HOUSING FINANCE AUTHORITY OF BROWARD COUNTY, FLORIDA
2021 MORTGAGE CREDIT CERTIFICATE PROGRAM

MCC INFORMATION GUIDE

The Housing Finance Authority of Broward County, Florida ("Authority") created its 2021 Mortgage Credit Certificate Program (the "Program") for the residents of Broward County, Florida, to help make ownership of new or existing homes located in Broward County more affordable for individuals and families of low and moderate income. A Mortgage Credit Certificate (an "MCC") increases a family's disposable income by reducing its federal income tax obligations. In order to participate in the Program, homebuyers must meet certain eligibility requirements, purchase a home and obtain a mortgage loan through a participating lender, a Program "Participant". (Refer to the MCC Worksheet (Tab 2 of the Program Manual to which this MCC Information Guide is attached) to see if you meet the general requirements for participation in the Program.)

BACKGROUND - MORTGAGE CREDIT CERTIFICATES

What is a Mortgage Credit Certificate?

The mortgage credit certificate program was authorized by Congress in the 1984 Tax Reform Act as a means of providing housing assistance to families of low and moderate income. It is an alternative to the mortgage revenue bond ("MRB") program.

The Mortgage Credit Certificate reduces the amount of federal income tax paid, giving more available income to qualify for a mortgage loan and assist with house payments.

Just as with mortgage revenue bonds, the MCC is (i) available to homebuyers who are first-time homebuyers (except as otherwise provided below), are buying their principal residence, and meet household income and home purchase price limits, and (ii) subject to recapture.

What does the MCC do?

The federal government allows each homeowner to claim an itemized income tax deduction for the amount of interest paid each year on a mortgage loan. A "deduction" reduces the amount of income that is taxed. The MCC program takes the mortgage interest paid and turns a portion of the interest paid into a "tax credit". A "tax credit" is subtracted from the actual amount of federal tax for which the taxpayer is liable. A "tax credit" provides a dollar-for-dollar reduction in federal taxes owed. Since the credits apply for the life of the mortgage, MCC's can save homebuyers thousands of dollars as long as the certificate holder lives in the property as their principal residence. MCC's can be used with all loan types EXCEPT an MRB loan and a qualified veterans mortgage bond loan.

What is the MCC Rate?

The initial amount determined by the Authority of the MCC in this program is a rate of not less than ten percent (10%) and not greater than fifty percent (50%). The Authority reserves the right to amend the MCC rate. Such amendments would apply to those loans reserved after the amendment. After any such amendment, if funds are added to available proceeds as the result of loans not meeting the processing timelines, such funds will be available at the rate prescribed by the amendment.

What is the dollar amount of an MCC to the homeowner?

The amount of mortgage credit depends on the amount of interest paid on the mortgage loan. However, the amount of mortgage credit cannot exceed the amount of annual federal income tax liability. All or a portion of the unused mortgage credit may be carried forward for up to three years to offset future income tax liability.

What is the lender involvement?

Participants/lenders basically are making mortgage loans - just like they do every day. So a Mortgagor can use any of the lender products available, provided they meet the Program requirements (with the exception of MRB and qualified veterans mortgage bonds) in the marketplace. Participants retain the servicing on the loan. The Participant is responsible for, among other things, (i) filing an annual form for each year in which they originate loans with MCC benefits, and (ii) keeping certain records regarding the MCC. The annual form will be forwarded via email by the Authority for execution by the Participant.

How will a Mortgage Credit Certificate assist with the home purchase?

Based on a mortgage loan of $150,000.00 originated on January 1, at an interest rate of four and one-half percent (4.5%) for thirty (30) years, in the first (1st) year the mortgage interest is approximately $6,700.00. A Mortgagor receives a federal income tax credit of $2,000.00 (maximum tax credit for MCCs in excess of twenty percent (20%) of mortgage interest paid). If annual federal income tax is $2,000.00 or more after all other credits and deductions have been subtracted, Mortgagor receives the total benefit of the MCC. The balance of the interest paid, or approximately $4,700.00 may qualify as a deduction in addition to the real estate taxes paid, to the extent the Mortgagor files an itemized tax return. Mortgagors should consult with their tax advisors for a understanding of the MCC benefits..

To receive immediate benefit from the MCC, Mortgagors file a revised W-4 withholding form, and their federal tax withholding would be reduced by $166.00 per month ($2,000.00 divided by 12). Mortgagors should consult their tax advisor prior to filing a revised W-4 withholding form.

If federal tax liability is less than $2,000.00 (assume it is only $1,500.00 for this example), then the federal income tax is reduced for that year by $1,500.00. The other $500.00 of unused credit may be claimed on tax returns within the next three (3) years.

For the loan in this example, the monthly payment of principal and interest is $760.03. Reducing federal taxes with an MCC credit provides $166.66 more in income each month to put toward the mortgage payment. From other sources the Mortgagor now needs $593.37 ($760.03 minus $166.66 income from tax reduction) toward the $760.03 monthly payment.

The benefit of the MCC is recognized by FHA, VA, mortgage insurers, etc. They all may have different formulas that allow the consideration of the MCC for underwriting purposes, but they all recognize the benefit.

Homebuyer Benefit

The MCC will reduce the amount of income taxes due to the federal government; however, the tax benefit cannot exceed the amount of federal taxes owed for the year after other credit and deductions have been taken. Instead, the tax credits can be carried forward three (3) years until used.

Mortgagors will have to adjust federal income tax withholding in order to receive the MCC benefit on a monthly basis. This adjustment is accomplished by the Mortgagor speaking to their payroll department at their place of employment. By reducing monthly withholding, they will have more disposable (after tax) income with which to make mortgage payments.

The benefit of the MCC program continues as long as the buyers continue to own and occupy the property.

What does the Homeowner have to do to claim the benefit with the IRS?

Each year the homeowner files Form 8396 with their federal income tax return. The form is available on the IRS website.

Special Rules

There are special rules regarding refinancing. The Mortgagor should contact the Participant (or their then-current lender if different from the Participant) prior to refinancing its existing mortgage loan.

These instructions are for your information only. The Housing Finance Authority of Broward County, Florida and its officers and agents do not intend to render any income tax advice in connection with this MCC program. All MCC holders or Applicants should consult with the Internal Revenue Service or their personal income tax advisers concerning the appropriate level of withholding allowance given their personal tax situations.

PROGRAM SUMMARY

Authority: Housing Finance Authority of Broward County, Florida

Program Administrator: Housing Finance Authority of Broward County, Florida

The Program: A Mortgage Credit Certificate (MCC) entitles the Mortgagor to a federal income tax credit. A tax credit represents a reduction of actual federal income taxes due. The Mortgagor may use the credit each year they continue to live in the home purchased in the Program as long as they have the mortgage loan.

Eligible Area: Broward County, Florida

Mortgagors: Each Mortgagor must be a first-time homebuyer. This requirement does not apply to Mortgagors (i) purchasing in a Targeted Area or (ii) receiving a qualified Home Improvement Loan or a qualified Rehabilitation Loan or (iii) who are Qualified Veterans.

Income Limits: Household income may not exceed 100% of median for 1-2 person households or 115% for 3 or more person households in non-Targeted Areas and 120% of median for 1-2 person households or 140% of median for 3 or more person households in Targeted Areas.

Qualified Property: The home purchased in the Program must be a one-to-four family residence. If a 2-4 unit dwelling, the buyer must occupy one of the units as its principal residence and the home must be at least five (5) years old. A home may be detached, one unit of a duplex, a townhouse or condominium unit. Manufactured housing qualifies if the unit has at least 400 square feet of living space, is more than 102 inches wide and is of a kind customarily used at a fixed location. It must be attached to real property. Land may not exceed that necessary to maintain basic livability.

Acquisition Limits: The acquisition limit (total sales price) cannot exceed 90% of the safe harbors for non-Targeted Areas and 110% for Targeted Areas.

Qualified Loans: Loans must be for the acquisition of property. Participating lenders may originate loans from their menu of loan options to Mortgagors and may be FHA, VA, USDA/RD or conventional loans which meet the Program requirements.

Targeted Areas: Census tracts 0103.04, 0204.12, 0303.01, 0304.02, 0308.01, 0414.00, 0415.00, 0416.00, 0417.00, 0503.09, 0507.02, 0603.02, 0603.03, 0603.04, 0604.03, 1002.01, 1005.01, 1005.02 and 9800.00.*

*Subject to periodic adjustment by the United States Department of Housing and Urban Development and/or the United States Department of the Treasury.

Home Improvement Loans: Home Improvement Loans of up to $15,000 must substantially improve or protect the livability or energy efficiency of the home, such as new or renovated plumbing or wiring, renovation of the kitchen, or a new or improved heating or cooling system. Swimming pools, tennis courts, hot tubs or other recreational or entertainment facilities do not qualify.

Qualified Rehabilitation: Qualified Rehabilitation Loans are acquisition and rehabilitation or rehabilitation of a home for which the buyer is the first (1st) resident following rehabilitation. In order for a rehabilitation loan to qualify, (a) there must be a period of at least twenty (20) years between the date on which the structure was first used and the date on which the physical work of rehabilitation began; (b) fifty percent (50%) or more of the existing external walls of the structure are retained in place as external walls in the rehabilitation process; (c) seventy-five percent (75%) or more of the existing external walls of the structure are retained in place as internal or external walls; (d) seventy-five percent (75%) or more of the existing internal structure framework of the structure is retained in place; and (e) the total expenditures for the rehabilitation equals twenty-five percent (25%) or more of the Mortgagor's "adjusted basis" in the residence.

Qualified Veteran: A Qualified Veteran means a person who is a "veteran" (as defined in 38 U.S.C. Section 101) who has not previously obtained a loan financed by single family mortgage revenue bonds or a loan which utilized an MCC program using the veteran's exception to the three (3)-year requirement set forth in Section 143(d)(2)(D) of the Code. The Qualified Veteran must provide true and correct copies of their discharge or release papers, which demonstrate that such discharge or release was other than dishonorable.

Program End Date: December 31, 2022

Occupancy: Mortgagors are required to occupy the property purchased in the

Program within sixty (60) days of closing.

Recapture: Mortgage loans originated under the Program are subject to the recapture provision in accordance with Section 143(m) of the Internal Revenue Code. The recapture tax is similar to a prepayment penalty but is imposed by the IRS to recapture some of the cost savings realized by the homebuyer through the Program. Recapture tax may be imposed if the property is sold within nine (9) years of purchase, and the amount depends upon profit realized from the sale, but in no event will exceed fifty (50%) of the homeowner's gain on the sale or 6.25% of the origination loan amount. The amount of the tax also depends upon the level of increase in the homebuyer's income.

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