



GENERAL BULLETIN

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TO THE CHIEF EXECUTIVE OFFICER
OR INDIVIDUAL ADDRESSED

CEO, CEO+, Operations,
Mortgage Specialist
Associate Member &
Compliance

RE: New IRS Form 1098 Reporting Requirements for Calendar Year 2007
Recording Of Mortgage Insurance Premium Payments

In 2006, the IRS code was changed to allow “qualified” Mortgage Insurance (MI) payments by customers to be deductible from their federal income tax for the 2007 calendar year. Currently, this is only a 2007 deduction (however, legislation is pending in Congress which would reinstate it for subsequent years).

Importantly, this change to the code requires all banks to report on each customer’s 2007 Form 1098, mortgage insurance payments, if that payment meets or exceeds \$600 in a calendar year.

Just as with points on a mortgage, an aggregated deduction is *typically* not allowed. Instead, you must report only those MI payments which are applicable to the 2007 calendar year being reported.

Please note, however, there are two exceptions to the “no aggregating” provision – they are VA and RHA prepaid insurance premiums, which can be reported in full for the 2007 calendar year.

For your review, we have included, from our tax counsel, a brief summary of this new reporting provision from the IRS.

We hope this clarifies this issue. Please don’t hesitate to contact me if you have any questions or comments.

Sincerely,

THOMAS S. MONGELLOW
Vice President & Treasurer

II. Reporting Mortgage Insurance Premiums

The Act also added new subsection (h) to Code § 6050H, which requires any person who, in the course of a trade or business (such as a member bank), receives from any individual premiums for “mortgage insurance” aggregating \$600 or more for any calendar year to report such premiums on IRS Form 1098. (See box 4 on the 2007 Form 1098). The Report of the Joint Committee on Taxation (J.C.T. Rep. No. JCX-50-06) provides that the reporting requirement “does not apply with respect to any mortgage insurance contract issued before January 1, 2007.” Furthermore, the requirement “terminates for any amount paid or accrued after December 31, 2007, or properly allocable to any period after that date.” Consistent with the rules governing the new deduction, the instructions for the Form 1098 provide that, with respect to prepaid mortgage insurance, payments allocable to periods after 2007 are not treated as paid in 2007 with the exception of amounts paid to the VA or the RHA. Accordingly, a member bank need report on the 2007 Form 1098 only those mortgage insurance premium payments: (i) received from an individual with respect to a mortgage insurance contract issued on or after January 1, 2007; and (ii) which are allocable to 2007, even if the mortgage is paid before its term (unless it is a prepayment of mortgage insurance provided by the VA or RHA).

*As of the date of this memorandum, the United States Congress has passed the Mortgage Forgiveness Debt Relief Act of 2007. If signed into law, the Act would extend for three years the rules treating qualified mortgage insurance premiums as deductible qualified residence interest. Thus, the rules would apply to payments if they: (i) are paid or accrued before January 1, 2011; (ii) are not properly allocable to any period after December 31, 2010; (iii) are paid or accrued with respect to a mortgage insurance contract issued after December 31, 2006. Accordingly, member banks should continue to track mortgage insurance premium payments after 2007, pending final consideration of the Act.