

- The MCC can be used when buying a new home with a maximum purchase price of **\$665,088 (\$812,885 in Target Areas)** or an existing home with a purchase price that does not exceed **\$665,088 (\$812,885 in Target Areas)**.
- MCCs can only be transferred in cases where the home is being sold to another eligible MCC applicant. In such a case, all MCC requirements must be met and the mortgage must be assumed for the transfer to occur.

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2011

MORTGAGE CREDIT

CERTIFICATE PROGRAM



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2011 CONTRA COSTA COUNTY MORTGAGE CREDIT CERTIFICATE PROGRAM

PROGRAM SUMMARY

The Mortgage Credit Certificate Program, authorized by Congress in the Tax Reform Act of 1984, provides financial assistance to "First time homebuyers" for the purchase of new or existing single-family home. In 1985, the State adopted legislation authorizing local agencies, such as Contra Costa County, to make Mortgage Credit Certificates (MCCs) available in California. Contra Costa County MCC authority can be used in all cities as well as the unincorporated areas of the County. The Contra Costa County Department of Conservation and Development will administer the program.

What is an MCC?

The MCC Program is a homebuyer assistance program. The MCC provides qualified first time homebuyers with a federal income tax credit. Income tax credits reduce an individual's tax payment(s) by an amount equal to the credit. Under the MCC program, the maximum tax credit available is equal to 20 percent of the annual interest paid on the borrower's mortgage. By reducing the borrower's federal tax liability, the tax credit essentially provides additional income which can be used for mortgage payments.

How does the MCC reduce your taxes?

In the *example* given in Table 1, a borrower with a 7.5 percent fixed rate 30-year mortgage of \$200,000 would make \$15,000 in interest payments during the first year of the mortgage.¹ Under normal circumstances, the borrower deducts 80 percent of that interest (\$12,000 in our example)—along with other allowable deductions—from his total gross income in order to figure the "*adjusted gross income*" used to calculate his/her total tax liability. After the borrower has calculated the total tax liability, under the MCC program the remaining 20 percent of the interest (\$3,000 in our example) is also deducted from his/her total tax liability. If this subtraction results in a negative number—in other words, if the borrower is unable to use the entire MCC tax credit in this particular tax year—the credit may be carried forward and used, up to three calendar years in the future. The borrower may consider adjusting his/her federal income tax withholding (W-4) so as to benefit on a monthly basis for the MCC. By taking this action, the borrower will have more disposable income to make mortgage payments.

¹Interest Payments on a fixed-rate mortgage will go down gradually each year. On variable-rate mortgages, the total annual interest may *increase*.

1.	First Mortgage Amount	\$200,000
2.	Mortgage Interest Rate	7.5%
3.	Annual Interest Payment	\$15,000
4.	Mortgage Credit Certificate Rate	20%
5.	Annual MCC Amount (Line 3 x Line 4)	\$3,000
6.	Monthly Credit Amount (Line 5 ÷ 12)	\$250

Note that the MCC program applies only to the borrower's federal tax liability. State taxes are not affected.

What are the purchase price and income limitations for MCC participation?

Mortgage Credit Certificates are available to first-time homebuyers in Contra Costa County. Table 2 shows the purchase price and income limitations for MCC Program participants.

	Non-Target Areas	Target Areas ²
Purchase Price³		
New (never occupied units)	\$665,088	\$812,885
Existing (resale) units	\$665,088	\$812,885
Income		
1 and 2 person households ⁴	\$110,760	\$110,760
3+ person households	\$129,220	\$129,220

How does a borrower obtain an MCC?

To obtain an MCC, a purchaser of a new or existing single-family home works with any mortgage lender participating in the MCC program and applies for an MCC and a mortgage loan at the same time. Lenders process the underlying mortgage using standard procedures, with adjustments to those procedures as needed to satisfy the MCC requirements. The lender is responsible for underwriting and execution of required State and federal certifications and affidavits. The County reviews executed certifications and affidavits from the lender in order to determine qualification and eligibility of the MCC applicant.

²Target Areas in Contra Costa County include portions of Pittsburg and Bay Point, portions of Martinez, and portions of San Pablo. Maps are available through the Department of Conservation and Development.

³90% of Average Area Purchase Price for non-target areas and 110% of Average Area Purchase Price for Target Areas.

⁴Households of 1 and 2 persons = 100% median, 3+ person households=115% median; Target area maximum income for 1 and 2 persons = 120% median; 140% of median for 3+ persons.

May an MCC be used with a re-financed loan or to assume an existing mortgage?

An MCC cannot be issued to a homeowner who is refinancing an existing mortgage or to an applicant desiring to assume an existing mortgage unless (1) the mortgage is held by a current MCC holder and (2) the sales price of the house being sold falls under the sales price maximum for the program. In all other cases, only new, first mortgages are eligible for MCC participation.

How many MCCs will be available under the program?

The number of MCCs available depends on the amount of issuing authority for which the jurisdiction applies.

Potential for recapture of portion of the tax credit if home is sold within the first nine years after purchase.

In order to discourage individuals from buying a home primarily to benefit from the tax credit and short term appreciation potential, the federal government has initiated a recapture of a portion of the tax credit if a home is sold within the first nine years after purchase. Certain conditions must exist for the recapture to take effect. The County MCC staff and your lender can outline the specifics of this recapture program at the time of your application.

APPLICATION AND ELIGIBILITY REQUIREMENTS FOR MCC PROGRAM

The Contra Costa County MCC Program eligibility requirements are as follows:

- MCCs will be available only to "first-time homebuyers", (i.e. not owning a "principal residence" within the past three years) in non-targeted areas. This restriction does not apply in targeted areas.
- As first-time homebuyers complete their normal loan application process with a **participating lending institution**, their mortgage lenders will prepare MCC applications and forward them to the County. The County will then issue MCCs on a first-come, first-served basis according to when the initial application is received by the County. County staff requires 7–10 business days for application review and processing.
- Applicants may buy a residence only for their own occupancy, not for rental or reinvestment. Occupancy as "principal residence" must be within 60 days of the close of escrow.
- Applicants must pay a non-refundable application fee of \$300 at the time the lender applies to the County on their behalf.