Welcome. The following presentation is a short tutorial on the basics of mortgage credit certificates.

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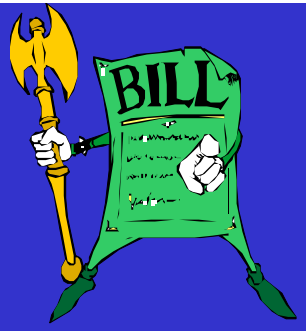
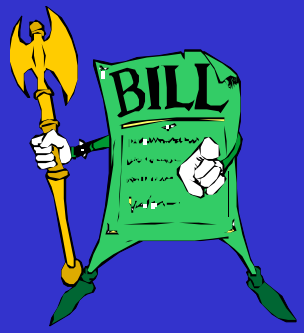
sue@denihanassoc.com

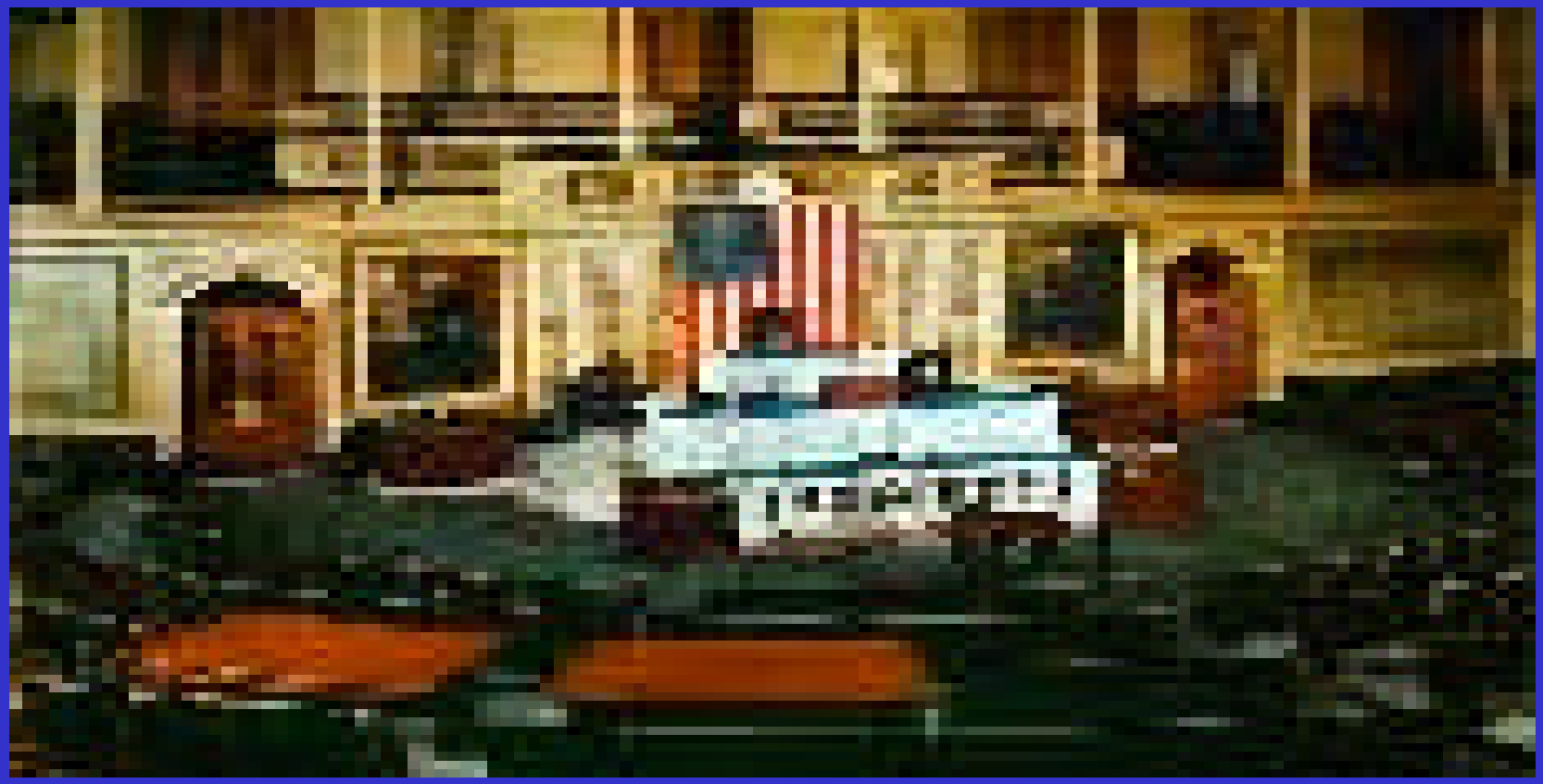
About the Mortgage Credit Certificate (MCC) program



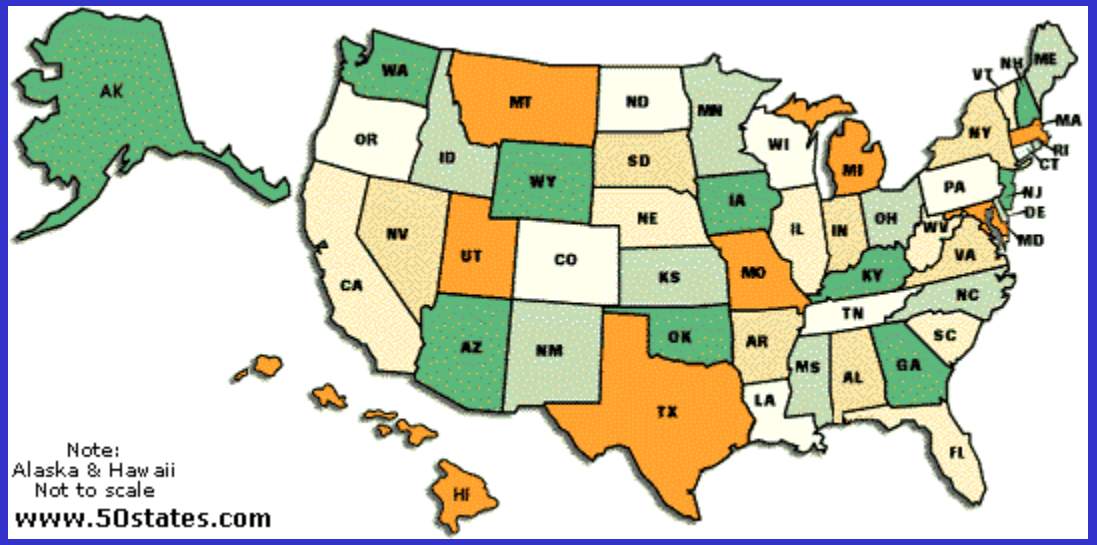
This presentation focuses on the mortgage credit certificate (MCC) program,



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 mid-80's created Mortgage Credit Certificates.



Congress created the authority for the program. Then state governments usually approve the use of allocation for housing. Finally, a state or local government entity creates their own local Mortgage Credit Certificate program. The entity that creates the MCC program is 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.

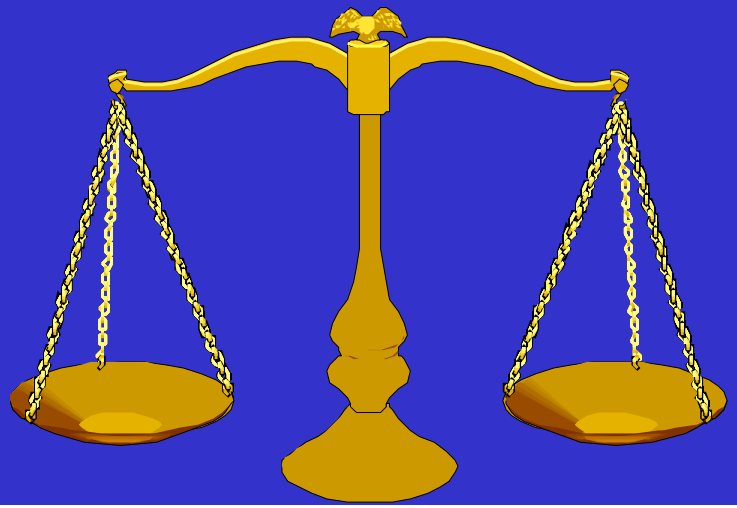
So state law usually determines the amount available and rules for the different needs included in the cap.

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.

Once the amount available is determined, the Issuer decides the size of their MCC program.

Lender participation may be solicited to demonstrate the amount of funds the Issuer should consider.

The rules of the MCC program are part of the Internal Revenue Service Code.



A Mortgage Credit Certificate provides a federal income tax credit to the borrower for as long as they own and occupy their home. Tax credits are a very powerful way of reducing federal income taxes.

The Issuer doesn't issue the MCC's directly to the buyers. Loans are made through local lenders who choose to participate in the program.

What is a Mortgage Credit Certificate?

The Mortgage Credit Certificate Program was authorized by Congress in the 1984 Tax Reform Act as a means of providing housing assistance to families of low and moderate income. State, county or city governments authorize the program. It is an alternative to the bond (MRB) program.

The Mortgage Credit Certificate (MCC)is a tax credit that reduces the amount of federal income tax paid, giving more available income to qualify for a mortgage loan and assist with house payments.

The MCC is available to homebuyers who are first-time homebuyers buying their principal residence, who meet household income and home purchase price limits. Buyers may be subject to paying Recapture.

What does the MCC do?

The federal government allows each homeowner to claim an itemized income tax deduction for the amount of interest paid each year on a mortgage loan.. A “deduction” reduces the amount of income that is taxed. The MCC program takes the mortgage interest paid and turns a portion of the interest paid into a “tax credit”. A “tax credit” is subtracted from the actual amount of tax for which the taxpayer is liable. A “tax credit” is very powerful and provides a dollar-for-dollar reduction in taxes owed. Because they’re good for the life of the mortgage, MCCs may save homebuyers thousands of dollars as long as the certificate holder lives in the property as their principal residence. MCC’s may be used with all loan types EXCEPT an MRB loan (that would be double dipping).

MCC Tax Rate?

The amount determined by the Issuer of the MCC can be any rate between 10% and 50%. If the rate is more than 20%, the amount of credit is limited to $2,000.

What is the amount of the MCC for the homeowner?

The amount of mortgage credit depends on the amount of interest paid on the mortgage loan. However, the amount of mortgage credit cannot exceed the amount of annual federal income tax liability. Unused mortgage credit can be carried forward for up to three years to offset future income tax liability.

What is the lender involvement?

Lenders basically are making mortgage loans – just like they do everyday. So a borrower can use any of the lender products available in the market place – a 15 or 20 year loan, an adjustable rate product – any product offered by the lender in normal course of business. Lenders retain the servicing on the loan.

How will a Mortgage Credit Certificate assist with the home purchase?

Based on a program that features a 20% MCC credit, a mortgage loan of $50,000 at an interest rate of 8 percent for 30 years, in the first year the MCC produces $4,000 in mortgage interest. A borrower receives a federal income tax credit of $800 (20 percent of $4,000). If annual federal income tax is $800 or more after all other credits and deductions have been subtracted, borrower receives all the benefit of the MCC. 80 percent of the interest, or $3,200, still qualifies as an itemized deduction.

To receive immediate benefit from the MCC, borrowers file a revised W-4 withholding form, and their federal tax withholding would be reduced by $66 per month ($800 divided by 12).

If federal tax liability is less than $800 say it is only $700 for this example, then the federal income tax is reduced for that year by $700. The other $100 of unused credit carries forward for up to three years..

For the loan in this example, the monthly payment for principal and interest is $367. Reducing federal taxes with a MCC credit provides $66 more in income each month to put toward the mortgage payment. From other sources the borrower now needs $301 ($367 minus $66 income from tax reduction) toward the $367 monthly payment.

The benefit of the MCC is recognized by FHA, VA, mortgage insurers, etc. They all may have different formulas that allow the consideration of the MCC for underwriting purposes, but they all recognize the benefit.

Applied to the mortgage payment, the extra cash flow from the MCC tax credit is like reducing the first-year interest cost from 8% to 6%.

How does the homeowner take the immediate benefit of the MCC?

To receive the immediate benefit of the MCC tax credit, a revised W-4 withholding form would be filed with the homeowner's employer to reduce the amount of federal income tax withheld from take home pay by the estimated amount of MCC benefit.

What does the Homeowner have to do to claim the benefit with the IRS?

Each year the homeowner files Form 8396 with their federal income tax return.

How Does a Borrower Apply for a MCC?

The borrower applies through the lender who is making the first mortgage loan.

MCC EXAMPLES

Example 1

Everyone who has a mortgage on their residence can claim a mortgage interest deduction on their federal income tax returns. The Mortgage Credit Certificate program allows a qualified first-time homebuyer to claim a portion of their annual mortgage interest as a Tax Credit and the balance as a mortgage interest deduction.

The difference between a deduction and a credit is that a credit reduces the tax, while a deduction reduces the amount of income that is taxed. A "tax deduction" is subtracted from adjusted gross income before federal income tax is calculated. A "tax credit" entitles the taxpayer to subtract the amount of the credit (dollar-for-dollar) from the total federal income tax bill.

Credits are generally more valuable to taxpayers because they are a higher percentage of the overall tax bill.

Here's an example

Borrower's Taxable Income		$32,000
Federal Taxes (paid or due)		$ 4,800
Borrower Loan Amount		$90,000
Interest rate		6.00%
(For purposes of example same for 15, 20 and 30 yr mtgs)		
Interest Paid	if 15 year Mtg	$ 5,296
	if 20 year Mtg	$ 5,334
	if 30 year Mtg	$ 5,369
MCC Credit of 20%		
	15 yr Mtg	$ 1,059
	20 yr Mtg	$ 1,066
	30 yr Mtg	$ 1,073
Federal Tax Bill		$ 4,800

Less MCC Credit of 20% shown above

Tax Paid is Reduced to

15 yr Mtg	**$3,741**
20 yr Mtg	**$3,734**
30 yr Mtg	**$3,727**

Example 2

Below is an example of two homebuyers, each with an income of $31,000. Buyer A does not have a 20% MCC and buyer B does. The house they want to purchase has a sales price of $100,000.

Each buyer has $10,000 in cash for a 10% down payment. Therefore each buyer would need to qualify for a $90,000 loan. As shown in the example, Buyer B with an MCC qualifies for a loan, whereas Buyer A does not.

	Buyer A (No MCC)	Buyer B (With MCC)
Sales Price	$100,000	$100,000
10%down payment	$ 10,000	$ 10,000
Loan needed	$ 90,000	$ 90,000

Borrower monthly housing payment
(Loan payment 6%, 30 yr. fixed)

	$ 540	$ 540
Property Taxes	$ 150	$ 150
Homeowners Insurance	$ 50	$ 50
Mortgage Insurance	$ 50	$ 50
Total Housing Payment	$ 790	$ 790
Less 1st yrMCCmo.Credit	0	$ 89
Qualifying payment	$ 790	$ 701

(*Household income needed to qualify
with 28% housing debt to income Ratio)

Monthly Income	$2,821	$2504
Annual household income required	$33,852	$30,048
Qualify for $90,000 loan?	No	Yes

Income Tax Details

The MCC will reduce the amount of income taxes due to the federal government; however, the tax benefit cannot exceed the amount of federal taxes owed for the year after other credit and deductions have been taken. Instead, the tax credits can be carried forward three years until used.

Borrowers should adjust federal income tax withholding in order to receive the MCC benefit on a monthly basis. This adjustment is accomplished by the borrower speaking to their payroll department at their place of work. By reducing monthly withholding, they will have more disposable (after tax) income with which to make mortgage payments.

The benefit of the MCC program continues as long as the buyers continue to own and occupy the property.