing rules, which means you can use the proceeds for any purpose and still potentially claim an itemized deduction. The deduction is subject to some limitations and possible alternative minimum tax treatment, so be sure to check with your income tax professional about your own specific situation.

Refinancing realities

When refinancing, keep in mind that any extra cash you might take out beyond the value of your old loan will count toward the \$100,000 home equity debt limit if the proceeds are used for something other than substantial capital improvements to your home. Finally, any "points" you might pay when taking out a mortgage loan can be deducted as well, either in the year you pay them, in the case of an original mortgage, or over the life of the loan, in the case of refinancing. So when you're evaluating a home mortgage or equity loan, you can't ignore the impact of income taxes.

Important considerations

As you shop around for the best mortgage or home equity loan, you'll likely be focused on getting the best rate and keeping costs low. These are important considerations, but you should also focus on the lender's range of mortgage options, as well as on the level of service and attention you can expect to receive. You want a lender who is committed to making sure you get the right loan for your needs and that your loan closes on time, among other things. Ideally, a good lender won't start talking about what it has to offer until after its representative has listened to you first.

Whatever your individual circumstances, goals and preferences might be, you should think about the wise and prudent use of mortgage debt within the context of your overall personal financial plan.

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