

## **MCC PROGRAM FREQUENTLY ASKED QUESTIONS**

### **Q. What is an MCC?**

**A.** An MCC is a federal income tax credit designed to assist persons better afford individual ownership of housing. With an MCC, the qualified homebuyer is eligible to write off a portion of the annual interest paid on the mortgage as a special tax credit, not to exceed \$2,000, during each year that they occupy the home as their Principal Residence. The portion or amount of the tax credit is equal to the mortgage credit rate on the MCC (for example 35%) multiplied by the annual interest paid. This credit reduces the federal income taxes of the buyer, resulting in an increase in the buyer's net earnings. Increased buyer income results in increased buyer capacity to qualify for the mortgage loan. The MCC has the potential of saving the MCC holder thousands of dollars over the life of the loan. Please see the applicable [Fact Sheet](#) for the Mortgage Credit Certificate Rate.

### **Q. What is the difference between a "tax credit" and a "tax deduction"?**

**A.** A "tax credit" entitles taxpayers to subtract the amount of the credit from their total federal income tax liability, receiving a dollar for dollar savings. A "tax deduction" is subtracted from the adjusted gross income before federal income taxes are computed. Therefore, with a deduction, only a percentage of the amount deducted is realized in savings.

### **Q. How does the Homebuyer realize the increase in "home-buying power"?**

**A.** The homebuyer may receive the complete MCC credit savings annually at the time they file their tax returns or monthly by adjusting his or her federal income tax withholding by filing a revised Form W-4 with his or her employer. By taking this latter action, the number of exemptions will increase, reducing the amount of taxes withheld and increasing the buyer's disposable net income.

Taxpayers who file itemized returns may take a deduction for his or her mortgage interest paid each year, less the amount equal to the tax credit taken.

In any event, when the homebuyer files his or her taxes each year, they must fill out IRS Form 8396 and attach a copy of their MCC with his or her filed taxes.

This is not intended to be a full explanation, nor an assurance that such information will guarantee compliance with the tax laws. We encourage the homebuyer to contact their tax advisor or their employer to help them with the necessary tax forms and, if they so choose, to properly adjust their tax withholding.

### **Q. What happens if a qualified Homebuyer cannot use the entire amount of the MCC credit for the year in which it applies?**

If the amount of the MCC credit exceeds the MCC holder's tax liability, reduced by any other personal credits for the tax year, the unused portion of the credit can be carried forward to the next three tax years or until used, whichever comes first. The homebuyer will have to keep track of the unused credit each year. The current year credit is applied first and then the oldest amount of unused credit applied next.

### **Q. Will a Homebuyer qualify if they are not a First-Time Homebuyer?**

**A.** Yes, if they are purchasing a home in an [area designated as economically distressed](#).

### **Q. Can a Homebuyer apply for a MCC after they have closed on their mortgage?**

**A.** No, a homebuyer must apply and be preliminarily approved for the MCC prior to closing on their mortgage.

**Q. What loans types can be used with the MCC?**

**A.** The Program does not place restrictions on the mortgage financing with regard to type, term or rate. However, only first mortgages (as opposed to second mortgages) qualify. In addition, mortgages funded with a qualified mortgage bond or a qualified veteran's mortgage bond are not eligible.

**Q. Does the Mortgage Credit work like the Earned Income Credit?**

**A.** No, the mortgage credit offsets the homebuyer tax liability. If the homebuyer has little or no tax liability the MCC would be of no benefit to the homebuyer. You can never claim more of a credit than you have in tax liability.

**Q. Does a Homebuyer lose their credit if they refinance their mortgage?**

**A.** In most cases, no. You can have your certificate re-issued if your current principal balance is less than your original mortgage balance.

**Q. How does the Mortgage Credit Certificate work?**

**A.** With a Mortgage Credit Certificate (MCC), for example, 35% of the mortgage interest is a tax credit—a dollar-for-dollar reduction of income tax liability for the life of the loan. The remaining 65% mortgage interest continues to qualify as an itemized tax deduction for the homebuyer. Prospective homeowners can obtain an MCC when applying for a mortgage loan at any participating lender. The mortgage loan must be new, not the refinancing of an existing mortgage loan. Lenders vary in their requirements for mortgage loans.

**Q. How do you figure the tax credit the Homebuyer can receive?**

**A.** The mortgage credit can be calculated as follows: Loan amount x loan interest rate x percent of credit allowed = amount of credit.

**Q. Where does a Homebuyer obtain an MCC?**

**A.** A homebuyer applies for the MCC at the same time they make a formal application for a mortgage. Lenders vary in their requirements for mortgage loan application, but generally you will have made a purchase offer on a specific residential property and will be ready to supply credit information, employment data, and other information to the lender. There will be a non-refundable fee to make application for an MCC.

**Q. How long does the credit certificate last?**

**A.** Each year, the credit certificate will be calculated on the basis of the certificate credit rate times the interest paid on the mortgage loan that year. The MCC will be in effect for the life of the original mortgage loan, so long as the home remains the principal residence of the homebuyer.

**Q. What are the MCC requirements?**

**A.** Federal, IRS, and state regulations apply to everyone who obtains an MCC. These include:

- 1) Cannot have had an ownership interest in a principal residence at any time in the last three years, unless you apply for a loan in an area designated as economically distressed. In these areas designated as economically distressed, you do not have to be a first-time homebuyer.
- 2) The home you buy must be located in the Eligible Loan Area and used as the homebuyer's principal residence after they obtain the mortgage.
- 3) The mortgage loan must be a new loan, not the refinancing of an existing mortgage loan or land contract.
- 4) Cannot exceed the income and purchase price limits established

**Q. What are income and purchase price limits?**

**A.** Please see the applicable Fact Sheet for these limits.

**Q. What kinds of properties are eligible?**

**A.** An MCC can be used for either new or existing single-family homes, detached or attached structures, consisting of not more than four connected dwelling units intended for residential housing, each for one family, or a single unit in a condominium, or townhouse. A single unit in a duplex, triplex, or fourplex, or an entire duplex, triplex, or fourplex can be financed, provided that one of the units will be occupied by the Applicant and the Residence was first occupied for residential purposes at least five years prior to origination of the mortgage loan. However, this five-year requirement does not apply to a single unit in a duplex.

If the subject property has two, three or four units and is in a Non-Targeted Area census tract, the Lender must submit documentation verifying that the structure was first occupied at least five years prior to the date of application. An appraisal or property profile of the subject property showing that it was more than five years old would normally suffice as verification. Two- to four-unit properties of any age, new or existing, are eligible in Targeted Areas.

Manufactured homes are also eligible, but they must meet agency guidelines and Program requirements. To qualify, a manufactured home must be manufactured in a factory after June 15, 1976 that is delivered to a home site in more than one section and affixed on a permanent foundation. The dimensions of the completed dwelling shall be not less than 20 feet by 40 feet, the roof must be sloping, and the siding and roofing must be the same as those found in site built dwellings.

Mobile homes are allowed but must meet be permanently affixed to the ground with a poured foundation, and taxed as real property.

The following types of properties are not eligible for the Program:

- a. Rental homes
- b. Cooperative housing
- c. Home used as investment property
- d. Recreational, vacation or "second" homes
- e. Motor homes, campers and similar vehicles

Property being purchased must meet the applicable agency guidelines and be located in the Eligible Loan Area.

**Q. How does a homebuyer apply for an MCC?**

**A.** The homebuyer may obtain an MCC through any of the approved Lenders. For a list of participating lenders in your purchasing area, please email Hilltop Securities at [htshousing@hilltopsecurities.com](mailto:htshousing@hilltopsecurities.com) or call 214-953-4176. The homebuyer should apply for the MCC at the same time he or she makes a formal application for a mortgage loan. The homebuyer should have a signed purchase offer in hand to buy a house and be ready to supply credit information, employment data and other information to the Lender.

There is no allocation of Mortgage Credit Certificates by the Lender. After an application is filed, the Lender will arrange with the Program Administrator to reserve an allocation for an MCC assisted mortgage loan. This reservation (MCC Commitment) will hold the MCC while the Lender and the Program Administrator are processing the application.

## **RECAPTURE TAX FREQUENTLY ASKED QUESTIONS**

### **Q. Should a Homebuyer Use the MCC Program?**

**A.** Nothing in the recapture tax provision should prevent a borrower from using these programs, or prevent lenders, builders, or real estate professionals from recommending it. The financial benefits of homeownership, including deductions for mortgage interest payments and taxes, annual MCC credit, may outweigh the possibility that the borrower may have to pay a recapture tax sometime in the future.

### **Q. What is the Federal Recapture Tax?**

**A.** It's a federal tax that a borrower may be required to pay from the net profit they receive from the sale of their home. If they have to pay Recapture, it would be due when they file their federal income tax for the year in which they sell their home. The maximum recapture tax is 6.25% of the original principal balance of the loan or 50% of the gain on the sale of the home, whichever is less.

### **Q. Will the borrower have to pay a Federal recapture tax?**

**A.** Most applicants will not have to pay. They **will not** have to pay a recapture tax if any of the following events occur:

They own their home for more than 9 years.

They sell or otherwise dispose of their home within 9 years of acquiring it, but do not make a profit on such sale or disposition.

They sell or otherwise dispose of their home within 9 years of acquiring it, but their household income at the time of such sale or disposition does not exceed a certain pre-established amount.

### **Q. What does a substantial increase in income mean?**

**A.** Federal maximum income limits apply to the purchase of your home. Certain regulations automatically increase these maximums at the rate of 5% per year for Recapture. If at the time you purchase your home your income is near the federal maximum, annual income increases would have to exceed 5% per year before you would be subject to Recapture. If your income is considerably below the federal maximum, your income can increase at a greater rate before you would be subject to Recapture.

### **Q. What determines how much the actual recapture tax will be, if any?**

**A.** First, the date of sale or transfer.

Second, the borrower's income in relation to the "adjusted qualifying income" in the year of sale or transfer.

Third, the gain from sale or transfer.

### **Q. How do you calculate the "adjusted qualifying income"?**

**A.** First, determine the borrower's household income size at the time the home is sold or transferred. Next, select the maximum income limit that would have applied to that household size at the time the home was purchased. This number, compounded by 5% per year from the date of purchase until the date the home is sold or transferred is the "adjusted qualifying income".

### **Q. Are there advantages to selling the home later during the nine-year recapture period?**

**A.** Yes. The maximum recapture amount increases during the first five years of ownership to its maximum in the fifth year. The amount then decreases 20% per year through the ninth year. If the sale occurs after the ninth year, there is no recapture tax.

**Q. What happens if the loan is assumed?**

**A.** If the sale or transfer occurs within the first nine years of ownership, the original borrower pays the recapture tax, if applicable, and a new nine-year period begins for the purpose of applying a new recapture tax to the assuming purchaser.

**Q. Is recapture due if the borrower dies within the nine-year period?**

**A.** No. A death transfer is not a sale or transfer for the purposes of recapture.

**Q. In the case of divorce, who is responsible for the recapture tax?**

**A.** A divorce settlement is not a sale or transfer for the purposes of recapture. Whoever receives the home in the divorce settlement pays any recapture tax due as a result of a subsequent sale or transfer if within the nine-year period.

**Q. What if the home is destroyed as the result of a fire, flood, or other natural disaster?**

**A.** If the home is destroyed and borrower rebuilds on the same site within two years after the year in which the insurance proceeds are received, no recapture is due at that time.

**Q. In the event that the borrower owes a recapture tax, to whom do I pay it and when?**

**A.** If any tax is due, it is paid to the IRS when they complete their Federal income tax return for the tax year in which they sold or otherwise disposed of the home. For example, if they sold or otherwise disposed of their home in 2015, the tax would be paid when they file their 2015 Federal income tax return.

**Q. Will recapture completely eliminate a borrower's gain from the sale of the home?**

**A.** Fortunately no. The recapture tax can never exceed 50% of the gain.

**Q. Is Recapture dependent on the profit a borrower makes when they sell their home?**

**A.** Yes. However, most borrowers who make a profit probably will not owe Recapture. A borrower may have a profit and avoid recapture if their income does not exceed the allowable income in the year they sell their home.

**Q. How can the borrower determine if they will have to pay Recapture?**

**A.** There is no way to predict the exact tax liability, if any; since it is based upon the borrower's situation at the time they sell their home. It will depend on their income, family size and the amount of their net profit at the time they sell their home. In any event, if they stay in their home for nine years, they will never owe any Recapture.

**Q. Can the borrower refinance their loan without paying the Recapture Tax?**

**A.** Yes; a borrower may refinance their loan at any time. Refinancing a loan will not activate the Recapture Tax, nor will it cancel the Recapture Tax provision should they later sell their home within nine years of the original mortgage loan closing date.

**Q. Should the borrower seek additional advice?**

**A.** For answers to specific questions about calculating potential tax liability, please seek assistance from a professional tax advisor or the IRS. The toll free telephone number of the IRS is 800-829-1040.