

Welcome. The following presentation is a short tutorial on the basics of tax exempt bond and mortgage credit certificate products available through Housing Finance Issuers.

Just click the “down arrow” on your side browser to move from screen to screen.

If you experience any difficulty, please contact

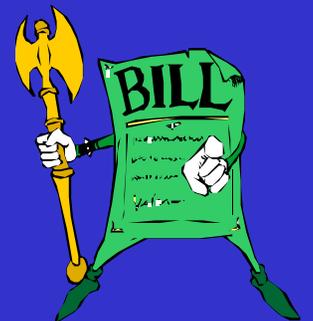
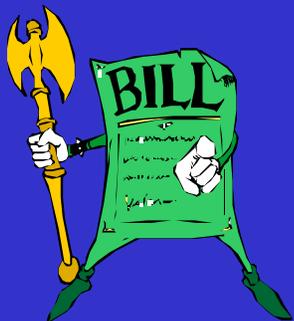
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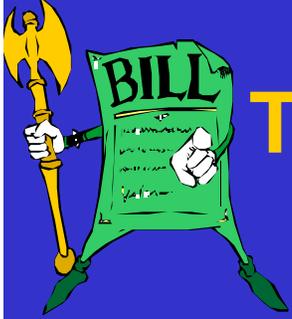
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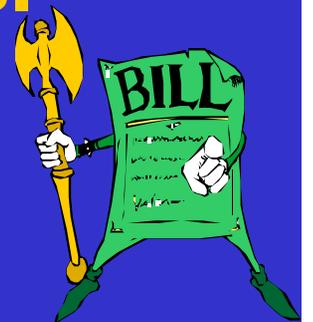
Single Family Homebuyer Programs

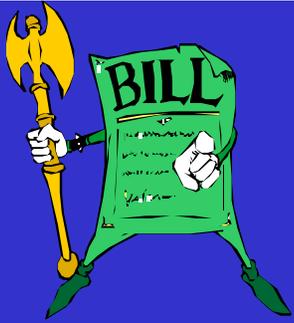
The majority of first time homebuyer programs that have been offered by housing finance Issuers are tax exempt bond programs. But there have been other models such as Mortgage Credit Certificates (MCC's), or products that offer market rates and down payment assistance such as taxable and daily- priced programs.





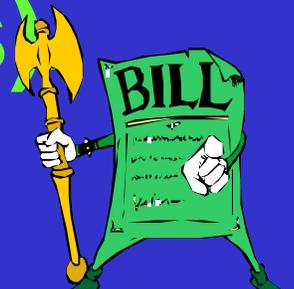
The rules governing MRB and MCC programs are part of the Internal Revenue Service tax code. This presentation will explain in more detail. Taxable and daily-priced programs are not tied to the IRS Code. The Code requires income and sales price limitations. So people who don't qualify for tax exempt programs may qualify for taxable and daily-priced products. There are fewer restrictions.





This presentation focuses on rules governing the single family tax exempt and mortgage credit certificate program options.

Those options are Mortgage Revenue Bonds (MRB's) and Mortgage Credit Certificates (MCC's)



The housing programs are often referred to as first-time homebuyer programs because the bulk of the funds are available only to



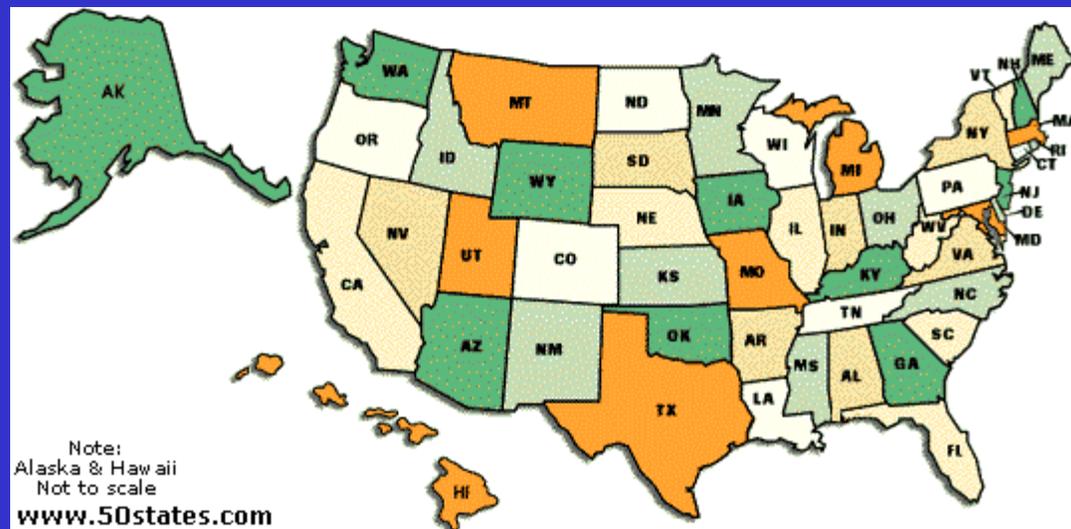
**first-time
homebuyers**

In the beginning, it took an act of Congress to create tax exempt programs for housing. Congress first created Mortgage Revenue Bonds (MRB's) and then in the 1980's created Mortgage Credit Certificates.



Congress created the authority for the product(s). Then state governments usually approve the use of allocation for housing. Finally, a state or local government entity creates their own local program.

It may be a Mortgage Revenue Bond (MRB) program and/or a Mortgage Credit Certificate (MCC) program. The entity that issues the bonds or creates the MCC program is appropriately called the “Issuer”.



It's a simple process.

The amount of funds available are limited by federal law under the Private Activity Bond cap. The cap includes more than just housing.



So state law usually determines the amount available for the different needs included in the cap. Funds are made available annually. For housing bond issuers, once the amount available is determined, their decision is how much money should be available for single family (homeownership) and for multi-family (rental).





Once an amount is determined for single family, the program structured and the market analyzed, the Issuer solicits Lender interest, sells bonds to private investors (aka bond holders) and/or decides the size of their MCC program.



A Mortgage Revenue bond program provides options that may include a below-market mortgage interest rate product and/or products that reduce closing costs or provide down payment/closing cost assistance.



A Mortgage Credit Certificate Program provides a federal income tax credit that reduces the amount of tax paid. By changing the amount withheld each pay, the buyer has more income.

Both programs offer a tax advantage

The Mortgage Revenue Bond program offers the advantage to the bond investor with tax free earnings on their investment. The Mortgage Credit Certificate program offers the advantage to the homebuyer by decreasing the amount of federal income taxes paid.



**Because of the federal
income tax advantages, the
rules for both programs
are covered in the IRS
Code.**



Because the private sector is a partner in this process, MRB's and MCC's should not be perceived as a burdensome government program. The majority of program rules are tied to the IRS Code. Sometimes there may be local regulations and/or public policy considerations.



The Issuer doesn't lend the MRB funds or give the MCC directly to the buyers. The loans are made through local lenders who choose to participate in the program.



**The same
rules in the
IRS code set
the
qualifications
for buyers and
properties in
both the MRB
and MCC
programs.
Here they are.**





WHO QUALIFIES?

First-Time Homebuyer



Household Income must be no more than the **Program Income Limits**. Generally, the limits are no lower than 100% of state median income for 1-2 person households and 115% of state median income for 3-4 person households



Buyers must occupy the property within 60 days of closing.



What Homes Qualify?

Single Family Homes

While some Issuers permit only one unit, the Code permits 1 to 4 unit dwellings.

New or Existing Homes

Attached, detached, condos, townhomes

Sales Price Limit

Total cost of the home and land cannot be more than the program limit.

A target graphic with a red outer ring, a white middle ring, and a purple center. Three arrows with yellow and green fletching are hitting the center. The text is overlaid on the target.

**IN AREAS CALLED TARGETED
AREAS**

**Non First-Time Buyers
qualify but must live in
the property**

**Income and Sales Price
Limits are higher**

Where are Targeted Areas?

TARGETED AREAS have historically been underserved in single family, owner-occupied loan originations.

Recapture Tax

The IRS giveth, the IRS taketh away..
Loans in both the MRB and MCC program are
subject to Recapture Tax. Buyers may have
to repay what's considered a federal subsidy
BUT they'd have to answer YES TO ALL
THREE OF THE QUESTIONS BELOW --



**Property disposed of in first full
nine years of ownership?**

Profit made on sale of home?

**Adjusted Gross Income exceeds
income limits at time of sale?**

Fact about Recapture:

**Average program household
has income at 65% of
median.**

**Recapture Income limits are
at 100-115% median income
for first 12 months of
ownership and increase 5%
every succeeding 12 months..**

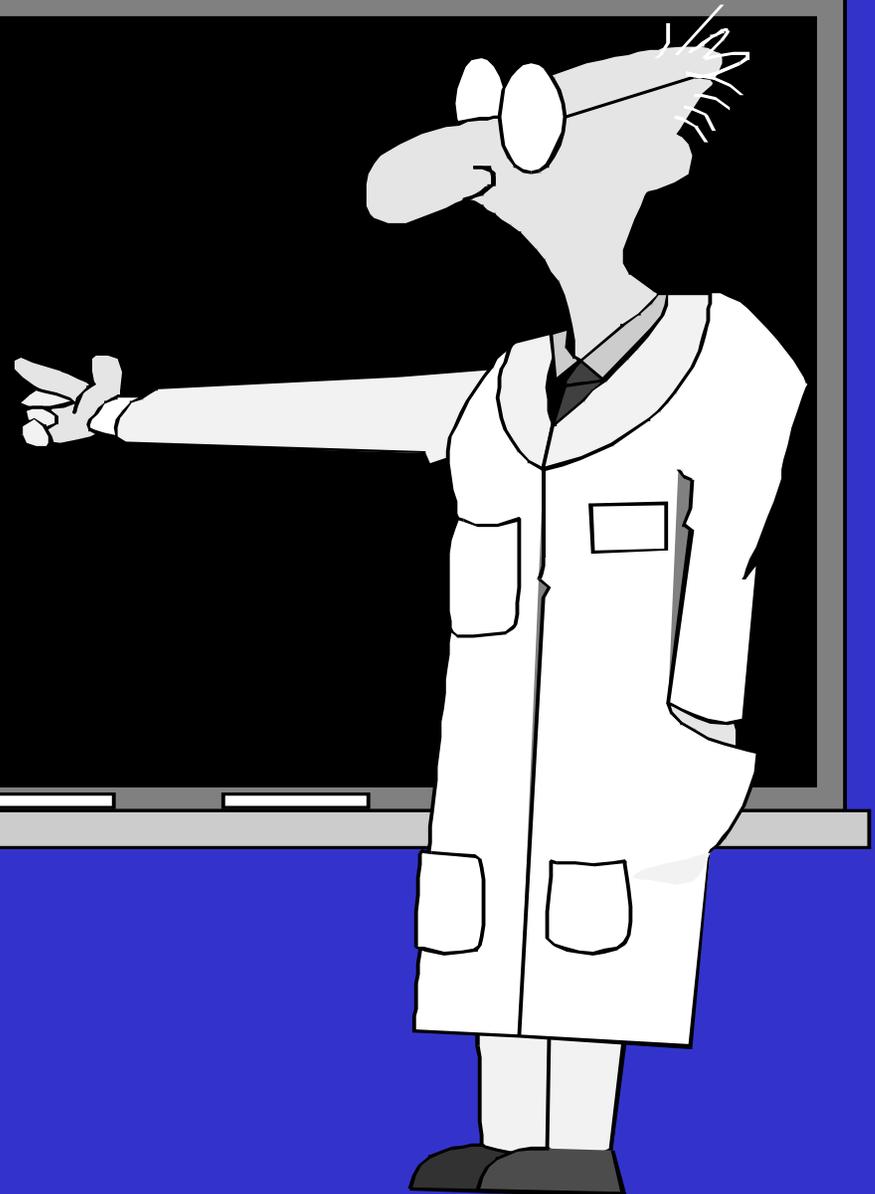
**Unlikely most buyers will pay
Recapture Tax.**



TRUTHS ABOUT AVAILABLE FUNDS AND CONTRACTS

Lenders can't be out of money before program begins

A contract for a specific property is necessary before a loan can be reserved

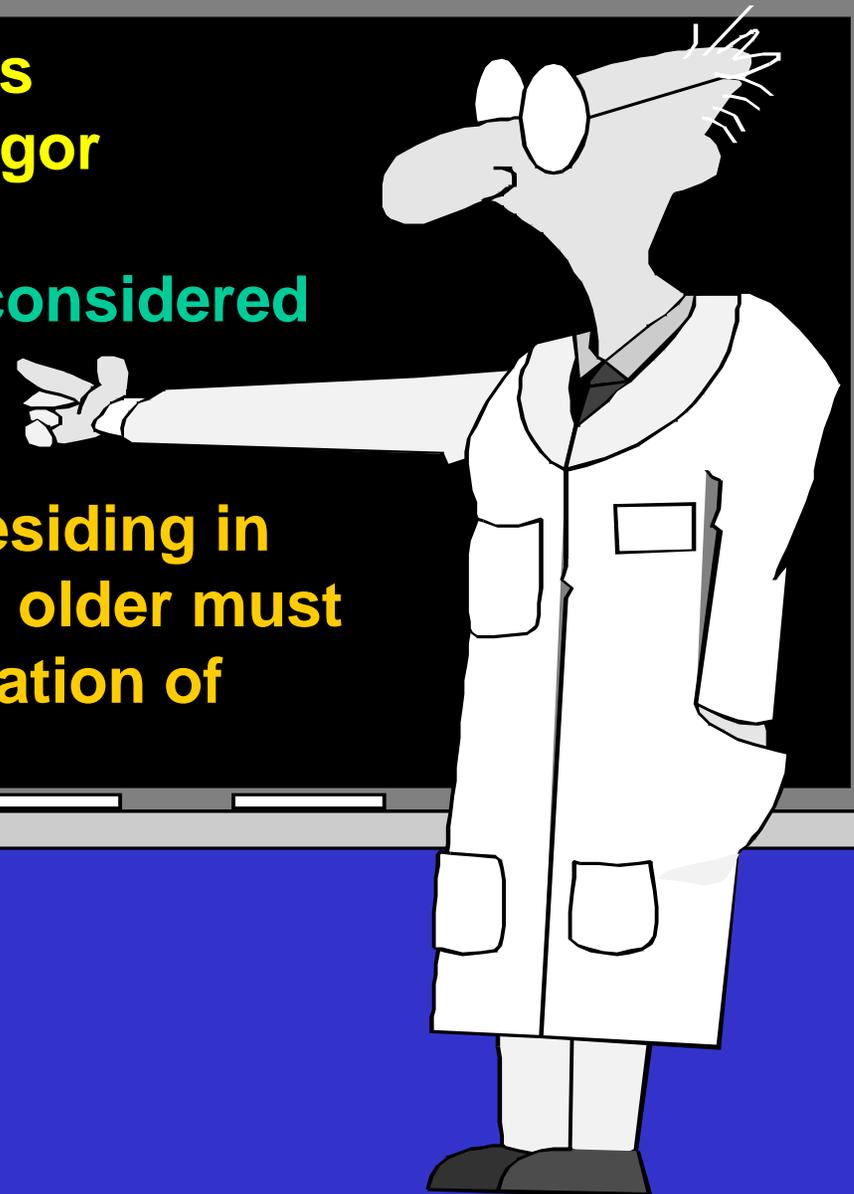


TRUTHS ABOUT PROGRAM INCOME

True: Income in the program is Household Income not Mortgage Income.

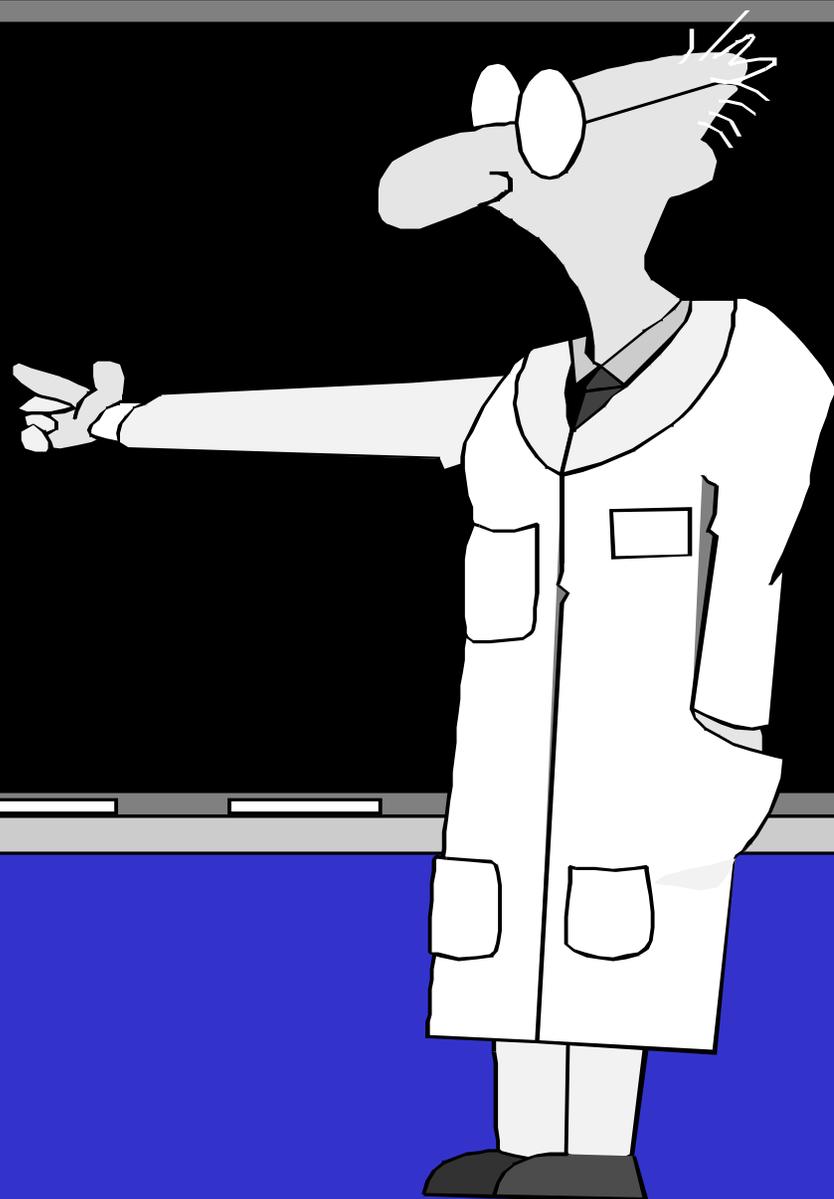
True: Income that cannot be considered for credit must be considered for bond.

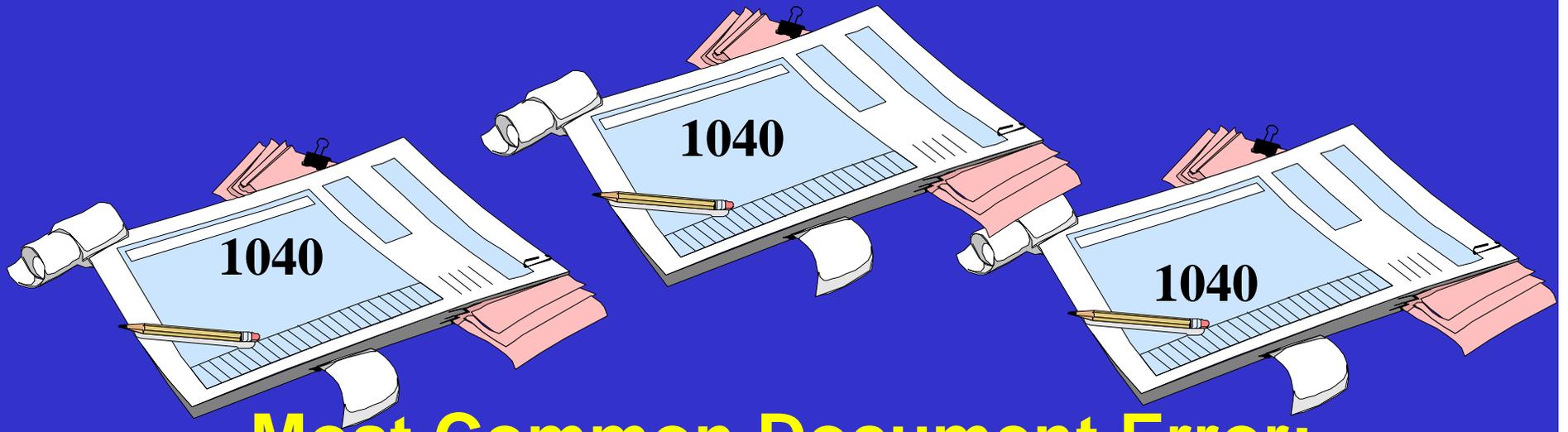
True: Income of all persons residing in the household age 18 years or older must be included in the bond calculation of income.



TRUTH ABOUT OWNERSHIP

True: If a person owned and occupied a home in the last three years, even if they did not claim mortgage interest, they do not qualify.





**Most Common Document Error:
Missing Tax Return(s) or Signatures**

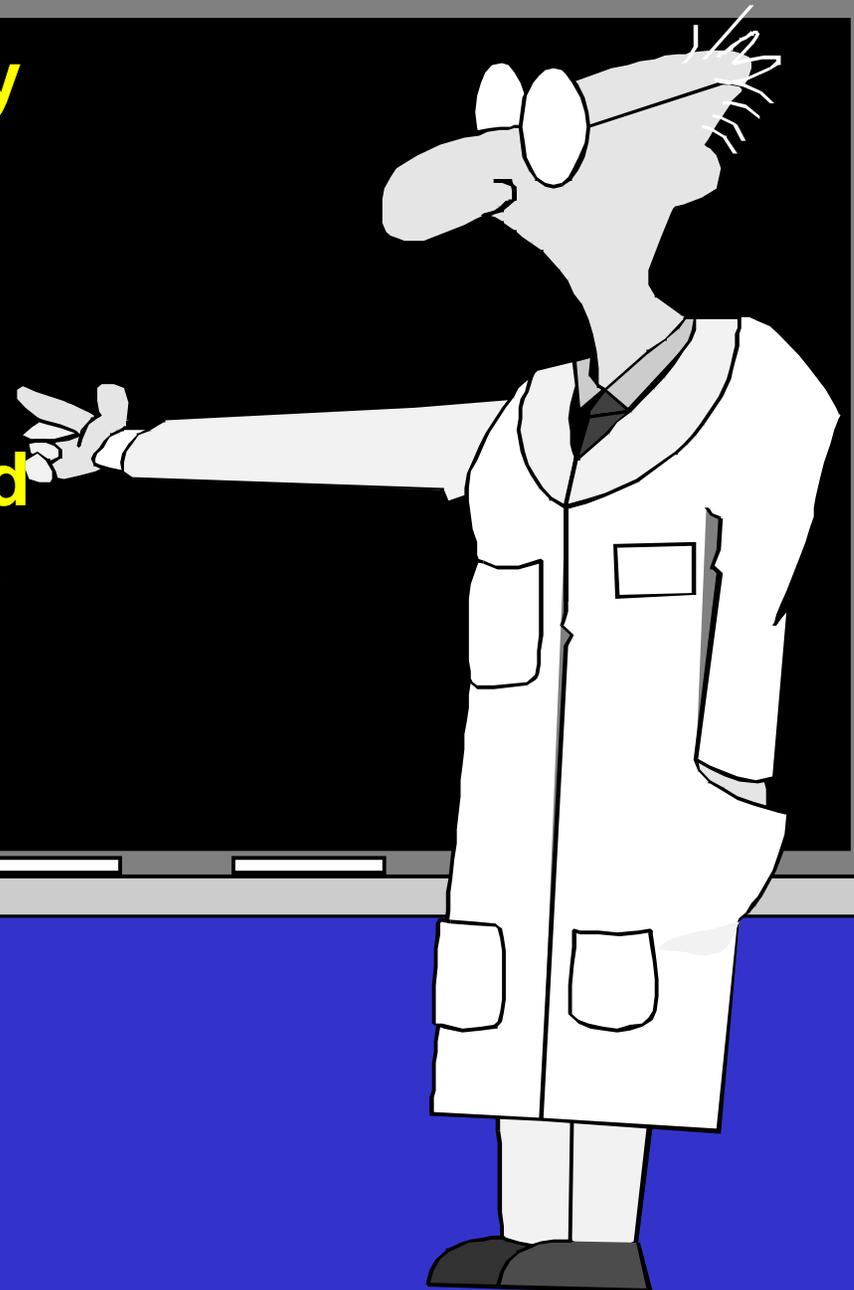
All buyers and spouses need preceding three years tax returns signed by all named taxpayers.

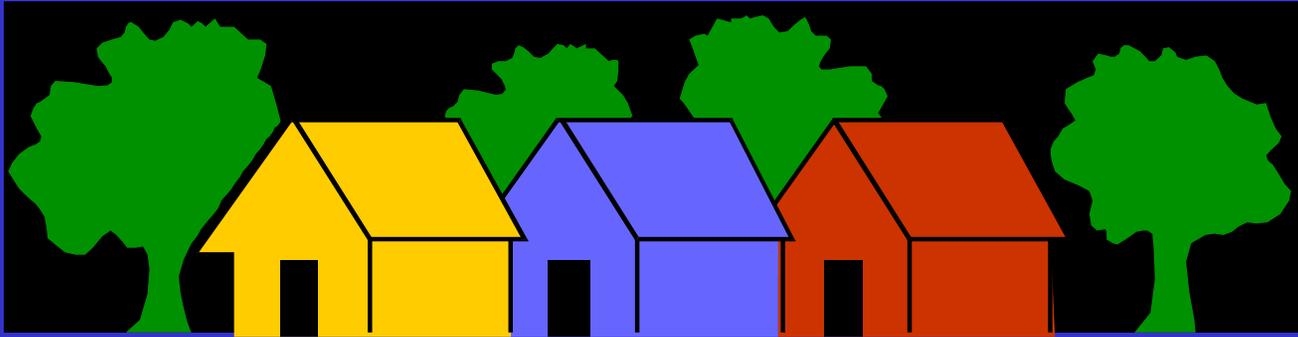
Returns required from all countries requiring income tax returns.

COMMON PROBLEM QUALIFYING

Buyers married previously and owned property with previous spouse.

Person who is buying in program cannot have lived in the property for 3 years from date of closing of program loan.



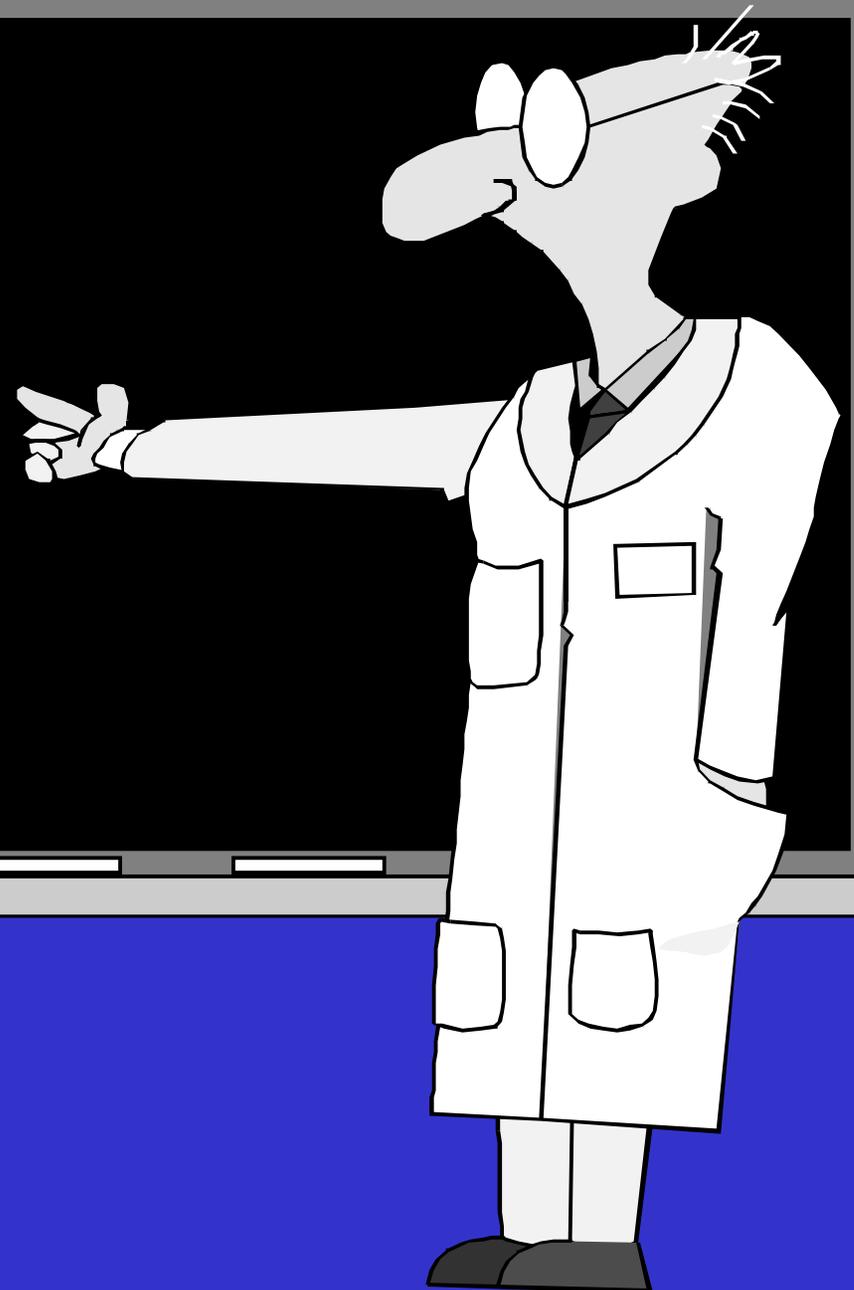


The real test is not whether they owned, but whether they occupied. If they have not occupied a home that they own(ed), they'll need rent receipts or a lease proving they lived in another property as their principal residence (legal address).

COMMON PROBLEM QUALIFYING

People who are separated but not divorced.

True: If separated, we must consider the income of the spouse.



**The benefit of the MRB
and MCC programs
continue as long as the
buyers continue to own
and occupy the property.**



**For more information
concerning the specifics,
please see the topics --**

**“About Mortgage Revenue
Bonds”**

**“About Mortgage Credit
Certificates”**