

the Mortgage Bulletin

Week of November 7th, 2005

Your Company Name
100 Main Street
Hometown, CA 000000
Phone: 123-456-7891
Cell: 456-789-1234
Fax: 789-1011-1213
pnewman@yourcompany.com
rredford@yourcompany.com
www.yourcompany.com



Paul Newman



Robert Redford

Your Logo Goes Here



Ashley Juddddddddd

Your Logo Goes Here

Star Realty
123 Main Sreet
Anytown, CA 90000
Phone: 888-888-0000
Cell: 999-999-0000
Fax: 888-888-8888
name@realty.com
ajudd@starrealty.com
www.juddstar.com

I'll huff and I'll puff

And I'll blow your house down. Well, the big bad wolf is perhaps overly optimistic about his chances of carrying out his plan, but he is huffing and puffing. And if the wolf is allowed to do as he wishes, your home's value could suffer.

Last week, the President's Tax Advisory Board (AKA the Big Bad Wolf) announced recommendations for significant changes to the tax code. Some of the recommendations will be harmful to home values, particularly those in the higher price ranges and home owners, particularly those in higher income levels.

At present, homeowners can take a deduction for interest on mortgages up to \$1,000,000 and a home equity loan up to \$100,000. They can also deduct local and state property tax.

Here's a summary of proposals that will, if adopted, be harmful.

- 1) Eliminate the time honored deduction for the interest you pay on your home mortgage.
- 2) Replace this deduction with a tax credit worth 15% of the interest paid during the year.
- 3) Eliminate present deductions for state and local property taxes.
- 4) Eliminate tax deduction for interest paid on home equity lines.

What impact will these proposals have on home values? Obviously taxpayer/homeowners with high incomes and large loans will sustain the most damage. Consider the taxpayer in the combined 45% (State and Federal) tax bracket purchasing a home for \$1,500,000 with a \$1,000,000 mortgage at 6.5%.

The following reflects our understanding of the impact, is a simplistic approach, and not to be considered tax advice.

Under the present tax code, this person can deduct the interest on the mortgage

(\$63,900 average per year for the first three years) and property taxes of \$18,750. At 45%, this "saves" \$37,192.50 in taxes. If the big bad wolf's proposals become law, this same individual would receive a tax credit of 15% only on the interest paid (\$9,585) and there would be no deduction or credit for the property taxes.

Without going into detailed figures in this Bulletin – a family with a \$500,000 mortgage in the 25% tax bracket would lose \$4,400 of the present tax benefits – according to Clint Stretch, director of tax policy for Deloitte Tax.

Any taxpayers who pay income tax above marginal rates of 15% will get hurt. And homeowners in areas of high priced homes and high property tax will get creamed, to use the word.

For more details about the President's Tax Advisory Board members and their goals, go to www.taxreformpanel.gov.

To the extent the proposals for eliminating deductions for mortgage interest and property taxes become law, it will mark a 180 degree change in direction of longstanding policies designed to encourage home ownership. But before panicking, consider the odds of these proposals becoming law.

First, the possibility of the negative impact on home values across the country cannot be ignored by lawmakers. Second, as you might expect, already the mortgage and real estate industries are girding for battle. And several lawmakers are voicing objections.

If these proposals are objectionable to you, you might consider writing your representatives in Washington to let your voice be heard. And you might want to do it right away before momentum in favor of them builds up.

Your Company Name is a mortgage broker licensed by the State Department of Real Estate, license 888-999-22. Rates posted are for zero points, thirty day lock, purchase loans and are subject to change without notice.