

Mortgage Credit Certificate (MCC) Programs Administered by National Homebuyers Fund



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Available MCC Allocations & Jurisdictions

- CHF MCC Program
- Sponsored by CRHMFA Homebuyers Fund (CHF)
- 20% MCC
- 41 Counties in California (and City of Vacaville)

**This training contains general guidelines only.
Please refer to www.nhfloan.org for complete program guidelines.**



What is an MCC?

Federal Income Tax Credit

1. Reduces the amount of federal income tax the homebuyer pays to the IRS
2. Tax Credit “effectively” reduces the rate on the mortgage loan
3. Reduction in income tax liability provides more available income to “qualifying” for mortgage



Let's see how it works...



What an MCC does for the homebuyer

Example

Homebuyer getting a 30-year, fixed-rate mortgage loan of \$200,000 at a 5.00% interest rate, will pay \$10,000 in interest payments during the first year of the mortgage.

- **Tax Credit**

A “Tax Credit” entitles a taxpayer to subtract the amount of the credit from their total federal income tax liability.

With a 20% MCC, up to \$2,000 (20% of \$10,000) of the annual mortgage interest paid can be taken as a “tax credit” toward the buyer’s federal income tax liability.

The remaining \$8,000 (80% of \$10,000) of the annual mortgage interest payment (not claimed as a credit) may still qualify as an itemized tax deduction from the buyer’s adjusted gross income*.



What an MCC does for the homebuyer, cont...

Same Example continued...

Homebuyer getting a 30-year, fixed-rate mortgage loan of \$200,000 at a 5.00% interest rate will pay \$10,000 in interest payments during the first year of the mortgage.

- “Effective” Rate Reduction

The After-Credit interest paid on the mortgage is reduced, effectively reducing the interest rate on the mortgage loan from 5.00% to 4.00%.

(Annual interest of \$8,000 on \$200,000 corresponds to a 4.00% interest rate.)

Amount of Mortgage	Rate on Conventional Loan	First Year Interest Paid	First Year MCC Tax Credit	After Credit Interest Paid	*Effective* Interest Rate
\$200,000	5.00%	\$10,000	\$2,000	\$8,000	4.00%



What an MCC does for the homebuyer, cont...

Same Example continued...

Homebuyer getting a 30-year, fixed-rate mortgage loan of \$200,000 at a 5.00% Interest rate will pay \$10,000 in interest payments during the first year of the mortgage.

- **MCC Credit Can Help Homebuyer Qualify for Mortgage**
Because the Homebuyer would be entitled to the \$2,000 tax credit in the first year, he/she would be able to file, in advance, a revised W-4 withholding form taking into consideration this tax credit and have approximately \$166 per month in additional disposable income (\$2,000/12 months).

The Lender can take this into consideration when qualifying the homebuyer, effectively “grossing-up” their available income for qualifying purposes.

Amount of Mortgage	Rate on Conventional Loan	First Year Interest Paid	First Year MCC Tax Credit	MCC Tax Credit (monthly amount)
\$200,000	5.00%	\$10,000	\$2,000	\$166



MCC Eligibility Guidelines

- Purchase of **Primary Residence Only**
- First-time Homebuyer Requirement
 - Waived in “Targeted Area” Census Tracts
- Qualifying Loan Types
 - Conventional, FHA, VA, USDA, Fannie Mae, Freddie Mac
 - Fixed-rate or Adjustable Rates
 - Tax-Exempt Mortgage Revenue Bond Loans are Not Eligible

NOTE: An MCC can be combined with the **CHF Platinum Program** which provides down payment assistance.

- Qualifying Properties
 - Single-Family (detached and condos)
 - Townhouses or Certain Manufactured Homes
 - 2-unit, 3-unit and 4-unit (with certain restrictions)



The MCC Federal Recapture Tax

Recapture Tax would only occur if and when ALL of the following occur:

1. Property is sold within the first nine (9) years;
2. There is a capital gain upon sale; **and**
3. Homebuyer's income exceeds the allowable income limit in the year in which the property is sold.

The tax will be the lesser of:

1. Half the gain from the sale of the home, or
2. A tax based on a formula (See MCC-010 Recapture Tax Notice)



Review of Advantages

HOMEBUYER

- MCC reduces the amount of federal tax liability
- Tax credit is a dollar-for dollar reduction of their federal tax bill
- MCC can be used to “gross-up” income to assist with qualifying for a mortgage

LENDER (AFN)

- Ability to offer potential homebuyer the benefit of a tax credit
- MCC can be combined with standard mortgage products
- Can help to qualify borrower
- MCC product may increase sales/loans



Have Questions? Call One of Our Mortgage Consultants.



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