

SECTION 8: UNDERSTANDING YOUR RESPONSIBILITIES AFTER LOAN CLOSING

Now that you have either refinanced your mortgage or borrowed against your home equity, there are some things that you should keep in mind to ensure that you will continue to be a successful homeowner.

Importance of On-Time Mortgage Payments

When you close your loan, you are making a promise to repay your lender through a series of monthly mortgage payments. It is extremely important that you pay your mortgage on time every month. This will help you maintain a good credit rating and will enable you to avoid late fees, which can be costly and make it difficult for you to manage your money.

Tax Considerations

As you know, homeownership may offer tax advantages. Current law permits you to fully deduct the mortgage interest you pay on up to \$1 million of acquisition debt (mortgages acquired to buy, build or improve on your home, including straight refinance loans and loans for home improvements) from your total taxable income. This is a key benefit that the federal government provides homeowners to reduce the costs associated with homeownership. In addition, if you have home-equity debt (mortgages acquired other than to buy, build or improve your home), you can deduct the mortgage interest paid on a principal loan balance up to \$100,000. A cash-out refinance loan for any reason other than home improvement is considered to be a mixed-use mortgage because a portion of the proceeds will be used to refinance the mortgage you used to buy your home (acquisition debt) and the remaining portion (home-equity debt) will be used for other activities, such as buying a car. In that case, a part of your mortgage balance would be applied to the \$1 million principal limit, and the other part to the \$100,000 principal limit, when calculating how much of the mortgage interest you can deduct from your taxable income. To determine how much of your mortgage interest is deductible, you will need to figure the average balance of each category of debt for the year you are filing.

As noted previously, points paid on a home-equity or refinance loan generally must be deducted over the loan term, not in the year paid. Homeownership-related deductions may reduce the federal and state income taxes you owe. This could save you money if your itemized deductions, including mortgage interest, property taxes and other home-related expenses in a given tax year, exceed your standard deduction. Your standard deduction is a dollar amount based on your filing status that reduces the amount of income on which you are taxed. For instance, if you were married (filing jointly), your federal standard deduction for 2005 was \$10,000. In order for you to have saved money from itemizing, your mortgage interest, property taxes, charitable donations and other eligible deductions would have needed to be more than \$10,000. Information on standard deductions is available in Publications 501 and 936 from the Internal Revenue Service, which are downloadable from www.irs.gov. Before you file next year's taxes, you may want to consult with an accountant or tax attorney for the latest rules and regulations regarding deductions.

Importance of Home Maintenance

To ensure that your home retains its value, it is important to keep up with routine maintenance and needed repairs. The rule of thumb is that home maintenance and repairs tend to cost approximately one percent of the purchase price of your home each year. It is important that you set money aside for these costs. It can be much less expensive to make a repair early on than to wait until you have a big problem on your hands. For example, it is cheaper to patch a small hole in your roof than to replace it entirely. And it is usually cheaper in the long run to hire a contractor to make a repair before a problem gets out of hand, when you have time to shop around for the best price, than to hire one once the problem reaches a crisis level. If you are hiring outside contractors to help with your repairs, be sure that they are licensed, bonded and insured, and that you check their references carefully.

Importance of Paying Your Real Estate Taxes

In addition to making on-time monthly mortgage payments, you must pay your real estate taxes on time. As part of your loan closing, you may have set up escrow accounts to pay your homeowners insurance and property taxes when they become due. In this case, your real estate tax and insurance bills are typically sent directly to your lender. Both of those bills are paid annually or semiannually, but lenders who escrow for these bills require you to pay one-twelfth ($1/12$ th) of the annual bill each month. The lender deposits your partial payments in an escrow account, where they accumulate until it is time to pay your tax and insurance bills. If you pay your mortgage on time, your lender is responsible for paying your taxes on time. If your lender fails to make an on-time payment, it is responsible for paying any late fees. However, it is ultimately your responsibility to make sure your taxes are paid. To make sure that your property taxes have been paid, you should watch your mail for a paid receipt, or follow up with the appropriate local government agency. If you did not set up an escrow account, then it is your responsibility to pay your real estate taxes. Failure to pay your taxes can result in a lien in the amount of your tax debt being placed on your property. Once a lien is filed, your credit rating can be affected. That would make it hard for you to secure other loans at favorable rates. If you fail to pay your tax lien, you could lose your home.

What To Do If You Are Having Trouble Making Your Mortgage Payments

If you fail to make your monthly mortgage payment, your loan will go into default. If you fall behind in your payments or default on your loan, the lender may choose to foreclose on the mortgage. At that point, if you fail to pay the total amount due, the lender can sell your home to satisfy the debt.

If you are having trouble making your payments, contact your lender right away to see if you can restructure the loan so you can afford it. You should also seek financial counseling from a reputable housing counselor or nonprofit credit counseling agency. For the most part, lenders do not want your loan to go into default or to enter the foreclosure process. To avoid this, the lender may consider a number of options, known as loan workouts, to help prevent foreclosure. When you call, the lender will try to find out the cause of your current financial situation to determine the foreclosure-prevention option that is best for your situation. In general, you will have more options when you communicate with your lender early. The longer you wait, the more difficult it will be to save your home.