Riverside County Economic Development Agency
Mortgage Credit Certificate (MCC) Program

Information Packet

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This publication intent is to provide general information to interested buyers and real estate salespersons regarding the Riverside County Mortgage Credit Certificate Program. After reviewing this material, if you feel that you qualify for the program, please contact a Participating Lender. A list of Participating Lenders is available on our website at www.rchomelink.com under the MCC link.

What is a Mortgage Credit Certificate? A Mortgage Credit Certificate (MCC) entitles qualified homebuyers to reduce the amount of their federal income tax liability by an amount equal to 15% 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. The buyer takes the remaining 85% of the mortgage interest as a deduction. When underwriting the loan, a lender considers this and the borrower is able to qualify for a larger loan than would otherwise be possible. The following table illustrates how a MCC increases a borrower's "effective home buying power":

Table 1
Effective Home Buying Power With and Without a MCC

	Without MCC	With MCC
First Mortgage Amount	$300,000	$300,000
Mortgage Interest Rate	7%	7%
Monthly Mortgage (Principal & Interest Only)	$1,996	$1,996
MCC Rate	N/A	15%
Monthly Credit Amount	N/A	$262.50
"Effective" Monthly Mortgage Payment	$1,996	$1,734

How does a Mortgage Credit Certificate actually work? Assume the homebuyer bought a home with a mortgage amount of $300,000 with an interest rate of 7% with the monthly mortgage payment of $1,996 as illustrated above.

(1) The homebuyer would pay a total of $300,000 x 7% = $21,000 of interesting the first year (loan amount x interest rate).

(2) Because the homebuyer has a Mortgage Credit Certificate, the homebuyer could receive a federal income tax credit of $3,150 (15% x $21,000). If the homebuyer income tax liability is $3,150 or greater, the homebuyer will receive the full benefit of the MCC tax credit. If the amount of homebuyer tax credit exceeds the amount of his/her tax liability, the unused portion can be carried forward (up to three years) to offset future income tax liability.

(3) The remaining 85% of the mortgage interest or $17,850 ($21,000 less $3,150) qualifies as an itemized income tax deduction.

(4) To receive immediate benefit of the MCC tax credit, the homebuyer would file a revised W-4 withholding from with the homebuyer's employer to reduce the amount of federal income tax withheld from his/her wages and increase homebuyer's take home pay by $262 per month ($3,150 ÷ 12).

(5) By applying the increase in the homebuyer take home pay of $262 towards his monthly mortgage payment of $1,996; his effective monthly payment becomes $1,734 ($1,996 minus $262).

What is the difference between a "tax credit" and a "tax deduction"? A "tax credit" entitles a taxpayer to subtract the amount of credit from their total federal tax bill whereas a "tax deduction" is subtracted from adjusted gross income before federal income taxes are computed.

What happens if the homebuyer cannot use the entire amount of the MCC credit for the year in which it applies? If the amount of the MCC exceeds the homebuyer's tax liability, the unused portion of the credit can be carried forward to the next three years or until used, whichever comes first.

How long does the MCC last? The MCC is in effect for the life of the loan as long as the home remains the borrower's principal residence. The MCC is not transferable to a new loan when refinancing, nor can it be assigned or transferred to a new buyer or another home. In addition, the MCC Program includes a nine year recapture provision which provides for payment of a recapture tax to the IRS if the property ceases to be the borrower's primary residence within nine years from the close of escrow. The amount of tax recapture is determined by formula, and provided to the borrower at the time the application. After expiration of the nine year period, the borrower may dispense of the property without incurring penalty, but would lose the future benefits of the MCC.

Who qualifies for a MCC? The three basic qualifications are: (1) the borrower must be a first time Home Buyer; (2) the borrower's annual income must fall within the program income limits; and (3) the home being purchased must be within the program purchase price limits and in an eligible location. If the home is located in a Target Area Census Tract, then the first-time buyer limitation does not apply and the income and purchase price limits are higher.

What is a first-time Home Buyer? A first time Home Buyer is defined as a person and their spouse who have not had an ownership interest in improved-upon residential real property nor claimed any real estate or mortgage related income tax deductions for the previous three (3) years.

What are Target Areas? Target areas are census tracts designated by the Federal government to encourage investment. Target area census tracts may be found by going to EDA's website at www.rchomelink.com and then clicking on the MCC link.

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What are the income and acquisition cost limits? The following table contains the present income and purchase price limits:

Table 2 Riverside County MCC Income and Acquisition Cost Limits for 2011		
Maximum Income*	**Outside Target Area**	**Inside Target Area**
Household with 1 - 2 persons	$71,400	$85,680
Household with 3 or more persons	$82,110	$99,960
Maximum Home Purchase Cost	**Outside Target Area**	**Inside Target Area**
New & Existing Home	$450,000	$550,000
* Maximum income refers to the gross annual household income of the mortgagor(s) and all persons 18 and older who will live in the residence		

What are the qualifying locations? Riverside County can issue MCC's to buyers who are purchasing a home that is located in any unincorporated area or within the boundaries of a participating city. Currently, the following cities are participating in the County's MCC Program: Beaumont, Blythe, Calimesa, Canyon Lake, Coachella, Corona, Desert Hot Springs, Hemet, Indio, Lake Elsinore, La Quinta, Menifee, Moreno Valley, Murrieta, Norco, Palm Springs, Perris, Riverside, Temecula and Wildomar.

What kinds of properties are eligible? The residence purchased in conjunction with a MCC must be the borrower’s principal residence and may not be used as a business or vacation home. The home may be a detached or attached single family home, condominium unit, a co-op unit, or a manufactured home on a permanent foundation.

How do I apply for a Mortgage Credit Certificate? Borrowers must apply for a MCC through a Participating Lender. The Participating Lender will perform an initial qualification and assist the borrower in completing the MCC submission forms. The Lender then submits the MCC application to the County. The County reviews the Borrowers qualifications and, if they meet the program guidelines, issues a letter of commitment to the Lender. The Commitment Letter must be issued prior to the close of the loan. The loan must close within 60 days of the commitment. Upon loan closing, the Lender submits the MCC Closing package to the County and the County issues the MCC, with the Lender and borrower each receiving a copy. The borrower may then claim the tax credit on their Federal Income Tax Returns. The borrower can receive the money annually as a tax refund or adjust his or her W-4 withholding form to receive the benefit via an increased pay check.

What are the loan terms? The loan terms depend on the Lender and type of loan you use. Depending on the mortgage marketplace and the borrower requirements, each Lender can set its own interest rate, length of mortgage term, down payment requirement, fees, points, closing costs and other loan terms. MCC's may be used with fixed, fifteen or thirty year term loans, including FHA 203(b), VA, FNMA, FHLMC and privately insured loans. MCC's may not be used in conjunction with bond backed loans, such as Cal-Vet or California Housing Financing Authority (CalHFA) loans.

Is there a fee to receive a MCC? The maximum total fee for a MCC is $400.00. Of this, the County collects a $300.00 Non-Refundable application fee which may be paid by any person (buyer, seller, lender, etc.). Participating Lenders may charge up to $100.00 for their processing of the MCC. Therefore, the total maximum charge in association with the MCC is $400.00. This is separate from the other fees associated with purchasing a home, such as escrow fees, loan origination and processing fees and closing costs. Your lender can provide you with a breakdown of the total fees associated with obtaining a mortgage loan.

How do I find an Approved Lender? The County maintains a list of Participating Lenders who have agreed to participate in the County's MCC Program. If you are interested in purchasing a home and feel that you will qualify for the MCC Program, you must contact one of the Participating Lenders directly.

How does a Lender become approved for the MCC Program? In order to participate in the County's MCC Program, each lender must enter into a Lender Participation Agreement with the County. The Lender Participation Agreement details the lenders responsibilities for assisting Borrowers in obtaining a MCC. Once the lender agrees to participate in the MCC Program and signs the Lender Participation Agreement, the Lender must attend MCC training, provided by EDA. Upon completion of this process, the lender may submit MCC applications through the County’s Program.

What happens if I refinance my home? Once you refinance the first mortgage on your home you will automatically lose the benefits of the MCC Program.

For More Information: If you would like to apply for a MCC, please contact one of the Participating Lenders by going to www.rchomelink.com and following the MCC link. If you have any questions or need additional information about the MCC Program please contact:

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