ORANGE COUNTY MORTGAGE CREDIT CERTIFICATE PROGRAM

Sponsored by:
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SECTION I – INTRODUCTION TO THE MCC PROGRAM

1.1 General Overview

The County (the "Issuer") has created the Mortgage Credit Certificate Program (the "Program") as a means of providing housing assistance to low- and moderate-income homebuyers. The Issuer has authority to issue Mortgage Credit Certificates ("MCCs") under this Program within its designated territory ("Eligible Loan Area").

This MCC Program Manual ("Manual") is intended to fully describe the Program, outline the roles of the Issuer, Program Administrator, Lenders, and Applicants, and set forth the requirements for Applicants and Lenders to participate in the Program. The capitalized terms in this Manual that are not defined herein shall have the meanings set forth in Appendix A. The Program Administrator may revise the Program guidelines from time to time. Public notice of any material changes to the Program or Manual will be published on the Program Administrator's website www.nhfloan.org. **The PROGRAM OVERVIEW, which summarizes the Program, is also available on the Program Administrator's website www.nhfloan.org.**

Eligible homebuyers are encouraged, after conferring with a participating Lender regarding the Program's minimum qualifications, to apply for an MCC. Current contact information for the Program Administrator is as follows:

National Homebuyers Fund, Inc.
Program Administrator
1215 K Street, Suite 1650
Sacramento, CA 95814

Tel: (916) 444-2615
Fax: (916) 444-3551
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1.2 What is a Mortgage Credit Certificate?

An MCC is a federal income tax credit designed to assist persons of low-to-moderate income to 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, 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 multiplied by the annual interest paid (for example a 15% MCC provides a 15% tax credit). 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 PROGRAM OVERVIEW on the Program Administrator's website for the Mortgage Credit Certificate Rate used in this Program.**

1.3 The Difference Between a "Tax Credit" and a "Tax Deduction"

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.

1.4 MCC and the Federal Income Tax Mortgage Interest Deduction

A taxpayer receiving an MCC reduces the portion of his/her normal deduction taken for interest paid on the mortgage loan by the percent of tax credit taken. However, the homebuyer can deduct the remainder of the annual mortgage interest payment not claimed as a credit. Although the interest deduction is reduced, the holder of the MCC still pays considerably less in taxes.

Example

In Table 1 below, a Borrower with a 6.25% fixed rate 30-year mortgage of $300,000 would make $18,750 in interest payments during the first year of the mortgage. By using a 15% MCC, up to $2,812.50 (15% of $18,750) of the payments would be allowed to be taken as a “tax credit” toward that buyer’s federal income tax liability. The remaining 85% (in this case, $15,937.50) still is taken as a “tax deduction” from the homebuyer’s adjusted gross income.

The Borrower in this example has an annual tax liability of $5,000 or more after all other deductions and credits, and the after-MCC credit interest paid on the mortgage is reduced to 5.32%, i.e. annual interest of $15,937.50 on $300,000 corresponds to a 5.32% loan. This effect, however, is achieved only when the MCC holder-Borrower has sufficient income tax liability to receive the entire benefit from the MCC tax credit.

Table 1
Mortgage Credit Certificate Program Effective Reduction of
Mortgage Interest Rate Through the Use of a 15% MCC

Amount of Mortgage	Rate on Conventional Loan	First-Year Interest Payment[1]	First-Year MCC Tax Credit	After-Credit Interest Paid[2]	Effective Interest Rate[3]
$300,000	6.25%	$18,750	$2,812.50	$15,937.50	5.32%

1.5 How a Homebuyer Applies for an MCC

The homebuyer may obtain an MCC through any of the participating Lenders. A list of the Lenders can be found on the Program Administrator’s website. MCCs are issued on a first-come, first-served basis, irrespective of the Applicant’s race, color, religion, national origin, age, or gender. There will be no restrictions as to the total number of Reservations of Funds issued to any particular Lender except for the Program limits. The homebuyer should apply for the MCC at the same time he or she makes a formal application for a mortgage loan. Lender is responsible for determining eligibility and acquiring an MCC Commitment from Program Administrator. The MCC is issued to the Applicant after the mortgage loan has been closed.

1.6 How a Homebuyer Uses the MCC

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 the latter action, the number of exemptions will increase, reducing the amount of taxes withheld and increasing the buyer’s disposable net income.

[1] Only 85% of annual interest payments are deducted from gross annual income with the remaining 15% taken as a tax credit from the MCC holder’s tax liability. The figure shown is for the first year only. Assuming equal monthly payments amortizing principal and interest over 30 years, the amount of interest paid each year and, correspondingly, the MCC tax credit, will decrease in subsequent years.
[2] Derived by deducting annual MCC credit equivalent from annual interest payments.
[3] Calculated for comparison purposes of this example only and is not the annual percentage rate applicable to any specific mortgage loan for any specific period.

Using Table 1above, during the first year of the Program, this Applicant would be entitled to a tax credit of $2,812.50. Based upon such an entitlement, he or she would be able to file in advance a revised Form W-4 withholding form taking into consideration this tax credit and have approximately $234 per month in additional disposable income. ($2,812.50/12 = $234.37).

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 Table 1 above, the interest deduction would be $18,750 less $2812.50, or $15,937.50).

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.

1.7 When the MCC Credit Exceeds the Tax Liability

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.

1.8 The MCC Recapture Tax

According to Section 143(m) of the Internal Revenue Code of 1986, homebuyers with loans closing after January 1, 1991, who receive a Mortgage Credit Certificate, may be subject to a "Recapture Tax" if they sell or transfer their home within nine years after the Closing. A number of factors determine the amount of tax, if any, the Applicant must pay (See MCC-010 RECAPTURE TAX NOTICE).

The tax, if any, will always be the lesser of:

1. Half the gain from the sale of the home, or
2. A tax based on a formula which takes into consideration:
   a. the original principal amount of the home mortgage;
   b. the number of complete years that pass before the home is sold;
   c. the median family income for the buyer's area at the time he/she bought the home; and
   d. The buyer's adjusted gross income at the time the home is sold.

There are several conditions that can exempt the MCC holder from the Recapture Tax. These include:

1. No net gain on the sale of the property;
2. Insufficient increase in the income of the MCC holder between the time of purchase and the time of sale;
3. Sale of the home after the ninth year; and
4. A sale due to death or divorce.

The Lender provides homebuyer with information about Recapture both at the time of application (MCC-003 APPLICATION AND AFFIDAVIT) and at time of Closing (MCC-010 RECAPTURE TAX NOTICE).

1.9 Program Fees and Charges

The Program Fees are outlined in the PROGRAM OVERVIEW, which is available on the Program Administrator's website www.nhfloan.org.

The MCC Application Fee is non-refundable. The only exception made to this rule is when funds are no longer available. In such circumstances, the MCC Application Package and fee will be returned to the sender at the sender's expense. The MCC Application Fee must be in the form of a corporate check made payable to National Homebuyers Fund, Inc., and sent in the MCC Closing Package submitted to the Program Administrator. The MCC Application Fee may be paid by the Applicant, the Seller, the Lender or any other person on the Applicant's behalf.

Other than the required MCC fees, the Lender can only charge an Applicant those reasonable fees that the Lender would charge for a non-MCC mortgage loan application.

SECTION 2 – APPLICANT ELIGIBILITY

2.1 First-Time Homebuyer Requirement

The Applicant applying for an MCC cannot have had an ownership interest in a Principal Residence at any time during the preceding three (3) years ending on the date the mortgage is executed. This requirement does not apply to acquisitions of homes in Targeted Areas or if an Applicant is a Qualified Veteran. The Applicant and spouse, and any other adult who will be reflected on the title, must meet this First-Time Homebuyer requirement.

To demonstrate compliance with this requirement, the Lender must obtain from the Applicant a signed:

- MCC-003 APPLICATION AND AFFIDAVIT; and
- MCC-008 BORROWER'S CLOSING AFFIDAVIT to the effect that the Applicant had no ownership interest in a Principal Residence at any time during the three (3) year period prior to the date on which the mortgage for the MCC is executed.

  This must be verified by the Lender's examination of the Applicant's federal tax returns for the preceding three years (or by acceptable alternate documents, discussed in Section 2.2 below) to determine whether the Applicant has claimed a deduction for mortgage interest or taxes on real property claimed as a "Principal Residence." In addition, the Lender must obtain rental verification (either written or verbal) from the last tax return filed to the application date.

Any person who is living in a home as their Primary Residence and is listed on the Deed of Trust or Mortgage has ownership interest, even if he or she does not take a deduction for mortgage interest on his or her federal tax returns. For married couples, both spouses hold an ownership interest, even if only one is listed on the title. However, a person (for example, a parent of a mortgagor) who is a payor under or a guarantor of a promissory note secured by the mortgage, but who does not occupy and has no present ownership interest in the financed Residence, need not satisfy the First-Time Homebuyer requirement.

Each Applicant is required to submit acceptable documentation with his or her MCC application to demonstrate that he or she meets the First-Time Homebuyer requirement. The following are the documentation options that will satisfy this requirement:

a. Each Applicant provides the signed and dated Form 1040, 1040A or 1040EZ federal income tax returns for the past three (3) years with all schedules that show no deductions for mortgage interest or real estate taxes for a Principal Residence. If these documents are available, they should be included in the MCC Application Package.

b. For Applicants who do not have copies of the actual tax returns submitted to the IRS, the Applicant may submit printouts from the local IRS office that reflect their three (3) most recent federal tax returns. The printouts are usually provided free of charge, on a while-you-wait basis. The printouts from the IRS do not have to be signed. Provided that the printout shows that no mortgage interest deduction was taken, the printout can be submitted in lieu of the tax return copies. However, if the IRS has determined that an error was made on any of the requested tax returns, the staff will not issue a printout; they will instead issue an IRS Letter 1722.

c. For Applicants who are unable to obtain a computer printout from the IRS, as described above, the Applicant can request instead IRS Letter 1722, which summarizes pertinent data from the Applicant's tax returns for the requested years. However, the Applicant must also obtain with the Letter 1722 a statement from the IRS that no mortgage interest deduction was taken during the three year period if the Applicant filed a Form 1040 (long) for one or more of the three (3) years.

d. For Applicants who cannot locate copies of their actual tax returns submitted to the IRS, the Applicant may request copies of the returns from the IRS using Form 4506. Copies generally will be sent to the Applicant within 6-8 weeks. The IRS may charge a fee for this service.

e. In the event the Applicant was not obligated to file federal income tax returns for any of the preceding three (3) years, it will be necessary for the Lender to state so on the Tax Return Affidavit or on their own form. This document must be included in the MCC Application Package. Applicants who cannot provide tax returns because they did not file them when required to do so, and who have failed to file for an extension, are not eligible for the Program.

Applications that are not completed by April 15th of a given year need to be accompanied by the preceding year's tax return, or acceptable substitute documentation, discussed above. For example, after April 15, 2010, the completed 2009 return will be required.

If one or more of an Applicant's tax returns reflect that the Applicant took a deduction for mortgage interest or real estate taxes on property claimed not to be the Principal Residence, documentation is required to demonstrate the rental status for that property during the relevant period (for example, rent receipts or canceled checks). Documentation of the rental history may be required for the period from the last tax return filed to the MCC application date.

An ownership interest in a mobile home will be considered a prior ownership interest in a Principal Residence if the mobile home was:

1. Permanently attached or anchored to land and has had the wheels and other components used in transportation removed; and
2. Taxed as real property.

The same test for "permanently attached" applies for the First-Time Homebuyer requirement as for the Residence Requirement.

Remember, except for cases involving a self-employed Applicant, the Applicant submits copies of three (3) year's tax return NOT to verify Income, but to verify First-Time Homebuyer status.

2.2 Income Limitation

Qualified Applicants must have an annual gross household income that is within Program limitations. Income is calculated by taking the Applicant's current gross monthly income, as well as that of anyone else who is expected to live in the Residence and become liable on the Deed of Trust or Mortgage (including a non-purchasing spouse) and multiplying that amount by 12. For the maximum Income limitations, see the current PROGRAM OVERVIEW published by the Program Administrator. Verification of the Applicant's income is performed by the Lender and the Program Administrator. All persons whose income must be considered in processing the MCC application must also meet all other individual requirements of the Program, including the First-Time Homebuyer requirement, and each such person must execute all applicable Program Affidavits. This generally applies to spouses whether or not such spouse's Income is used to qualify for credit underwriting purposes.

Two Methods of Computation

The Lender chooses from two methods of Income computation depending on whether the Applicant is employed or self employed. Generally, Income for an employed person is computed by multiplying the current gross monthly income figure by 12. Sporadic income may be averaged and added to that base figure for a total. Income for a self-employed person is computed by averaging the year-to-date total on a current profit and loss statement with the net income figures from the two (2) most recent years' federal income tax returns (with depreciation added back in). Detailed instructions for calculating the Applicant's Income are included in Appendix B.

Sources of Income

The IRS requires that every source of income, taxed or untaxed, be included in the calculation of Income for the MCC. See Appendix B for a complete listing of the sources of income which must be considered in computing Applicant Income.

Prior Year Earnings

On some pay stubs the year-to-date earnings include pay from the last part of the prior year. In such circumstances, the Applicant should request that the employer provide a signed statement of verification. Otherwise, the Applicant may be deemed to exceed the Income limitations, due to an inflated average, and be disqualified.

Certification of No Income

Each adult who will be living and liable on the Deed of Trust or Mortgage at the Residence but who does not receive any income must submit an executed statement saying that he or she earns no income and include it in the MCC Application Package (See MCC-005 CERTIFICATION OF NO INCOME).

2.3 Residence Requirement

The Applicant must use the Residence for which the MCC is issued as his or her Principal Residence. The Applicant must submit all applicable Program Affidavits, which includes 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 promptly notify the Lender and the Issuer of the MCC if the Residence ceases to be his or her Principal Residence. A residence that is primarily intended to be used as a vacation home or in a trade or business is not a "Principal Residence".

2.4 Usage of Residence in a Trade or Business

The land attached to a Residence will be considered a part of the Residence only if such land reasonably maintains the basic livability of the Residence and does not provide, other than incidentally, a source of income to the mortgagor.

Except for the units rented in a two-to-four unit dwelling, where one unit is owner-occupied, the Applicant cannot use more than 15% of the Residence in a trade or business. The Lender should review the Applicant(s) tax returns to see if the Applicant(s) deducted any portion of the cost of the Residence as a home business expense and determine whether more than 15% of the Residence was used. Applicants providing childcare in the home are assumed to be using more than 15% of the residence for business purposes and, therefore, would not qualify for the Program.

2.5 Legal Separation/Prenuptial Agreements

Legal separation agreements are not sufficient to exclude a spouse from the determination of whether the separated spouse meets the Program's eligibility requirements. Program compliance requires verification of both spouse's income and property ownership status. The Lenders must treat separated Applicants as married, and both Applicants must meet the income and property guidelines. Prenuptial agreements are not acceptable to exclude a spouse from the eligibility requirements in cases where Applicants have filed joint tax returns and real estate tax deductions have been realized at any time in the previous three (3) years.

2.6 Non-Purchasing Spouses

Non-purchasing spouses must be considered in determining eligibility to participate in the Program. A spouse may never be excluded from the calculation of Income. Although a spouse may not be an applicant for the mortgage, and his or her income may be excluded for credit underwriting purposes, a spouse's income must always be considered in the calculation of Income. Spouses must also execute all applicable Affidavits, even if the spouse has no income.

In addition, any person whose income is used for purposes of Program qualification (i.e. non-purchasing spouses) must also meet the standard of First-Time Homebuyer, where applicable. A non-purchasing spouse may disqualify the purchasing spouse even if the purchasing spouse fully meets the Program terms. The Lenders are cautioned to ensure that non-purchasing spouses provide tax return and income information as well as executing all applicable Affidavits.

2.7 MCC Assumptions

The MCC is assumable. A loan assumption associated with an MCC will be treated as a new MCC application, and the procedures outlined in this Manual will be repeated. Since an MCC will already be outstanding, an MCC Commitment will not be issued, but all of the required Program documents will be submitted at one time with the MCC Application Package. A single MCC Assumption Fee (See the PROGRAM OVERVIEW for the amount) will be charged by the Program Administrator in connection with such transfers.

If the loan is assumed by a new purchaser, the MCC may be transferable under certain circumstances:

a. The transferee must demonstrate he or she has assumed the liability for the remaining balance of the loan.
b. The new MCC must meet all of the conditions of the original certificate, and any changes in federal, state or Issuer policy that amends the requirements of the original MCC.

2.8 Qualified Veteran

A Qualified Veteran means a person 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 or a loan which utilized a MCC program using the veteran's exception to the 3-year requirement set forth in Section 143(d)(2)(D) of the Code. The Qualified Veteran must provide true and correct copies of their discharge or release papers, which demonstrate that such discharge or release was other than dishonorable.

SECTION 3 – LOAN ELIGIBILITY

3.1 Types of Loans

The Program does not place restrictions on the mortgage loan financing with regard to type, term or rate. If a loan is not being financed as an FHA, VA, USDA-RHS, Fannie Mae or Freddie Mac mortgage loan, you must obtain an exception from the Program Administrator. However, only first mortgages (as opposed to second mortgages) qualify for this Program. In addition, mortgages funded with a qualified mortgage bond or a qualified veteran's mortgage bond are not eligible. The Lender and the Applicant, using the Program Affidavits, represent that no portion of the financing for acquisition of the Residence is provided by a qualified mortgage or veteran's bond.

3.2 New Mortgage Requirement

An MCC cannot be issued in conjunction with the replacement of an existing mortgage; however, an MCC can be used in conjunction with the replacement of construction period loans or bridge loans of a temporary nature. Construction period or bridge loans cannot have durations of longer than 24 months. The Lender must obtain from the Applicant, via the Program Affidavits, 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 or land contract.

SECTION 4 – PROPERTY ELIGIBILITY

4.1 Eligible Loan Area

The home being purchased must be located in the Eligible Loan Area. Please see the PROGRAM OVERVIEW on the Program Administrator's website for the Eligible Loan Area for this Program. The Lender should verify the property's location within the Eligible Loan Area by reviewing the property appraisal and location where the property taxes are paid.

4.2 Qualifying Residences

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 (5) 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 (5) years prior to the date of application. An appraisal or property profile of the subject property showing that it was more than five (5) 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, the siding and roofing must be the same as those found in site built dwellings.

Mobile homes are allowed but must 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; or
e. Motor homes, campers and similar vehicles.

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

4.3 Purchase Price Limitation

The Acquisition Cost cannot exceed the maximum Purchase Price limits. The maximum Purchase Price (or Acquisition Cost) figures are based on a percentage of the Average Area Purchase Price. For current maximum Purchase Price figures, see the PROGRAM OVERVIEW on the Program Administrator's website.

4.4 Targeted Area Set-Aside Requirement

If applicable, certain census tracts within the Eligible Loan Area of the Program will be designated "Targeted" by the Census Bureau as "areas of chronic economic distress." Applicants purchasing in these census tracts do not have to meet the First-Time Homebuyer requirement. Also, the federally recommended Income and Purchase Price maximums in targeted census tracts are higher. Of each MCC allocation received by a participating issuer, 20% is set aside for use in Targeted Areas for one year (the "Targeted Area Origination Period"). If applicable, a list of census tracts in the Program's Targeted Areas are in the PROGRAM OVERVIEW on the Program Administrator's website.

SECTION 5 – HOW TO BECOME A PARTICIPATING LENDER

5.1 Lender Eligibility

For the Program, a "Lender" is any corporation licensed to originate and/or fund first mortgage loans in the State of California. All brokers and retail and wholesale Lenders who wish to participate in the Program in any way must be enrolled in the Program.

To enroll and maintain active status in the Program a Lender abide by the Program requirements and procedures as set forth by the Program Administrator, including but not limited to:

1. Complete the Program Administrator's Lender Profile form, designating a contact person for each branch office participating in the Program and for the main business office.
2. Sign a Program Lender Agreement.
3. Require all lending personnel involved in the Program to attend and complete the MCC training sessions. Lenders will not be listed as a participating Lender on the Program Administrator's website until training has been completed.
4. Provide this Manual to all personnel involved in the Program.
5. Cooperate with the Program Administrator in providing the highest quality service to all Applicants.

SECTION 6 - MCC APPLICATION AND UNDERWRITING PROCEDURES

6.1 Overview

In general, Lenders process mortgage loan applications for MCC Applicants similarly to traditional mortgage applications. The principal difference is that the application for the MCC is processed at the same time as the mortgage loan.

The outline below are designed to coincide with the mortgage loan processing and underwriting procedures that are standard in the industry and among most mortgage lending institutions. Recognizing there are procedural variations among the participating Lenders, the procedures outlined herein are meant to serve as guidelines with respect to the sequence of events. However, all the elements of the processing sequence outlined in this Manual must be completed, regardless of sequence, by the Lender, the Program Administrator, the Applicant, and the Seller.

The Lender will be required to submit certifications on which it will state that to the best of its knowledge, no material misstatements appear in the application and program documents. If the Lender becomes aware of misstatements, whether negligently or willfully made, it must notify the Program Administrator immediately, who will take action to correct or mitigate the problem.

The Lender should also be aware and inform the Applicant that criminal penalties are provided by federal and state law if a person makes a false statement or misrepresentation so as to obtain participation in this Program. In an attempt to assure that all requirements are clear, an Affidavit, which is part of the MCC Application (MCC-003 APPLICATION AND AFFIDAVIT), is required to be executed by each Applicant and must be included in the MCC Application Package that is submitted.

The MCC cannot be used with special tax-exempt bond mortgages. The MCC program imposes no other restrictions on the type of financing arrangement the Lender uses. The Lender is to follow FHA, VA, USDA-RHS, Fannie Mae and Freddie Mac guidelines, as applicable. The MCC Program allows the use of any standard mortgage instrument being generally used in the marketplace and places no restrictions on terms such as the length of the mortgage, underwriting ratios or buyer credit status.

6.2 MCC Application Process

The following is a step-by-step description for the processing of MCC applications for the Program.

1. Lender discusses the requirements of the MCC Program with the Applicant and determines eligibility for an MCC based upon Income, Purchase Price, First-Time Homebuyer status unless the home being purchased is within a Targeted Area census tract or the Applicant is a Qualified Veteran, tax liability, and the other factors discussed herein.
2. Lender collects all required Income documentation from the Applicant. (See MCC-002 APPLICATION CHECKLIST)
3. Lender reserves funds via the Program Administrator's Online Reservation System at www.nhfloan.org.
    - Lender is assigned a user name and password to the Online Reservation System when submitting a request to participate (See Section 5.1).

- If a Lender prefers, they may submit a manual reservation request by faxing, emailing or sending a reservation request form to the Program Administrator (MCC-001 RESERVATION OF FUNDS).

4. Lender receives a Reservation Confirmation from the Program Administrator.

    - Confirmation will be generated automatically if Lender reserves funds via the Program Administrator's Online Reservation System.
    - Program Administrator will send a Reservation Confirmation to Lender within 48 hours of reservation request, if the request was made manually with MCC-001 RESERVATION OF FUNDS form. If the Lender does not receive a Reservation Confirmation within the allotted time period, they should contact the Program Administrator immediately.
    - The Lender should include a copy of the Reservation Confirmation with the MCC Application Package.
    - The MCC reservation is valid for 120 days. A 30-day extension may be allowed with the prior approval of the Program Administrator, but in no event can a reservation be extended past the expiration of the Program Period.

5. Lender submits MCC Application Package to Program Administrator within three (3) business days after issuance of the Reservation Confirmation.

    - See MCC-002 APPLICATION CHECKLIST for details of all required documentation.
    - The MCC Application Package may be submitted to the Program Administrator by email, fax or mail.

6. The Program Administrator accepts and reviews the contents of the MCC Application Package within three (3) business days of receipt, inspects it for the Lender's and Applicant's certifications, and reviews it for completeness and accuracy. The Program Administrator will review the MCC Application Packages in the order in which they are received. After the Application Package is approved, the Program Administrator issues an MCC Commitment to the Lender.

    The MCC Commitment Expiration Date is the sooner of:

    - The 30th calendar day after the Close of Escrow;
    - 120 days from the issuance of the MCC Commitment, or
    - The end of the Program Period.

    The Lender should note that Income may be re-verified and a 30-day extension requested if the period between original verification and the Closing is longer than 120 days. If the MCC Application Package is rejected for any reason, the Program Administrator will send the Lender an email explaining the basis for the rejection.

7. By the MCC Commitment Expiration Date, the Lender must either:

    1. Submit the MCC Closing Package;
    2. Submit written notice of MCC cancellation; or
    3. Request a 30-day extension.

8. The Lender completes the remainder of the mortgage application process according to standard mortgage procedures.

   Note: In all cases, the Lender must submit the MCC Application Package and receive the MCC Commitment prior to Closing the mortgage loan.

6.3 Underwriting and Verification Steps

The following is a general description for the lender underwriting and verification steps for the Program:

1. The Lender performs standard mortgage loan underwriting procedures. Since the Issuer and the Program Administrator will not make or hold these mortgages, neither the Issuer nor the Program Administrator will underwrite the mortgages. Rather, all loan approval, underwriting and execution of the required state and federal certifications or Affidavits will be performed by the Lenders participating in the Program.

2. The Lender must take into consideration the effect of the MCC when determining the total amount of household Income available for the monthly housing payment in order to determine the Applicant's qualifications. The conventional approval and underwriting standards should be modified to reflect recognition of the MCC-derived mortgage interest credit in determining 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 as policy statements from the mortgage lending industry.

3. In conjunction with the Lender's regular verification process, and pursuant to the Program Lender Agreement, the Lender performs reasonable investigation that all MCC Program requirements have been satisfied. The Lender may verify these facts in any reasonable, efficient manner, as dictated by standard industry practices for processing mortgage loan applications.

SECTION 7 – LOAN CLOSING PROCEDURES

7.1 Loan Closing

Once the Lender has received the MCC Commitment, the Lender is allowed to proceed with the Closing of the mortgage loan. Refer to MCC-007 CLOSING PACKAGE CHECKLIST for documentation required in MCC Closing Package.

The outline below describes the loan closing process:

1. The Lender forwards MCC Closing Documents and any other Closing conditions of the MCC Commitment to the selected escrow officer with instructions for closing the loan and Applicant signature.

2. The escrow officer returns proper documentation for the MCC Closing Package, to the Lender.

3. Lender submits complete MCC Closing Package to Program Administrator, including the MCC Application Fee in the form of a corporate check or cashiers check made payable to National Homebuyers Fund, Inc. (if not already sent).

4. The Program Administrator reviews the MCC Closing Package and verifies that all necessary documents have been submitted within 30 calendar days after the Close of Escrow or by the end of the Program Period, whichever occurs first.

5. Upon approval, the Program Administrator issues the MCC directly to the Applicant(s). The Applicant also receives a copy of the IRS Form 8396 to be filed with the Applicants' federal income tax returns. The Program Administrator will send the Lender a copy of the MCC) for their records.

Regardless of the MCC Commitment Expiration Date, the MCC Closing Package is due to the Program Administrator no later than 30 calendar days after the Close of Escrow or by the end of the Program Period, whichever occurs first. At the discretion of the Program Administrator, failure to meet this deadline more than once may result in the levying of a Late Submission Fee to the Lender or expulsion from the Program, at the sole discretion of the Program Administrator.

7.2 Resubmission of MCC Documentation

If an MCC Application Package or an MCC Closing Package has been returned or denied by the Program Administrator, any resubmission, if appropriate, must include all information which the Program Administrator has determined necessary for reconsideration. MCC Application Packages and MCC Closing Packages that are not legible or contain multiple errors will be returned to the Lender for correction and resubmission at the Lender's expense.

7.3 Cancellation and Commitment Expirations

Once a Lender has obtained the MCC Commitment, the Lender is obligated to complete the processing of that MCC Application. The following steps apply in the event of a cancellation or MCC Commitment expiration:

a. In a case where the Applicant cancels or withdraws his or her application, written notice must be given to the Program Administrator prior to the expiration of the MCC Commitment. The notice must include the reason for the cancellation and be signed by both the Lender and the Applicant.

b. In a case where the MCC Commitment expires, the Lender must take one of the following steps, as applicable:

   1. If the loan has Closed, and the Closing took place within 120 days of the MCC Commitment, submit the MCC Closing Package;

   2. If the loan has not Closed, the Lender requests an extension and submits new Income verification documentation and the estimated Closing date;

   3. If 120 days have passed since the MCC Commitment was issued, the Lender submits new Income verification documentation, and the MCC Commitment now becomes subject to the availability of Program funds; or

   4. If the loan was cancelled, the Lender submits a cancellation notice, as described above.

c. In all cases, the expiration of the MCC Commitment without the required action by the Lender will result in the following:

   a. The Lender is placed on "Inactive Status," meaning the Lender may submit no new MCC applications until the problem is resolved; and

   b. The Lender may be charged a Late Submission Fee, at the sole discretion of the Program Administrator (see the PROGRAM OVERVIEW for amount). Late Submission Fees cannot be passed on to the Applicant. Failure to comply with this provision may result in the Lender's expulsion from the Program.

7.4 Delinquent Closing Documentation

If more than 30 days have passed since the MCC Commitment was issued, the Program Administrator may contact the Lender to request the status of the loan. If the Lender fails to timely provide to the Program Administrator the required MCC Closing Documents (or a notice of loan cancellation or request for MCC Commitment extension), the corresponding MCC application will automatically be considered delinquent. A written notice will be sent to the Lender allowing 30 days to remedy the situation. A copy will be sent to the Applicant as notification that the MCC cannot be issued until the Lender meets the Program requirements. Such action may result in the Lender being charged a Late Submission Fee and/or suspended from the Program until the problem is remedied.

7.5 Revocations

a. Revocation of an MCC occurs when the Residence for which the MCC was issued ceases to be the MCC holder's Principal Residence.

b. Revocation will occur upon discovery by the Program Administrator or a participating Lender of any material misstatement, whether negligent or intentional, made in connection with the issuance of the MCC.

c. Revocation will occur if it is later discovered that the holder does not meet the requirements for an MCC.

d. Revocation will occur if the original (first) mortgage loan is refinanced, unless the Applicant applies for a Re-Issued MCC after the refinancing has closed. The tax credit may only be claimed for interest paid to the date of the recording of the refinancing, unless a Re-Issued MCC has been applied for and issued.

7.6 Reissued MCCs

The Program Administrator shall, upon payment by the MCC holder of an MCC Reissuance Fee (see the PROGRAM OVERVIEW for the amount), reissue an MCC for certain refinancings if the Program Administrator receives to its satisfaction evidence that:

a. See RMCC-001 APPLICATION CHECKLIST for a list of documents that must be submitted to Program Administrator to reissue MCC.

b. The Reissued MCC (RMCC) is issued to the holder of an existing MCC with respect to the same property to which the existing MCC relates;

c. The RMCC 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);

d. The certified mortgage indebtedness specified on the RMCC does not exceed the remaining outstanding balance of the certified mortgage indebtedness specified on the existing MCC;

e. The RMCC does not increase the MCC credit rate specified in the existing MCC; and

f. The RMCC 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 holder of a RMCC determines the amount of tax credit that would otherwise have been allowable by multiplying the interest that was scheduled to have been paid on the refinanced loan by the MCC rate of the existing MCC. In the case of a series of refinancings, the tax credit that would otherwise have been allowable is determined from the amount of interest that was scheduled to have been paid on the original loan and the MCC rate of the original MCC.

RMCC applicants are not required to re-qualify for an RMCC on the basis of household income or the property's appraised value.

7.7 Replacement MCCs

Replacement MCCs will be issued by the Program Administrator, subject to the provisions of Section 3.2 and at the expense of the MCC holder, a fully registered MCC in exchange for or in lieu of a mutilated, destroyed, lost, or stolen MCCs, so long as such replacement does not result in over issuance of the MCC. Every new MCC issued pursuant to this Section shall constitute a replacement of the predecessor MCC and shall be entitled to all the benefits of the MCC Resolution. Upon the satisfaction of the Program Administrator that an MCC has been mutilated, destroyed, lost or stolen, including the surrendering of the mutilated MCC to the Program Administrator, and upon receipt by the Program Administrator of such indemnity or security as they may require, the Program Administrator shall cancel the original MCC, noting in its records that such MCC was mutilated, destroyed, lost, or stolen, and issue a replacement MCC.

The Program Administrator may charge the owner of such MCC the Program Administrator's reasonable fees and expenses in connection with issuing a replacement MCC.

7.8 Penalties for Applicant Misrepresentation

Strict penalties may be imposed on any Applicant making a material misstatement, misrepresentation or fraudulent act on an MCC application or other document submitted to obtain an MCC. Further, any person making a material misstatement or misrepresentation in any affidavit or certification made in connection with the application for or the issuance of an MCC shall be subject to all applicable fines and penalties. Any MCC issued based on materially false information shall be automatically null and void without the need for any further action on behalf of the Issuer or Program Administrator.

7.9 No Interest Paid to Related Persons

No interest on the mortgage (or certified indebtedness) amount may be paid to a person who is a “Related Person,” as that term is defined under the Internal Revenue Code and applicable regulations. The Lender must obtain from the Applicant, using the Program Affidavits, a statement to that effect prior to Closing.

SECTION 8 – MODIFICATIONS

8.1 Changes in Applicant Name(s)

Transfer of any Reservation of Funds from one eligible Applicant to another is **not** allowed.

8.2 Changes in Current Income

The eligibility of the Applicant for an MCC is based upon the Applicant's current Income. The Program will issue the MCC Commitment based on facts pertaining to Income as they are determined as of the date the MCC Commitment is issued. The income verified for the MCC Commitment is valid as long as the loan closes within 120 days after the financial information was originally submitted and there are no additional sources of Income which should have been reported and were not.

Increases in Income sources already reported (i.e., salary increase) will not affect the validity of an MCC Commitment as long as the loan closes within 120 days from the time the MCC Commitment was issued. If the loan does not close within 120 days, a new application for a MCC must be submitted and current Income verified.

8.2 Changes in Marital Status

If the Applicant gets married after issuance of the MCC Commitment and prior to Closing, the spouse must satisfy the First-Time Homebuyer requirement as described in Section 2.1. The Program Administrator will re-calculate the Applicant's household income to include the new spouse's Income. If the re-calculated total household Income exceeds the applicable maximum Income guideline, the MCC Commitment will be cancelled.

8.3 Change in Acquisition Cost

If the total Acquisition Cost of the Residence purchased in connection with the MCC increases so as to exceed the Acquisition Cost limitations set forth herein, the MCC Commitment shall be revoked. For a change in Acquisition Cost after the MCC Commitment and prior to Closing which does not exceed maximum Purchase Price guidelines, the Lender and Applicant will be required to submit a new version of:

1. Copy of the MCC-003 APPLICATION AND AFFIDAVIT (page one amended and initialed by the Applicant);
2. Amended escrow instructions; and
3. Copy of the MCC-004 SELLER AFFIDAVIT.

8.4 Change in Property Address

If an Applicant has a pending application and changes the property he or she intends to purchase, the Lender must submit a new signed property sales agreement and a notice to the Program Administrator stating whether or not the mortgage amount has changed. If the change occurs after the Program Administrator issues the MCC Commitment, the following documents should be revised and resubmitted to reflect the new property address and any change in mortgage amount:

1. Copy of MCC-003 APPLICATION AND AFFIDAVIT (first page amended and initialed by the Applicant);
2. Property sales contract (first and last pages and any counter offers); and
3. Copy of MCC-004 SELLER AFFIDAVIT

The Program Administrator re-prints the MCC Commitment with the original expiration date, provided that Program funding is available.

8.5 Changes in Loan Amount

Any change to the loan amount that occur after the MCC Commitment is issued, but before the Escrow Closing, must be reported to the Program Administrator immediately by telephone, and promptly followed up in writing. The change must also be declared on the MCC Closing Affidavits.

If the amount of the loan increases, thereby causing an increase in the credit amount, the MCC Commitment will be revoked if that increase exceeds Program limitations.

8.6 Change in Home Ownership Status

If the Applicant acquires a present ownership interest in a Principal Residence prior to the Closing, the MCC shall be revoked.

8.6 Change in Lender

Transfer of any Reservation of Funds from one approved Lender to another **is** allowed. The Program Administrator will honor the original Commitment Expiration Date as long as all other conditions are unchanged. The transfer will be recognized and approved by the Program Administrator only after written notification is received from the originating Lender.

8.7 Lender’s Obligation to Notify Program Administrator of Material Changes

Issuance of MCC Commitments is based (in part) upon the Applicant’s and Seller’s Affidavits and the Lender’s certification that the Program requirements have been met. MCC Commitments are issued subject to the condition that all Program requirements are or will be met prior to issuance of the MCC. Thus, the Lender must immediately notify the Program Administrator in writing of any change in the circumstances upon which the MCC Commitment was issued. If any change of circumstances occurs such that the Program requirements are not met, the MCC Commitment will be revoked.

SECTION 9 – REPORTING

9.1 Lender Record Keeping and Federal Report Filing

a. The Lender is required by the IRS to file a report on or before January 31st for all of the MCCs issued during the previous calendar year. In early January, the Program Administrator will send the Lender the completed IRS Form 8329 with the MCCs issued the previous year. It is the Lender's responsibility to verify that the information on the form is correct and, if necessary, make any changes or additions and then submit the form to the IRS.

b. For six (6) years after each Closing, the Lender must retain:

    1. Name, mailing address, and tax identification or social security number ("TIN") of the MCC holder;
    2. Name, mailing address, and TIN of the Issuer; and
    3. Date of issuance for each loan, the certified amount of indebtedness and the credit rate of the MCC.

c. The Program Administrator, on behalf of the Issuer, may conduct audits of participating Lender records to ensure compliance with the recordkeeping provisions.

9.2 Program Administrator Reports

The Program Administrator, on behalf of the Issuer, must make quarterly reports on IRS Form 8330, beginning with the quarter in which the election for the MCC Program is made. The report must include:

1. Name, address, and TIN of the Issuer;
2. Date of election;
3. The sum of the products of the certified indebtedness amount (the mortgage amount or the initial principal balance) and the MCC credit rate for each MCC issued; and
4. Name, address, and TIN of each MCC holder where an MCC was revoked.

9.3 Program Administrator Annual Record Keeping

The Program Administrator shall make an annual report to the IRS for each year beginning July 1 and ending June 30**.** The report will include:

1. Number of MCCs issued by Income and Acquisition Cost; and
2. Volume of MCCs issued by Income and Acquisition Cost.

In January following the year during which MCCs were originally issued, the Program Administrator, on behalf of the Issuer, will mail an IRS Form 8396, Mortgage Interest Credit, to each MCC holder of record as a reminder to properly declare the MCC tax credit for federal income tax purposes.

APPENDIX A – DEFINITIONS

As used in this Manual and all Program documents, unless the context requires otherwise, the following words and terms have the meanings set forth below:

ACQUISITION COST is used interchangeably with “purchase price”. As new Average Area Purchase Price figures are determined, the maximum Purchase Price for non targeted areas represents 90% of the Average Area Purchase Price for new and previously occupied homes. In Targeted Area census tracts the maximum Purchase Price is 110% of the Average Area Purchase Price for new and previously occupied homes. The maximum Purchase Price limits can be found in the PROGRAM OVERVIEW.

The term “Acquisition Cost” has the meaning given under Section 143(k)(3) of the Code and the regulations thereunder, which currently is the cost to an Applicant of acquiring a Residence from the Seller as a completed residential unit, including:

- All amounts paid by the Applicant for the Residence;
- If Residence is incomplete or in need of rehabilitation, the reasonable cost of completing or rehabilitating the Residence;
- If Residence is purchased subject to a ground lease, the capitalized value of the ground rent; and
- Cost of the property, such as light fixtures or wall-to-wall carpeting, so long as such property is considered to be a fixture under State Law, whether or not such fixtures are separately purchased by the Applicant.

Acquisition Cost **does not** include:

- Usual and reasonable settlement or financing costs. Settlement costs include titling and transfer costs, title insurance, survey fees, or other similar costs. Financing costs include credit reference fees, legal fees, appraisal expenses, “points” that are paid by the Applicant, (but not points paid by the seller) or other costs of financing the Residence.
- The value of services performed by the Applicant or members of the family in completing the Residence. The Acquisition Cost includes the cost of materials provided and work performed by subcontractors – whether or not related to the Applicant – but does not include the imputed cost of any labor actually performed by the Applicant or member of the family.
- If an Applicant has owned the land for more than two years prior to the date construction begins on a Residence, the Acquisition Cost for maximum Purchase Price is based on the cost of improvements only.
- If the land has been owned less than two years from the date construction begins on a Residence, the Acquisition Cost for maximum Purchase Price is determined by adding the cost of land to the cost of improvements.
- In cases where the land is received through inheritance or as a gift, Acquisition Cost for maximum Purchase Price is determined by adding the value of land to the cost of improvements.

The Acquisition Cost limitations are set forth in the PROGRAM OVERVIEW.

AFFIDAVIT means written statements made under oath and subject to the penalties of perjury that are filed in support of an MCC application.

AGGREGATE MCC ISSUANCE AUTHORITY means the total amount of funds available to issue MCCs. See the PROGRAM OVERVIEW for the amount of funding available.

APPLICANT also **BORROWER**, **MORTGAGOR** or **HOMEBUYER** means any person who applies for an MCC under the Program that meets the criteria for an eligible borrower set forth in this Manual who is in the process of securing financing for the purchase of a Principal Residence.

AVERAGE AREA PURCHASE PRICE means with respect to a Residence, the safe harbor average area purchase price figures most recently published by the Department of the Treasury pursuant to section 143(e) of the Code for the statistical area (i.e., "metropolitan statistical area" as defined by the Secretary of Commerce, or county (or portion of a county) that is not within a metropolitan statistical area) in which such Residence is located, or such other average area purchase price figures that are based on more accurate and comprehensive data, as confirmed by the Internal Revenue Service or approved by the Issuer, than that used in calculating the safe harbor figures, as stated separately for New Housing and Existing Housing. Such figures may change from time to time.

CLOSE OF ESCROW or **CLOSING** means the date the mortgage loan is completed and the lien is recorded by the County Recorder.

CODE means the Internal Revenue Code of 1986, as amended.

COMMITMENT or **MCC COMMITMENT** is the securing of Program funds as evidence by a form issued by the Program Administrator based on funding availability and review of application documentation and the Lender's certification that the requirements necessary for issuance of a qualified MCC have been met. An MCC Commitment will be valid for 120 days or through the end of the Program Period. Generally, the Program permits a commitment for a loan that has not been funded. Depending on the circumstances, exceptions can be made. These exceptions may require payment of penalties by the Lender.

COMMITMENT EXPIRATION DATE means the date the MCC Commitment expires. The MCC Commitment Expiration Date is the **SOONER** of: (1) the 30th calendar day after the Close of Escrow, (2) 120 days from the issuance of the MCC Commitment, or (3) the end of the Program Period.

ELIGIBLE LOAN AREA means the geographical area designated for the MCC Program by the Issuer. See the PROGRAM OVERVIEW for the Eligible Loan Area.

EXISTING HOUSING means a dwelling unit that has been previously occupied prior to the mortgage loan application.

FIRST-TIME HOMEBUYER means those persons who have not had an ownership interest in a "Principal Residence" in the last three years.

INCOME means sources of revenue or income of the mortgagor (or mortgagors) and any other person who is expected to both live in the Residence being financed and to be secondarily liable on the Deed of Trust or Mortgage. All income derived from any source including income from wages, gross pay, overtime, pension, veterans compensation, bonuses, public assistance, alimony, net rental income, dividends and interest, and assets. The maximum Income limits can be found in the PROGRAM OVERVIEW. See Appendix B for more information on Income.

ISSUER means the housing finance corporation that is authorized to issue MCCs for the Program.

LATE SUBMISSION FEE means the fee paid by the Lender to the Program Administrator when the Lender consistently submits MCC Closing Packages late. The payment of this fee will be at the discretion of the Program Administrator. Late Submission Fees cannot be passed on to the Applicant. See the PROGRAM OVERVIEW for the amount.

LENDER means an institutional lender regulated by state or federal law, or any other entity that makes loans in its regular course of business that would qualify for MCC assistance, is authorized to do business in the Eligible Loan Area, and who has entered into a Program Lender Agreement with the Program Administrator. A participating Lender can be either a Lender, correspondent or mortgage broker.

MANUAL means the document that outlines the requirement, limitations, qualifications and procedures associated with the Program, as such document may be amended or supplemented from time to time.

MCC APPLICATION FEE means the fee paid by the Applicant, the Seller, the Lender or any other person on the Applicant's behalf in accordance with agency guidelines for the review and issuance of the MCC Commitment. See the PROGRAM OVERVIEW for the amount.

MCC ASSUMPTION FEE means the fee paid to the Program Administrator for the transfer of an MCC for the assumption of an MCC. See the PROGRAM OVERVIEW for the amount.

MCC APPLICATION PACKAGE means the package submitted to the Program Administrator by the Lender once a Reservation of Funds have been made as stated in the Manual.

MCC CLOSING DOCUMENTS means the documents required to be completed, signed by the applicable parties and returned to the Program Administrator after loan Closing. Note: A Mortgage Credit Certificate will not be issued to the Applicant until all MCC Closing Documents are received by the Program Administrator.

MCC CLOSING PACKAGE means the package submitted to the Program Administrator by the Lender within 30 calendar days of Closing or by the end of the Program Period whichever occurs first.

MCC RE-ISSUANCE FEE means the fee paid by the MCC holder to the Program Administrator for the re-issuance of an MCC for certain refinancings. See the PROGRAM OVERVIEW for the amount.

MCC RESOLUTION means the resolution, or authorization, given by the governing body of the Issuer pursuant to which MCC's are issued.

MORTGAGE CREDIT CERTIFICATE RATE means the rate specified by the Program for the MCC. See the PROGRAM OVERVIEW for the Mortgage Credit Certificate Rate.

MORTGAGE CREDIT CERTIFICATE (MCC) means a document issued by the Program Administrator on behalf of the Program that entitles the holder to claim a federal income tax credit. This tax credit is designed to reduce the federal income tax of a qualified buyer purchasing a qualified home in order that he/she will have more disposable income to apply towards his/her mortgage payments. The MCC is issued by the Program Administrator pursuant to Section 25 of the Internal Revenue Code of 1986, as amended, and applicable State and Local Requirements.

NEW HOUSING means a dwelling unit that is proposed to be constructed, currently under construction, or existing but not previously occupied.

OWNERSHIP means any of the following interests in residential real property:

- fee simple interest;
- joint tenancy;
- tenancy in common;
- tenancy by the entirety;
- interest of a tenant-shareholder in a cooperative;

- life estate;
- land contract;
- interest held in trust for the Applicant that would constitute a present ownership interest if held by the Applicant; or
- community property.

Ownership does not include a remainder interest, a lease with or without an option to purchase, a mere expectancy to inherit an interest in a Principal Residence, any interest acquired on the execution of the purchase contract or an interest in other than a Principal Residence. An Ownership interest in a mobile home or other factory-made housing which was permanently affixed to real property owned by the Applicant constitutes Ownership in a Principal Residence.

PRINCIPAL RESIDENCE means a Residence (or the unit in a two to four family Residence) that can reasonably be expected to be occupied by the Applicant as the Principal Residence of the Applicant. The term "Principal Residence" does not include a home used as an investment property or as a recreational home or a home that is primarily intended to be used in a trade or business, as evidenced by the use of more than 15% of the total area in a trade or business. Any use of a home that does not qualify for a deduction allowable for certain expenses incurred in connection with the business use of a home under section 280A of the Code shall not be considered as a use in a trade or business. The term Residence also does not include recreational vehicles, campers, and other similar vehicles. It does not include property such as appliances or furniture, which, under applicable law, are not fixtures.

PROGRAM means the Mortgage Credit Certificate Program established by the Issuer and administered by the Program Administrator, pursuant to the rules and regulations included in the Manual.

PROGRAM ADMINISTRATOR means National Homebuyers Fund, Inc., or any successor as administrator for the Program on behalf of the Issuer.

PROGRAM LENDER AGREEMENT means the Lender Agreement entered into by the Program Administrator and various Lenders, as they may be amended or supplemented, and relating to the issuance of the MCCs.

PROGRAM OVERVIEW means the PROGRAM OVERVIEW document found on the Program Administrator's website that contains Program specific information, including Income and Purchase Price limits and applicable fees.

PROGRAM PERIOD means the period in which Mortgage Credit Certificates can be issued. The Program Period can be found in the PROGRAM OVERVIEW.

PURCHASE PRICE in all MCC program documents is used interchangeably with "Acquisition Cost", defined above.

QUALIFIED VETERAN means a person 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 or a loan which utilized a mortgage credit certificate program using the veteran's exception to the 3-year requirement set forth in Section 143(d)(2)(D) of the Code. The Qualified Veteran must provide true and correct copies of their discharge or release papers, which demonstrate that such discharge or release was other than dishonorable.

RECAPTURE TAX If a home is purchased in connection with an MCC and that home is sold within nine (9) years from the date of escrow Closing, the seller of the home may be subject to a recapture tax in the year in which the sale takes place. See MCC-010 RECAPTURE TAX NOTICE for complete explanation including calculations.

RESERVATION OF FUNDS means the funds reserved with the Program Administrator (Either electronically on the Program Administrator's Online Reservation System or via the form MCC-001 RESERVATION OF FUNDS) for an MCC Commitment.

RESERVATION CONFIRMATION means the confirmation to the Lender by the Program Administrator once the Reservation of Funds has been made.

RESIDENCE means real property and improvements permanently affixed thereon (but does not include property not constituting "fixtures" under State law): (i) that is located within the Eligible Loan Area; (ii) that consists of a new or existing single family detached or attached structure consisting of not more than four connected dwelling units intended for residential housing 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 to 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 the extent described in the next sentence) or a single unit in a duplex (but not including a mobile home or any personal property); and (iii) the Acquisition Cost of which does not exceed the maximum Acquisition Cost; provided, however, that land appurtenant to a Residence shall be considered as part of such Residence only if such land reasonably maintains the basic liability of such Residence and does not provide, other than incidentally, a source of income to the Mortgagor. The requirement that a multiple unit building have first been occupied for residential purposes at least five years prior to the Closing of the mortgage loan does not apply in the case of a two-family Residence that is a Targeted Area Residence, but only if the Income of the Applicant does not exceed 140% of the Applicable Median Family Income (for families of three or more) or 120% of the Applicable Median Family Income (for families of two or less). No portion of a Residence shall consist of a health club facility, a facility primarily used for gambling, or a store the principal business of which is the sale of alcoholic beverages for consumption off premises.

SELLER means the party that is selling the Residence to the Applicant.

SINGLE-FAMILY RESIDENCES For purposes of determining eligibility of a home to be purchased under this Program, the term "single-family" Residence means a housing unit intended and used for occupancy by one household.

TARGETED AREA or (TARGETED CENSUS TRACT) means part of the Eligible Loan Area that has been or may be designated from time to time as a qualified census tract or an area of chronic economic distress in accordance with Section 143(j) of the Code. Any Targeted Census Tracts within the Eligible Loan Area are listed on the PROGRAM OVERVIEW.

TARGETED AREA ORIGINATION PERIOD means the period for the origination of Targeted Area MCCs by the Lenders, which period is stated in the PROGRAM OVERVIEW. Any MCC authority allocated to Targeted Area remaining after the end of the Targeted Area Origination Period shall be made available for home mortgage loan throughout the Eligible Loan Area.

TARGETED AREA RESERVATION means 20% of the Issuer's MCC authority for home mortgage loan in Targeted Areas.

APPENDIX B – INCOME GUIDELINES

“General Guide”

The Program Administrator is relying on the Lenders and Applicants to provide correct information on income. This reliance is based upon the Lender certifications about reasonable investigation of the Applicant and statements by the Applicant that facts are correct.

Each Lender and Applicant provides information and signed certifications, which are specific about the information provided and its correctness. In the event of false statements or fraud, there are substantial penalties, which may be levied. Therefore, Program Administrator encourages the Lenders and the Applicants to provide accurate information and assure that calculations are within the limits.

IN MOST CASES, STANDARD CREDIT UNDERWRITING PROCEDURES ARE ACCEPTABLE. THE MAIN EXCEPTION IS THAT FOR MCC COMPLIANCE PURPOSES ALL SOURCES OF INCOME MUST BE INCLUDED, WHETHER OR NOT USED TO QUALIFY APPLICANTS UNDER STANDARD UNDERWRITING GUIDELINES. Under no circumstances will the income used for MCC compliance be less than that used by the Lender when qualifying Applicants for repayment of their mortgage loan. The maximum Income limits are specified in the PROGRAM OVERVIEW.

It is important to understand the basis upon which these guidelines are written. Congress has instituted maximum Income limits under which Applicants may qualify for loans made available through tax-exempt bonds. Congress and the Treasury Department have determined that the total of all sources of income of the Applicants may not be above the maximum Income levels to receive the benefits of the MCC. The total Income is to be recorded in the Affidavit and is signed.

In cases that have complicated calculations, the Lenders are encouraged to communicate with the Program Administrator to assure themselves that calculations are within the guidelines.

The Program’s maximum Income limits are set pursuant to the Internal Revenue Code and restrictions of the Federal Department of Housing and Urban Development. For purposes of whether an Applicant has exceeded the maximum Income limit, the gross income of the Applicant(s) must be determined. The income of the following persons must be taken into account:

1. Any mortgagor (or co-mortgagor) liable on the mortgage loan (i.e. on the Deed of Trust/Mortgage).

Any other person who is “secondarily liable” and is expected to live in the financed residence.

The income of any persons listed on the Deed of Trust/Mortgage must be included to determine eligibility for the Program. For a married couple, total gross income must be counted, regardless of who is on the title. Typically in California co-signers or guarantors execute the Note which means their income does not need to be included.

Gross income shall not be reduced by the amount of child support payment a husband/wife makes for the care of a child or children. However, a husband/wife who receives child support payments must include this amount as income.

The anticipated rental income to be received from a two to four unit complex being financed through the Program may not be used when calculating the qualifying income, but must be used in the Income calculations.

If the prospective mortgagor has earned income during the current period and has a history of such earnings, then the income is to be calculated and included in the Income.

Base pay is calculated based on current income. (i.e., if someone earning a salary has received or will receive a raise in the current period, the increased income should be used and not a year to date average.)

When calculating additional or other income, it is important to calculate the income on a pro-rata, monthly basis. This will assist in calculating the Income accurately.

Information with respect to current gross monthly income may be obtained from available loan documents which include but are not limited to, paycheck stubs, and loan applications.

When to Submit a Verification of Employment

We realize that the Lenders are finding it more and more difficult to obtain an employer's verification of income. Therefore, we will only require a VOE if the circumstances render it necessary. Try the test below.

> *Test:*
> Take the Applicant's current year-to-date gross earnings from their pay stub. Divide by the number of months to obtain a monthly average. Take the monthly average and multiply it by twelve for an annualized income. (This is what the Program Administrator will do.) If that annualized income is over the program maximum, your Applicant is disqualified unless special circumstances apply. Examples of special circumstances might include a case where the year-to-date gross earnings figure includes bonus income, prior year earnings, or other non-scheduled pay which causes the average monthly figure to be inflated. Such special circumstances can only be proven with a clear and complete VOE from the employer.

Generally a VOE from the employer will be required by the Program Administrator when the income documentation submitted with the MCC application is insufficient for the Program staff to make an income determination.

1. Gross Income Shall Be Determined Without Deductions for the Following:
    a. Funds paid into a tax shelter retirement account;
    b. Child support payments made by an Applicant for the benefit of the Applicant's child or children; and
    c. Alimony, separate maintenance, or similar periodic payments that an Applicant is required to make to a spouse or former spouse.

2. Gross Income Shall Include, but Not be Limited to, All of the Following:
    a. The gross amount, before payroll deductions, of wage and salaries, overtime pay, commissions; fees; tips; bonuses; gambling winnings and prizes (even if a one-time occurrence); and other compensation for personal services.

       Overtime

       Income earned from overtime will be included if the Applicant has a history of such income or the income was earned during the current period. Even though overtime is not used in calculating ratios, it is always included in Income.

       Bonus

       The gross amount of bonus earnings before any payroll deductions is to be included in the Income calculation.

Bonus Income

The bonus is to be included in the Income if:

1. The bonus is part of a collective bargaining agreement and must be paid; or
2. The bonus is included in the computation of income by the employer or if there is a history of bonuses.

If there is a history of bonuses but the Applicant does not know if a bonus is planned, nor does the employer divulge its plans for a bonus nor the projected bonus amount, the Lender is to use an average of the past two years' bonuses to calculate income.

The bonus is not to be included in the Income if:

1. The bonus is totally discretionary by the employer and there is no previous bonus history; and
2. The Applicants cannot anticipate with certainty whether such bonus may be received in the future.

Seasonal/Part-Time/Temporary Income

Include part-time or seasonal employment in calculating Income. For example, if the Applicant worked for three months during the summer and earned an average of $3,600 during each of the past two years, then divide the $3,600 by 12 months which equals $300 per month. Add the $300 per month to the gross monthly income. Multiply by 12 to determine the Income.

Include short-term, part-time or seasonal employment in calculating Income if the mortgagor earned this in the last twelve months. If the mortgagor earned $1,000 during the application period by painting the Applicant's parents' house, add this income to the Income.

b. The net income from an operation of business or profession or from the rental of real personal property. For this purpose, if this operation results in a loss, the loss may not be used to offset income generated from other sources. For this purpose, any shareholder that owns 10 percent or more of any outstanding class of stock in a corporation, shall also be deemed to have received income in its proportionate share of net earnings not otherwise distributed in salaries or dividends.

c. All dividends and interest, including otherwise tax-exempt interest. Interest earning from IRAs, VIPs and 401ks need not be included.

d. The full amount of the periodic payments received from social security, housing assistance payments, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts including any lump sum payment for the delayed start of a periodic payment.

e. Payments in lieu of earnings, such as unemployment and disability compensation, workers' compensation, and severance pay.

f. The full amount of public assistance payments.

g. Periodic and determinable allowances, such as alimony and separate maintenance payments received, housing allowances received, and regular contributions or gifts received from persons not residing in the dwelling, where such sums are received on a current basis and which may be reasonably expected to continue.

h. The distributive share of partnership income.

i. Child support payments received by an Applicant for the benefit of the Applicant's child or children.

j. All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is the head of the household of spouse (or other persons whose dependents are residing in the unit).

k. Education Grants: the portion of the income from grants that is used for living expenses is to be added to the Income.

l. Car Allowance: income received from employers for car allowance must be included in the Income calculation if the Applicant has no accounting responsibility to their company. Example: If the Applicant receives $300 per month from his employer for car allowance and is not required to file a mileage/expense report monthly, then this income must be included in the Income calculation.

m. Capital Gains/Losses: both the taxable and non-taxable portions of capital gains are to be included as income if a history of these incomes exists. If the two-year average results in a gain, then it must be added to gross monthly income, and losses are to be disregarded (losses cannot be used to reduce gross monthly income).

n. Rental Property (not subject property) Net rental income currently being received is to be used to calculate Income; Applicants must provide leases and applicable tax forms.

3. Gross Income Does Not Include:

a. Casual, sporadic or irregular gifts.

b. Amounts which are specifically for, or in reimbursement of, medical expenses.

c. Lump sum additions to family assets, such as inheritances, re-enlistment bonuses, insurance payments, (including payments under health and accident insurance and workers' compensation), capital gains and settlement for personal property losses. If the income is received in any other form other than lump sum (i.e., monthly or annual), then it must be treated as permanent income and added to the Income calculation.

d. Amounts of educational scholarships paid directly to the student or the educational institution, and the amount paid by the government to a veteran for use in meeting the cost of tuition, fees, books, and equipment.

e. Special pay to a family member in the Armed Forces who is away from home and exposed to hostile fire.

f. Relocation payments under Title II of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970.

g. Foster child care payments.

h. The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1977, 7 U.S.C. Section 2011 and 2027, which is in excess of the amount actually charged the eligible household.

i. Payments to volunteers under the Domestic Volunteer Service Act of 1973.

j. Payments of allowances made under the Department of Health and Human Services' Low-Income Home Energy Assistance Program.

k. Payments received from Job Training Partnership Act.

l. Income from employment of children (including foster children) under the age of 18 years of age and under unless executing the Deed of Trust.

m. Income from caring for one or more foster children.

Military Pay

For purposes of computing the buyer's gross monthly income regarding military pay, the monthly income is the "total entitlement" shown on the Applicant's most recent monthly Leave and Earnings Statement. Non-taxed income, such as a housing allowance is counted as income. Certain categories of pay, which may be revised only sporadically, may need to be considered on a case-by-case basis.

Self-Employed

The Lenders should watch for all types of self-employment (i.e., 1099 income received from employer run through Schedule C, Form 2106, etc.).

The procedure to calculate Income for self-employed mortgagors is the same as under the respective underwriting guidelines.

As in standard underwriting, depreciation, depletion and self-employment tax are to be "added back" to determine annual income. Tax returns and a self-employed YTD Profit and Loss are required for all self-employed mortgagors.

EXAMPLES OF INCOME

The following examples are based upon standard credit underwriting guidelines. This illustrates the underwriting for MCC compliance and is not substantially different from your standard procedures. Please note that income earned in a fashion as illustrated by these examples must be added to the Income calculation.

Example: Permanent Seasonal Income

Include part-time or seasonal employment in calculating Income if Applicant works every summer. If Applicant worked for 3 months and earned an average of $3,600 during each of the past two years, then divide the $3,600 by 12 months which equals $300 per month. Add the $300 per month to the gross monthly income. Multiply by 12 to determine the Income.

Example: Seasonal/Temporary Income

Include short-term, part-term or seasonal employment in calculating Income if the Applicant earned $1,000 during the application period by painting the Applicant's parents' house (unless the Applicant is a painter either part-time or full-time). This is calculated by dividing the $1,000 by 12 or $83.33 per month. This amount of $83.33 is added to gross monthly income. Multiply by 12 to determine the Income.

Example: Overtime and Bonus

When calculating other income, the first thing that needs to be determined is base income. The base income is then multiplied by the number of months that has been covered by the most current pay stub. This calculation will give the year-to-date base income or the amount of income that would have been earned if compensation of another kind had not occurred. After having established a year-to-date base, subtract it from the year-to-date total gross income on the pay stub. The difference will be the year-to-date total of other income.

The next step is to determine the other income earned in the months missing from the 12-month period. (If the pay stub covered eight months, four months is still needed.) This is done by taking the current annual base and subtracting it from the W-2 from the previous year. This is the other income earned for the previous year. Divide this number by twelve and multiply by the number of months needed to complete the 12-month period.

Once a year-to-date total of other income from the pay stub and other income from the previous year is established, combine the two totals to get all other income earned in the previous 12 months.

Closing Date:	April 27, 2009
Pay Stub Dated:	March 15, 2009 (2.5 months)
Year-to-Date Gross:	$4,625
Base Income:	$1,800 (monthly)
2002 W-2:	$22,500 (9.5 months of other income will be taken from this.)

Year-to-Date Base	Year-to-Date Other
$1,800 x 2.5 = $4,500	$4,625 - $4,500 = $125

Other Income from Previous Year
$22,500 – ($1,800 x 12) = ($900/12) x 9.5 = $712.50

Total Other Income, i.e. Overtime, Bonus
$125 + $712.50 = $837.50*

**To be added to the current base income to determine total annual income.*

Omission of Other Income, i.e. Overtime, Bonus

Allowing someone to omit other income that has been earned in the last twelve months is very difficult to do, but it is not impossible. At least two of the items listed below must be present in order to omit income of this nature:

1. At least two pay stubs showing compensation for base income only.
2. A very special letter from an employer (on company letterhead) stating that compensation for overtime and bonus will never happen again.
3. Documentation that employment status has changed from non-exempt to exempt.

APPENDIX C – FORMS AND AFFIDAVITS

For reference, the Program Forms and Affidavits can be found on the Program Administrator's website www.nhfloan.org. Automated Program Forms and Affidavits will be available for signatures via the Program Administrator's Reservation Portal https://nhfresportal.nhfloan.org/. When completing these documents, be sure they are legible and accurate. All blanks must be completed. If a question is not applicable, insert N/A in the blanks for the answer. Changes to the Affidavits must be initialed by the Lender and the appropriate party.

Signatures under Power of Attorney are acceptable, provided they are accompanied by a copy of the Power of Attorney in the MCC Application Package or MCC Closing Package submitted to the Program Administrator.

MCC-001 RESERVATION OF FUNDS

MCC-002 APPLICATION CHECKLIST

MCC-003 APPLICATION AND AFFIDAVIT

MCC-004 SELLER AFFIDAVIT

MCC-005 CERTIFICATION OF NO INCOME

MCC-006 TAX RETURN AFFIDAVIT

MCC-007 CLOSING PACKAGE CHECKLIST

MCC-008 BORROWER'S CLOSING AFFIDAVIT

MCC-009 LENDER'S CLOSING CERTIFICATE

MCC-010 RECAPTURE TAX NOTICE

(Forms below are for RMCC applications only)

RMCC-001 APPLICATION CHECKLIST

RMCC-002 APPLICATION AND AFFIDAVIT

RMCC-003 EXHIBIT A

RMCC-004 OWNERSHIP CHANGE ADDENDUM