



Write-Offs to Remember:

Deductions in the Loan Process

Write-offs. They're the government's way of rewarding you when you've done something they like. And to judge by the write-offs, the government likes it when you borrow money to buy a house. There are write-offs aplenty, many of which people often forget.

Make the most of it—take every break the IRS says you've got coming. Here are a few deductions that people often forget:

Points: Origination fees charged as points are not tax deductible, and your lender is required to provide you with a list of applicable fees in their Good Faith Estimate within three days of your loan application. However discount points are tax deductible in the year that they are paid, for a property that is purchased and is considered the primary residence. These are points paid to secure a lower interest rate. When calculating the tax deduction on a refinance, points paid must be amortized over the life of the loan.

Pre-payment penalties. Just when you were doing so well, and manage to pay that loan off early, they slap you with a pre-payment penalty. Ouch! Well, if it's any consolation, you can itemize that away, which should ease the pain.

Pro-rated real estate taxes. Even if the seller was the one who sent the tax collector the check, chances you paid a pro-rated portion of the taxes for the year at closing. Be sure to deduct your fair share.

Pro-rated mortgage interest. Depending on when in the month you closed on your house, you paid either a hefty or a tiny amount of pro-rated mortgage interest for that month. Big or small, you can write that off. The Final Closing/Settlement Statement will show you how much you're due.

Home construction loan interest. As long as the construction period doesn't last more than two years before you make the new place your "principal residence," you can write off the interest for that construction loan. And really, if it takes more than two years, you've probably got bigger problems—like telling your architect you don't care how cool it looks, you're not shingling your house with cocktail stirrers.

It pays to pay attention—all these write-offs can add up to some serious savings when tax time comes around.