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Frequently Asked Questions about MI Tax-Deductibility

PMI MORTGAGE INSURANCE CO.

Q. What is mortgage insurance (MI) tax-deductibility and how does it work?

A. Congress recently passed legislation that provides for an itemized deduction on federal tax returns for the cost of private mortgage insurance paid by eligible borrowers. Previously, borrowers could not deduct the cost of their mortgage insurance payments on their federal taxes.

Now, a new federal law allows qualified borrowers with adjusted gross incomes up to \$100,000 to deduct 100% of their 2007 MI premiums on their federal tax returns.*

In addition, even borrowers with adjusted gross incomes up to \$109,000 can take advantage of a partial MI tax deduction (the legislation includes a phase-out by 10% for each \$1,000 a taxpayer's adjusted gross income exceeds \$100,000 with a cut off of any deduction at \$109,000).

The legislation is effective for mortgage insurance certificates issued between January 1 and December 31, 2007.

Q. What savings amount can a typical homeowner with mortgage insurance expect?

A. Individual savings will vary depending on the size of the loan and a borrower's adjusted gross income and tax bracket. According to an analysis by Bankrate, a leading source of consumer financial information, a homeowner with a \$180,000 mortgage would save about \$351 in taxes a year.

Q. Do all mortgage borrowers using mortgage insurance qualify for the MI tax deduction?

A. Currently, this MI tax-deductibility legislation only applies to eligible borrowers with adjusted gross incomes of \$109,000 or less who purchase or refinance a home between January 1 and December 31, 2007 and pay mortgage insurance premiums.

Mortgage insurance premiums will be fully deductible for eligible taxpayers earning up to \$100,000. The amount of the deduction phases out for those who earn between \$100,000 and \$109,000 annually. No tax deduction is available for borrowers with adjusted gross incomes in excess of \$109,000.

Q. Does the MI tax deduction apply to new purchases only? Are refinances also included?

A. The MI tax deduction applies to purchases and refinances up to the original loan amount.

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866.770.2464

www.pmi-us.com

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Q. How many people in the U.S. use mortgage insurance?

A. Millions of people use mortgage insurance every year – it’s an important factor in facilitating home purchases for first-time homebuyers and low- to moderate-income borrowers, as well as minority and immigrant borrowers. Most lenders require a 20 percent downpayment, which is the single biggest challenge prospective homebuyers face. Mortgage insurance makes it possible for people to purchase a home with a downpayment as low as 5 percent or even less.

Q. What is the reason for this new MI tax-deductibility legislation?

A. Expanding homeownership has long been a goal of the federal government. The federal government helps make homeownership more affordable for many homebuyers by making mortgage insurance tax-deductible.

Q. How long will this tax deduction be available?

A. The legislation specifies that the tax deduction applies to mortgage insurance contracts issued between January 1 and December 31, 2007, so it would include purchases and refinances within that year. However, Congress has the power to extend the tax deduction to future years, or even to make it permanent.

Q. Why is the provision for only one year?

A. Congress often introduces new provisions into the tax code for a specific time frame for budgetary or other reasons. Congress can choose to extend them on an annual basis. We are confident that this tax deduction will benefit prospective homebuyers and the nation as a whole, and hope that it will be extended.

Q. What is a lender’s role in the legislation’s implementation?

A. Lenders or their servicers will need to include homeowners’ total MI premiums in their end-of-year information returns for all homeowners from whom they received premiums of \$600 or more during 2007.

Q. What is the income threshold for married homeowners filing separately?

A. For married homeowners filing separately, there is a \$50,000 adjusted gross income threshold per person. The MI tax deduction is reduced by 10% for each \$500 that the married borrower’s adjusted gross income exceeds \$50,000.

Q. Do tax deductions have to be itemized on tax returns in order to take the deduction?

A. Yes. In order to take advantage of the MI tax deduction, borrowers must include their MI premium payment information on their itemized tax returns.

Q. Does the MI tax deduction apply to “Lender-Paid Mortgage Insurance” (LPMI)?

A. No. LPMI is a product in which the MI premiums charged to a lender are not passed on to the borrower in the escrow arrangement; instead, they are paid by the lender or are passed on to the borrower via fees or increases in the loan interest rate. Most mortgage interest is already deductible under the tax code.

* Based on transactions closed after December 31, 2006, and MI premiums paid between January 1 and December 31, 2007 and allocable to 2007. Deductions are phased out at 10% increments for borrowers with adjusted gross incomes between \$100,000 and \$109,000.

PMI cannot provide tax advice. Taxpayers should consult their own tax advisors concerning applicability of this new deduction to their particular circumstances under the Internal Revenue Code and the laws of any other taxing jurisdiction. This information is not intended or written to be used, and it cannot be used, for the purpose of avoiding U.S. federal, state or local tax penalties.