



MCC FACT SHEET

Ohio Housing Finance Agency 2009 Mortgage Credit Certificate Program

The Ohio Housing Finance Agency (OHFA) will make available \$12.5 million for Mortgage Credit Certificates (MCCs) for approximately 1,000 qualified homebuyers. An MCC allows qualified borrowers to take a direct tax credit for a portion of their mortgage interest, which reduces their federal tax liability.

The percentage of the annual tax credit that can be claimed varies depending on the status and/or location of the property:

- 20% credit for non-target areas
- 25% for target areas
- 30% for Real Estate Owned (REO) purchases

The MCC Program is available through OHFA participating lenders who are able to originate, underwrite, close and fund mortgage loans. All mortgages must have a fixed interest rate. Income and sales price limits follow the same eligibility requirements as the OHFA First-Time Homebuyer Program.

How the MCC Works

The MCC allows a household to retain income by reducing its federal income taxes. A reduced tax liability will increase the amount of available income for households to qualify for a loan and make their mortgage payments. With an MCC, a portion of the mortgage interest is a tax credit - a dollar-for-dollar reduction of income tax liability for the life of the loan. The tax credit cannot be larger than the homebuyer's annual federal income tax liability after deductions, exemptions and other credits. The maximum credit cannot exceed \$2,000 each year.

Eligible Borrowers

OHFA encourages potential borrowers to speak with a participating lender for complete program guidelines and eligibility requirements which include:

- No prior homeownership interest in the borrower's principal residence in the past three years except for homes located in a target area, or qualified veterans.
- The borrower must occupy the home as their primary residence for every consecutive year the MCC is being claimed.
- The gross annual family income of all persons in the household, 18 and older, at the time of sale cannot exceed the income limits for OHFA's First-Time Homebuyer Program.
- Borrowers must meet the standard credit and underwriting criteria established by the IRS and HUD for the MCC Program. See IRS publication 530 for additional information.

Eligible Properties

- Properties are eligible if they are new or existing single unit dwellings, condominiums or planned unit development homes. Modular or manufactured homes must be permanently affixed to the foundation and titled as real property.
- The sales price of the property at the time of sale must not exceed the sales price limit by county for the OHFA First-Time Homebuyer Program. A seller affidavit confirming the sales price is required.
- Properties located in OHFA target areas qualify for a 25% tax credit incentive. To determine if the property is in a target area, visit www.ohiohome.org/homebuyer/default.aspx.
- The Real Estate Owned (REO) Incentive applies to single family properties purchased from HUD, Fannie Mae, Freddie Mac, VA, USDA-RD or a financial institution that acquired the property through foreclosure to qualify for a 30% tax credit incentive.

Eligible Mortgages

- The MCC Program cannot be used as a refinance option on an existing mortgage. However, it can be used to replace a construction loan, bridge loan or land contract with a term of up to 24 months. The borrower must provide an affidavit stating that the MCC loan does not replace their existing mortgage.
- The MCC Program does not permit adjustable rate or interest only mortgages, and cannot be used in conjunction with any OHFA First-Time Homebuyer programs.
- Mortgage terms must be reasonable. If the mortgage rate is 100 basis points or more above the current Freddie Mac Primary Mortgage Market Survey® (PMMS®), OHFA will deem the mortgage commercially unreasonable.
- The MCC applies only to the borrower's first mortgage.



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Other Requirements

- Lenders using the MCC Program will pay OHFA a \$300 fee per loan, which may be assessed to the borrower. Excluding OHFA fees, any miscellaneous non-third party fees paid by the borrower may not exceed \$500, including but not limited to, underwriting, rate lock, processing, and commitment.
- Each participating lender must pay OHFA a one-time program participation fee based on the lender's assets:
 - under \$500 million in assets - \$750
 - \$500 million to \$1.5 billion in assets - \$1,000
 - more than \$1.5 billion in assets - \$2,000
- MCCs are available on first-come, first-served basis and are not transferable.
 - OHFA will begin accepting applications for MCCs from participating lenders for qualified homebuyers on February 17, 2009.
 - OHFA will issue MCCs for loans closing on or after March 23, 2009, until authority is exhausted.
- Appropriate Fair Housing advertising is required.

Borrower Considerations

- If a borrower sells the residence within nine years of the date of closing, the borrower may owe recapture tax if the household income has increased more than the amount allowed under the Internal Revenue Code and the house is sold at a net profit. However, OHFA will reimburse homebuyers for the actual amount of recapture tax paid to the IRS. See program guidelines for details.
- In order to benefit from the MCC a borrower must have income tax liability, and must file using the "long form" IRS 1040. Borrowers who have low tax liability due to other deductions may not be able to use the entire MCC benefit.
- OHFA may revoke the MCC approval from the borrower if the property ceases to be the borrower's primary residence. Any misrepresentations on documents relating to the MCC as a result of negligence or fraud shall be assessed a fine of \$1,000 per item and could result in the revocation of MCC approval.

- The American Recovery and Reinvestment Act of 2009 amended the First-Time Homebuyer Tax Credit for homes purchased between January 1, 2009 and November 30, 2009. The credit is 10% of the value of a home, up to \$8,000 (\$4,000 for a married individual filing separately). Qualified households with incomes up to \$75,000 (\$150,000 for a joint return) who have not had an ownership interest in a home for the previous three years may take advantage of this credit. In addition, the amended credit may be used by homebuyers who also qualify for a Mortgage Credit Certificate or use OHFA's First-Time Homebuyer Program. The credit is for the homebuyer's 2009 tax year only, and does not have to be repaid unless the homebuyer ceases to use the home as a principal residence within 36 months of the date of purchase.

MCC Calculation Example

A \$90,000 fixed-rate mortgage at 6% would have an interest expense of approximately \$5,360 for the first 12 months. For a borrower in a non-target area, the MCC credit would permit the owner to claim a direct tax credit on 20% of the interest, or \$1,072. The owner must complete IRS Form 1040 for the current tax year to claim the credit. Forms 1040A and 1040EZ are not permitted to be used for the MCC Program. The borrower would still be eligible to claim the remaining 80% of mortgage interest as a deduction, if they had sufficient tax liability.