

**CITY AND COUNTY OF DENVER, COLORADO**  
**~~2016~~2017 MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM**

**PROGRAM SUMMARY AND GUIDELINES**

May ~~2016~~17, 2017

**PURPOSE**

The purposes of the MCC Program are to:

- Provide a first-time homebuyer mortgage program that is always attractive compared to conventional home lending programs.
- Provide a relatively simple ongoing mechanism for mortgage origination and delivery of a tax benefit to the homebuyer.
- Deliver a mortgage benefit to support other programs and low/moderate first-time homebuyer housing and economic development in Denver communities.

**BASIC APPROACH**

**What is an MCC?**

A Mortgage Credit Certificate (“MCC”) reduces the amount of federal income tax a homeowner pays by providing a tax credit that is in effect for the life of a mortgage loan, as long as the homeowner occupies the home as a principal residence. The value of the MCC is applied directly to the homeowner’s tax liability. The amount of the credit may not exceed a homeowner’s total income tax liability for a given year. Under certain circumstances, a portion of the excess credit may be carried forward for up to three subsequent tax years. Using an MCC reduces the amount of home mortgage interest that may be taken as a deduction on the homeowner’s tax return.

The value of the MCC equals the total amount of interest paid on the homeowner’s loan in a specified year, multiplied by the MCC rate. The MCC rate for this program will initially be 25%, and there will be a credit limit amount of \$2,000. For example, if a homeowner’s annual interest expense is \$6,000, the tax credit amount is \$1,500 for that year, or, if a homeowner’s annual interest expense is \$10,000, the tax credit amount is \$2,000.

**Program**

The City and County of Denver, Colorado, has tax-exempt bond authority for the MCC Program from its ~~2014~~2015, 2016 and ~~2015~~2017 “carryforward” private activity single family bond volume cap allocation.

In the current tax-exempt bond market, the City cannot create a cost-effective single family mortgage revenue bond program. By converting private activity bond volume cap allocation to

MCC authority, the City can use that private activity bond cap allocation to provide tax benefits to first time homebuyers through MCCs. The MCC will give the homeowner an annual credit against their federal income tax, adding to their income available for making mortgage payments. Lenders may take this additional income into account in qualifying the household for a mortgage.

The MCC Program is also a complimentary program to the City's Metro Mortgage Assistance Plus Program.

### **Basic Mechanism**

To initiate the MCC Program, the City has engaged a third-party entity to act as the MCC Program Administrator. Raymond James & Associates, Inc. will serve as the Program Administrator. The MCC Program Administrator will enter into participation agreements with lenders who agree to the terms of the program. The City, MCC Program Administrator and lenders will then publicize availability of the program.

Homebuyers seeking an MCC would apply to a participating lender for a first mortgage loan. The lender will:

- Determine whether the borrower is eligible for the MCC Program.
- Underwrite the borrower's loan application, taking the benefit of the MCC into account.
- Assist the borrower to prepare an MCC application and assemble documentation required to verify eligibility (purchase contract, tax returns, current income documentation, etc.)2
- Submit the borrower's MCC application and application fee to the MCC Program Administrator.

The MCC Program Administrator will:

- Review the application and supporting documentation to verify that the borrower, property, and proposed loan meet MCC Program requirements.
- Issue a reservation of MCC authority in the proposed mortgage amount for the borrower, valid for 90 days.

After receiving the reservation:

- The lender completes the underwriting process and closes the mortgage loan in the usual manner.
- At closing, the borrower certifies that the information provided in the application continues to be accurate.
- The lender forwards documentation of the loan closing, including the final mortgage amount, to the MCC Program Administrator.
- The MCC origination fee (0.15% of the original mortgage loan amount) is forwarded from the closing escrow.
- The MCC Program Administrator issues the Mortgage Credit Certificate to the borrower.

## Ongoing Administration

In addition to the tasks listed above, the MCC Program Administrator is responsible for:

- Responding to lender requests for information about the MCC Program, eligibility, etc.
- Maintaining a database showing the status of MCC reservations and certificates issued, with information about the borrowers and properties required to meet MCC compliance requirements and any other information the City requires to be collected.
- Providing the City with monthly reports on MCC reservations and certificates, geographic distribution of MCCs, and any other information requested by the City.
- Preparing and filing annual reports of certificates issued with the Department of the Treasury, including all information required by the Department of the Treasury (income levels, etc.), with a copy to the City.

## MCC PROGRAM GUIDELINES

### MCC Allocation

Non-Issued Bond Amount:	<del>\$40,000,000</del> <u>65,000,000</u>
Sources of Allocation:	City <del>2014</del> <u>2015</u> Allocation: <del>-\$25,000,000</del> <u>\$ 1,789,000</u> City <del>2015</del> <u>2016</u> Allocation: <del>-\$15,000,000</del> <u>\$45,381,100</u> <hr/> <u>City 2017 Allocation: \$17,829,900</u>
Credit Rate:	25%
Maximum Amount of Mortgages:	<del>\$40,000,000</del> <u>65,000,000</u>
Federally Required Set-Aside:	<del>\$8,000,000</del> <u>13,000,000</u> of mortgages for federal bond/MCC target area census tracts, for 12 months.
Expiration of Origination Period:	December 31, <del>2018</del> <u>2019</u> , unless all available credit amounts are utilized prior thereto.

### Eligibility Requirements for New Mortgages (Non-Targeted Area)

Eligible Area:	City and County of Denver, Colorado
Eligible Homebuyers (generally):	First time homebuyer – defined as not having owned a home used as its principal residence within the past 3 years (except with respect to mortgage loans in target areas, and for loans to Qualified Veterans).
Maximum Income (generally):	Household of 1 or 2 persons: \$ 96,120 Household of 3 or more persons: \$112,140

Maximum Purchase Price of Home: 1-unit homes \$432,650  
2-unit homes \$432,650

Other Requirements: Mortgage must be a new mortgage.  
Borrower must intend to occupy residence within 60 days.

**Special Requirements  
for Federal Target Areas**

Target Area Set-Aside: 20% of total maximum program mortgage amount  
(\$~~8,000,000~~13,000,000).

Term of Set-Aside: After 12 months, set-aside amount released for use  
throughout the City.

Target Areas: Census Tracts 6, 7.02, 8, 9.02, 9.03, 9.04, 9.05, 11.01, 14.01,  
15, 18, 19.01, 24.03, 35, 36.01, 44.04, 45.03, 45.04, 45.05,  
45.06, 68.13, 70.06, 70.37, 70.89, 83.12, 155, 156, 9800.

Eligible Target Area Homebuyers: Need not be first-time homebuyers.

Maximum Target Area Income: Household of 1 or 2 persons: \$ 96,120  
Household of 3 or more persons: \$112,140

Maximum Purchase Price in Target Area: 1-unit homes \$528,795  
2-unit homes \$528,795

**Lender Requirements**

Eligible Lenders: Banks, savings and loan associations, mortgage companies,  
mortgage brokers and other financing institutions.

Participation Requirements: Enter into Lender Participation Agreement with MCC  
Program Administrator.  
Attend lender training.  
Pay one-time participation fee of \$~~400~~400 (except that no participation fee is due from lenders who joined the 2016 MCC Program on or after January 1, 2017).

Eligible Mortgages: Maximum 40-year term, fixed rate, level payment fully  
amortizing. Mortgage loans may not be financed by the  
proceeds of any tax-exempt bond.

Fees: 

- The MCC applicant is charged fees as follows:
  - A non-refundable application fee of \$75, collected by the lender from the borrower at the time of application, and

- A balance of 0.15% of the mortgage amount, due at loan closing from borrower or loan funds.
- Other than these fees, lender's fees and charges to borrowers may not exceed reasonable and customary fees charged to non-MCC borrowers.

Underwriting:

Take MCC tax savings into account in underwriting per Fannie/Freddie/FHA/VA/RHS guidelines.

Recapture:

Lender will provide borrower with notice of federal recapture requirements applicable to the MCC program.

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