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**Louisiana Housing Corporation  
Mortgage Credit Certificate Program**

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**LOUISIANA HOUSING CORPORATION**

**As of 12/1/16**

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As of 12/1/16

**MCC PROGRAM MANUAL  
FOR  
LOUISIANA HOUSING CORPORATION  
2016 MORTGAGE CREDIT CERTIFICATE PROGRAM**

INTRODUCTION

The Louisiana Housing Corporation (“**LHC**” or “**Corporation**”) has elected not to issue MRBs in an amount of Twenty Million Dollars (\$20,000,000) of its 2014 MRB Carryforward for purposes of establishing a 2016 Mortgage Credit Certificate Program (the “**2016 MCC Program**”) within the state of Louisiana, which will allow the Corporation to issue Mortgage Credit Certificates (“**MCCs**”) in an aggregate certificate credit rate limit (the “**Certificate Limit**”) not to exceed \$5,000,000. All capitalized terms used herein shall have the meanings assigned to them in the Definition Section of this MCC Program Manual.

General Overview

MCCs are designed to assist low and moderate income first-time homebuyers better afford ownership of housing by allowing those homebuyers to take up to 40% of their annual mortgage interest payments as a tax credit against their personal income tax. Among other requirements, eligibility is restricted to: (1) persons who reside in the State of Louisiana and have not owned a “principal residence” within the past three years (this requirement does not apply to buyers of homes in designated Target Areas or to eligible military veterans who have not previously received a MCC); (2) the purchase of a residence in the State of Louisiana for occupancy by owner within 60 days after closing of the mortgage loan, not for rental or reinvestment; (3) the purchase of new or existing homes with a purchase price that does not exceed 90% (110% in Target Areas) of the average area purchase price applicable to the residence; (4) new mortgages only (no subordinated mortgages); and (5) homebuyers with total household income not exceeding the applicable area median income.

The procedures for issuing MCCs were established as an alternative to the issuance of Single Family Mortgage Revenue Bonds (“SFMRBs”). As distinguished from a SFMRB Program, no bonds are issued in a MCC Program. Mortgages are financed in the conventional or government-insured market; however, the first-time homebuyer mortgagor may take a tax credit in an amount equal to the annual amount of interest paid on the mortgage loan multiplied by the Mortgage Credit Certificate Rate. The Mortgage Credit Certificate Rate for the MCC Program is 40 percent. Thus, an Applicant in the MCC Program with a \$100,000 mortgage loan at a 5.0% interest rate could realize the following federal income tax savings (numbers are rounded):

Mortgage Amount:	\$100,000
Interest Rate:	5 percent
Monthly Interest*	\$417

LHC SINGLE FAMILY REQUIRED DOCUMENT AS OF 10012016

Total Interest Paid First Year: \$5,000	
Mortgage Credit Rate	<u>x .40</u>
	\$2,000

\*Based upon a 30-year mortgage with equal monthly installments of interest.

During the first year of the Program, the Applicant in this example would be eligible for a tax credit of up to \$2,000 against federal income tax. The Applicant would be able to file a revised W-4 withholding form taking into consideration the anticipated tax credit and have approximately \$166 per month in additional disposable income. Additionally, taxpayers who file itemized returns may take a deduction for their mortgage interest paid each year, less an amount equal to the tax credit actually taken.

The amount of the credit actually claimed on the MCC holder's federal income tax return cannot exceed the amount of federal income taxes due after other credits and deductions have been taken into account. Because Mortgage Credit Certificate Rate in the MCC Program exceeds 20%, the annual credit claimed by the MCC holder cannot exceed \$2,000 per year. Any unused MCC above \$2,000 per year can be carried forward up to three years to be applied against future income tax liability. **In addition, all or a portion of the MCC related tax credit may be subject to recapture if the Residence is sold within nine years of purchase.** This tax credit recapture is further explained in the Notice of Potential Recapture Tax and Mortgagor Affidavit included with this MCC Program Manual.

A purchaser of a new or existing single family home meeting certain conditions may apply for a MCC through any approved mortgage lender at the time he or she applies for a mortgage from the lender. A MCC cannot be issued to a homebuyer in connection with a refinancing of an existing mortgage loan (except refinancing is acceptable in connection with an interim construction loan) or in connection with a mortgage from a relative. Also, a MCC cannot be used in connection with a bond financed mortgage loan.

Since the Corporation will not make or hold the mortgages in the MCC Program, the Corporation will not underwrite the Loans. Rather, the mortgage loan approval, underwriting and execution of required State and federal certifications or affidavits will be performed by the mortgage lenders originating the mortgage loans. The Corporation will work with the lender community to expedite the MCC Program. The Corporation will receive executed certificates and affidavits of each applicant from the originating Lender in order to determine eligibility for the MCC Program. Lenders will process mortgage loans of all types, using normal application and processing procedures, with additions to processing procedures at relevant points in order to satisfy MCC Program requirements. The MCC Program requirements are independent of any normal underwriting requirements of the Lender. In order to qualify for issuance of a MCC an applicant must meet all MCC requirements in addition to any FHA, VA, RD or conventional loan standards which must be met to satisfy the Lender.

The Corporation encourages low and moderate income first-time homebuyers to apply at the offices of any approved Lender who can explain the MCC Program and its restrictions. Use of the MCC Information Guide and the MCC Household Income Calculation Worksheet (each attached hereto as **Exhibit B**) can assist Lenders and Applicants in determining whether an Applicant may qualify for the Program. The Lender should be well-versed in the State and Federal restrictions so that Applicants are made aware of these restrictions before the Application is taken. The Lender must reject those Applications where the Applicant does not qualify under the requirements of the Program.

The purpose of this MCC Program Manual is to describe the MCC Program, outline the relevant State and Federal restrictions, identify the respective roles of the Corporation, the Lender, the Applicant, and the Seller, and detail the processing procedures. The MCC Program definitions and MCC Program Documents are included for reference.

The Corporation may revise this MCC Program Manual from time to time by issuing amendments to the MCC Program Manual. Changes required by the Code may require revisions to the procedures outlined in this MCC Program Manual.

## DEFINITIONS

As used in this MCC Program Manual, the following words and terms have the meanings set forth below:

2016 MCC Program. The Louisiana Housing Corporation 2016 Mortgage Credit Certificate Program providing for an election by the Corporation not to issue \$20,000,000 of 2014 Carryforward Volume Cap and the issuance of not to exceed \$5,000,000.00 of Mortgage Credit Certificates.

Acquisition Cost. The cost to an Applicant of acquiring a Residence from the Seller as a completed residential unit, including: (i) all amounts paid, either in cash or in kind, by the Applicant (or a related party or for the benefit of the Applicant) to the Seller (or a related party or for the benefit of the Seller) as consideration for the Residence; (ii) if the Residence is incomplete, the reasonable cost of completing it, whether or not such cost is to be financed with the Loan; and (iii) if the Residence is purchased subject to a ground lease, the capitalized value of the ground rent calculated using a discount rate authorized by the Internal Revenue Service. "Acquisition Cost" does not include: (i) usual and reasonable settlement and financing costs (including title and transfer fees, title insurance, survey fees, credit reference fees, legal fees, appraisal expenses, points paid by the Applicant (but not points paid by the Seller) and other similar costs), but only to the extent that such amounts do not exceed the usual and reasonable costs which would be paid by the Applicant in a case in which financing is not assisted by the issuance of a MCC or provided through the issuance of tax exempt bonds (for example, if the Applicant agrees to pay more than a pro rata share of property taxes, such excess shall be treated as part of the Acquisition Cost); (ii) the value of services

performed by the Applicant or members of the Applicant's family (including brothers and sisters (whether by whole or half blood), spouse, ancestors and lineal descendants only) in completing the Residence; and (iii) the cost of land which has been owned by the Applicant for at least two years prior to the date on which construction of the Residence begins. This term is more fully described in the Program Notice to Borrower of Potential Recapture Tax and Mortgagor Affidavit and in the Affidavit of Seller.

Acquisition Cost Limits. See **Exhibit T**, Maximum Permissible Acquisition Cost.

Act. Chapter 2-A of Title 9 of the Louisiana Revised Statutes of 1950, as amended.

Adjusted Gross Income. With respect to a person, the adjusted gross income of such person (as set forth on the appropriate line of the federal income tax return filed by such person with the Internal Revenue Service or, in the case of a person not required to file such a return, as evidenced by cancelled salary checks, wage statements or such other information as may be acceptable to the Lender and the Corporation), together with the Adjusted Gross Income of all persons who intend to reside with such person in one dwelling unit (based on similar evidence).

Affidavit. An affidavit filed in connection with the Program made under oath and subject to the penalties of perjury and the civil penalties provided therein.

Anticipated Annual Family Income. The sum of (a) the gross monthly income of the Applicant and (b) the gross monthly income of anyone who is expected both to live in the Residence and to be secondarily liable on the Loan, multiplied by 12. Gross monthly income is the sum of gross monthly pay, any additional income from investments, pensions, Department of Veterans Affairs (VA) compensation, part-time employment, net bonuses, dividends, interest, over-time pay, net rental income, royalties, etc., and other income (such as alimony and child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts or from business activities or investments). The Anticipated Annual Family Income cannot exceed the Income Limits, which shall be determined as of the date of issuance of the MCC.

Applicant. Any person or persons: (i) whose Anticipated Annual Family Income does not exceed the Income Limits; (ii) who intends to occupy the Residence to be financed with a Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the issuance of the MCC; (iii) who has not had a present Ownership interest in a Principal Residence at any time during the three-year period ending on the date of execution of the Loan; provided, however, that the three-year requirement does not apply to an Applicant who (a) purchases a Residence located in a Targeted Area, or (b) is a Qualified Veteran; (iv) who has not had an existing mortgage (including a deed of trust, conditional sales contract, pledge, agreement to hold title in escrow or any other form of owner- financing), whether or not paid off, on the Residence to be financed with such Loan at any time prior to the execution of the Loan, other than an existing mortgage securing

a construction period loan, bridge loan or similar temporary financing initially incurred for the sole purpose of acquiring the Residence and initially incurred within 24 months of execution of the Loan and having an original term not exceeding 24 months; and (v) who is a United States citizen, a lawful permanent resident alien or a non-permanent resident alien who is eligible to work in the United States, in each case with a valid social security number and who meets the criteria set forth in this MCC Program Manual.

Average Area Purchase Price. With respect to any Residence the safe harbor average area purchase price of all single family residences in the statistical area in which the Residence being financed is located which were purchased during the most recent twelve month period for which information is provided pursuant to Section 143(e) of the Code.

Certificate Limit. \$5,000,000.00, the maximum aggregate amount of MCC authority for the Program, which equals 25% of the non-issued bond amount of \$20,000,000 from the Corporation's 2014 Volume Cap Carryforward.

Certified Indebtedness Amount. The amount of the Loan which is subject to the mortgage credit provided by the MCC. **The Certified Indebtedness Amount on the reissued MCC may not exceed the outstanding balance of the Loan associated with the existing MCC.**

Closed means a Loan for which a Closing has occurred.

Closing or Closing Date. The funding of a Loan by the Lender and the execution and delivery by the Applicant of all documents in connection therewith.

Closing Package. The affidavits, certificates and supporting documentation which the Lender agrees to submit to the Corporation in connection with an application for the issuance of the final MCC, more particularly described in **Exhibit A**.

Code. The Internal Revenue Code of 1986, as amended, together with corresponding and applicable final, temporary or proposed regulations and revenue rulings issued or amended with respect thereto by the United States Treasury Department or the Internal Revenue Service, to the extent applicable to the Program.

Compliance Package. The affidavits, certificates and supporting documentation which the Lender agrees to submit to the Corporation in connection with an application for the issuance of a MCC, more particularly described in **Exhibit A**.

Corporation. Louisiana Housing Corporation, its successors and assigns.

Eligible Loan Area. The state of Louisiana.

Existing Housing. A single family dwelling unit that has been occupied prior to execution of the Loan Commitment.

Fannie Mae. The Federal National Mortgage Association, a publicly owned government sponsored corporation.

Fees. Borrowers will pay a 1% Origination Fee to the LHC for the issuance of an LHC MCC and a \$75.00 Compliance Fee. Lenders will be allowed to charge up to \$500.00 per MCC application.

FHA. The Federal Housing Administration of the United States Department of Housing and Urban Development, or other agency or instrumentality created or chartered by the United States to which the powers of the Federal Housing Administration have been transferred.

GNMA. The Government National Mortgage Association, a wholly-owned corporate instrumentality of the United States of America within the Department of Housing and Urban Development, whose powers are prescribed generally by Title III of the National Housing Act of 1934, as amended (12 U.S.C., §1716 et seq.), its successors and assigns.

Income Limits. See **Exhibit U**, Maximum Permissible Family Income Limits. These limits may be modified annually.

Lender. An institutional lender regulated by state or federal law, or any other entity which in its regular course of business makes mortgage loans which would qualify for MCC assistance and is authorized to do business in the Eligible Loan Area.

Loan. A conventional, FHA-insured, VA-guaranteed or RD-insured mortgage loan to finance the purchase or the refinancing of an eligible dwelling unit which meets the requirements set forth in this MCC Program Manual.

MCC or Mortgage Credit Certificate. A mortgage credit certificate issued pursuant to the terms and conditions of the Program.

MCC Commitment Letter. A letter executed by the Corporation in the form provided by the Corporation.

MCC Program. The program of the LHC electing not to issue a principal amount of mortgage revenue bonds and to issue Mortgage Credit Certificate in accordance with Section 25 of the Code.

MCC Program Documents. This MCC Program Manual, including all instructions and forms attached there to each as amended from time to time.

MCC Program Manual. This Louisiana Housing Corporation 2016 Mortgage Credit Certificate MCC Program Manual, as revised and amended from time to time.

Mortgage. The written instrument securing the related Loan and encumbering a Residence.



Mortgage Credit Certificate Rate. For purposes of this MCC Program, 40 percent.

New Housing. A single family dwelling unit that is proposed to be constructed, currently under construction, or existing but not previously occupied.

Non-Targeted Area. An area in the Eligible Loan Area other than a Targeted Area.

Ownership. Ownership by any means, whether outright or partial, including property subject to a mortgage or other security interest, including a fee simple ownership interest, a joint ownership interest by joint tenancy, tenancy in common, or tenancy by the entirety, an ownership interest in trust, a life estate interest, a purchase by a land contract or contract for deed. The term does not include (i) a remainder interest; (ii) a lease with or without an option to purchase; (iii) a mere expectancy to inherit an interest; (iv) the interest that a purchaser of a Residence acquires on the execution of a purchase contract; and (v) an interest in other than a Principal Residence. An Ownership interest in a mobile home or other factory-made (modular) housing which was permanently affixed to real property owned by the Applicant constitutes Ownership in a Principal Residence.

Principal Residence. A Residence that, depending on all the facts and circumstances (including the good faith intent of the occupant), is occupied primarily for residential purposes. A Principal Residence does not include a home used as an investment property or a recreational home, or a home that is used primarily in a trade or business (as evidenced by the use of more than 15 percent of the total floor space in a trade or business). The Applicant may not claim, with respect to the Residence, any deductions pursuant to Section 280A of the Code for expenses incurred in connection with the business use of a home.

Prohibited Mortgage. A Prohibited Mortgage is any mortgage financed in whole or in part with the proceeds of qualified mortgage bonds or qualified veterans' mortgage bonds.

Qualified Appraiser. Any state licensed and certified individual or firm is acceptable.

Qualified Condominium Unit. A condominium unit meeting the requirements of the GNMA Guide and which is acceptable to FHA.

Qualified MCC. An MCC meeting all of the requirements of the Code and Regulations applicable to the Program.

Qualified Veteran. An Applicant who is a “veteran” (as defined in 38 U.S.C. Section 101) who has not previously obtained a loan financed by single family mortgage revenue bonds utilizing the veteran exception set forth in Section 143(d)(2)(D) of the Internal Revenue Code of 1986, as amended.

Regulations. The applicable proposed, temporary or final Treasury Regulations promulgated under the Code (or any prior version thereof), as such regulations may be amended or

supplemented from time to time.

Residence or Home. A residential unit which is located within the Eligible Loan Area, including a condominium unit, if such unit is a Qualified Condominium Unit, but not a two-, three- or four-family residence, and ownership is fee simple and land appurtenant to the residential unit, (i) which is designed and intended primarily for residential housing, (ii) which will be occupied by the Applicant as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the issuance of the MCC, (iii) which unit is permanently affixed to land, (iv) the Acquisition Cost of which does not exceed the Acquisition Cost Limits for the area within which the residence is located, and (v) which appurtenant land is not in excess of one acre and which land reasonably maintains the basic livability of the residence and does not provide other than incidentally, a source of income to the Applicant, including child care services on a regular basis for compensation. A Residence does not include rental houses, vacation homes.

Seller. With respect to a Loan, the seller of the Residence being financed with such Loan.

State. The State of Louisiana.

Targeted Area. A census tract in which 70 percent or more of the families have an income which is 80 percent or less of the statewide median family income, or an area designated as an area of chronic economic distress. Such areas are not subject to the prior home ownership restriction. The initial Targeted Areas in the Eligible Loan Area are the geographical areas set forth in **Exhibit Y** attached hereto.

Targeted Area Loan. A Loan to provide financing for the purchase of a Targeted Area Residence.

Targeted Area Residence. A Residence which is located in a Targeted Area.

Tax Certificate. The ad valorem tax certificate or statement evidencing that the Residence is located within the Eligible Loan Area.

USDA Rural Development. A governmental agency.

VA. The Department of Veterans Affairs, an agency of the United States of America, or any successor to its functions.

## LOAN PROCESSING PROCEDURES AND PROGRAM ADMINISTRATION

An Applicant who is a low or moderate income first-time homebuyer may apply for a MCC in conjunction with his or her conventional, FHA, VA, or RD mortgage loan application submitted to the Lender of his or her choice.

The MCC processing procedures are designed to coincide with the regular, on-going mortgage loan processing and underwriting procedures that are in place at most mortgage lending institutions. The Corporation recognizes that there are procedural variations among the Lenders; consequently, the procedures outlined herein are meant to be suggestive with respect to the sequence of events. However, all the elements of the processing sequence noted below must at some point be completed by the responsible party.

The following is the loan processing and program administration sequence of events for the MCC Program:

A. Loan Origination and MCC Application

1. The Applicant applies for a Mortgage Loan from a Lender.
2. Lender verifies that the Residence is within the Eligible Loan Area.
3. Lender gives the Applicant a **MCC Information Guide** that explains the Program and contains consumer information. The **MCC Information Guide** is intended to present certain facts to the Applicant concerning the restrictions, regulations, and prohibitions of the Program because of certain Federal and State regulations, as well as restrictions imposed by the Corporation and to explain the penalties for misuse of the Program. It is imperative that the Applicant understands the terms and conditions of the Program. During the initial interview, it is the responsibility of the Lender to explain the terms and conditions of the Program to the Applicant, and to make sure that the Applicant receives a copy of the **MCC Information Guide**.
4. Lender generally determines if the Applicant is a possible candidate for a MCC, based on preliminary indications of Anticipated Annual Family Income, Adjusted Gross Income, Acquisition Cost, prior Ownership, tax liability, and other relevant factors; including whether the borrower is a Qualified Veteran. (Use of the MCC Household Income Calculation Worksheet – **Exhibit B** is helpful in making this determination.)
5. No MCCs may be issued prior to October 24, 2016. . All persons interested in making applications for a MCC must be considered on a first-come, first-served basis and must have an application for a mortgage loan on file with the Lender. Lenders must keep a record of all MCC applications received and the disposition of such applications.
6. Lender will reserve the loan with LHC for the Applicant through the online reservation system.
7. The Applicant must review and sign the Owner Occupancy Certification - **Exhibit G** which, together with the Notice of Potential Recapture Tax and Mortgagor Affidavit - **Exhibit E**.

8. Upon submission of an Application by an Applicant, the Lender may collect and retain a MCC Application Fee of \$500.00. The MCC Application Fee is non-refundable and may be waived by the Lender or paid by the Applicant, the Seller, or any other person on the Applicant's behalf.
  
9. Lender submits the Mortgage Credit Certificate Compliance File Checklist - **Exhibit A** with all applicable attachments to the Corporation. The Compliance Package includes copies of the following documents:
  - (a) The Compliance File Checklist – **Exhibit A**;
  - (b) Compliance Fee of \$75 provided by lender check, money order, or certified cashier's check;
  - (c) Completed Household Income Calculation Worksheet – **Exhibit B**;
  - (d) The Confirmation Report – **Exhibit D**;
  - (e) Final 1003 Application signed by Applicant(s);
  - (f) Fully executed sales contract;
  - (g) Appraisal;
  - (h) Income Documentation (Verification of employment, most recent paystubs, self employed Profit and Loss Statement, child support / alimony legal documentation, Social Security, etc.) All household income must be taken into account;
  - (i) Tax Documentation (Three (3) years of complete tax returns with all W2s, Schedules, 1099s, etc) unless the borrower is a qualified veteran or purchasing a home in a targeted area;
  - (j) Underwriter's Certification (completed in the Online Reservation System);
  - (k) Homebuyer's Education Certificate (face-to-face homebuyer education provided by a HUD approved counseling agency, a unit of local government that provides pre-purchase homebuyer education, a counseling agency designated by a unit of local government to provide homebuyer education of their behalf, eHome America online course, MI Companies, or an Agency or GSE sponsored course)
  
10. Lender may provide the Applicant a copy of IRS Form W-4 Employee's Withholding Allowance Certificate which contains the IRS instructions for the taxpayer.

LHC SINGLE FAMILY REQUIRED DOCUMENT AS OF 10012016

The Applicant may complete the W-4, if necessary, to change his/her federal withholding tax, adjusting it in an amount comparable to the expected MCC tax credit.

**B. Review and Issuance of MCC Commitment Letter by the Corporation**

1. The Corporation reviews the Compliance File to determine whether it has been completed in accordance with the requirements of the Code and this MCC Program Manual and has been properly executed.
2. If Corporation determines that the Application meets the requirements set forth in B.1 above, it will issue a MCC Conditional Commitment Letter – **Exhibit C** to Lender stating that the Applicant has received preliminary approval and that a MCC will be executed and delivered to the Applicant upon Closing of the Loan, subject to completion of all of the remaining requirements of the Program.
3. The Corporation shall keep an ongoing, cumulative-to-date total of MCC Commitment Letters issued to Lenders and of MCCs issued, less the amount of any MCC Commitment Letters which have expired or terminated. The MCC Commitment Letters will contain an expiration date of thirty (30) days from issuance of the letter.
4. When MCC Commitment Letters or MCCs have been issued which have effectively committed 75 percent of the Certificate Limit for the Program, the Corporation shall prepare and distribute a notice to all Lenders stating that 75 percent of Certificate Limit has been utilized.
5. When MCC Commitment Letters or MCCs have been issued which have effectively committed all of the Certificate Limit for the Program, the Corporation shall maintain a list of Applicants in order of receipt of Application without depositing the MCC Compliance Fee.
6. MCC Commitment Letters may not be transferred from one Lender to another. In the event an Applicant elects to change Lenders, the MCC Commitment Letter which has been issued shall be revoked and a new application process must be initiated by the Applicant with the new Lender, including the payment of a new MCC Compliance Fee.

**C. Lender Loan Approval and Verification**

1. The Lender must request the Applicant to supply his or her federal income tax returns for the previous three years to be included in the Compliance Package submitted to the Corporation along with the Tax Return Affidavit – **Exhibit N**. Only the Applicant's prior year's income tax return and the Tax Return Affidavit are required for a Targeted Area Loan or an Applicant who is a Qualified Veteran

2. The Lender performs normal loan approval or underwriting procedures.
3. The Lender may consider the MCC when determining the amount of disposable income available for the monthly house payment in order to determine the Applicant's qualification for the Loan. The Lender determines general acceptability in accordance with its own loan approval standards and applicable Fannie Mae, Freddie Mac, FHA, VA, RD and private mortgage insurance standards and underwriting guidelines.
4. In conjunction with the Lender's regular verification process, the Lender performs reasonable investigation as to whether the MCC Program requirements have been met as required by the Code and the applicable Regulations noted in the Lender Participation Agreement and the Certificate of Lender. Lenders may verify these facts at different times and in various ways, depending upon the Lender's particular procedures for processing loans.
5. The Lender verifies that the Income Limits, Acquisition Cost Limits, and other MCC Program requirements are met.

D. Applicant and Loan Approval Requirements—Overview

For loans involving MCCs, the conventional and government loan approval and underwriting standards may be modified to reflect a recognition of the MCC-derived federal income tax credit for mortgage interest in determining income, housing expense, and indebtedness ratios. The secondary mortgage market and the mortgage insurance industry have established underwriting policies for loans involving MCCs. These are available separately as policy statements from the mortgage lending industry.

The Applicant, Acquisition Cost and mortgage underwriting requirements covered in this section are incorporated in the MCC Program Manual documents. It will be necessary for all Applicants, Lenders and other parties to the transaction to complete and sign the appropriate MCC Program Manual documents and attest to their validity. The Lender will be required to submit certifications in which it will certify that to the best of its knowledge no material misstatements appear in the Closing Package documents. If the Lender becomes aware of misstatements, whether negligently or intentionally made, it must notify the Corporation immediately. **The Corporation reserves the right to take all appropriate actions including, if any, denial or cancellation of the MCC.** The Lender should also be aware, and inform the Applicant, that both federal and State law provide for fines and criminal penalties, as well as revocation of the MCC, for misrepresentations made in connection with participation in the Program. In an attempt to assure that Program requirements are met, a Notice of Potential Recapture Tax and Mortgage Affidavit is required of each Applicant, and must be submitted to the Corporation.

There are no restrictions with regard to the type of mortgage vehicle the Lender uses under the MCC Program. The MCC Program allows the use of any mortgage instrument being generally used in the marketplace, and places no restrictions on loan term or amortization methods.

#### E. Applicant Eligibility Requirements

Similar to any normal mortgage loan, the Applicant must meet the credit and underwriting criteria established by the participating Lender providing the Loan. Based on relevant Federal and State regulations, Applicants must also meet the following requirements specific to MCCs:

1. First-time Homebuyer Requirement. Except for situations in which a MCC application is being made for a residence in a Targeted Area, the Applicant who will become a MCC holder may not have had an Ownership interest in a Principal Residence at any time during the preceding three years ending on the date on which the Loan is executed. This requirement qualifies the Applicant as a "first-time homebuyer" with respect to the federal regulations. The Lender must obtain from the Applicant an Affidavit to the effect that the Applicant had no Ownership interest in a Principal Residence at any time during the three-year period prior to the date on which the Loan is executed. This must be verified by the Lender through request for, and examination of, the Applicant's federal income tax returns for the preceding three years to determine whether the Applicant has claimed a deduction for interest or taxes on property which was the Applicant's Principal Residence.

***The first-time homebuyer requirement does not have to be met if the Residence for which a loan application is being made is located in a Targeted Area (a list of geographical areas which comprise the Targeted Areas in the Eligible Loan Area is attached as Exhibit Y) or is a loan made to a Qualified Veteran. The federal regulations for MCCs require the Corporation to reserve 20 percent of the MCC authority for these Targeted Areas until at least October 24, 2017. The Lender must clearly designate MCC applications involving Targeted Area Residences where appropriate in the MCC documents.***

To meet the first-time homebuyer requirement, the Applicant must complete and sign the Notice to Borrower of Potential Recapture Tax and Mortgagor Affidavit and provide the last three years of federal income tax returns (or acceptable alternate exhibits - see below) attached to the Tax Return Affidavit. In lieu of actual copies of returns, Applicants who filed either IRS Form 1040A or 1040EZ may substitute an original letter from the Internal Revenue Service stating the type of return filed by the Applicant for each tax year, the Applicant's filing status and adjusted gross income. To summarize this procedure as it applies to different cases:

- (a) If the Applicant can produce copies of signed IRS Form 1040A, 1040EZ or 1040

returns for the last three years which show no deductions of interest or taxes for a Principal Residence, these forms must be submitted to the Lender and forwarded to the Corporation with the Tax Return Affidavit.

- (b) In the event the Applicant has filed the IRS Form 1040A or 1040EZ for the preceding three years but cannot produce signed copies of the returns, the Applicant may substitute with the IRS Tax Return Transcript from the Internal Revenue Service verifying the required facts.
  - (c) In the event the Applicant has filed the IRS Form 1040 for the preceding three years, completes and signs the other required Affidavits, but cannot produce signed copies of the returns, the Corporation will not issue a MCC until receipt of certified tax returns (including all schedules) from the IRS, which show that the Applicant took no deduction of interest or taxes for a Principal Residence for the years in question. The certified tax returns can be requested from the IRS by the Applicant by using IRS Form 8821 or IRS Form 4506, copies of which are attached to the Lender Participation Agreement.
  - (d) In the event the Applicant was not required by law to file federal income tax returns for any year during the preceding three years, it will be necessary for the Applicant to so state on the Tax Return Affidavit forwarded to the Corporation with the other MCC Program Documents.
  - (e) When the Loan is Closed during the period between January 1<sup>st</sup> and April 15<sup>th</sup> and the Applicant has not yet filed his or her federal income tax return for the preceding year with the IRS, the Corporation may, with respect to such year, rely on an Notice of Potential Recapture Tax and Mortgagor Affidavit stating that the Applicant is not entitled to claim deductions for taxes or interest on indebtedness with respect to property constituting his or her Principal Residence for the preceding calendar year. The Notice of Potential Recapture Tax and Mortgagor Affidavit must be forwarded to the Corporation with the Compliance Package.
  - (f) If the loan is made in a Targeted Area or if the Applicant is a Qualified Veteran, the Applicant is only required to provide prior year's income tax return and the Tax Return Affidavit.
2. Principal Residence Requirement. The Applicant must use the Residence for which the MCC was issued as his or her Principal Residence. The Lender must obtain from the Applicant, as contained in the Notice of Potential Recapture Tax and Mortgagor Affidavit, a statement of the Applicant's intent to use the Residence as his or her Principal Residence within a reasonable time (60 days) after the MCC is issued. This Affidavit further states that the MCC holder will notify the Lender and the Corporation if the Residence ceases to be his or her Principal Residence.



3. Income Limits. See **Exhibit U**. These limits may be modified annually.
4. Acquisition Cost Limits. See **Exhibit T**.
5. Revocation. An Applicant will have his or her MCC revoked if the Applicant does not meet the requirements for a Qualified MCC. Revocation will occur upon the discovery of any material misstatement, whether negligent or fraudulent, contained in any of the documents submitted in connection with the issuance of the MCC. Revocation will occur if the Residence to which the MCC relates ceases to be Applicant's Principal Residence.
6. Fraud. If the Applicant or MCC holder provides a certificate, Affidavit, or any other information to the Lender or the Corporation containing a material misstatement and such misstatement is the result of fraud, then any MCC issued shall be automatically null and void without the need for any further action on behalf of the Corporation.
7. Penalties for Misstatement. If the Applicant makes a material misstatement in any Affidavit or certification made in connection with application for or the issuance of a MCC and such misstatement is due to negligence of the Applicant, the Applicant shall pay to the Secretary of the Treasury or its agent a civil penalty fee of \$1,000 for each MCC with respect to which a misstatement was made. If any Applicant makes a material misstatement in any Affidavit or certification made in connection with application for or issuance of a MCC and such misstatement is due to fraud, the Applicant shall pay to the Secretary of the Treasury or its agent a civil penalty fee of \$10,000 for each MCC with respect to which the fraudulent misstatement was made. The above-described civil penalties shall be imposed in addition to any criminal penalty.

F. Loan Requirements.

1. New Loan Requirements. A MCC may not be issued in conjunction with the acquisition or replacement of an existing mortgage; however, a MCC may be issued in conjunction with the replacement of construction period loans or bridge loans of a temporary nature. The term of the construction period or bridge loans must be no longer than 24 months. The Lender must obtain from the Applicant, as contained in the Notice of Potential Recapture Tax and Mortgagor Affidavit, a statement to the effect that the Loan being made in connection with the MCC will not be used to acquire or replace an existing mortgage, subject to the exceptions outlined above.
2. Prohibited Mortgages. An MCC may not be used in conjunction with a qualified mortgage bond or a qualified veterans' mortgage bond. The Lender must obtain from the Applicant, as contained in the Notice of Potential Recapture Tax and Mortgagor Affidavit, a statement that no portion of the financing of the Residence is provided from a qualified mortgage bond or qualified veterans' mortgage bond.

3. No Interest Paid to Related Persons. No interest on the Certified Indebtedness Amount of the Loan can be paid to a person who is a "related person" to the MCC holder, as the term is defined in Section 144(a)(3)(A) of the Code and Regulations. The Lender must obtain from the Applicant, as contained in the Notice of Potential Recapture Tax and Mortgagor Affidavit, a statement that a "related person" does not have, and is not expected to have, an interest as a creditor in the Loan.
4. Transferability. If the Loan is assumed by a new purchaser, the MCC may be transferable under certain circumstances:
  - (a) The transferee must demonstrate that he or she has assumed the liability for the remaining balance of the Loan; and
  - (b) The transferee must meet all of the requirements imposed on any Applicant for issuance of a MCC outlined in this MCC Program Manual, as well as any additional federal, State or Corporation requirements in existence at the time the transferee applies for a MCC.

G. Loan Closing and Submission of Final MCC Program Documents

1. Lender confirms that the MCC Commitment Letter - **Exhibit H** has not expired and closes the Loan in accordance with its customary procedures.
2. Lender provides the Applicant with the Notice of Potential Recapture Tax – **Exhibit E** which must be signed by the Applicant at or prior to Closing of the Loan.
3. The Lender is required to submit to the Corporation a completed and executed Closing Package as described below in #5 below.
4. The Closing Package includes all of the executed certifications and Affidavits noted therein. Each document must be complete and signed as indicated. Original documents should be sent to the Corporation, except as otherwise indicated. The eligibility of an Applicant shall be determined by Lender. Lender must review the Closing Package and related documents to determine their completeness in accordance with the terms of this MCC Program Manual. Reasonable efforts should be undertaken to verify the information given, either independently or concurrently with underwriting procedures.
5. The Closing Package will specifically include the following documents and payments:
  - (a) The Original Compliance File Checklist – **Exhibit A**;
  - (b) The MCC Program 1% Origination Fee collected by the Lender from the

Applicant at Closing. Submit by Lender check, money order, or certified cashier's check;

- (c) The Original executed Notice of Potential Recapture Tax and Mortgagor Affidavit – **Exhibit E**, duly executed by the Applicant;
  - (d) The Owner Occupancy Certification – **Exhibit G**, duly executed by the Applicant;
  - (e) The Military Veteran's Eligibility Affidavit – **Exhibit I** with a copy of the Qualified Veteran's discharge papers, if applicable;
  - (f) The Affidavit of Seller – **Exhibit J**, certifying the Acquisition Cost of the Residence and certain other matters;
  - (g) Copy of executed Closing Disclosure;
  - (h) The Closing Affidavit – **Exhibit K**, executed by the escrow or closing agent or the Lender, attesting to the fact that the Loan was Closed and stating the final mortgage Loan Amount;
  - (i) The Certificate of Lender – **Exhibit L**, certifying that the Lender has performed a reasonable investigation to make the required determinations. Further, by its submission, the Lender certifies that all Program eligibility requirements have been met and that the Loan fees are reasonable relative to other loans not associated with a MCC program;
  - (j) The Reaffirmation of Applicant – **Exhibit M**, duly executed by the Applicant; and
  - (k) The Tax Return Affidavit – **Exhibit N**, with the required attachments, duly executed by the Applicant.
6. Lender agrees to provide information to be reported under the Federal Home Mortgage Disclosure Act. .
7. All documents and the 1% origination fee must be submitted to the corporation within 30 days after the conditional commitment letter date.
8. Submission by the lender of an incomplete closing package, including submission off documents not fully completed, will result in the rejection off the package by the corporation and may subject the lender to the assessment of a MCC resubmission fee.

#### H. Issuance of MCC

The Corporation confirms, based on documentation submitted by Lender, the completion of the Applicant's file, that the MCC Commitment Letter was exercised, that the Loan was Closed as evidenced by the Closing Package, that the Applicant has met the requirements set forth in the Program Documents for issuance of an MCC and the Corporation then forwards to the Applicant an executed Mortgage Credit Certificate dated as of the Closing Date of the Loan. A copy of the MCC is forwarded to the Lender and a second copy is retained by the Corporation. No MCC may be issued prior to December 1, 2016 and no MCC may be issued for Loans having a Closing Date after December 31, 2017.

#### I. Resubmission of MCC Documents

If a MCC Compliance or Closing Package has been returned or denied by the Corporation, any resubmission, if appropriate, must include all information which the Corporation has determined necessary for reconsideration. A MCC Compliance or Closing Package that is being submitted a second time will be reviewed in depth and must be accompanied by a MCC Resubmission Fee of \$25 payable by check or money order to the Corporation, which MCC Resubmission Fee may not be charged to the Applicant absent a showing of the Applicant's negligence.

#### J. Extensions of MCC Commitments

An extension may be requested with regard to any MCC Commitment Letter which is outstanding if the related loan has not closed.

A two-month extension of the MCC Commitment Letter will be given upon Lender's submission of the MCC Extension Request Form and a \$25 MCC Extension Fee. Additional extensions may be granted if and when the Corporation determines that extenuating circumstances exist. Expiration dates may be subject to additional federal requirements.

#### K. MCC Commitment Cancellations

Lender must notify the Corporation of MCC Commitment Letters to be canceled by submitting written notification and returning the original MCC Commitment Letter.

#### L. MCC Commitment Amendments

In the event of any change in the Residence address, increase in Loan amount, or change in marital status of the Applicant which would necessitate the refile of an amended Notice of Potential Recapture Tax and Mortgagor Affidavit and the revision of a MCC Commitment Letter, the Lender must submit a new Notice of Potential Recapture Tax and Mortgagor Affidavit with the correct information and a cover letter referring to the

original MCC Commitment Letter number requesting the revision of the MCC Commitment Letter.

M. Changes Prior to Closing

MCC Commitment Letters are issued subject to the condition that all the requirements necessary for issuance of a MCC shall have been met prior to issuance of the MCC. Lender must notify the Corporation of any changes that affect the conditions under which the MCC Commitment Letter was issued, including but not limited to changes in the Applicant's financial status, family size or income, the employment status of the Applicant or the Applicant's spouse, marital status or the amount of the Loan.

The MCC Commitment Letter is issued in reliance upon the Notice of Potential Recapture Tax and Mortgagor Affidavit. Lender must immediately notify the Corporation in writing of any change in the circumstances upon which the MCC Commitment Letter was issued. If any change of the circumstances upon which the MCC Commitment Letter was issued occurs so that the MCC to be issued will not meet the requirements of a Qualified MCC, the MCC Commitment Letter will be revoked.

N. Record Keeping and Report Filing

1. For each calendar quarter the Corporation issues MCCs beginning with the quarter in which the election to issue MCCs is made, the Corporation will file reports on IRS Form 8330.
2. The Corporation will report annually to the Internal Revenue Service in the form prescribed by Treasury Regulation § 1.25-4T(e):
  - (a) The number of Mortgage Credit Certificates by Income and Acquisition Cost as required by IRS reporting regulations; and
  - (b) The volume of Mortgage Credit Certificates by Income and Acquisition Cost as required by IRS reporting regulations.
3. For each calendar year during which it originates Loans to Applicants obtaining MCCs, each Lender must file an annual report using IRS Form 8329. Prior to the filing deadline for such report, the Corporation will assist in furnishing to the Lender the information available in its records necessary for the Lender to complete IRS Form 8329.

4. For six years, the Lender must retain:
  - (a) Name, address (including the address of the Residence financed with the Loan) and taxpayer identification number of each MCC holder;
  - (b) Name, address and taxpayer identification number of the Corporation; and
  - (c) Date of Loan, Certified Indebtedness Amount, and Mortgage Credit Certificate Rate.
5. In January following each year during which MCCs are issued, the Corporation shall mail an IRS Form 8396 to each MCC holder of record as a reminder to properly declare the MCC tax credit for federal income tax purposes.
6. LENDER AGREES TO PROVIDE INFORMATION TO BE REPORTED UNDER THE FEDERAL HOME MORTGAGE DISCLOSURE

O. Revocation of MCCs

1. Automatic revocation occurs when the Residence related to the MCC ceases to be the MCC holder's Principal Residence.
2. A MCC will be revoked if the holder ceases to meet the requirements with respect to a Qualified MCC.
3. Revocation of the MCC will occur upon the discovery of any material misstatement, whether negligent or fraudulent, by any person related to the issuance of the MCC.

P. Curing Defects

In the event any defects or omissions are discovered in the Application or in any certificate or Affidavit or any document included or which should have been included in the Closing Package after a MCC has been issued, Lender and MCC holder shall be notified of such defect and given 60 days to cure same prior to revocation of the MCC.

Q. Transfer of MCCs on Mortgage Assumptions

A Loan assumption associated with a MCC will be treated as a new MCC application, and the procedure required by this MCC Program Manual must be repeated for the new Applicant. Transfer of the MCC is dependent upon the ability of the transferee to qualify under the Program requirements in effect at the time of the transfer. The Corporation gives no assurance that it will approve such a transfer. Since a MCC will already be outstanding, a MCC Commitment Letter will not be issued, and all of the required MCC Program Documents will be submitted at one time with the new

Compliance Package with Request for Assumption – **Exhibit AA**. A single MCC Assumption Fee of \$325 will be charged by the Corporation in connection with such transfers. The new Applicant must occupy the unit as a principal residence with 60 days of the assumption.

R. Audit

The Corporation may perform a random audit of Lender records to determine compliance with required Program procedures.

S. Notice of MCC Eligibility Denial

In the event a Lender determines that an Applicant is ineligible for a MCC Commitment Letter or the issuance of a MCC, the Lender shall notify the Corporation. The Corporation shall complete the Notice of Denial for MCC stating the reason Lender denied Applicant's eligibility or the reason the Corporation determined Applicant's ineligibility in the MCC Program, and Corporation shall maintain a list of such prospective Applicants that were denied eligibility in the Program.

T. Recapture of MCC Tax Credit

In the event a MCC holder sells the Residence within nine years of issuance of the MCC, a portion of the tax credit utilized by the certificate holder may be subject to a recapture tax. See the Notice of Potential Recapture Tax and Mortgagor Affidavit for further information regarding tax credit recapture.

U. Reissuance of MCC in Case of Refinancing

In the event a MCC holder refinances the Loan on the Residence, the Applicant shall submit the MCC Request of Reissuance and shall pay the \$125 MCC Reissuance Fee. The period for which the reissued certificate is in effect begins with the date the refinancing is closed. The Corporation shall reissue the MCC if: (i) the MCC is reissued to the holder of an existing MCC with respect to the same property to which the existing MCC relates; (ii) the reissued MCC entirely replaces the existing MCC (that is, the holder cannot retain the existing MCC with respect to any portion of the outstanding balance of the certified mortgage indebtedness specified on the existing MCC); (iii) the Certified Indebtedness Amount specified on the reissued MCC does not exceed the outstanding balance of the Certified Indebtedness Amount specified on the existing MCC; (iv) the reissued MCC does not increase the Mortgage Credit Certificate Rate specified in the existing MCC; (v) the Expiration Date on the newly reissued MCC is not later than the Expiration Date on the existing MCC; and (vi) the reissued MCC does not result in an increase in the tax credit that would otherwise have been allowable to the holder under the existing MCC for any taxable year. **The Lender or closing agent, as applicable, shall certify as to the outstanding balance on the Loan associated with the existing MCC**

**so that the Corporation can make the determination required by clause (iii) of this paragraph.**

V. Qualified Veterans

A Qualified Veteran is exempt from the three-year no prior home ownership requirement. The Qualified Veteran must (a) certify that (i) he or she has not previously obtained a mortgage loan financed by single family mortgage revenue bonds utilizing the exception set forth in Section 143(d)(2)(D) of the Internal Revenue Code of 1986, as amended, and (ii) is utilizing the veteran exception set forth in Section 143(d)(2)(D) of the Internal Revenue Code of 1986, as amended, (b) must complete Military Veteran's Eligibility Affidavit – **Exhibit I** evidencing qualification as a veteran and (c) provide copies of discharge papers, if applicable.