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HELOC loans might still be deductible under new tax plan

By Jeff Lazerson
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What's up with mortgage rates and home loans? Jeff Lazerson of Mortgage Grader in Laguna Niguel gives us his take.

If you have an existing home equity line-of-credit (HELOC) or second mortgage, do you have to fold that into a new first mortgage for it to remain tax deductible under the new tax laws?

It depends.

HELOC deductibility depends on whether it was "home equity indebtedness" or "acquisition indebtedness." Acquisition indebtedness — mortgage debt used to acquire, build or substantially improve the residence — will be deductible, according to Michael Kitces, partner and director of Wealth Management at Pinnacle Advisory Group.

"Money used for any other purpose is home equity indebtedness," Kitces said, and is no longer deductible, without any grandfathering.

If your existing HELOC (acquired before Dec. 15) was used for both acquisition and indebtedness, then you will have to split it going forward.

"It's the old tracer rule," said Warren Hennagin, CPA and partner at Marcum LLP. "If you used $50,000 for home improvement and another $50,000 for debt consolidation, only the $50,000 home improvement interest will be deductible."

Any new mortgage debt acquired after Dec. 15 caps out at $750,000. This may be split between a first mortgage and a HELOC or fixed-rate second, according to Hennagin. Any existing total acquisition mortgage debt is deductible up to $1 million.

And, what about the deductibility of a so-called piggy-back purchase money mortgage (80 percent first mortgage, 10 percent second mortgage and 10 percent down payment) to avoid paying mortgage insurance?

That piggy-back second will be deductible so long as you stay within your total mortgage interest deduction cap of $750,000.

If you do want to roll an existing second lien into a new first mortgage, there is some math that you'll need to do:

- Shop around for pricing and service levels and make sure you qualify with any potential suitors. Compare the new interest rate and payment on the single mortgage with the existing interest rates of your current first and second. And, are there any closing costs that you will need to add to factor in?
- Consider the cash-flow. Many HELOCs are interest-only for the first 10 years. You may end up with a higher amortizing payment. Make sure you don't lose sleep worrying about being able to cover the new monthly payment.
- Check with your tax adviser before pulling the trigger on the refinance to see if it's worth doing so from a tax-savings and an audit defense standpoint.

RATE NEWS SUMMARY

From Freddie Mac's weekly survey: The 30-year fixed rate averaged 3.99 percent, five basis points higher than last week's 3.94 percent. The 15-year fixed averaged 3.44 percent, six basis points higher than last week's 3.38 percent.

The Mortgage Bankers Association is closed for the holidays and did not report loan application volume.

BOTTOM LINE: Assuming a borrower gets the average 30-year conforming fixed rate on a conforming $453,100 loan, last year's rate of 4.32 percent and payment of $2,248 is $87 more than this week's payment of $2,161.

WHAT I SEE: Locally, well-qualified borrowers can get the following fixed-rate mortgages at a zero-point cost; 15-year fixed at 3.25 percent, 30-year at 3.875 percent, a 15-year agency-high balance ($453,101 to $679,650) at 3.50 percent, a 30-year agency high balance at 4.0 percent, 15-year jumbo (over $679,650) 4.375 percent and 30-year jumbo at 4.25 percent. Yes, the 15-year jumbo is more expensive than the 30-year.

Happy New Year!

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