



DCHFA'S MORTGAGE CREDIT CERTIFICATE PROGRAM GUIDE

District of Columbia Housing Finance Agency
815 Florida Avenue, NW
Washington, D.C. 20010

October 2016

The District of Columbia Housing Finance Agency was established in 1979 to stimulate and expand homeownership and rental housing opportunities in Washington, DC. This MCC Manual has been designed to provide our Participating Lenders with the information necessary to carry out their responsibilities as DCHFA MCC approved and originating lenders.

Table of Contents

Introduction.....	3
Section One, Eligibility Guidelines.....	4
I. General Borrower Requirements	
II. Property	
III. Financing	
Section Two, Participating Lenders.....	9
I. Lender Restrictions	
II. Lender Responsibilities	
III. MCC Fees	
IV. Record Retention/IRS Reporting	
Section Three, Mortgage Processing Steps.....	11
I. General Requirements	
II. Loan Origination	
III. Loan Submission to DCHFA	
IV. Loan Closing	
V. Post-Closing	
Table 1, MCC Income and Acquisition Limits	15
Table 2, MCC Recapture Formulas	16
Table 3, Targeted Census Tracts	17
DCHFA Contact Information	18

Introduction

The purpose of this Program Guide is to describe the Mortgage Credit Certificate (“MCC”) Program, a federal income tax credit, as established by the District of Columbia Housing Finance Agency (“DCHFA”) and federal regulations.

The MCC Program permits those lenders who have executed a Lender Participation Agreement with DCHFA (“Participating Lender” or “Lender”) to offer the MCC to borrowers subject to the MCC Program eligibility requirements.

ALL Participating Lenders must complete DCHFA’s MCC training prior to being permitted to reserve MCCs.

For Lenders combining an MCC with a DC Open Doors mortgage program, all MCC eligibility requirements in this Program Guide (borrower eligibility, income limits, sales price limits) ARE required. All MCC rules, guidelines, and procedures take precedence over any stand-alone DC Open Doors guidelines.

The MCC reduces an eligible borrower’s federal income tax liability and, in effect, creates additional income for the borrower to utilize in making mortgage payments. DCHFA offers a 20% tax credit amount and there is no maximum annual credit amount. The annual benefit to the borrower will be the lesser of the credit amount or the amount of federal tax liability after all other credits and deductions have been taken. The MCC is valid for the life of the loan as long as the borrower continues to occupy the property as their principle residence.

Section One

Eligibility Guidelines

Lenders are required to review the borrower and property requirements of this section to ensure the eligibility of mortgagors for an MCC.

I. General Borrower Requirements

- A. Occupancy** - The borrower must occupy the property as a principle residence within 60 days of closing.
- B. Ownership Interest** – The borrower (and any other person taking title to the property) cannot have owned and occupied a principal residence located within or outside of the District of Columbia during the three-year period ending on the date the new Deed of Trust is executed on the property for which the MCC is requested. DCHFA requires that the borrower sell or transfer his/her interest in any real property owned prior to settlement on the property for which the MCC is being issued, regardless of whether the property is their principle residence.
 - 1) Prior ownership should be verified using the most recent 3 years’ federal tax returns, including all schedules to indicate if a mortgage interest or real property tax deduction has been taken.
 - a. 3 years’ signed tax transcripts obtained directly from the IRS may be substituted.
 - b. In cases where the borrower was not required to file tax returns at any time during the 3 year period preceding the settlement date, a statement will be required from the borrower along with a notice from the IRS that no record exists for that/those year(s).
 - c. Income must be re-verified if the MCC loan closes 120 days after the period ending date of the last pay stub provided.

There are two exceptions to the 3 year non-ownership requirement:

- 1) The residence being financed is located in a Targeted Area (refer to Table 3); or

- 2) The borrower is a veteran who purchases a home using the proceeds under a one-time exception allowance. The veteran may not own other real property at the time of closing of the property for which the MCC is being issued. Additionally, the veteran must make application for financing prior to the 25th anniversary of the last date on which the veteran left active service. To document, a DD214 reflecting the date of an honorable discharge is required.

C. Married Borrowers - If a person owns property that is deeded in their name, that person may not take any ownership in the property for which the MCC is being requested. In the case of a spousal relationship, if a spouse already owns property they may not have ownership in the property for which the MCC is being requested unless the spouse will relinquish his/her ownership interest in the other property.

D. Separated Borrowers - Individuals who are separated or divorced and have had an interest in real property within the last 3 years may be eligible if the borrower can document that he/she did not reside in the property during the last 3 years. In addition, they must no longer have an interest or will divest himself/herself of that property interest prior to the closing on the property for which the MCC is being issued.

- 1) Married borrowers who do not have a separation agreement or divorce decree may submit a notarized statement of the borrower's intent to live separately from the borrower's spouse as well as address alimony, child support, or ownership interest in property.

E. Income - All occupants of the home being financed ("Household Income") must meet the income limit requirements (Refer to Table 1).

- 1) Household Income is defined as the gross annual income of the borrower(s) and any other person, related or unrelated, who is expected to reside in the residence being financed; including income received by any household member who is 18 years of age and older, except full-time dependent students, even if they will not be liable on the mortgage or take title to the property.
- 2) Income Calculation – DCHFPA will consider all Household Income being earned as of the date of Lender submission for MCC issuance approval. Income used for qualifying for a mortgage loan differs from compliance

- d. One-time sign-on employment bonus.
- e. Lump sum additions to assets, such as inheritance, insurance, capital gains, and settlement for personal/property losses.
- f. Payments received for the care of foster children.
- g. Severance pay.
- h. Estimated MCC credit/benefit.

II. Property

- A. Must be located within the District of Columbia.
- B. The acquisition cost of a home financed using the MCC Program may not exceed the established limits set by DCHFA (Refer to Table 1).
 - 1) DCHFA defines Acquisition Cost as the sales price, or in the case of an FHA 203(k) Streamline Loan, the sales price plus the cost of improvements.
- C. Acceptable property types:
 - 1) Detached, one-half of a duplex (semi-detached), or attached (townhomes) residential units.
 - 2) Condominium units approved by the insurer/guarantor.
- D. No more than fifteen percent (15%) of the total area of the principle residence may be used for the following:
 - 1) A principal place of business for, or in connection with, any trade or business on an exclusive and regular basis.
 - 2) A place of business that is used exclusively and on a regular basis for the purpose of meeting or dealing with patients, clients or customers in the normal course of business or trade.
 - 3) A place that is used on a regular basis where the inventory is held for use in the business or trade of selling products at wholesale or retail, but only if the residence is the sole fixed location of such business or trade.
- E. Ineligible property types/uses:
 - 1) Manufactured housing (mobile homes).
 - 2) Cooperatives.
 - 3) Rental homes or any home in which a portion is to be rented.
 - 4) Investment homes.
 - 5) "Like Kind" exchange properties under Section 1031 of the Internal Revenue Service Code.
 - 6) Commercial property.
 - 7) Properties purchased through the sale of contract rights.

- 8) Any 2, 3 or 4 unit property.
- 9) Any residence used on a regular basis in the business or trade of providing day care for children, or for other individuals, regardless of age.
- 10) Roommates – considered being more than fifteen percent (15%) of the residence for business purposes.

III. Financing – DCHFA’s MCC Tax Credit amount is twenty percent (20%) for existing, renovated, and new homes.

A. The use of the MCC benefit in determining qualifying ratios is subject to the current guidelines of the insurer and/or loan type:

- 1) **FHA** – according to HUD 4155.1: 4.E3.d, the MCC benefit is either “...added to gross income or may be used to directly offset the mortgage payment before calculating the qualifying ratios”.
- 2) **VA** – according to the VA Lender Handbook Sections 4.03 and 4.09, item 33, the MCC will be treated as a reduction in the monthly federal income tax. The amount of tax credit is limited to the amount of the veteran’s maximum tax liability.
- 3) **Conventional** – the MCC benefit should be added to the gross income of the borrower(s).

B. Prohibited Mortgages:

- 1) Cannot be used in conjunction with qualified mortgage revenue bond financing.
- 2) USDA 502 Direct Loans.
- 3) Adjustable Rate Mortgages, except FHA.
- 4) DCHFA will allow the MCC in conjunction with an FHA 203(k) Streamline Loan program;
- 5) Subordinate financing – the MCC can only be a component of the first trust mortgage;
- 6) Loan closing may NOT occur prior to DCHFA’s approval of the MCC underwriting file. If the loan is closed prior then, the loan will no longer be eligible for an MCC. The Lender will be responsible for advising the borrower(s) of such an error as well as any financial consequences of the error.

Section Two

Participating Lenders

I. The Program is allowed for Lenders who will do all of the following:

- A.** Are approved as a Fannie Mae or Freddie Mac seller/servicer in good standing if originating conventional loans.
- B.** Are approved as an FHA mortgage originator if originating FHA loans.
- C.** Are approved as a VA mortgage originator if originating VA loans.
- D.** Are approved as an USDA mortgage originator if originating USDA loans.
- E.** Be properly licensed to originate mortgage loans in the District of Columbia.
- F.** Originate, process, underwrite, close and fund the loan.
- G.** Are in compliance with applicable minimum capital requirements imposed by federal banking laws and regulations.
- H.** Are not under supervisory control of, or subject to, enforcement proceedings by federal banking regulators with respect to any violations or alleged violations of federal banking laws or regulations.
- I.** Have executed a Lender Participation Agreement.
- J.** Complete a lender training session with DCHFA staff.

II. Lender Acknowledges and Accepts the Following:

- A.** This Program is available on a first-come, first-served basis.
- B.** Availability of MCC authority is not guaranteed.
- C.** DCHFA offers a 70-day reservation period. The mortgage loan must close by the expiration date of the reservation period.
- D.** The Lender must submit the Closing Package to DCHFA within 15 days of the expiration date or mandatory extension fees will be imposed upon the Lender.
- E.** If combining the MCC with the DC Open Doors Program, the Lender must have the 1st mortgage delivered to DCHFA's Master Servicer and purchased by day 70.
- F.** DCHFA will charge a \$100 late fee, per month, for all incomplete files. This fee may not, under any circumstances, be passed on to the borrower.
- G.** The Lender must use procedures which will ensure accurate closing documentation is received in order for DCHFA to disclose and issue the MCC.

III. MCC Fees

- A.** Beginning with reservations made on or after October 3, 2016, DCHFA charges a non-refundable MCC issuance fee in the amount of \$450 for MCCs being issued in conjunction with a DC Open Doors Program (or utilizing VA 1st Trust financing).
- B.** Beginning with reservations made on or after October 3, 2016 DCHFA charges a nonrefundable MCC issuance fee of \$1,500 for MCCs being issued without a DC Open Doors first trust mortgage loan.
 - 1)** This fee is reduced to \$450 for all borrowers utilizing a VA loan type for 1st trust financing
- C.** The Lender may charge the borrower an additional MCC processing fee up to \$450.
- D.** The Lender must properly disclose all fees on the 1st trust Loan Estimate and Closing Disclosure.
- E.** Fees may be paid by any party of the transaction as long as in compliance with the Real Estate Settlement Procedures Act.
- F.** Unless combined with a DC Open Doors Program, the rate, term and fees for the mortgage loan are established by the Participating Lender and the Lender is responsible for making sure the loan complies with MCC Program Guidelines.

IV. Record Retention and IRS Reporting

- A.** The lender must retain the following for 6 years for IRS purposes:
 - 1)** Name, address and social security number of the MCC holder;
 - 2)** Name, address and TIN of the Issuer (DCHFA); and
 - 3)** Loan date, certified indebtedness amount and credit rate.
- B.** The lender must file a report to the IRS each calendar year using IRS Form 8329. The report must be filed only once for each mortgage supported by an MCC. DCHFA will assist the Lender in preparing the IRS Form 8329 by furnishing an excel printout containing the necessary information of all MCCs closed during the calendar year. This report is based upon all closing packages which DCHFA received and issued an MCC.
 - 1)** The fee for this report is \$250;
 - 2)** Submit your request for an MCC spreadsheet no later than January 20th to allow sufficient time to generate the report;
 - i.** In order for this report to be accurate, all closing packages on loans closed during the prior year must be submitted to DCHFA by January 15th.

Section Three

Mortgage Processing Steps

I. General Requirements

DCHFAs will issue MCCs for eligible mortgages that are originated and approved by Participating Lenders. MCC eligibility includes compliance with federal and local requirements. Eligible borrowers may apply for the MCC Program with Participating Lenders by completing a standard mortgage application. The DCHFA compliance review is performed AFTER the Lender completes its normal underwriting process.

MCC packages should be submitted to DCHFA as early as possible to allow sufficient time for file review. DCHFA will review the files submitted in the order in which they are first received. Incomplete files will be set aside until all requirements have been received, and then will be placed back in line for review.

All packages must be submitted electronically via DCHFA's FTP Portal:
<https://sftp.dchfa.org>

II. Loan Origination

- A. After the application has been taken, the Lender will access the eHousingPlus portal (<https://services.ehousingplus.com>) and input the requested borrower and subject property reservation information;
 - 1) If the MCC is in conjunction with a DC Open Doors loan, the loan will be reserved first, and then the Lender will complete the MCC request.
 - 2) DCHFA maintains a cumulative total of reserved MCCs and is limited by law to a specific amount of mortgage credits. It is imperative that the Lenders advise DCHFA of reservation cancellations.
- B. Lender verifies that borrower/household income, acquisition cost, and prior ownership requirements are met.
- C. The borrower and any co-borrowers sign and date the DCHFA MCC Applicant Disclosure (Form MCC-003) certifying all of the following:
 - 1) Residence will be used as a primary residence within 60 days of closing.
 - 2) Certification that the borrower has not owned a property in which he/she has resided in during the preceding 3 year period preceding the date of closing on the property for which the MCC is being requested.
However, this requirement is not necessary for a purchase in a Targeted Area or for a one-time Veteran's exemption.

- 3) Certification that the Acquisition Cost does not exceed Program limits.
 - 4) Disclosure/certification of all household members, ages and annual income amounts, if applicable.
 - 5) Certification that no mortgage interest from the loan is being paid to a related person.
 - 6) Acknowledgement that any material misstatement or fraudulent statement is made under penalty of perjury.
- D. The following additional documents must also be completed, signed and dated at the time of application:
- 1) DCHFA's MCC Program Option Form with the Recapture Tax Notice attached (for all MCC requests in conjunction with DC Open Doors loan program) (Form MCC-001).
 - 2) Notice to Borrower for Potential Recapture Tax (Form MCC-004).
 - 3) MCC Program Disclaimer (Form MCC-005).

III. Loan Submission to DCHFA

- A. Once the Lender has reviewed and approved the loan file for the 1st trust and the MCC, the Lender will submit to DCHFA the following completed and signed disclosures, documents, verifications, and explanations, if applicable:
- 1) Signed underwriter approval form (1008) including all loan conditions.
 - 2) Final 1003 – Uniform Residential Loan Application.
 - 3) Copy of Lender's Estimate of closing costs reflecting the appropriate MCC fees allowed.
 - 4) Fully Executed/Ratified Purchase Contract, including ALL addendums.
 - 5) Documentation of all Household Income as defined and described in Section One, Part I, Letter E-Income.
 - 6) Documentation Borrower(s) is/are first-time homebuyers as described in Section One, Part I, Letter B-Ownership Interest (Not required for a purchase in a Targeted Area or one-time Veteran's Exemption).
 - 7) MCC Program Option Form (Form MCC-001)- only if MCC is in conjunction with a DC Open Doors loan program.
 - 8) MCC Applicant Disclosure (Form MCC-003).
 - 9) Notice to Borrower of Potential Recapture Tax (Form MCC-004).
 - 10) MCC Program Disclaimer (Form MCC-005).
 - 11) Other documentation required, as applicable, such as VA DD214, letter concerning marital status, disposition of property, etc., as described in this Program Guide.
- B. DCHFA will provide a Notice of MCC Compliance or MCC Incompleteness or MCC Ineligibility upon review of all information submitted.

IV. Loan Closing

- A.** Lender completes the DCHFA Seller Affidavit (Form MCC-007) and sends to closing for the seller's signature. In addition, the following must occur for an MCC to be issued:
 - 1) All sellers must sign the Seller Affidavit.
 - 2) If signed by a relocation company official, the signature line must include the name of the selling company and the title of the individual signing the affidavit.
 - 3) If the Seller Affidavit is executed by an estate, DCHFA must also have a copy of the signed and stamped Letter of Administration or Letter of Testamentary which authorizes the Executor/Executrix's signature.
 - 4) If the Seller Affidavit is executed by a Bank or its representative, proof of that person's signing authority is required.
 - 5) Copies of all forms are acceptable (originals not required).
- B.** DCHFA MCC Applicant Closing Affidavit to be signed and dated at closing and the following must occur:
 - 1) The borrower(s) will complete the top section, selecting (a) or (b), at closing
 - 2) The borrower(s) will certify that no changes in income have occurred.

V. Post-Closing

- A.** Lender returns the following directly to DCHFA within 10 days of closing:
 - 1) Final signed 1003 Application;
 - 2) 1st Trust Closing Disclosure;
 - 3) 1st Trust Note;
 - 4) MCC Applicant Closing Affidavit;
 - 5) MCC Seller Affidavit; and
 - 6) MCC Fee payable to DCHFA in the form of a Corporate or Cashier's check, which includes the following information:
 - a. Borrower Name;
 - b. Property Address; and
 - c. DCHFA MCC Reservation Number

- B.** Mailing Address:

District of Columbia Housing Finance Agency
Single Family Programs
815 Florida Avenue, NW
Washington, DC 20010

TABLE 1

MCC Income and Acquisition Limits for Washington, D.C.

Income Limits			
Non-targeted Area Family of 2 or less	Non-targeted Area Family of 3 or more	Targeted Area Family of 2 or less	Targeted Area Family of 3 or more
\$131,040	\$152,880	\$131,040	\$152,880

Sales Price Limits	
	Single-Family Unit
Non-targeted Area	\$589,784
Targeted Area	\$720,847

TABLE 2

All Jurisdictions within Washington, D.C. (Targeted & Non-Targeted)

(Using HMFA Area Median Income)

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	\$130,320*	\$152,040*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	\$136,320	\$159,642
On or after the second anniversary of closing but before the third anniversary of closing	60%	\$143,678	\$167,624
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	\$150,862	\$176,005
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	\$158,405	\$184,806
On or after the fifth anniversary of closing but before the sixth anniversary of closing	80%	\$166,325	\$194,046
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	\$174,641	\$203,748
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	\$183,373	\$213,936
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	\$192,542	\$224,632

* Washington, D.C. HMFA 2016 median income of \$108,600 times 120% and 140%.

TABLE 3

Targeted Census Tracts In Washington, D.C.

District of Columbia,, District of Columbia, Census Tract 34
District of Columbia,, District of Columbia, Census Tract 47.01
District of Columbia,, District of Columbia, Census Tract 47.02
District of Columbia,, District of Columbia, Census Tract 64
District of Columbia,, District of Columbia, Census Tract 74.01
District of Columbia,, District of Columbia, Census Tract 74.03
District of Columbia,, District of Columbia, Census Tract 74.04
District of Columbia,, District of Columbia, Census Tract 74.06
District of Columbia,, District of Columbia, Census Tract 74.07
District of Columbia,, District of Columbia, Census Tract 74.08
District of Columbia,, District of Columbia, Census Tract 75.02
District of Columbia,, District of Columbia, Census Tract 75.03
District of Columbia,, District of Columbia, Census Tract 75.04
District of Columbia,, District of Columbia, Census Tract 76.05
District of Columbia,, District of Columbia, Census Tract 77.08
District of Columbia,, District of Columbia, Census Tract 78.08
District of Columbia,, District of Columbia, Census Tract 78.09
District of Columbia,, District of Columbia, Census Tract 88.04
District of Columbia,, District of Columbia, Census Tract 89.03
District of Columbia,, District of Columbia, Census Tract 89.04
District of Columbia,, District of Columbia, Census Tract 92.04
District of Columbia,, District of Columbia, Census Tract 95.01
District of Columbia,, District of Columbia, Census Tract 96.01
District of Columbia,, District of Columbia, Census Tract 96.02
District of Columbia,, District of Columbia, Census Tract 97
District of Columbia,, District of Columbia, Census Tract 98.02
District of Columbia,, District of Columbia, Census Tract 98.03
District of Columbia,, District of Columbia, Census Tract 98.10
District of Columbia,, District of Columbia, Census Tract 98.11
District of Columbia,, District of Columbia, Census Tract 99.04
District of Columbia,, District of Columbia, Census Tract 99.06
District of Columbia,, District of Columbia, Census Tract 99.07
District of Columbia,, District of Columbia, Census Tract 104
District of Columbia,, District of Columbia, Census Tract 109

**District of Columbia Housing Finance Agency
Single Family Programs**

CONTACT SHEET

Administration:

Lisa Hensley
Director of Single Family Programs
202-777-1635
Lhensley@dchfa.org

Bill Milko
Deputy Director of Single Family Programs
202-777-1642
Wmilko@dchfa.org

Deborah Jones
Single Family Programs Manager
202-777-1652
Djones@dchfa.org

Sherray Gibson
Administrative Assistant
202-777-1632
Sgibson@dchfa.org

Single Family Programs:
SingleFamilyPrograms@dchfa.org

Mailing Address:

District of Columbia Housing Finance Agency
Single Family Programs
815 Florida Avenue, NW
Washington, DC 20001

MCC Reservations:
<http://ehousingpl.us/dchfa>

eHousingPlus Program Administration:

Compliance Staff
3050 Universal Blvd., Suite 190
Weston, FL 33331
954-217-0817 (Phone)
206-888-2725 (Facsimile)
services@ehousingplus.com