



**CALIFORNIA HOUSING FINANCE AGENCY**

**Mortgage Credit  
Certificate (MCC)  
Tax Credit Program**

**LAST REVISED: JUNE 25, 2018**

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**The CalHFA MCC Tax Credit program handbook is provided for  
informational purposes only.**

Please refer to the CalHFA program administrator, eHousingPlus' web site  
directly at <http://www.ehousingplus.com/available-programs/california/>

Or contact your eHousingPlus Compliance team at 954.217.0817

[Debbie.Kerr@ehousingplus.com](mailto:Debbie.Kerr@ehousingplus.com) Ext. 216

[Margaret.Johnson@ehousingplus.com](mailto:Margaret.Johnson@ehousingplus.com) Ext. 206

[Nai leth.Garcia@ehousingplus.com](mailto:Nai leth.Garcia@ehousingplus.com) Ext. 211

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## Program Summary

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The CalHFA Mortgage Credit Certificate (MCC) Tax Credit program operates as a federal income tax credit, reducing the Borrowers' potential federal income tax liability. This credit, in effect creates additional net spendable income which Borrowers may use toward their monthly mortgage payment. This may enable first-time homebuyers to convert a portion (currently twenty percent [20%]) of their annual mortgage interest into a direct income tax credit on their U.S. individual income tax return for the life of their loan. The amount of the CalHFA MCC Tax Credit cannot exceed the amount of a Borrower's annual federal income tax liability. Unused portions of the credit may be carried forward for up to three (3) years.

The CalHFA MCC Tax Credit can be used with a conventional or government first mortgage loan. The first mortgage or any other associated subordinate loans cannot be financed with tax-exempt bond financing.

### Term of Program

CalHFA MCC Tax Credit Certificates can only be issued on eligible loans closed between 05/07/2012 – 12/31/2018.

## Terms and Definitions

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In addition to other terms which are defined in this program handbook, the following terms are defined as follows:

“Administrator’s Guidelines” means the Lender guide prepared by the Program Administrator on behalf of CalHFA that provides guidance to Participating Lenders

“CalHFA” or “Agency” means the California Housing Finance Agency

“CalHFA MCC Handbook” or “Handbook” means this instructional guide prepared by CalHFA which addresses the program eligibility criteria

“MCC” means Mortgage Credit Certificate, a document issued by the Program Administrator on behalf of CalHFA that may entitle the Holder to claim a federal income tax credit

“CalHFA-approved Lender” means Lenders approved to originate, close and sell Agency

first mortgage and/or subordinate loans. A CalHFA-approved Lender may also be a MCC Participating Lender; however not all Participating Lenders will be CalHFA-approved Lenders

“Participating Lender” or “Lender” means a Lender who meets CalHFA’s definition of a Participating Lender, has met the minimum qualifications, executed the CalHFA MCC Tax Credit Lender Certification Form and CalHFA MCC Tax Credit Participation Agreement

“Program Administrator” or “Administrator” means eHousingPlus

“Issuer” means CalHFA

“Applicant” or “Borrower” means any person who applies for a MCC under the CalHFA MCC Tax Credit program, meets the criteria for an eligible Borrower as set

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## Terms and Definitions (cont.)

forth in this program handbook and who is in the process of securing financing for the purchase of a primary residence

“CalHFA Tax Act” or “Tax Act” means the federal tax laws that govern the guidelines required to maintain tax-exempt status

“Tax Credit” means a deduction in the amount of taxes owed to the Internal Revenue Service

“Mortgage Interest Deduction” means a common itemized deduction that allows

homeowners to deduct the interest they pay on any loan used to build, purchase or make improvement upon their residence

“MCC Holder” means Borrower(s)

“MCC Tax Credit Rate” means the current rate specified by this program handbook used for calculating the MCC Tax Credit Amount

“MCC Tax Credit Amount” means the mortgage interest multiplied by the MCC Tax Credit rate

## Eligibility

### Participating Lender Eligibility for the CalHFA MCC Tax Credit program

All current CalHFA-approved Lenders are eligible to participate once they have executed a CalHFA MCC Tax Credit Participation Agreement

Lenders that are not currently CalHFA-approved may participate in this program if they meet the minimum qualifications and execute the following documents:

- [CalHFA Mortgage Credit Certificate \(MCC\) Tax Credit Lender Certification Form](#)
- [CalHFA MCC Tax Credit Participation Agreement](#)

The CalHFA MCC Tax Credit Lender Qualifications, the Lender Certification and the Participating Agreement can be found on the [CalHFA Direct Lender web page](#).

### Borrower Eligibility Requirements

- Each CalHFA MCC Tax Credit Applicant must be either a citizen

or other National of the United States, or a “Qualified Alien” as defined at 8 U.S.C § 1641

- All CalHFA MCC Tax Credit Applicants must meet the credit, income and loan requirements of CalHFA MCC Tax Credit program handbook, the Lender, and the mortgage insurer/guarantor
- All Applicants must be first-time homebuyers
  - › Exception to first-time homebuyer requirements:
    - » Home is located in a federally designated targeted area
    - » Qualified veterans pursuant to the Heroes Earning Assistance and Relief Tax Act of 2008

### Owner Occupancy Eligibility

- All CalHFA MCC Tax Credit Applicants must occupy the

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## Eligibility (cont.)

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- property as their primary residence within sixty (60) days of closing
- Property must be owner-occupied for the term of the loan or until the property is sold

### Federally Designated Targeted Areas

Borrowers purchasing a home located in a [federally designated targeted area](#) are not required to be first-time homebuyers

### Definition of First-Time Homebuyer

For CalHFA purposes a first-time homebuyer is defined as a Borrower who has not had an ownership interest in any principal residence during the previous three (3) years

### Property Requirements

- Sales price of the home cannot exceed CalHFA's sales price limits established for the county in which the property is located
- Accessory Dwelling Units (ADU), Guest houses, "granny" units, and "in-law" quarters are eligible
  - › Must be zoned for Single Family Occupancy

- › Cannot be zoned for 2-4 units
- › Must meet investor guidelines and city/county zoning ordinances
- Per investor guidelines – If rental income from the ADU is used for credit qualifying, CalHFA will also use the gross rental income for the compliance income calculation
- Property must meet the requirements of CalHFA, the Lender and the mortgage insurer/guarantor

### Eligible Counties

The CalHFA MCC Tax Credit is available in various cities and counties within the state of California. Please refer to the [MCC Resource Database](#) for details

### Income & Sales Price Limits

The following reference materials disclose income and sales price limits by county:

1. [Income Limits](#)
2. [Sales Price Limits](#)

## Underwriting & Compliance

### Transaction Type

Purchase transactions only

### Term

The term of the CalHFA MCC Tax Credit matches the term of the first mortgage; however, the CalHFA MCC Tax Credit will expire on the date the first mortgage loan is paid in full or refinanced and is revoked on the date the residence ceases to be the Applicants' primary residence

### LTV and CLTV

Follow the applicable underwriting guidelines of the Lender and mortgage insurer/ guarantor

### MCC Tax Credit Rate

The CalHFA MCC Tax Credit Rate is currently twenty percent (20%). The annual mortgage interest times 20% is the amount of the tax credit available to the Borrower(s) for income tax purposes. The amount of the tax credit may not exceed the Applicants' total tax liability for a specified year; however any excess MCC credit exceeding the Applicant's total tax liability for a given year may be carried forward for up to three (3) subsequent tax years. Lender should advise Borrower(s) to seek advice from their qualified tax preparer

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### Example of the Federal Tax Credit advantage of an MCC

Loan Amount	\$ 200,000
Mortgage Rate	5.00%
First year's mortgage interest	\$ 10,000
MCC Credit Rate	20%
MCC Tax Credit amount	\$ 2,000

	<u>No MCC</u>	<u>With MCC</u>
Taxable Income	\$ 50,000	\$ 50,000
Mortgage interest deduction	\$ 10,000	\$ 8,000*
Taxable Income	\$ 40,000	\$ 42,000
Federal tax liability @ 15%	\$ 6,000	\$ 6,300
Subtract MCC amount	N.A.	\$ 2,000
Net Taxes Owed	\$ 6,000	\$ 4,300
Annual tax savings due to MCC credit		\$ 1,700

\* \$10,000 of mortgage interest minus \$2,000 MCC Tax Credit amount equals \$8,000 mortgage interest deduction



## Underwriting & Compliance (cont.)

### Income Requirements

Lenders are required to calculate income to qualify Borrower(s) for the MCC Tax Credit program approval using investor guidelines. The Lender's underwriter must certify the Borrower's income pursuant to Federal Tax Law compliance requirements

#### QUALIFYING INCOME

Qualifying income is the income used by the Lender to determine that the Borrower(s) have the ability to meet their monthly payment obligation. The Lender will continue to adhere to the requirements of their internal underwriting guidelines, mortgage insurer, and this program handbook. This income may differ from the income used by the Administrator to determine compliance with Federal Tax Law. Program compliance income must include income from all sources even if it is not used as qualifying income. A definition of program compliance income is below

#### PROGRAM COMPLIANCE INCOME

The income of all Borrowers cannot exceed the published CalHFA MCC Tax Credit income limits established for the county in which the property is located

When multiple CalHFA loan programs are used in combination, the most restrictive income limits will apply

CalHFA will calculate family income for CalHFA MCC Tax Credit eligibility. "Family income" is defined as the annualized gross income of a mortgagor, and any other person who will be liable on the mortgage, be vested on title, and live in the residence being financed

Due to federal regulations, CalHFA is required to compile all information regarding Borrower's income

### Family income includes:

Gross Pay	Pensions
Overtime	Veterans Administration (VA) compensation
Bonuses	Active Duty Military Housing Allowance
Commissions	Gross rental or leased income
Part-time employment	Deferred income
Dividends	Welfare payments
Interest	Social Security benefits
Annuities	Disability payments
Child support payments	Alimony/Spousal support
Human assistance / service	Sick pay
Business & investments from all sources (both taxable and non-taxable)	Any regularly occurring additional income including but not limited to earnings
Unemployment compensation	

### Family income excludes:

- Gifts – casual, sporadic or irregular
- Lump sum additions to household assets, such as inheritances, insurance settlement, capital gains, student financial assistance, settlements for personal or property losses

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## Underwriting & Compliance (cont.)

- Education scholarships paid directly to the student
- Foster child care payments, adoption assistance payments if not used to credit qualify for the loan
- Income from employment of any household member not on title or the loan
- Food stamps
- In addition, the first mortgage and any associated subordinate loans must follow the these requirements:
  - › Cannot be financed with tax exempt mortgage revenue bonds
  - › Verification of employment and other supporting documentation regarding income such as paycheck stubs cannot be more than sixty (60) days old as of the first mortgage note date
  - › The MCC Credit may not be used for credit qualifying purposes when used with a CalHFA first mortgage loan program.

### Underwriting

- Lenders should follow the applicable underwriting guidelines of the Lender and mortgage insurer/ guarantor

## CalHFA First Mortgage

All CalHFA first mortgage loan(s) must be uploaded to CalHFA's [MAS](#), and may require additional documentation

- CalPLUS<sup>SM</sup> FHA loan program is an FHA-Insured loan featuring a fully amortized fixed interest rate first mortgage and is combined with the CalHFA Zero Interest Program (ZIP) for down payment assistance only
  - › ZIP second loan is only available with the CalPLUS FHA
  - › For full CalPLUS FHA underwriting guidelines and details see the [CalPLUS FHA Program Handbook](#)
    - » Lender submits CalPLUS FHA loans directly to CalHFA
- CalHFA FHA loan program is an FHA-insured loan featuring a fully amortized fixed interest rate first mortgage
  - › Lenders may reserve the MCC applications on the Administrator's system and/ or update the CalPLUS FHA and ZIP amount as the "additional loan amount"
  - › All questions about CalPLUS FHA should be addressed directly with CalHFA
  - › For full CalHFA FHA underwriting guidelines and details see the [CalHFA FHA Program Handbook](#)
    - » Lender submits CalHFA FHA loans directly to CalHFA

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## CalHFA First Mortgage (cont.)

- » Lenders may reserve the MCC applications on the Administrator’s system and/ or update the CalHFA FHA amount as the “additional loan amount”
  - » All questions about CalHFA FHA should be addressed directly with CalHFA
- The CalHFA Energy Efficient Mortgage (Cal-EEM + Grant) loan programs combines an FHA-Insured first mortgage (Cal-EEM) loan with an additional grant (EEM Grant), allowing energy efficient improvements over and above the FHA Maximum allowable EEM loan amount
  - › For full Cal-EEM + Grant underwriting guidelines and details see the [Cal-EEM + Grant Program Handbook](#)
    - » Lender submits CalEEM + Grant loans directly to CalHFA
    - » Lenders may reserve the MCC applications on the Administrator’s system and/ or update the Cal-EEM + Grant amount as the “additional loan amount”
- CalPLUS<sup>SM</sup> Conventional loan program is a Fannie Mae HFA Preferred<sup>TM</sup> fully amortized fixed interest rate first mortgage and is combined with the CalHFA Zero Interest Program (ZIP) for down payment and/or closing cost assistance
  - › ZIP is only available with the CalPLUS Conventional
  - › For full CalPLUS Conventional underwriting guidelines and details see the [CalPLUS Conventional Program Handbook](#)
    - » Lender submits CalPLUS Conventional loans directly to CalHFA
    - » Lenders may reserve the MCC applications on the Administrator’s system and/ or update the CalPLUS Conventional and ZIP amount as the “additional loan amount”
- CalHFA Conventional loan program is a Fannie Mae HFA Preferred<sup>TM</sup> fully amortized fixed interest rate first mortgage
  - › For full CalHFA Conventional underwriting guidelines and details see the [CalHFA Conventional Program Handbook](#)
  - › Lender submits CalHFA Conventional loans directly to CalHFA
  - › Lenders may reserve the MCC applications on the Administrator’s system and/ or update the CalHFA Conventional amount as the “additional loan amount”

## Subordinate Financing

All CalHFA subordinate financing must be uploaded to CalHFA's [MAS](#), and may require additional documentation

### CalHFA Subordinate Financing

This program may be layered with the following down payment and/or closing cost assistance financing option, when available:

- MyHome Assistance Program
  - › May be used for closing cost and/or down payment assistance
  - › In the case of conflicting guidelines, the lender must follow the more restrictive
  - › Must be recorded in Second Lien Position
  - › For full MyHome underwriting guidelines and details see the [MyHome Program Handbook](#)
- The School Teacher and Employee Assistance Program (School Program) can be used for down payment assistance
  - › School Program is available for first-time homebuyers only, no exceptions
  - › For full School underwriting guidelines and details see the [School Program Handbook](#)
  - › Lenders submit School Program loans directly to CalHFA
  - › CalHFA will issue a Notice of Commitment once loan has been reviewed as satisfactory
  - › Upon issuance of the Notice of Commitment, Lenders may reserve the MCC Application on the Administrator's system and/or update the School Program amount as the "additional loan amount"
  - › All questions about School Program eligibility should be addressed directly with CalHFA
  - › School Program cannot be combined with the MyHome loan program

## Program Administrator

### Program Administrator

CalHFA has elected to retain the services of eHousingPlus as Program Administrator for the CalHFA MCC Tax Credit program

### Required Lender Training

- Prior to reserving and closing a MCC in the HDS Single Family Web Management System (Program Administrator's system) a lender must have their staff complete MCC and System training:
  - Training is mandatory for all loan officers, underwriters and shippers/funders on a specific transaction to complete the training through [eHousingPlus University](#) prior to being added to the HDS Program Administrator System. Any additional staff that needs access to the system is optional.

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## Program Administrator (cont.)

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### System Access Process

1. Take the training through eHousingPlus
2. Complete the test and receive 100%
3. Request password and logins from eHousingPlus (Only CalHFA-approved Participating Lenders will be allowed to obtain a user ID and password)
4. Login and passwords are issued within 24 to 48 hours of completion and passing of the training and test

In order to use the system, Lenders must have:

- Access to the internet and email (Lenders are encouraged to provide the eHousingPlus website URL to their IT Departments to ensure the website is accessible, and email is white-listed)
- A supported internet browser (currently IE 8 and IE 9 only)
- Adobe Acrobat Reader
- A corporate email account to receive exceptions and program notices
- A user name and password, issued by Program Administrator after training is completed

To secure a user ID and password, Lenders should go to the [Administrator's web site](#), click on the "Request User ID" link, complete the online form and click "Send"

- Note only CalHFA-approved Participating Lenders will be allowed to obtain a user ID and password
- Lenders will receive Technical Assistance with the use of the system from Program Administrator staff at no additional cost
- The online form must be completed in full with all data including user contact information
- The Lender should obtain a user ID and password for the following Lender personnel:
  - › Loan officers, processors, underwriters, closers, post closers, and shippers
  - › Underwriters have *special* security access; the certification element of the application is strictly limited to the Lender's underwriter only. Other Lender staff will not have access to this feature

## Processing Procedures

**MCC applications may be used in combination with or without a CalHFA first mortgage**

### MCC Application Process

- Applicant applies for a loan with a lender
- Lender determines if the borrower is eligible for a MCC
- Lender obtains a fully executed purchase contract
- Lender reserves funds in eHousing-Plus system at [www.eHousingPlus/CalHFA](http://www.eHousingPlus/CalHFA)
- Once loan is approved by lender, Underwriter certifies the borrower eligibility in eHousingPlus system
  - › Must match CalHFA eligibility income on Conditional Approval if combined with a CalHFA loan program
    - » Once eligibility income is certified the lender can no longer make any changes in the eHousingPlus system
    - » Any additional changes can only be made by the Administrator's compliance staff and may be subject to additional steps
  - › All MCC forms will then auto populate and can be printed for the borrower(s) to sign

### After the Loan Closes

Lender closes first mortgage loan using the normal process with the Applicant. Within ten (10) days of loan closing, Lender will submit an MCC compliance packet which

will contain the required document listed in the [CalHFA MCC Tax Credit Closing Packet Checklist](#).

The Administrator will review income of Applicants not utilizing the CalHFA first mortgage loan programs. The Administrator has provided Lenders with an [income worksheet form](#) and a [summary form](#), the Lenders must complete a separate income worksheet form for each Borrower. The worksheet requires that documentation be attached to the individual worksheet as supporting documentation. Whether there are one or more Applicant(s), Lenders shall also complete a worksheet summary for each loan. All Borrowers are required to sign the worksheet summary at closing. This indicates that they have reviewed the information provided by the Lenders and agree that it is true and correct at closing.

Listed below, is a list of documentation which are included in the CalHFA MCC Tax Credit Closing Packet Checklist:

- CalHFA Conditional Approval if applicable
- Notice to Borrowers of Potential Recapture Tax
- CalHFA MCC Tax Credit Borrower Affidavit
- CalHFA Compliance Income Review Worksheet, with attachments
  - › Verification of Employment, Pay Stub for 30-day period and most recent W-2 form
- Fully executed purchase contract and all addendums

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## Processing Procedures (cont.)

- Copy of Final Closing Disclosure (CD)
- Copy of Final Loan Application for all Borrower(s) (1003)
- Copy of fully executed tax returns for each Applicant covering the most recent three (3) year period
- Borrower completed IRS 4506 with #5 blank
- MCC Fee payable to eHousingPlus (corporate / cashier check):
  - › \$450 for MCCs combined with CalHFA first mortgage loan programs
  - › \$750 for MCCs combined with non-CalHFA first mortgage loan programs

### Additional Documents, when applicable

- Copy of DD214 or discharge papers showing honorably discharged if a Qualified Veteran (only required if Qualified Veteran is not a first-time homebuyer)
- CalHFA MCC Tax Credit Certification of No Income (only required when any person on title is not claiming any income)
- CalHFA MCC Tax Credit Tax Return Affidavit (only required when any person on title does not file Income Tax Returns)

Use the [CalHFA MCC Tax Credit Checklist](#) to ensure you are submitting a complete and accurate package and reference the MCC reservation number on all documents. All final Closing Packets for MCC

Application and documents should be submitted to Administrator at:

eHousingPlus  
3050 Universal Blvd., Ste. 190  
Weston, FL 33331

### CalHFA MCC Tax Credit Processing Time Frame

- CalHFA MCC Tax Credit applications may be reserved at any time prior to first mortgage closing
- Maximum time frame is ninety (90) days from date of reservation to MCC approval
  - › The first mortgage loan file must be processed, approved, closed and the MCC application must be underwriter certified, delivered and MCC issued. No extensions will be granted
  - › Lender has ten (10) days to deliver closing packet to Administrator once the first mortgage has closed and all exceptions must be cleared within the ninety (90) day period
- MCC applications not meeting the deadlines will be automatically cancelled and all collected fees will be forfeited. Lenders should review their pipeline reports on a continuous basis
- Cancelled MCC applications that have not closed are eligible for re-reservation and are subject to current availability and eligibility requirements

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## Processing Procedures (cont.)

From	To	Number of Days
CalHFA MCC Tax Credit reservation	MCC Approval	90 days
Loan closing	Compliance file delivered to Administrator	no more than 10 days after loan closing

### Fees

Submit the following fees with closing documents to Administrator:

- \$450 for MCCs combined with CalHFA first mortgage loan programs
- \$750 for MCCs combined with non-CalHFA first mortgage loan programs
- \$175 re-instatement fee will be charged on any reinstated MCC application which has been cancelled for any reason
  - › Corporate checks or money orders are acceptable
  - › All corporate checks and/or money orders must include the following:
    - » Borrower name(s)
    - » Property address
    - » CalHFA MCC Tax Credit reservation number
  - › The CalHFA MCC Tax Credit issuance fee may be paid by the Applicant, the seller or the Lender; but may not be financed

- Maximum \$75 Lender document handling fee may be paid by the Applicant, the seller or waived by the Lender
- Lenders are permitted to charge their usual, customary and reasonable fees charged to other buyers of similar first mortgage loans without a MCC attached

### Closing Document Review / Exceptions

- All closing packets will be reviewed on a first-come, first-served basis
- Administrator will review all CalHFA MCC Tax Credit Affidavits and other documents to determine whether or not they have been completed in accordance with this program handbook and properly executed
- Income documents will be reviewed to determine that all Borrower(s) are within CalHFA posted income limits
- Loan deficiencies are immediately posted on line, post file review. Lender Post Closing staff will need system access to monitor Exceptions, and take the necessary steps to satisfy them
- Administrator will also send Lenders an email to advise of any exceptions in the closing packet
- Lender can easily monitor their pipeline via the Administrator's system, and check for status updates at any time

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## Processing Procedures (cont.)

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- All exceptions must be cleared in order for the CalHFA MCC Tax Credit Certificate to be issued
- Excessive file deficiencies and/or delays in clearing them may cause loan file to be cancelled. An extension or reinstatement fee will apply if loan is reinstated after allowable time, only will only be reinstate if there are funds available in the program

## Issuance of MCC

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Once the CalHFA MCC Tax Credit closing documents and all fees have been received, reviewed and approved by the Administrator, the original MCC Certificate and Final Recapture Notice will be issued and mailed via U.S. Postal Service to the property address. within sixty (60) days after issuance.

### Recapture

If the Holder of a CalHFA MCC Tax Credit sells the home within nine (9) years after issuance of the MCC Certificate, a portion of the tax credit may be subject to recapture pursuant to Section 143(m) of the Internal Revenue Code

## Miscellaneous Items

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### MCC Application Cancellations

The Lender should cancel the MCC application on the system. Any loan that exceeds the allowable time period will automatically be cancelled

- A reinstatement fee of \$175 will be charged on any reinstated MCC application which has been cancelled for any reason on closed mortgages
- A cancelled MCC application may be re-reserved after 60-days from the original reservation expiration if the mortgage has not closed

### Refinancing / Reissuance of a MCC

Issuer may reissue a MCC Certificate for certain loans refinanced under Treasury Regulations  $\Sigma$  1.25-3 if the Agency receives to its satisfaction evidence that:

- The Lender refinancing must be a CalHFA-approved Participating Lender
- The original MCC was issued by CalHFA
- The reissued MCC is issued to the Holder of an existing MCC with respect to the same property to which the existing MCC has been issued
- The reissued MCC entirely replaces the existing MCC
- The new mortgage indebtedness specified on the reissued MCC does not exceed the remaining outstanding balance of the mortgage indebtedness on the existing MCC

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## Miscellaneous Items (cont.)

- The reissued MCC does not increase the MCC credit rate specified on the existing MCC
- The expiration date on the reissued MCC is no later than the expiration date on the existing MCC
- The reissued MCC does not result in an increase in the tax credit that would otherwise have been allowed to the Holder under the existing MCC for any taxable year
- Within ten (10) days of loan closing, the [MCC Tax Credit Reissued Compliance File Checklist](#) must be completed by your corporate office and sent to the Administrator including the following:
  - › A MCC Reissuance fee \$500 is paid to the Administrator
  - › New Closing Disclosure
- The Administrator will review and approve the file per CalHFA MCC Program guidelines
- Upon approval, the Administrator will send the Recapture Letter and MCC Certificate via mail to the homeowner
  - › The complete property address and borrowers name must be referenced
- Cost of replacing the MCC is \$75

### Record Keeping and Federal Report Filing

- For each calendar year during which the Lender originates loans to Applicants obtaining a CalHFA MCC Tax Credit, the Lender must file an annual report using IRS form 8329. Prior to the filing deadline for such reports, Administrator will provide the Lender a complete IRS Form 8329
- For six (6) years the originating Lender must retain:
  - › Name, address and Tax Identification Number (TIN) of each MCC Holder
  - › Name, address and TIN of CalHFA
  - › Date of loan, certified indebtedness amount and MCC credit rate

### Audit

CalHFA and/or the Administrator may perform a random case audit of Lender records

### Revocation of a MCC shall occur:

- When the residence related to the MCC ceases to be the MCC Holder's principal residence
- Upon the discovery of any material misrepresentation, whether by neglect or fraud, by any person related to the issuance of the MCC

*(continued on next page)*

### MCC Replacement / Lost Certificate

Lenders should instruct their Borrower(s) to retain their certificate in a safe secure location; however in the event the certificate is lost a replacement certificate may be requested

- Borrowers must request the replacement MCC from the Administrator directly by emailing: [services@ehousingplus.com](mailto:services@ehousingplus.com)

## Miscellaneous Items (cont.)

- If at any time after issuance, any defect is discovered, and not cured within a sixty (60) day time frame from notification to either the Lender or the MCC Holder notification will be revoked
- If it is later discovered that the Holder does not meet the requirements for a CalHFA MCC Tax Credit

## Underwriters MCC Calculations Guide

### Wages and Salary

Use one of the appropriate formulas for full time employment (40 hours) or employment with consistent regular hours or income to arrive at the Borrower's base pay:

- Monthly
  - › Monthly income x 12 months = annual income
- Bi-weekly
  - › Bi-weekly income x 26 = annual income
- Weekly
  - › Weekly income x 52 = annual income
- Hourly
  - › Hourly income x 40 (hrs per wk) x 52 = annual income

### Variable Income

When using part-time employment with variable hours (or less than forty (40) hours per week), inconsistent income or hours, overtime, bonuses and commissions, etc., calculate income by using year-to-date, plus previous year income (from the same income source/employer), divided by the number of months reviewed (up to

but not exceeding twenty-four (24) month times twelve (12) to arrive at the annual income.

Income from a previous employer cannot be considered in the calculations even if the previous employer was in the same field or line of work.

**Note:** When calculating variable income, take into consideration any “peak” season for overtime and/or bonus received. For example if a Borrower is employed at a tax preparation service, it is reasonable to assume that the majority of the overtime will be received within the first four months of the year. It may be a more accurate calculation to use previous years' base income plus overtime and YTD base and overtime to make your final calculation. In the example below we are using income for 2011 plus overtime and YTD base and overtime calculated as of April 30th of the current year (4 months).

#### Previous Year:

2011 Monthly Base Income:	
\$3000 X 12 months =	\$36,000.00
2011 Avg. Monthly Overtime:	
\$550 X 12 months =	\$ 6,600.00
Annual Income:	\$42,600.00

**Avg. Monthly  
Income for 2011 = \$ 3,550.00**

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## Underwriters MCC Calculations Guide (cont.)

### Current Year 1/01/2012 – 4/30/2012:

2012 Monthly Base Income:	
\$3000 =	\$12,000.00
2012 YTD Overtime:	
\$5,000 (4 months) =	\$ 5,000.00
Annual Income:	\$17,000.00

### 2012 YTD Avg.

**Monthly Income = \$ 4,250.00**

### Eligible Income:

Overtime for 2011 =	\$ 6,600.00
YTD Monthly Overtime for 2012 (4mos) =	\$ 1,250.00

**16 Months Overtime Total: \$ 7,850.00**

\$7,850 divided  
by 16 months = \$ 490.63

Monthly Base Income:	\$ 3,000.00
2011 Plus YTD Overtime Mo. Avg.:	\$ 490.63

**CalHFA Eligibility Income = \$ 3,490.63**

### Self-Employed / Schedule C Borrower(s)

A self-employed Borrower can also be considered to have variable income. Gross annual income calculations will be based on the previous year's net income shown on Schedule C of the previous year's federal income tax return **plus** net income before taxes, from the Borrower's signed, year-to-date Profit and Loss Statement, divided by the appropriate number of months (up to but not exceeding twenty-four (24) months) times twelve (12) to arrive at the annual income. For CalHFA purposes, the year-to-date Profit and Loss Statement does not need to be audited

In addition, any loss from self-employment may not be used to offset income derived from another source of income by the Borrower or co-borrower

I.R.S. Form 2106 unreimbursed business expenses cannot be deducted from gross income

### Child support and/or spousal support payments received by an Applicant

If payment is not received consistently in either of these two situations, use the actual amounts received for the past twelve (12) months to determine the average monthly amount received. Calculations cannot exceed a twenty-four (24) month period. The likelihood of continuance does not negate use of this income. For example: if the Borrower receives an average of \$1,200 monthly with only 4 months remaining, the total amount of \$4,800 is prorated to arrive of an average of \$400 monthly

\$1200 multiplied by 4 months = \$4,800  
\$4800 divided by 12 months = \$400  
mo/average

**Note:** If a Borrower is entitled to receive compensation, but does not, CalHFA will not count their entitlement in the income calculation. The Borrower must sign an affidavit to certify the fact of non-receipt

Also, if it is evident that minor children reside in the home with a single parent or if it is evident children may be from a previous marriage or relationship, an inquiry regarding receipt of child support is necessary. CalHFA must determine income from all sources according to Tax Act;

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## Underwriters MCC Calculations Guide (cont.)

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the Lender will not be violating any Equal Credit Opportunity Act (ECOA) laws with their inquiries of the Borrower. Ask both fathers and mothers

### Foster Care/Adoption

Foster child care payments or adoption assistance payments will be used for Program Compliance purposes only if it is used by the Lender for qualifying income

## Sample Forms

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### The following are sample forms.

Working forms will be available through the [ehousingplus.com](http://ehousingplus.com) web site *after* Underwriter Certification:

1. [Notice to Borrowers of Potential Recapture Tax](#)
2. [Borrower Affidavit](#)
3. [Certification of No Income](#)
4. [Closing Packet Checklist](#)
5. [Tax Return Affidavit](#)
6. [Income Calculation Worksheet](#)
7. [Income Calculation Worksheet - Summary](#)
8. [Tax Credit Reissued Compliance File Checklist](#)

## Frequently Asked Questions (FAQs)

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### **What is a Mortgage Credit Certificate?**

A Mortgage Credit Certificate (MCC) is a means of providing affordability assistance to families of low and moderate income. A MCC may reduce the amount of federal income tax paid, giving more available income to qualify for a mortgage loan by providing more purchasing power. The MCC is available to homebuyers who are first-time homebuyers, are buying their principal residence, meet income and sales price limits and will occupy the home as their primary residence.

### **How does the CalHFA MCC Tax Credit work?**

The federal government allows each homeowner to claim an itemized income tax deduction for the amount of interest paid each year on your mortgage loan. The MCC program takes the mortgage interest paid and turns a portion of the interest paid into a “tax credit” while the remaining mortgage interest paid is used as a “tax deduction.” The tax deduction is subtracted from the adjusted gross income before federal income taxes are computed. Therefore, with a mortgage deduction, only a percentage of the amount deducted is realized in savings. A “tax credit” is subtracted from their total federal income tax liability, receiving a dollar-for-dollar savings. See [“Example of the Federal Tax Advantage of an MCC”](#).

### **Are there Borrower eligibility requirements for the CalHFA MCC Tax Credit program?**

Yes. All Borrowers must be first-time homebuyers, U.S. citizens or permanent resident aliens, select properties within the sales price limits, and have a qualifying income within the income limits for that area. A Participating Lender will determine the Borrower(s) eligibility in the program.

### **What is a Targeted Area?**

If a Borrower purchases a home within a targeted area, the Borrower does not need to be a first-time homebuyer. A targeted area has been identified as an area where 70% of the families have an income which is 80% or less than the statewide median income.

### **Are there benefit programs for Veterans?**

If you are a qualified veteran, you are exempt from the MCC first-time homebuyer requirement. A veteran is defined as a person who served in the active military, naval or air service and was discharged or released under conditions other than dishonorable.

### **How does a Borrower obtain a MCC?**

If a Borrower believes they qualify for the CalHFA MCC Tax Credit program, they should contact any Participating Lender to determine eligibility. A Borrower can use any Participating Lender and any eligible loan product available in the market place. Lenders utilize standard mortgage loans and combine the MCC to the loan. A list of CalHFA approved Participating Lenders is available on [www.calhfa.ca.gov](http://www.calhfa.ca.gov)

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## FAQs (cont.)

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### What is the cost to the Borrower?

The Borrower is charged a fee at closing; this fee may be paid by the Borrower, the seller or the Lender.

- \$450 for MCCs combined with CalHFA first mortgage loan programs
- \$750 for MCCs combined with non-CalHFA first mortgage loan programs

### What is the amount of MCC benefit to the homeowner?

The amount of tax credit depends on the amount of interest paid on the mortgage loan and the credit percentage issued. Borrowers are encouraged to consult with their Tax Professional to derive the amount of the MCC benefit and whether the MCC Tax Credit will confer a benefit.

### What happens 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 MCC credit can be carried forward to the next three (3) tax years or until used, whichever comes first. The MCC Holder is responsible for keeping track of the unused credit each year. The current year credit is applied first, and the oldest amount of unused credit applied next.

### When does a MCC Holder receive the MCC benefit?

The MCC Holder may receive the MCC Credit amount annually when they file their federal tax return or a pro rata amount monthly by filing a revised Form W-4 with the employer and adjusting the federal income tax withholding. By revising the Form W-4, the number of exemptions will increase, reducing the amount of taxes withheld and increasing the buyer's monthly disposable net income.

*The MCC Holder should contact his or her tax advisor or their employer to help them with the necessary tax forms and, if they so choose, to properly adjust their tax withholding.*

### What does the homeowner have to do to claim the benefit with the IRS?

Each year the homeowner files IRS Form 8396 with their federal income tax return. The form is available on the IRS web site at [www.irs.gov](http://www.irs.gov)

### What is the MCC Recapture Tax?

Borrower(s) who receive an MCC may be subject to a Recapture Tax if they sell the residence within nine (9) years. The Recapture Tax, if any, will always be the lesser of: half the gain from the sale of the home, or a tax based on a formula which takes into consideration: (1) the original principal amount of the home mortgage; (2) the number of complete years that pass before the residence is sold; (3) the median family income for the buyer's area at the time he/she bought the residence, and (4) the buyer's adjusted gross income at the time the residence is sold.

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## FAQs (cont.)

There are several conditions that can exempt the MCC Holder from the Recapture Tax. These include: (a) no net gain on the sale of the property, (b) insufficient increase in the income of the MCC Holder between the time of purchase and the time of sale, (c) sale of the home after the ninth year, and (4) a sale due to death or divorce. The homebuyer will receive detailed information on the Recapture Tax from the Participating Lender and will be asked to sign a statement at time of application that he or she is aware of the tax.

### **Who is the Program Administrator for the CalHFA MCC Tax Credit program?**

CalHFA has elected to obtain the services of eHousingPlus as Program Administrator for the CalHFA MCC Tax Credit.

### **How does a Lender become a Participating Lender?**

All current CalHFA-approved Lenders are eligible to participate once they have executed a CalHFA MCC Tax Credit Participation Agreement.

Lenders that are not currently CalHFA-approved may participate in this program if they meet the minimum qualifications and execute the following documents:

- CalHFA Mortgage Credit Certificate (MCC) Tax Credit Lender Certification Form
- CalHFA MCC Tax Credit Participation Agreement

The CalHFA MCC Tax Credit Lender qualifications, the CalHFA MCC Tax Credit Lender Certification and the CalHFA MCC Tax Credit Participating Agreement can be found on the CalHFA web site at [www.calhfa.ca.gov](http://www.calhfa.ca.gov)

### **Does the Lender need to complete training to participate in the MCC Tax Credit program?**

Yes. Lenders must complete training prior to reserving and closing an application under the CalHFA MCC Tax Credit program.

### **Who needs the training for the CalHFA MCC Tax Credit program?**

Loan officers, processors, underwriters, closers, post closers and shippers must all be trained on the HDS Single Family Management Web System (Program Administrator's system), and the CalHFA MCC Tax Credit program.

### **What type of training is required for the CalHFA MCC Tax Credit program?**

Lenders will be offered a combination of both webinar and on line Flex training. Flex training is a web-based, self-paced tool which allows Lenders to review program criteria and steps.

### **How does a Participating Lender register a CalHFA MCC Tax Credit?**

The CalHFA MCC Tax Credits are allocated on a first-come, first-served basis. The CalHFA MCC Tax Credit may be reserved at any time prior to first mortgage closing on the Administrator's system.

### **How long is the CalHFA MCC Tax Credit reservation for?**

The first mortgage loan file must be processed, approved, closed and the MCC application must be underwriter certified, delivered and MCC issued within the ninety (90) day reservation time period.

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## FAQs (cont.)

### **What if I cannot close my mortgage before the reservation time period expires?**

MCC applications not meeting the deadlines will be automatically cancelled and all collected fees will be forfeited.

### **Can my reservation be re-reserved?**

Cancelled MCC applications that have not closed are eligible for re-reservation and are subject to current availability and eligibility requirements.

### **What types of first mortgages are eligible to participate in the CalHFA MCC Tax Credit program?**

The CalHFA MCC Tax Credit can be used with a conventional or government-insured/guaranteed first mortgage loans. The first mortgage must not be financed with tax-exempt bond financing.

### **Can the MCC be combined with Subordinate Financing?**

The CalHFA MCC tax credit may be layered with the following CalHFA down payment and/or closing cost assistance financing options, when available:

- MyHome Assistance Program or
- CalHFA Zero Interest Program (ZIP)
- Extra Credit Teacher Home Purchase Program (School)

This program may also be layered with both locality subordinate financing, and or a private subordinate lien as long as it meets the requirements of the applicable underwriting guidelines of the Lender and mortgage insurer/guarantor.

### **My loan has been approved and underwriter certified in the Administrator's system; but there are additional changes and the system is locked, what can I do?**

Your underwriter will need to contact CalHFA's program administrator, eHousingPlus at 954-217-0817 and ask that the loan be unlocked so that the changes can be made.

### **My first mortgage was approved by CalHFA, now eHousingPlus is declining my MCC request for being over the income limits – why?**

CalHFA has income limits for our lending programs and separate income limits for our MCC program. Lenders are advised when combining multiple programs to use most restrictive income limit.

### **My borrower is refinancing his loan, and he has an existing MCC on the property – what do I need to do to have the MCC refinanced/reissued?**

- The lender refinancing must be a CalHFA-approved Participating Lender
- Original MCC must have been issued by CalHFA
- Must be on the same property in which the existing MCC was issued
- Reissued MCC entirely replaces the existing MCC
- The new mortgage indebtedness specified on the reissued MCC does not exceed the existing mortgage indebtedness on the existing MCC
- MCC credit rate cannot increase

*(continued on next page)*

- The expiration date on the reissued MCC is no later than the expiration date on the existing MCC

Within ten (10) business days of loan closing, the [MCC Tax Credit Reissued Compliance File Checklist](#) must be completed by your corporate office and sent to the Administrator including the following:

- A MCC Reissuance fee \$500 is paid to the Administrator
- New Closing Disclosure

**My borrowers new loan amount exceeds the Unpaid Principle Balance of the original loan – can I still have their MCC reissued?**

CalHFA MCC guidelines for the reissuance of a MCC are based on the guidelines of the IRS.

The new loan may be for a loan amount which is higher than the unpaid principle balance on the existing loan *if* your corporate office agrees to do the IRS reporting based on the *unpaid principle balance of the original loan amount and the borrower is informed that he/she may not use the new loan balance for reporting his MCC*

**I am not using a CalHFA first mortgage, do I have to use the locality program for my MCC or can I use CalHFA's MCC Program?**

CalHFA's MCC program was not designed to compete with localities that have their own MCC program – we encourage lender to use the local programs when one is available. However, if you cannot use the local program for any reason (including you are not approved with them) then you may use the CalHFA MCC Program.

The CalHFA program is a state wide program, once you are approved, you may originate MCCs anywhere you would originate the loan.

**Sale Tools And Marketing Materials**

1. [Conventional Program Matrix](#)
2. [Government Program Matrix](#)
3. [Scenario Calculator](#)
4. [Loan Submission, Review and Purchase Flow Chart for Conventional](#)
5. [Loan Submission, Review and Purchase Flow Chart for Government](#)
6. [MCC Flyer](#)
7. [MCC Fillable Flyer](#)
8. [MCC Spanish Flyer](#)
9. [MCC Spanish Fillable Flyer](#)
10. [Lending Heroes Flyer](#)
11. [Lending Heroes Fillable Flyer](#)
12. [Lending Heroes Spanish Flyer](#)
13. [Lending Heroes Spanish Fillable Flyer](#)
14. [5 Easy Steps to Buying Your First Home Flyer](#)
15. [5 Easy Steps to Buying Your First Home Spanish Flyer](#)
16. [CalHFA and Listing Agents: a Great Team! Flyer](#)
17. [5 Tips for CalHFA Doc Draw and Closing Flyer](#)