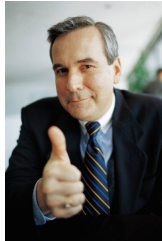


the Mortgage Bulletin

XYZ Mortgage

321 Lock Street
 Hometown, CA 000000
 Phone: 123-456-7891
 Alternate: 456-789-1234
 larry@tup.com



Larry Lender

Conforming Loans to \$359,650

Type	Rate	APR	Trend
30 Yr FIX	5.750%	5.836%	→
15 Yr FIX	5.375%	5.506%	→
5/1	5.375%	6.143%	→
3/1	5.250%	6.219%	→
Jumbo Loans above \$359,650			
30 Yr FIX	6.000%	6.059%	→
15 Yr FIX	5.625%	5.701%	→
10/1	5.875%	6.139%	→
7/1	5.875%	6.213%	↑
5/1	5.625%	6.188%	→
10 Yr Bond		4.294%	↑
Prime		6.750%	↑

Move up buyers take note

Professionals in the real estate and mortgage businesses know about certain aspects of selling and buying homes that they sometimes presume everybody else (including potential sellers and buyers) also knows. This presumption can be erroneous.

Today we address one of those things -- the potential impact of capital gains tax liability on the sale of a personal residence.

The following discussion is not tax advice. Rather it should be taken as strong encouragement that **POTENTIAL BUYERS AND SELLERS CONSULT WITH A QUALIFIED TAX ADVISOR BEFORE ENTERING INTO A SELLING/BUYING TRANSACTION.**

Simply stated, in typical "buy up" transactions, prior to 1997, sellers could "roll over" accumulated capital gains onto the newly purchased home. Thus if a person first bought for \$50,000, subsequently sold for \$60,000, and then purchased a new home for \$100,000, the capital gains tax on \$10,000 was rolled over into the new house. Virtually everybody rolled over capital gains taxes in "buy up" situations. But in 1997, the rules changed. The rollover was eliminated and essentially replaced by exemptions from capital gains tax for the first \$250,000 gain for single people and \$500,000 for married couples.

Under present rules if a (single) buyer first purchased for \$500,000, subsequently sold for \$800,000 and purchased a new home for \$900,000, there is no longer an option to roll the capital gains tax onto the new home. The seller has a capital gains tax liability on the amount of gain in excess of \$250,000 -- \$50,000 in this case.

Ground rules determine qualification for the \$250,000 or \$500,000 exemption from capital gains tax. Essentially, the property must be a principal residence and the

owner/seller must have lived in the property at least two of the last five years. We emphasize that our description of the capital gains tax rules is very simplistic. There are nuances that consultation with a tax expert will flush out for a specific taxpayer's situation.

For purposes of our discussion, however, the important thing is this. If you are contemplating selling your present home and using the net proceeds from sale as a down payment on a move-up home --- be aware that the sale could create a capital gains tax liability. And further, if there is such a liability, make sure you know how much it will be and when you must pay it.

Failure to take this into consideration can create an unwelcome surprise, particularly if you are stretching the down payment for your next purchase to the maximum.

Given the rapid and significant increase in home prices over the past several years and therefore potentially large net proceeds from sale it is important to remember that you may have a silent partner in the sales transaction. In fact, you may have two: the IRS and the Franchise Tax Board, both of whom will become less silent when you tell them of your sale. They will tell you loud and clear if they are entitled to a share of your net gains.

In other words, the net sales proceeds may not (ultimately) be all yours, so you don't want to over-commit for a down payment.

Once your Realtor helps you determine the probable sales price of your home, make sure you find out from your accountant or financial advisor as precisely as possible, what your capital gains tax liability will be.

Then you can call your lender for pre-approval and start looking for the replacement home, secure in the knowledge that you will not take an unexpected capital gains tax hit on your net sales proceeds,

XYZ Mortgage is a mortgage broker licensed by the State Department of Real Estate, license 888-999-22. Rates posted are subject to change without notice.