



Mortgage Credit Certificates

A Mortgage Credit Certificate (MCC) entitles qualified home buyers to reduce the amount of their federal income tax liability by an amount equal to a portion of the interest paid during the year on a home mortgage. This tax credit allows the buyer to qualify more easily for a loan by increasing the effective income of the buyer. Since the borrowers' taxes are being reduced by the amount of the credit, this increases the take-home pay by the amount of the credit. When underwriting the loan, a lender takes this into consideration and the borrower is able to qualify for a larger loan than would otherwise be possible.

What Does the MCC Do for the Borrower?

The MCC reduces the amount of federal income tax paid giving more available income to qualify for a mortgage loan and assist with house payments. The MCC allows 10-50 percent (depending on the program) of the mortgage interest paid each year to be used as a "tax credit." As a Mortgage Credit Certificate holder, the borrower will receive a direct dollar-for-dollar federal income tax reduction. Depending on the borrower's circumstances, he or she may enjoy a savings through increased monthly take home pay or as a year-end tax refund. The MCC may help the borrower qualify for larger home or assist the borrower in qualifying for a mortgage loan when you otherwise would not.

Is the MCC a Mortgage?

No, the MCC is not a mortgage, but may be used in conjunction with an acceptable first mortgage from a qualified lender. Borrowers must qualify using standard credit requirements. Unless specifically restricted, borrowers may also use any down payment assistance and grant programs available through any source acceptable to the lender.

Are There Additional Costs?

Yes, there can be, and it is based on the specific program. The fees are typically paid at closing and subject to change.

Eligibility

In general, homebuyers who wish to utilize a MCC must meet certain minimum guidelines:

- Must be a first time homebuyer (must not have owned a home in the previous three years)
- Must meet income and purchase price restrictions
- Must intend to use the new home as a primary residence.

Some of these restrictions may be waived for certain circumstances. For example, following a natural disaster, state or local governments may raise or remove the income limits for affected municipalities temporarily to help spur redevelopment

Mortgage Credit Certificate Information

A mortgage credit certificate allows the borrower to reduce the withholding on his or her wages by the full amount of the taxes to ensure that he or she will have an adequate cash flow and the ability to make the periodic mortgage payments. When calculating the borrower's debt-to-income ratio, treat the maximum possible mortgage credit certificate income available to the borrower as an addition to the borrower's income. The amount should be calculated as follows:

$$(\text{Mortgage Amount}) \times (\text{Note Rate}) \times (\text{MCC \%}) / 12$$

Example: Borrower obtains a \$100,000 mortgage that has a 7.5% note rate and is eligible for a 20% credit under the MCC program, the amount that should be added to the monthly income is \$125 ($\$100,000 \times 7.5\% \times 20\% = \$1500 \div 12 = \$125$)

Caution: There is an annual limit on the tax credit equal to the lesser of \$2,000 or the borrower's maximum tax liability.

The following must be in the file:

- Copy of the Mortgage Credit Certificate (A Commitment in lieu of the Certificate will not satisfy this requirement)
- Employee's Withholding Allowance Certificate and Worksheet (IRS Form W-4)
- MCC Worksheet that includes lender's calculation of the adjustment to the borrower's income

For FHA loans, if a government entity subsidizes the mortgage payments, either through direct payments or through tax rebates, these payments can be considered as acceptable income if verified in writing. Either type of subsidy may be added to gross income or may be used to directly offset the mortgage payment amount before calculating the qualifying ratios.

Additional Information

Borrowers must apply for a MCC through a Participating Lender. PRMG is responsible for compliance with all requirements of the issuing authority and must verify PRMG is approved to participate as a lender in the program. No contract processing fee can be charged

Each MCC program is different, some require the lender to go through a training, sign up for their website and process the loan (using minimal input) in their system. Whereas, other MCC programs are done using a completely manual process. It is the lender's responsibility to ensure that all requirements are met for the particular MCC being used on the loan.

It is imperative that PRMG contacts the MCC administering the program to find out the specific requirements for that the MCC being used on the loan file.

MCC Example

The following table illustrates how a MCC increases a borrower's "effective home buying power" on a program that offers a 15% MCC Rate:

Effective Home Buying Power With and Without an MCC		
	Without MCC	With MCC
First Mortgage Amount	\$300,000	\$300,000
Mortgage Interest Rate	7%	7%
Monthly Mortgage (Principal & Interest Only)	\$1,996.00	\$1,996.00
MCC Rate	N/A	15%
Monthly Credit Amount	N/A	\$262.25
"Effective" Monthly Mortgage Payment	\$1,996.00	\$1,733.75
Annual Income Needed *	\$85,542	\$74,304
* Annual Income Needed is based on monthly Principal and Interest (P&I) not exceeding 28% of monthly income.		

What does PRMG Need to Do?

Underwriting:

- Underwriter to complete all fields except “Information/Fee Sent to MCC” in the Mortgage Credit Certificate (MCC) Information screen in Legacy FastTrac or mark the loan as an MCC in the Investor Overlay screen and complete the MCC: Mortgage Credit Certification Information screen
- Underwriter to appropriately enter information in system to reflect Mortgage Credit Certificate for qualifying (see below for FT360 information)
- Underwriter to condition for the appropriate information (check for specifics with the MCC administrator) such as:
 - Signed Seller Affidavit
 - Signed Borrower Affidavit
 - Signed Recapture Notice
 - Signed Lender Closing Affidavit (Funding to complete)
 - Confirm collection of MCC application fee at funding (must be on final HUD 1 and on wire advice)

Funding:

- Ensure receipt of all required signed forms
- Ensure collection of the MCC application fee

Post-closing:

- Collect MCC closing package items
- Obtain application fee check from accounting
- Submit to the MCC Administrator as soon as the forms are received (actual forms may vary slightly depending on the MCC being used)
- Confirm receipt and approval by MCC Administrator
- Complete Information/Fee Sent to MCC field in the Mortgage Credit Certification (MCC) Information screen in FastTrac or Custom Contact information in FT360

Any information regarding an MCC on a specific loan can be send to MCC@prmg.net .

FastTrac 360

MCC Applied to Income

When calculating the borrower’s DTI ratio, treat the maximum possible MCC income as an addition to the borrower’s income, rather than as a reduction to the amount of the borrower’s mortgage payment. Use the following calculation when determining the available income:

$$[(\text{Mortgage Amount}) \times (\text{Note Rate}) \times (\text{MCC \%})] \div 12 = \text{Amount added to borrower's monthly income.}$$

Step 1: Go to page 2 of the 1003

Step 2: Under the [Other Income] section, input [B] > select [FNM Government Mortgage Credit Certification] as the other income description > enter the calculated dollar amount in [Monthly Income]

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V. Monthly Income and Combined Housing Expense Information

Gross Monthly Income			Monthly Housing Expenses		
	Borrower	Co-Borrower	Total	Present	Proposed
Base	<input type="text" value="2,600.00"/>	<input type="text"/>	2,600.00	Rent <input type="text" value="950.00"/>	<input type="text"/>
Overtime	<input type="text"/>	<input type="text"/>		First Mtg. <input type="text"/>	<input type="text" value="854.64"/>
Bonuses	<input type="text"/>	<input type="text"/>		Other Fin. <input type="text"/>	<input type="text"/>
Commissions	<input type="text"/>	<input type="text"/>		Haz. Ins <input type="text"/>	<input type="text" value="183.00"/>
Div. / Interest	<input type="text"/>	<input type="text"/>		RE Taxes <input type="text"/>	<input type="text" value="75.00"/>
Net Rent Inc.	<input type="text"/>	<input type="text"/>		Mtg. Ins <input type="text"/>	<input type="text" value="125.49"/>
Other	<input type="text"/>	<input type="text"/>		HOA Dues <input type="text"/>	<input type="text"/>
Other	<input type="text" value="166.00"/>	<input type="text"/>	166.00	Other <input type="text"/>	<input type="text" value="0.00"/>
Total	2,766.00		2,766.00	Total <input type="text" value="950.00"/>	<input type="text" value="1,238.13"/>

Other Income

B / C	Description	Monthly Income
<input type="text" value="B"/>	FNM Government Mortgage Credit Certificate	<input type="text" value="166.00"/>
<input type="text"/>		<input type="text"/>
<input type="text"/>		<input type="text"/>

MCC: Mortgage Credit Certificate Information

The screenshot displays the 'Investor Overlays' section of a software interface. At the top, there is a 'PRMG Guidelines' button. Below it, a checkbox labeled 'This Loan qualifies for PRMG Product Guide' is checked. A red banner states 'This Loan Qualifies for the investors selected below:'. A list of banks with checkboxes and buttons is shown: Wells Fargo, Penny Mac, Chase, Franklin, Credit Suisse, Freedom, CITI, Ditech, Homeward, Everbank, M&T, Platinum, BAML, First Key, and FNMA. On the right, a checkbox 'UW Confirms that Investor Overlay form has been verified & updated' is checked. Under 'Check if Applies', there are checkboxes for 'This is a Flip Property' and 'This is a 5- Financed Property Loan'. A red box highlights a checkbox labeled 'This is an MCC loan... If checked, MCC form will appear, please complete'. Below this, there is a 'Loan Program Comments' text area and an 'ATRQBI Loan Info' section with a dropdown menu for 'QM/Safe Harbor' set to 'Meets Standard'. At the bottom, a 'Sec 35 HPMI Test' section shows 'This loan does not exceed the threshold.'

The checkbox from the Investor Overlay (PRMG) screen, will automatically indicate a “Yes”. Ensure all other sections are completed in their entirety.

Before the Resubmittal milestone can be finished, processors and account managers will be required to answer “yes” or “no” to the Does this loan have an MCC? Question on the MCC: Mortgage Credit Certification Information form.

1. Subsequently, before the Approval milestone can be finished, if the answer to the MCC question was “yes”, the underwriter will be required to enter 5 additional pieces of information, including:
2. MCC Reservation Number
3. Reservation Date
4. Reservation Expiration Date
5. Underwriter Certification Deadline Date
6. Delivery of Closed Loan to Housing Authority By Date

How to complete the MCC screens in FT360:

Mortgage Credit Certificate

Entering Mortgage Credit Certificate Information:

1. Select "Yes" from the Drop Down indicating the loan has an MCC
2. MCC Reservation#
3. Enter the Reservation Date
4. Enter the Underwriter Certification Deadline Date
5. Enter Reservation Expiration Date
6. Enter the Delivery of the Closed Loan File to Housing Authority By Date
7. Click Save

****Once the MCC has been received enter all information. The MCC will provide ALL Dates for required fields**

Mortgage Credit Certificate

Completing the Resubmittal Approval Milestone:

- There is a Milestone Completion Rule requiring ALL RETAIL and WHOLESAL CHANNEL files to indicate whether the loan has an MCC
1. Select Yes or No from the Dropdown

****Processor is responsible for setting drop down at Resubmittal Milestone**

Mortgage Credit Certificate

Completing the Approval Milestone:

➤ Before being able to finish the Approval Milestone the following fields will be required:

1. Does this loan have an MCC?
2. MCC Contact Name
3. MCC Delivery By Date
4. MCC Phone Number
5. MCC Program Name
6. MCC Reservation Date
7. MCC Reservation Expiration Date
8. MCC Reservation Number
9. MCC Certification Date

The screenshot shows a web form titled "MCC Details & Status". At the top right, there is a dropdown menu labeled "Does this loan have an MCC?" with a callout '1'. Below this is a section "Mtg. Credit Certification & Contact Info" containing fields for "MCC Program Name" (callout '5'), "MCC Contact Name" (callout '2'), "MCC Phone Number" (callout '4'), and "MCC Reservation Number" (callout '8'). The next section is "MCC Reservation Important Dates" with fields for "Reservation Date" (callout '6'), "Reservation Expiration Date" (callout '7'), "Underwriter Certification Deadline Date" (callout '9'), and "Delivery of Closed Loan File to Housing Authority By" (callout '3'). Below this is "Underwriting Details" with fields for "Qualifying Credit Amount" and "Application Fee", and a "Qualifying Notes to UW:" section. The final section is "MCC Tracking" with fields for "Has Information/Fee been Sent to MCC?", "MCC Docs Sent to Wire Room Date", and "MCC Docs Sent to Funder Date".

****Underwriter should validate the above information via the MCC Reservation or MCC Underwriter Certification Form from the MCC Website for accuracy.**

Sample Worksheet

Below is a sample worksheet that could be used with an MCC program. Check with the actual MCC for any specific worksheets that should be used or any additional information that should be included. Most MCCs will have their own worksheet to be used that will provide calculations for the program.

Mortgage Credit Certificate Program

MCC Program Name

MCC Tax Credit Worksheet

(to be completed at time of MCC application)

Loan officer completes this section to determine MCC Applicant's tax credit.

1. Enter the mortgage loan amount	\$
2. Enter the interest rate	%
3. Establish the first year's interest by amortizing the loan for one year (loan amount x interest rate)	\$
4. Enter the mortgage credit certificate rate	X %
5. Calculate the tax credit by multiplying the MCC rate by the first year's interest on line 3 *	\$
6. Tax credit to use, Line 5 or \$2,000, whichever is less	
	÷12
7. Calculate the monthly benefit by dividing the tax credit (line 6) by 12 months	\$

*The maximum annual tax credit year is \$2,000. If this amount is higher than \$2,000 then \$2,000 is the annual credit.

Example for completing Lender's MCC Worksheet

1. Enter the mortgage loan amount	\$200,000
2. Enter the interest rate	6.00%
3. Establish the first year's interest by amortizing the loan for one year (loan amount x interest rate)	\$12,000
4. Enter the mortgage credit certificate rate	X 20%
5. Calculate the tax credit by multiplying the MCC rate by the first year's interest on line 3*	\$2,400
6. Tax credit to use, Line 5 or \$2,000, whichever is less	\$2,000
	÷12
7. Calculate the monthly benefit by dividing the tax credit (line 6) by 12 months	\$166.67

*The maximum annual tax credit year is \$2,000. If this amount is higher than \$2,000 then \$2,000 is the annual credit.