

THE SAN DIEGO REGIONAL MORTGAGE CREDIT CERTIFICATION PROGRAM Help is Here for First Time Home Buyers in the City of Carlsbad

How an MCC Helps You Buy a Home

By obtaining a Mortgage Credit Certificate during escrow, a qualified home buyer can increase the loan amount they qualify for, and increase their take-home pay as well. The MCC entitles the home buyer to take a federal income tax credit of twenty percent (20%) of the annual interest paid on the mortgage used to buy their home. This credit reduces the federal income taxes of the buyer, resulting in an increase in the buyer's net earnings. Increased buyer income results in increased buyer ability to qualify for the mortgage plan.

An MCC will reduce the amount of federal income taxes paid to the federal government by the home buyer. Assume a taxpayer with a \$30,000 annual income buys a home for \$100,000 at an 8% interest rate. Interest paid the first year is approximately \$8,000. An MCC tax credit of 20% interest paid would equal \$1,600 (20% x \$8,000 = \$1,600).

	WITH MCC	WITHOUT MCC
Annual Income	\$ 30,000	\$ 30,000
Personal Exemption	- 2,350	- 2,350
Interest Deduction	- 6,400	- 8,000
Taxable Earnings	\$ 21,250	\$ 19,650
Tax from Table	\$ 3,184	\$ 2,944
MCC Credit	- 1,600	- 0 -
Total Income Tax	\$ 1,584	\$ 2,944

The same taxpayer owes **\$1,360 less** with an MCC than without one ($\$2,944 - \$1,584 = \$2,360$). A "tax credit" entitles taxpayers to subtract the amount of the credit from their total federal income tax liability, receiving a dollar for dollar savings. A tax deduction is subtracted from the adjusted gross income **before** federal income taxes are computed. Therefore, with a deduction, only a percentage of the amount deducted is realized in savings.

The home buyer may file a new W-4 form with his or her employer reflecting the MCC credit savings. By doing this, the number of exemptions will increase, reducing the amount of taxes withheld and increasing the buyer's disposable income. The home buyer can also wait until the end of the year and realize the tax credit savings in one lump sum when filing the federal income tax return.

Program Requirements

Qualified applicants must be first-time home buyers. The home buyer cannot have had an ownership interest in a principal residence in the last three years preceding the date of

application. Also, the home buyer must occupy the home as a principal residence. In designated targeted areas, applicants do not have to be first time home buyers.

Eligible Properties

An MCC can only be used for either new or previously occupied single-family homes including single family detached homes, condominiums, half plexes, owner occupied duplexes or townhouses in the cities of : Carlsbad, Coronado, El Cajon, Encinitas, Escondido, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, San Marcos, Santee, Vista and the unincorporated areas of San Diego. Triplexes, or four-plexes **do not** qualify as eligible structures for this program.

Program Purchase Price and Income Limits

Mortgage Credit Certificates will generally be made available to first-time home buyers in this program. The table below shows the current purchase price and income limitations for MCC Program participants as of January 1997. SDRMCCP will review documentation from the lender in order to determine eligibility pertaining to these limitations.

Household Income Limits

Non-Targeted Census Tract Targeted Census Tract

Income	Non-Targeted	Targeted
1-2 Person	\$ 68,500	\$ 82,800
3+ Persons	\$ 78,775	\$ 95,900

Home Purchase Price Limits

Price	Non-Targeted	Targeted
Resale	\$ 389,138	\$ 475,614
New	\$ 418,672	\$ 511,710

How to Apply for an MCC

The home buyer may obtain a MCC through any of the participating lenders. A list of the lenders can be obtained from the SDRMCCP Office. The home buyer should apply for the MCC at the same time he/she makes a formal application for a mortgage loan. The buyer should have a purchase offer in hand and should be ready to supply credit information, employment data and other information to the lender for both the mortgage and the MCC applications.

Lenders work with borrowers on a first-come, first-served basis. There is no allocation of MCCs by lender. During the processing of the mortgage application the lender submits a MCC application package to the SDRMCCP on behalf of the buyer. Provided the buyer and property are eligible, the SDRMCCP provides a ***MCC Commitment*** to the lender which reserves a MCC for that purchase transaction. The MCC is issued to the buyer after the close of escrow. Since the

MCC processing is concurrent with the loan processing, it should not extend the length of escrow.

The MCC Recapture Tax

Buyers who receive a MCC may be subject to recapture tax if they sell their residence within nine years. The tax, if any, will always be the lesser of: half the gain from the sale of the home, or a tax based on a somewhat complicated formula which takes into consideration: (1) the original principal amount of the home mortgage; (2) the number of complete years that pass before the home is sold; (3) the median family income for the buyer's area at the time he/she bought the home, and (4) the buyer's modified adjusted gross income at the time the home is sold. There are several conditions which can exempt the MCC holder from the recapture tax. These include: (1) a sale due to death or divorce, and (2) insufficient increase in the income of the seller (certificate holder) between the time of purchase and the time of sale.

The home buyer receives detailed information on the recapture tax from the lender and is asked to sign a statement at time of application that he/she is aware of the tax.

Targeted Census Tracts

Certain census tracts within the limits of the San Diego County Regional MCC Program have been designated by the Census Bureau as "Low Income". Applicants purchasing homes in these census tracts do not have to meet the first time home buyer requirement. Also, the income and purchase price maximums in targeted census tracts are higher, as the government wishes to encourage revitalization in those areas. These areas are not subject to the "no prior home ownership" restriction. There are targeted areas in Escondido, El Cajon, Imperial Beach, Lemon Grove and National City. A list of targeted census tracts is available from SDRMCCP.

Mortgage Loans Used with MCCs

MCCs can be used with conventional, fixed-rate or adjustable rate loans, FHA and VA loans, and privately insured loans. MCCs are not available with bond-backed loans such as California Housing Finance Agency (CHFA) and Cal Vet loans. MCCs can only be used with original first mortgage financing. The San Diego Regional MCC Program does not underwrite the loans. Lenders will process the underlying mortgages using standard procedures, with adjustments to those procedures as needed in order to utilize the tax credit in qualifying home buyers. A home buyer may not have 100 percent seller financing and still be eligible for a MCC.

San Diego Regional Mortgage Credit Certificate Program

Administered for the participating jurisdictions:

Carlsbad La Mesa

Coronado Lemon Grove

El Cajon National City

Encinitas Poway

Escondido San Marcos

Imperial Beach Santee

Unincorporated Areas Vista