Mortgage Credit Certificate (MCC)

October 2018

Training Agenda

- What is an MCC?
- How can I use the MCC credit to my borrower's benefit?
- How can my borrower claim the credit?
- What happens if by borrower decides to refinance?
- What happens if my borrower decides to sell their home?
- How can the MCC be used to help my borrower qualify for their mortgage loan?

What is a Mortgage Credit Certificate (MCC)?

- Federal Program that is designed to help lower-income families afford homeownership
- Reduces the homeowner's Federal Tax Liability
- The program allows the home buyer to claim a dollar-for-dollar tax credit for a portion of the mortgage interest paid per year, up to $2,000.
- The mortgage tax credit can be used in addition to the IRS home mortgage interest deduction
- A percentage of what you pay in mortgage interest (20%, 25%, 30%, 40% depending on Tax Credit granted from the HFA) becomes a tax credit that you can deduct dollar-for-dollar from your income tax liability.
- The remaining (80%, 75% 70%, etc.) of your mortgage interest continues to qualify as an itemized tax deduction as long as you have a sufficient tax liability

MCC Worksheet Example

1.	Mortgage loan amount	$ 200,000
2.	Interest rate	4.00 %
3.	Establish first year's interest by amortizing the loan for one year	$ $8,000
4.	Mortgage credit rate	30 %
5.	Tax credit equals 30% of the first year's interest	$ $2,400
6.	The monthly benefit is calculated by dividing the tax credit by 12 months	$ $2,000 ($166.67 Max)

Mortgage Credit Certificate Options

Monthly

- Borrower's can receive an immediate benefit from the tax credit by filing a revised W4 (Employee's Withholding Allowance Certificate) with their employer.
- In this case, the borrower's federal income tax liability would be reduced by $166.67/Month. The extra $166.67 increases the borrower's take-home pay to help make housing payments affordable.

Annually on Federal Tax Return

- The MCC Credit is not required to be taken on a monthly basis. The borrower can use the credit as a reduction to their federal tax liability on their yearly federal income tax return.
- In the previous example, the borrower could claim a $2,000 additional credit on their federal return. (Total Credit was $2,400, but the max is $2,000)
- If the borrower claimed the credit for the first 10 years on their mortgage, they could save $20,000 in federal income taxes!

Claiming On Federal Tax Return

- Forms Needed: Mortgage Tax Credit Certificate, Form 1098 Mortgage Interest Statement, Form 8396 Mortgage Interest Credit, and Form 1040 Individual Income Tax Return
- Credit is claimed on form 8396
- Carry Forward: If the allowable credit is reduced because of the limit based on your tax, you can carry-forward the unused portion to the next 3 years, or until used, whichever comes first. (If you are subject to the $2,000 limit, you cannot carry-forward more than $2,000)

Part I Current Year Mortgage Interest Credit

1 Interest paid on the certified indebtedness amount. If someone else (other than your spouse if filing jointly) also held an interest in the home, enter only your share of the interest paid . . .

2 Enter the certificate credit rate shown on your **mortgage credit certificate. Do not** enter the interest rate on your home mortgage . . . . . .

3 If line 2 is 20% or less, multiply line 1 by line 2. If line 2 is more than 20%, or you refinanced your mortgage and received a reissued certificate, see the instructions for the amount to enter.

You must reduce your deduction for home mortgage interest on Schedule A (Form 1040) by the amount on line 3.

Example

$5,000 mortgage interest with a 20% non-target area credit rate =$1,000 credit.

1	$5,000	
2	20	%
3	$1,000	

This is a dollar for dollar tax credit!

Claiming On Federal Tax Return (Cont.)

- The remaining balance of the mortgage interest continues to qualify as an itemized deduction

You must also reduce your deduction for home mortgage interest on the Schedule A by the amount on line #3 ($1,000). You can't deduct/credit the $1,000 twice. If you had $5,000 in mortgage interest you would subtract $1,000 and enter $4,000 for line 10.

SCHEDULE A (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Itemized Deductions

▶ Information about Schedule A and its separate instructions is at *www.irs.gov/schedulea*.
▶ Attach to Form 1040.

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Name(s) shown on Form 1040 | Your social security number

Interest You Paid	10	Home mortgage interest and points reported to you on Form 1098	10	
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	11	
Note: Your mortgage interest deduction may be limited (see instructions).	12	Points not reported to you on Form 1098. See instructions for special rules	12	
	13	Mortgage insurance premiums (see instructions)	13	
	14	Investment interest. Attach Form 4952 if required. (See instructions.)	14	
	15	Add lines 10 through 14		15

What happens if you refinance?

- The homeowner doesn't have to lose their tax benefit!
- Borrower/Homeowner can request new certificate from their respective HFA
- Example: OHFA – The borrower must request the new certificate within 1 year of the refinance. NCHFA – The borrower must request the new certificate within 2 years of refinance.
- New MCC cannot increase your credit. In other words, the credit you claim with your new MCC after a refinance, cannot be more than the credit you initially claimed with the M

If the mortgage loan amount (refinance) is more than the certified indebtedness amount (initial mortgage amount), will the homebuyer be able to claim all of the mortgage interest for their tax credit?

$$\frac{\text{Certified indebtedness amount on your mortgage credit certificate}}{\text{Original amount of your mortgage}} \quad \frac{\$100{,}000}{\$125{,}000} = .8$$

- (●) No, homebuyer can only claim 80% of the mortgage interest utilizing their 20%, 25%, 30%, or 40% tax credit.
- ( ) Yes, homebuyer can claim the full amount of the mortgage interest.

What if you sell your home?

- The tax credit is non-transferable, and the original certificate becomes void. (First-time homebuyer tax credit)
- Borrowers may be subject to a “re-capture” tax if the home is sold within 9 years, they receive a net profit on the sale of the home, and exceed the maximum household income limit at the time of sale.
- All three provisions must occur at the time of sale for re-capture tax obligation to apply.

Is your borrower eligible?

- Must be a first time homebuyer (No Ownership Interest in most recent 3-year period) ***Exceptions may apply if the subject property is in a targeted area.
- Must be a principal residence
- Subject to Income Limits
- Subject to Purchase Price restrictions
- Must be a new mortgage loan – you cannot obtain an MCC if you are refinancing an existing mortgage loan.
- Must be a fixed-rate loan
- Conventional, FHA, VA, and USDA are all eligible loan products!
- Important Note: A borrower cannot receive the tax credit if they do not have a tax liability. You cannot get credit for something that you did not owe. This is strictly a credit **NOT** a refund.

Using the MCC to Qualify - Conventional

- When calculating the borrower's DTI ratio, we must treat the maximum possible MCC as an addition to the borrower's income, rather than a reduction to the amount of the borrower's mortgage payment.
- Calculation:

Conventional

When calculating the DTI ratio, treat the MCC as an addition to the borrower's income, rather than a reduction to the amount of the borrower's mortgage payment.

We will use the follow calculation when determining the available income:

(Mortgage Amount) x (Note Rate) x (MCC %) ÷ 12 = Amount added to borrower's monthly income (Cannot be greater than $2,000 annually)

Using the MCC to Qualify - FHA

- **FHA:** FHA will allow us to place a payment offset directly against the PITI payment if the government entity is subsidizing (or supplementing) the borrower payment directly to the servicer. If there is no subsidy payment, then the MCC may only be used as income for loan qualification.
- Calculation:

FHA

When calculating the DTI, treat the MCC as an addition to the borrower's income, rather than a reduction to the amount of the borrower's mortgage payment.

We will use the follow calculation when determining the available income:

(Mortgage Amount) x (Note Rate) x (MCC %) ÷ 12 = Amount added to borrower's monthly income (Cannot be greater than $2,000 annually)

Using the MCC to Qualify - VA

- Reduce federal income tax deduction on VA loan analysis by the estimated monthly MCC tax credit. (Reduction to the Federal Tax liability)The MCC cannot be used to increase qualifying income or as a reduction to the PITI.

VA

VA allows MCC to reduce the federal tax liability only. The MCC cannot be used to increase qualifying income or to reduce the mortgage PITI.

Using the MCC to Qualify - USDA

- If a government entity subsidizes the mortgage payments either through direct payments or tax rebates, these payments can be considered as acceptable income if verified. The subsidy must be used to directly offset the PITI. Keep in mind that the MCC should not be included in the annual USDA eligibility, only the repayment income. At this time the MCC payments per USDA are not being subsidized and therefore must be entered added as income, not a reduction to the PITI. This will be entered in to monthly qualifying income only, not eligibility.
- Calculation:

USDA

When calculating the DTI, treat the MCC as an addition to the borrower's income, rather than a reduction to the amount of the borrower's mortgage payment. Keep in mind, the MCC should not be included in the annual income for USDA eligiblity, only in the repayment income. We will use the follow calculation when determining the available income:

(Mortgage Amount) x (Note Rate) x (MCC %) ÷ 12 = Amount added to borrower's monthly income (Cannot be greater than $2,000 annually)

Program Highlights

- MCCs Reduce the homeowner's Federal Tax Liability
- The mortgage tax credit can be used in addition to the IRS home mortgage interest deduction
- A borrower cannot receive the tax credit if they do not have a tax liability. You cannot get credit for something that you did not owe. This is strictly a credit **NOT** a refund.
- Must be a first time homebuyer (No Ownership Interest in most recent 3-year period) Exceptions may apply if the subject property is in a targeted area.
- MCC Credits can help borrowers qualify for their mortgage loan!
- When the money runs out, the credit is **NOT** available..
- Mortgage Specialists – Make sure to get on the email list of the agency in your area so you know when money runs out and when it is available.

Questions?