Mortgage Credit Certificate Program Guide

Home Ownership Group

Mission Statement

To create affordable housing opportunities for North Carolinians whose needs are not met by the market.

North Carolina Housing Financing Agency
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Website: www.nchfa.com

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Section 1: Introduction

1.1 About NCHFA

NCHFA was created in 1973 by North Carolina General Statutes Chapter 122-A as a corporate body with responsibility to provide affordable housing opportunities for low- and moderate-income North Carolina households.

NCHFA has office hours between 8:00 a.m. and 5:00 p.m., Monday through Friday. The telephone number is (919) 877-5700. The mailing address for NCHFA is the following:

North Carolina Housing Finance Agency
Home Ownership Lending Group
P.O. Box 28066
Raleigh, North Carolina 27611-8066

or

North Carolina Housing Finance Agency
Home Ownership Lending Group
3508 Bush Street
Raleigh, North Carolina 27609

This Program Guide and other resource materials may be downloaded from the NCHFA website at www.nchfa.com. Marketing brochures and flyers may be available from time to time and will be provided to lenders when available.

1.2 Purpose

The purpose of this Originator's Guide is to describe the Mortgage Credit Certificate (MCC) Program as established by the North Carolina Housing Finance Agency (NCHFA) and federal regulations. It also will identify the respective roles of the North Carolina Housing Finance Agency (NCHFA or the Agency), the lender, the borrower and the seller. Loan processing documents are included for reference.

The MCC program was authorized by Congress in the 1984 Tax Reform Act. The MCC Program permits participating lenders, who have executed a Lender Participation Agreement (the Agreement) with NCHFA, to offer the MCC subject to program eligibility of borrowers.

For lenders combining an MCC with the N.C. Home Advantage mortgage program, all MCC eligibility criteria in this manual (borrower eligibility, income limits, sales price limit and NCHFA required forms) are required. All MCC rules, guidelines and procedures take precedence over any stand-alone N.C. Home Advantage guidelines.

An MCC operates as a federal income tax credit. The MCC reduces an eligible borrower's federal income taxes and, in effect, creates additional income for the borrower to use in making house payments. NCHFA offers a 30% tax credit amount (50% tax credit for new homes). For example, a borrower with a loan amount of $100,000 at an interest rate of 5% for 30 years pays approximately $5,000 of interest in the first year. With a 30% MCC, this borrower may be eligible to receive a federal income tax credit of $1,500 (30% x $5,000).

The borrower may choose to reduce the amount of monthly federal income tax withheld by filing a revised IRS W-4 Employee Withholding Allowance Certificate in order to have more disposable income to make loan payments. This is not required.

The annual benefit to the borrower will be the lesser of the credit amount or the amount of federal taxes owed after all other credits and deductions have been taken. The maximum credit amount is up to $2,000 annually. The MCC is valid for the life of the loan as long as the borrower occupies the property as a principal residence and has a tax liability. Should the borrower cease to occupy the property as their primary principal residence, the MCC shall be revoked.

An MCC cannot be used with a mortgage loan that is financed through tax-exempt mortgage revenue bonds (e.g., NC 1st Home Advantage $8,000 DPA). However, the N.C. Home Advantage is an eligible loan product that can be combined with an MCC.

Requests for marketing material should be emailed to Margie Rivera, Home Ownership Lending Group. Large orders may involve a nominal fee for shipping and postage.

1.3 Lender Participation Guidelines

The Program is restricted to lenders who meet the following requirements:

1) Are approved as Fannie Mae or Freddie Mac sellers/servicers in good standing if originating conventional loans, approved as FHA mortgage originators if originating FHA loans, approved as VA mortgage originators if originating VA loans, or approved as USDA mortgage originators if originating USDA loans;
2) Have and maintain a retail mortgage origination office physically located in North Carolina that has originated residential mortgages for at least one (1) year. If less than one full year of physical presence, you may apply after six months of having a physical location opened and located in North Carolina originating loans along with a Letter of Recommendation from another state housing finance agency indicating good standing.;

3) Originate, process, underwrite, close and fund the loan in their own name;
4) In compliance with applicable minimum capital requirements imposed by federal banking laws and regulations;
5) 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;
6) Have a net company asset worth of $1,000,000 (subject to change);
7) Be approved by NCHFA and the Master Servicer and execute a Mortgage Origination Agreement with both; and
8) Have the in-house capability and legal authority to provide interim servicing of closed loans prior to purchase by Master Servicer, and
9) Complete in-person lender training (or approved webinar training) with NCHFA staff.

Any lender who does not close a minimum of twelve (12) loans with NCHFA in a calendar year may be removed from the program at the Agency's discretion. A lender may be removed from participation from Agency programs at any time for fraud or program violations, without recourse.

By becoming an approved lender and participating in the Program, the lender understands and agrees that the Agency reserves the right to suspend the lender's ability to make new locks under the Program if the lender has outstanding fees, late documents, excessive withdrawal of locks, or for any other reason as determined by the Agency in its sole discretion.

Loan officers must reside in North Carolina (or a county that touches the NC border) and are required to attend in-person training (or approved webinar training) before offering NCHFA loan products. When possible, Operations Staff are encouraged to attend in-person training, however attendance at NCHFA conducted webinars, required as indicated, will satisfy the training requirement for Ops staff only. Loan officers must maintain at least five (5) closed loan products with NCHFA in a rolling 12-month period to remain eligible to originate NCHFA products. Loan Officers who fall below that threshold must repeat training.

All staff who originate, process, underwrite, close, or have access to NCHFA's On Line Lender Services system (OLS) must remain current on NCHFA program guidelines and requirements. All staff with access to the OLS must receive training before being issued a User ID by the Lender's System Administrator. After issuing a User ID, the system administrator must notify NCHFA of the new user, including the user's contact information and most recent training date. Loan officers must complete in-person training annually or remain current on NCHFA programs by closing at least 5 loans in a rolling 12-month year.

Training Policy

Operations Staff:

All processors and underwriters must attend a training webinar before utilizing our programs or requesting access to our secure, on-line systems.

Training webinars are normally offered monthly. Processors and underwriters are not authorized to work on NCHFA products until they have completed training and passed the required quiz with a score of 80% or higher. The quiz is sent after each webinar and is comprehensive, but it only has to be passed once. After passing the quiz, the Operation's staff member should take a screen shot of their passing grade to give to their supervisor. They should save the screen shot as evidence of their passing score.

Failure to follow both NCHFA and ServiSolutions guidelines may result in a non-purchasable loan or non-issuance of the Mortgage Credit Certificate. All members of the Lender's team must complete required training, even if they have worked with NC Housing Finance Agency products at their previous employer.

Loan Officers:

Prior to originating any NCHFA product Loan Officers must attend the three-hour ***Let's Make Home Happen*** (LMHH) class, in-person when available (on-line as a synchronous class until further notice). This class is normally offered monthly. After completing the class, Loan Officers must also pass a quiz with a score of 80% or higher. After completing both the class and the quiz, the Loan Officer should forward their class date and a screenshot of their passing quiz score to their supervisor and the Training Coordinator at NCHFA. At that time, Loan Officers are eligible to originate NCHFA products.

1.4 Annual Recertification Requirements

On an annual basis, each lender will be required to electronically recertify that it is still in compliance with NCHFA mortgage origination guidelines and reconfirm lender locations and loan officer additions/subtractions. Official audited financials are required. The designated corporate contact for each participating lender will receive an e-mail from NCHFA that contains a single-purpose weblink and user ID for performing the recertification process.

There is a $375 fee payable by ACH at the end of the recertification. Failure to recertify may prohibit future participation in NCHFA programs.

In addition, the Master Servicer may require an annual recertification that is separate from the annual NCHFA recertification.

1.5 Program Contact Information

Name	E-mail Address	Telephone	Area of Support
Donna Pruitt *Loan Production Coordinator*	dmpruitt@nchfa.com	919 -877-5692	Underwriting and MCC questions
Nicole Wivell *Underwriter*	nmwivell@nchfa.com	919 -877-5677	Underwriting and MCC questions
Lori Purser *Underwriter*	lgpurser@nchfa.com	919 - 981-2608	Underwriting and MCC questions
Amber Smith *Underwriter*	ansmith@nchfa.com	919 - 981-2660	Underwriting and MCC questions
Raj Patel-Howard *Underwriter*	rphoward@nchfa.com	919 - 981-2688	Underwriting and MCC questions
Justin Cuevas *Underwriter*	jacuevas@nchfa.com	919 - 981-4473	Underwriting and MCC questions
Bill Hobbs	wahobbs@nchfa.com	919 - 850-2779	Lender Outreach, Lunch & Learns
Rob Rusczak	rob@nchfa.com	919 - 875-3777	Manager, Home Ownership
Margie Rivera *Customer Service*	mbrivera@nchfa.com	919 - 877-5710	Customer Service, Locks, User IDs, New Lender Agreements
Kathy Rufiange *Training & Outreach Coordinator*	kprufiange@nchfa.com	919-480-8006	Coordinator Lender and realtor training classes
Jan Ott *MCC/Bond Closing Specialist*	jlott@nchfa.com	919 - 877-5632	MCC Closings, IRS Reports

NCHFA displays current interest rates, loan types and other program information on the NCHFA website. The NCHFA website address is www.nchfa.com. Participating lenders must use NCHFA's Online Lender Services System (OLS) to reserve loans and maintain their pipeline. It can be accessed via *https://www.nchfa.org/OLS/login.aspx*.

Section 2: Definitions

ACH— (Automated Clearing House) an electronic network for financial transactions including vendor payments. The MCC fee is now made by ACH payment through the OLS system.

Acquisition Cost— The cost of acquiring residential property as a completed residential unit.

Adult Occupant— All household members over the age 18.

Affidavit— A document that is made under oath and subject to the penalties of perjury. The affidavits include the Mortgage Affidavit and Borrower Certification (MCC-016); the Seller Affidavit (MCC-013); the Income Tax Affidavit (MCC-018); the Borrower Closing Affidavit (MCC-101); the Lender Closing Affidavit (MCC-102); and Recertification of Income (MCC-103).

Agency— The North Carolina Housing Finance Agency.

Borrower(s)— Individuals applying for mortgage loan financing assisted by a Mortgage Credit Certificate.

Business Use— The principal place of business for, or in connection with, any trade or business on an exclusive and regular basis. The property should not have more than 15% of the square footage used in a trade or business, or used as an investment rental property. A business use worksheet is required to be submitted in all instances where the property will host a business use.

Compliance Guidelines— NCHFA rules that are used in conjunction with prudent credit, property and mortgage industry guidelines to determine eligibility for MCC-assisted loans.

Conditional Loan Commitment— Issued at loan approval and sent by email to the participating lender who submitted the initial reservation. The Commitment can also be retrieved from the OLS system under the Documents section.

Co-borrower[1]— An individual who is listed on loan documents and whose income and credit are used to qualify for the loan. A co-borrower must meet the annual income limits and must have or establish North Carolina residency within 60 days of closing.

[1] Income for all borrowers and occupying titleholders must be counted toward household income for MCC compliance purposes.

Co-signer/Co-Signor— A non-occupant who is co-signing the Note for a particular loan. Not allowed on the MCC tax credit program.

Discount Points— A point equals 1% of the loan amount and is used to reduce the interest rate on the mortgage below the prevailing mortgage rate.

Electronic Signatures— Are acceptable on all NCHFA documents, except the Promissory Note and Deed of Trust. They must be UETA and/or ESIGN compliant.

Eligible Borrower— An individual or family that (1) meets the annual income limits in Section 5, (2) has or will establish North Carolina residency within 60 days of closing, and (3) has not had an ownership interest in a principal residence and lived in the principal residence during the three-year period ending on the date the new Deed of Trust is executed, unless the residence purchased is in a Targeted Area or the borrower meets one-time Veteran's exemption.

Eligible Property— A residence that is located in North Carolina and is eligible for insurance under FHA, VA, USDA and Conventional guidelines. In addition, eligible properties must meet NCHFA's underwriting compliance guidelines. For more specific criteria, refer to Section 6.1.

Existing Home— A dwelling unit that has been previously occupied.

Family Income — Defined as the gross annual income of the mortgagor(s) and any other person who is expected to both live in the residence being financed **and to be** secondarily liable on the mortgage. Family income would include the income of 1) the borrower(s)/mortgagor(s), 2) the spouse of any mortgagor(s), 3) titleholders residing in the subject property, and 4) any person who guarantees the loan and intends to reside in the property.

FHA— The Federal Housing Administration of HUD

FHA Insurance, FHA-Insured— Insurance provided by FHA for residential mortgage loans that protect lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan.

First Time Homebuyer (FTHB)— A borrower (mortgagor), spouse, or titleholder who has not had an ownership interest in a principal residence within three (3) years of closing on the next home purchase. For the MCC and all IRS Bond loans, the borrower(s) must meet the FTHB requirement unless the property is located in a Targeted Area or the borrower is utilizing the one-time exemption available to qualifying Veterans.

FNMA— Federal National Mortgage Association or "Fannie Mae."

Free-trader Agreement— Used between spouses when one spouse wants to purchase property without putting the other spouse on the deed. It is also used to ensure that the non-owning spouse does not obtain an interest in the property. Used for borrowers who are not divorced.

Full Time Student— Dependent adult, 18 years or older, currently enrolled for a minimum of 12 semester hours.

HOME— The HOME Investment Partnership Program (HOME) is a federally funded housing program established in 1990 as part of the Cranston-Gonzalez National Affordable Housing Act. The program provides funds for developing affordable housing for persons of low and very low income.

HUD— The United States Department of Housing and Urban Development.

IRC— Internal Revenue Code.

IRS— Internal Revenue Service.

Lender— Any mortgage lender that is a Fannie Mae or Freddie Mac approved seller/servicer in good standing (if originating conventional loans); is approved as an FHA mortgage originator (if originating FHA loans); is approved as a VA mortgage originator (if originating VA loans); or is approved as a USDA mortgage originator (if originating USDA loans).

Loan Approval/Conditional Commitment— The Conditional Commitment is issued after the NCHFA underwriter has reviewed & approved all required documents.

Loan Conditional Commitment— Issued at loan approval and sent by email to the participating lender who submitted the initial reservation. The Commitment can also be retrieved from the OLS system under the Documents section. The Loan Commitment must be received prior to closing. Loans closed without NCHFA's Commitment are not eligible for the MCC.

Manufactured Home (Mobile Home) — A manufactured building designed to be used as a single-family dwelling unit which has been constructed and labeled indicating compliance with the HUD administered National Manufactured Housing Construction and Safety Standards Act of 1974.[2] Manufactured housing may be financed under the Program provided that it is (1) eligible for mortgage insurance and a 30-year amortization; (2**)** fixed to a permanent foundation; and (3) at least 20 feet wide.

Marital Interest— An ownership interest generated solely through marriage to a person who owned a property. A marital interest may be evidenced by the most recent property tax bill showing only the spouse's name, a General Warranty deed, or a 3-year title search of the property showing no ownership by the borrower.

Mobile Home— See manufactured home.

[2] https://www.law.cornell.edu/uscode/text/42/chapter-70

Modular Home— A manufactured building designed to be used as a single-family dwelling unit which has been constructed and labeled indicating compliance with the North Carolina State Uniform Residential Building Code, Volume VII (Look for NC Validation Stamp).

Mortgage Origination Agreement ("Agreement")— An agreement describing the mortgage originator's rights and responsibilities, made between the North Carolina Housing Finance Agency, the Master Servicer and lenders participating in the NC Home Advantage Mortgage™ program.

Mortgagor— The borrower(s) in a mortgage transaction. A person or persons who borrows money to finance the purchase of real estate using the value of the property as collateral for the loan and promises to repay the loan.

NCHFA— North Carolina Housing Finance Agency.

New Construction— A dwelling unit that is new and/or never occupied. Eligible for a 50% credit.

Non-Borrowing/Co-Occupant— Any person who is expected to occupy the property and is not a mortgagor.

Online Lender Services (OLS)— The system made available by NCHFA to its lending partners for the reservation and confirmation of MCC-assisted loans and lock and confirmation of N.C. Home Advantage loans .

"Other" income— all income other than base pay, e.g. overtime, bonus pay, commissions et al.

Ownership - Ownership interest means ownership by any means, whether outright or partial, including property subject to a mortgage or other security interest. Ownership interest includes a fee simple ownership interest; a joint ownership interest by joint tenancy, tenancy in common or tenancy by the entirety; an ownership interest in trust; a life estate interest; or purchase by contract for deed (or similar transaction). Ownership interest in a timeshare is not considered to be a homeownership interest. Marital interest, defined as an interest one had only because he/she was married to a person that owned a property, does not meet the definition of ownership interest as defined by Section 143 of the IRC.

Participating Lender— A lender that has been approved by NCHFA to originate, process, underwrite, close and fund Mortgage Credit Certificate loans, the N.C. Home Advantage loan or an MRB loan. See Section 4 for lender qualifications.

Permanently Fixed— The towing hitch or running gear, including the wheels and axles, has been removed from the mobile home and the home has been attached to a permanent foundation (including basement, crawl space and slab types of foundations).

Principal Residence— Housing that the eligible borrower will occupy within 60-days after closing as a principal residence. The home cannot be used as an investment property or second home.

Prior Homeownership Interest— The term includes: (1) a single-family house; (2) a condominium or townhouse unit; (3) stock held by a tenant-stockholder in a cooperative housing corporation (defined in IRC Section 216(b) (1) and (2); (4) occupancy of a unit in a two- to four-unit building owned by the borrower and (5) any manufactured home on a permanent foundation.

Recapture Tax— The potential repayment of a portion of the savings that the borrower receives from an MCC-assisted or IRS Bond mortgage. This federal tax, if applicable, is payable to the IRS on the homeowner's federal income tax returns prepared for the year the home is sold. Recapture only applies if the home is sold prior to the ninth anniversary of the purchase.

Related Person— Any family member, including brothers and sisters, spouse, ancestors, and lineal descendants; a corporation or partnership where the borrower owns more than 50% interest, or as otherwise provided in IRC Section 144(a) (3).

Secondarily Liable – Refers to a borrower(s), mortgagor, or other person that has or will have a property interest in the property that will be forfeited in the event there is a foreclosure or default on the property by the mortgagor(s). A spouse is an example of someone who would be "secondarily liable" under terms of this program. Secondarily liable on the debt would include someone who acts as a surety or guarantor if they also intend to live in the residence being financed.

Seller Contribution— Amount the seller may contribute toward the borrower's closing expenses. Follow industry guidelines for Loan Type (i.e., FHA, USDA, VA. Or Conventional).

State— the State of North Carolina.

Targeted Area— A census tract in which 70% or more of the households have an income which is 80% or less of the statewide median family income. Borrowers purchasing homes in these areas are not subject to the prior home ownership restriction. Targeted Areas are listed in Appendix A.

Titleholder— Anyone who holds title to the subject property.

Unfinished Square Footage— Square footage in a home that has been left unfinished, but could be used as living space if finished. This usually occurs in split foyer, split level or 1 ½ story homes and those homes with permanent stairs leading to the unfinished area (i.e., attic, bonus room). If the unfinished area is greater than 25% of the total square footage of the property, the cost to complete must be added to the sale price to determine the total acquisition cost. The cost to complete estimate may be obtained from the appraiser of record, a licensed contractor, or may be calculated by the lender at $35.00 per square foot.

United States Department of Agriculture/Rural Development (USDA) — The USDA home loan guaranty provides loans in rural areas to finance homes and building sites.

Veterans Administration (VA) — The Servicemen's Readjustment Act of 1944 authorized this agency to administer a variety of benefit programs designed to facilitate the adjustment of returning veterans to civilian life. The VA home loan guaranty program is designed to encourage lenders to offer long-term, low down payment mortgages to eligible veterans by guaranteeing the lender against some or all loss caused in default by the borrower. Veterans who have been honorably discharged within 25 years from the date of closing on a home purchase may waive the FTHB requirement for the MCC and IRS Bond funded mortgage. They, and all other occupants, must still meet the income and acquisition cost limits.

Section 3: Eligibility Guidelines

Lenders must review the borrower and property requirements of this Section to ensure the eligibility of mortgagors for a Mortgage Credit Certificate (MCC).

3.1 Borrower Requirements

1) Borrower must possess an ownership interest in and occupy the residence as a principal residence within sixty (60) days after loan closing. The borrower must notify the lender and NCHFA if he/she ceases to occupy the property as the primary residence. At that time, the MCC will be revoked and the borrower must stop using the MCC Credit.

2) Borrower(s) or titleholders cannot have owned and occupied a principal residence located within or outside the State of North Carolina during the three-year period ending on the date the new Deed of Trust is executed.

a. Ownership of a mobile or manufactured home (new or existing) not on a permanent foundation, and titled as personal property does not automatically exclude the applicant from obtaining an MCC. The lender must show proof that the previous residence was not on a permanent foundation and was not classified as real estate.

b. Ownership of rental property, or a 2nd home, or timeshare, may be allowed if the borrower has not occupied the property as a primary residence within the last three years.

c. Retained ownership in a property owned jointly with another person (as in a separation or divorce) may be allowed as long as the borrower has not occupied the property as a primary residence within the last three years.

d. Conversion of an existing construction loan or construction permanent loan may be allowed if the final closing/conversion takes place within two years of the initial construction loan.

3) A borrower/titleholder with prior ownership in a mobile or manufactured home on a permanent foundation and titled as real estate would not be eligible for an MCC.

4) Citizens, permanent legal residents, and non-permanent legal residents of the United States are eligible for MCC if they meet all residency requirements applicable to their lender and loan type (i.e., conventional, FHA, VA, USDA).

   Due diligence for confirming citizenship and/or residency status and compliance with federal and other requirements for mortgage loan financing for borrowers is the responsibility of the lender.

5) There are two exceptions to the three-year non-ownership requirement.

   a) The residence is purchased in a Targeted Area (refer to Appendix A).

   b) The borrowers are veterans who purchase a home using the proceeds under a one-time exception allowance. The veteran may not own another home at time of closing of the MCC-assisted mortgage.

      i. A veteran is defined as a person who served 181 consecutive days in active duty of the United States Armed Forces or Reserves and who was discharged or released under conditions other than dishonorable. The application for financing must occur before the 25th anniversary of the last date on which the veteran left active service. A DD214 showing an honorable discharge is the required documentation for eligibility.

NOTE: MCC income and acquisition cost limits still apply to households who may be exempt from the three-year non-ownership requirement.

6) Tax Liability – No tax liability is required for MCC eligibility.

7) Borrower, spouse, and any occupant titleholder must meet family income limits for the program and lenders must calculate income by using the procedures of this section.

8) A **tri-merged credit report(s)** will also be required along with tax transcripts and/or tax returns. If the lender is unable to furnish a tri-merge report, then the lender must provide a three-year rental history to show no ownership in a principal residence in the past three years.

3.2 Income Limits

Total, gross family income limits apply to MCC program and can be found on the NCHFA website at www.nchfa.com under Income Limits. The income limits are subject to change. The income limits are based on mortgage revenue bond financing and IRS guidelines. The income limits will vary based on total number of people living in the home, and reflect gross family income of all borrower(s)/titleholders. Any person expected to live in the house and hold an ownership interest in the subject property must be counted in total income (e.g., a non-borrowing spouse income should be counted).

Table 1: Family Income Chart (Whose Income is Counted?)

Category of Borrower/Titleholder	Income Counted in Family Income?	VoE, Paystubs, W2 (1099) & Tax Returns?	FTHB?
Borrower	Yes	Yes	Yes
Co-Borrower	Yes	Yes	Yes
Spouse	Yes	Yes	Yes
Someone Secondarily Liable, Occupant	Yes	Yes	Yes
Titleholder, Occupant	Yes	Yes	Yes
Titleholder, Non-Occupant	No	No	Yes
Adult Occupant only	No	No	No

3.3 Income Calculation for Compliance Underwriting

a) Compliance Income Calculations

NCHFA will count all family income being earned as of date of lender submission of loan documents to NCHFA for loan approval. Income calculations for compliance underwriting are different from qualifying income calculations for investor (i.e., FHA, VA, USDA, and Conventional) credit underwriting.

NCHFA will review copies of the Verification of Employment (written or verbal VOE), last year's W-2s & 1099s, pay stubs and copies of additional income verifications to substantiate income calculations (i.e., social security award letter, retirement, National Guard or Reserve income, child support et cetera).

Note: The pay stub must be dated within 45 days of the pay period ending date and clearly indicate all sources of income (i.e., shift differential, overtime et cetera) and verify total YTD earned income. If employer does not issue pay stubs it will be necessary to obtain a copy of the latest payroll ledger on company letterhead, signed by a company official.

NCHFA requires a copy of all the most recent year's W-2s & 1099s. The sum of the W-2s must match the federal transcripts or tax returns. No W-2s are required for the previous two years. The lender must document the employment dates for all employers represented on the last year's tax return. Verbal Verifications of Employment (VOE's) are acceptable.

Note: IRS-provided Transcripts or valid, signed federal tax returns along with a tri-merged credit report(s) are required. See Section 6 for complete details.

b) Disclosure of Income

Lenders should always ask the borrowers and titleholders to disclose their current base income (before any payroll deductions). Current base income includes income from primary and part-time jobs at the time of lender submission of documents for NCHFA loan approval and also all other income that the borrowers receive. This information must be used for compliance underwriting. All income is projected for 12 months to calculate compliance income (regardless of its likelihood to continue).

For borrowers quitting or resigning from a job, a resignation letter and verification from prior employer must be dated, signed, and acknowledged by former employer prior to submission of underwriting file to NCHFA. If borrower is starting a new job, then we must have copy of resignation letter and proof of acceptance from prior employer, otherwise income from both jobs with be used in calculating gross, family income.

For borrowers starting a new job where a paycheck/paystub is not yet available, the lender must obtain a written VOE from employer along with a signed, valid offer letter from new employer that shows salary and start date. Master Servicer will require a paystub as part of the final closing package submitted after closing.

c) Other Income

All income over base pay is considered “other income”. For all pay period ending dates up to June 30, all other income above base pay is added together and averaged for the previous year and year-to-date, and projected forward 12 months. For all pay period ending dates and VOEs dated July 1 or later only year-to-date other income will be averaged and projected for the next 12 months. The lender should request information about additional kinds of other income.

Examples include, but are not limited to:

- alimony
- annuities
- auto allowance
- death benefits
- dividends
- death benefits
- education benefits used for subsistence
- housing allowance
- interest income
- income received from business activities or investments
- income received from trusts
- insurance policies (if received on a continuous basis)
- net rental income
- overtime
- pensions
- public assistance
- recurring monetary contributions regularly received from persons not living in the unit
- royalties
- shift differential
- sick pay
- social security benefits
- tips
- unemployment income
- VA compensation and/or pension
- Workers compensation
- special pay and allowances of a member of the armed forces (excluding hazardous duty pay)

d) Salaried Base Pay

The lender will use each borrower's/titleholders verified gross annual income for calculation of income for salaried borrowers. When the verified gross income disclosed does not agree with the gross income on the borrower's pay stub, the lender's file must be documented with the gross income that was applicable at the time of lender submission of documents for NCHFA loan approval and an explanation should be in the lender's file stating why there is a variance.

Verifications of employment are used to determine the income of a salaried borrower. The lender must compare the current annual salary with year-to-date earnings and with the borrower's current pay stubs to note any discrepancies. The lender should investigate discrepancies and document the file appropriately.

For pay period ending dates up to June 30, NCHFA will calculate compliance income for salaried and hourly borrowers by projecting current base pay for the next 12 months, and averaging “other” income for the previous tax year and year to date. For pay period ending dates of July 1 or later, current base pay projected for 12 months will be averaged with year to date “other” income.

e) Self-Employment Income

The lender must calculate gross annual income for self-employed borrowers by averaging the reported net income for the previous two years signed federal tax returns and year-to-date income. Year-to-date earnings will be taken from a current, signed year-to-date (based on most recent quarter) profit and loss statement (may be self-prepared). IRS-provided Transcripts or valid, signed federal tax returns along with a tri-merged credit report(s) are required. See Section 6 for complete details.

Example:

2017 net earnings from Schedule C		$ 33,003.00
Depreciation	+	2,550.00
2017 earnings (12-month period)		$ 35,553.00
2018 net earnings from Schedule C		$ 38,000.00
Depreciation	+	3,000.00
2018 earnings (12-month period)		$ 41,000.00
2019 net earnings for 9 months from P&L		$ 36,000.00
Depreciation	+	1,000.00
2019 year-to-date earnings (9-month period)		$ 37,000.00

2017 earnings		$ 35,533.00
2018 earnings	+	41,000.00
2019 year-to-date earnings	+	37,000.00
	=	$113,553.00
$113,553 ÷ 33 months = $3,441 x 12 months	=	**$41,292.00**

If the sum of the self-employed income from the past two years and year-to-date equals a negative income figure, NCHFA will treat the sum as zero ($0).

f) Self-Employment Income (Less than 2 years)

If the borrower has been self-employed for fewer than two years, the borrower must submit to the lender a current, signed year-to-date (based on most recent quarter) profit and loss statement (may be self-prepared) in addition to personal income tax returns (including any schedules). The lender must calculate gross annual income by averaging the reported net income from the last year's tax return and/or the current, signed year-to-date profit and loss statement for the period of time that the borrower has been self-employed. IRS-provided Transcripts or valid, signed federal tax returns along with a tri-merged credit report(s) are required. See Section 6 for complete details.

Example:

2018 net earnings from Schedule C		$ 38,000.00
Depreciation	+	3,000.00
2018 earnings (12-month period)		$ 41,000.00
2019 net earnings 9 months from P&L		$ 36,000.00
Depreciation	+	1,000.00
2019 earnings (9-month period)		$ 37,000.00
2018 earnings		$ 41,000.00
2019 year-to-date earnings (9-month period)	+	37,000.00
	=	$ 78,000.00
$78,000 ÷ 21 months = $3,714.29 x 12 months	=	**$ 44,571.48**

If the sum of the self-employed income from the past year and year-to-date equals a negative income figure, NCHFA will treat the sum as a $0. In the above example, if the 2018 earnings were a negative $41,000; the sum would be a negative $4,000. NCHFA would use $0 to calculate compliance income.

The partnership or corporate returns, together with all schedules, must be submitted with the loan application if the borrower is a 25% or greater partner in a partnership or has a 25% or greater ownership interest in a corporation.

If the tax returns indicate that the borrower was self-employed full-time or part-time in the prior year and the borrower is no longer self-employed, the borrower must provide a signed statement indicating he/she is no longer self-employed. The statement should verify the last date of self-employment. IRS-provided Transcripts or valid, signed federal tax returns along with a tri-merged credit report(s) are required. See Section 6 for complete details.

g) Part-Time Salary Income

Part-time salary income must be included when calculating the borrower's gross annual income if the borrower is employed at a **part-time job at the time of lender submission of documents for NCHFA** loan approval. It is considered current income.

The lender must calculate income based on what the borrower is making at the time of lender submission of documents for NCHFA loan approval if the part-time employer verifies a specific hourly rate and gives the specific number of hours worked (or states the monthly amount). The lender must ensure that year-to-date figures equal this amount. If not, the file must be documented as to the reason for the discrepancy.

If the part-time employer does not state a specific hourly rate and gives the specific number of hours worked (or states the monthly amount), the lender must average past year and year-to-date earnings and project the income on an annual basis.

Example:

> Part-time employer states $7.50 per hour for 15 hours per week and the year-to-date figures verify this.
>
> $7.50 hourly rate x 15 hours x 52 weeks = **<u>$5,850</u>** annual income. Part-time employer states $7.50 per hour but does not state the hours worked. The date of employment was February 19, 2017; the date of VOE was October 22, 2017 and year-to-date earnings were $3,806. February 19, 2017 to October 22, 2017 is 35 weeks. $3,806 year-to-date earnings ÷ 35 weeks x 52 weeks = **<u>$5,655</u>** annual income.

h) Part-Time Self-Employed Income

The lender must use the self-employed income method to calculate compliance income if the borrower is self-employed on a part-time basis at the time of lender submission of documents for NCHFA loan approval in addition to full-time salaried employment. The part-time self-employment income is calculated in the same way as when the borrower is self-employed on a full-time basis. A loss is not deducted from compliance income.

When tax transcripts or tax returns indicate a history of self-employment and the borrower indicates that he/she no longer works the self-employment job, the lender must submit a signed statement from the borrower verifying when the self-employment ceased. IRS-provided Transcripts or valid, signed federal tax returns along with a tri-merged credit report(s) are required. See Section 6 for complete details.

i) Commission Income

Income for a 100% commissioned individual will be calculated as it is for a self-employed borrower (past two years and year-to-date average). Income for commissions received in addition to a base salary (or a "guaranteed" draw) is treated as "other income". NCHFA will average the commission income for the previous year and year to date for pay period ending dates up to June 30. For pay period ending dates July 1 or later, only the year-to-date average will be used to project income for the next 12 months.

j) Bonus and Overtime Income

The lender must average past year and year-to-date bonus and/ or overtime income. If the borrower was not employed full-time for twelve months during the past year, the borrower's income should be averaged using the applicable number of months. If the borrower has been with the same employer for the previous year and year to date, then average the bonus and overtime for the previous year and year to date for pay period ending dates up to June 30.

For pay period ending dates July 1 or later, only the year-to- date average will be used to project income for the next 12 months.

For an employee that receives **only** an annual (once yearly) bonus, the lender must supply supporting documentation from the employer detailing the bonus program. In that case, NCHFA, at their discretion, will use up to 24 months to average annual bonus income and project for the next 12 months.

k) Dividends and Interest Income

The lender must average past year and year-to-date dividend and interest income. The tax returns will indicate dividend and interest income received for the prior tax year. The borrower should furnish copies of bank statements, or other documentation to substantiate year-to-date dividend and interest income. This should be made a part of the lender's file. IRS-provided Transcripts or valid, signed federal tax returns along with a tri-merged credit report(s) are required. See Section 6 for complete details.

l) Child Support and Alimony Income

The lender must use the monthly amount of child support or alimony indicated in the separation papers or divorce decree. The issue of child support must be addressed by having the occupant complete the applicable questions in the Child Support Income Certification section on the Mortgage Affidavit and Borrower Certification (MCC-016). Borrowers who do not have an agreement must disclose any income they receive. Unless the lender has contradictory information, Form-016 will be considered valid. Borrowers who have agreements, but do not receive the income specified in their agreement, should enter the correct income information on Form-016. Without contradictory information, and after providing any supporting documentation, Form-016 will be considered valid.

For married borrowers (or mortgagors) who do not have a separation agreement or divorce decree, and Form 016 is not completed, NCHFA will accept a signed statement of the borrower's intent to live separately from their spouse, which must include information regarding child support, alimony and ownership interest in any other property, if applicable. The use of a signed statement is solely for the purpose of establishing Household Income and FTHB status, and does not supersede lender, investor or legal regulations regarding title, foreclosure or signatures on the Deed of Trust.

m) Social Security Income

The lender must annualize gross benefits based on the benefit letter from the Social Security Administration. Social Security benefits include payments received by adults on behalf of minors for their own support.

n) Other Income Excluded

The following types of income can be excluded in determining a borrower's income eligibility for the program:

- amounts of educational scholarships paid directly to the student or to the educational institution;
- amounts paid by the Government to a veteran for use in meeting the costs of tuition, fees, books and equipment;
- amounts that are specifically for reimbursement of business and/or educational expenses;
- one-time sign-on bonus (verified by employment contract);
- lump sum additions to family assets, such as inheritance, insurance payments (including payments under health and accident insurance and workmen's compensation), capital gains and settlement for personal or property losses;
- payments received for the care of foster children;
- temporary, non-recurring sporadic income or gifts;
- amounts that are specifically for or in reimbursement of the cost of medical expenses;
- single, non-recurring one-time distribution from IRA/401k plan
- severance pay;
- inheritance (lump-sum); or

- estimated MCC credit if used in AUS Findings/1003.

o) Future Employment, Changes in Employment and/or Pay Structure

The lender must provide documentation to NCHFA regarding future employment (e.g., full-time student not employed at time of lender submission of documents for NCHFA loan approval however an employer has promised a job position), changes in employment (e.g., borrower relocating and changing jobs), and pay structure changes (e.g. borrower is going from a commissioned job to straight salary, or part-time to full-time) for an income determination.

p) Recertification of Income

If the loan is scheduled to close 120 days after the period ending date of the latest pay stub, the borrower's income must be re-verified and a Recertification of Income (MCC-103) form must be submitted for approval by NCHFA prior to closing. The lender must receive a new updated pay stub (or payroll ledger) reflecting current year-to-date earnings for salaried employees and a more current profit and loss statement for a self-employed borrower. Other income must be re-verified as well as the borrower's base income.

Example:

The period ending date on the latest pay stub is March 8, 2019. The income verifications are valid for 120 days, in this case until July 5, 2019. If the loan closes after July 5, 2019, the borrower’s income must be re-verified prior to closing.

3.4 Other Borrower Requirements

a) Compliance Certification for Titleholders

They must sign and execute all NCHFA documents.

The Compliance Certification for Non-Borrower Occupant on the Mortgage Affidavit and Borrower Certification (MCC-016) form and the Notice of Potential Recapture (MCC-015) must be properly executed by a spouse or other adult who will be residing in the property to be purchased.

The income of spouse and occupant titleholders will be included in calculations to determine eligibility for participation in the Mortgage Credit Certificate Program. The lender must provide all current and prior year’s VOEs, current pay stub, award letters, W-2s and 1099s and the most recent three years’ IRS Federal Tax Transcripts/Returns. See Section 6 for complete details.

Borrower(s) and titleholders cannot have owned an interest in a principal residence and occupied a principal residence within the last three years, and all borrowers must occupy the home to be purchased within 60 days of loan closing.

b) Separation Agreement and/or Divorce Decrees

NCHFA may request a copy of any separation agreement and/or divorce decree and any subsequent modification documents for any borrower, co-borrower or non-borrowing co-occupant that has been previously married or receives alimony or child support, to verify additional sources of income. If the borrower (or non-borrowing co-occupant) does not have a separation agreement or divorce decree, they will be required to provide a signed statement of their intent to live separately from their spouse, and which must include information regarding child support, alimony, and ownership interest in any other property, if applicable. The use of a signed statement is solely for the purpose of establishing household income and first-time homebuyer status and does not supersede lender, investor, or legal regulations regarding title, foreclosure, or signatures on the Deed of Trust.

Information regarding child support or alimony must be disclosed on the Mortgage Affidavit and Borrower Certification (MCC-016) and supported by other documents gathered by the lender. All income information for all borrower(s) and occupying titleholders must be disclosed whether or not the spouse or titleholder is on the loan or the deed for the property being purchased. If item #5, on page 2 of Form 016, is not completed, but the file indicates that such information will be needed, NCHFA will condition the file for the additional documents.

3.5 Property Requirements

The acquisition cost of a home financed through the Mortgage Credit Certificate (MCC) program cannot exceed the established limits set by NCHFA. The acquisition cost (as defined in Section 2) is the cost of acquiring residential property as a completed residential unit. The limit is $385,000; this amount is subject to change and can be found at www.nchfa.com.

1) The residence must be located in North Carolina and must be eligible for FHA, VA, USDA or Conventional mortgage financing.

2) The lender must review a copy of the appraisal for compliance underwriting. Appraisal waivers are not allowed.

a) Property Types Allowed

1) Single Family Detached Homes;

2) Condominiums/PUDs approved by Fannie Mae or Freddie Mac, or insurer (FHA, VA, USDA) and are warrantable;

3) Townhomes;

4) Manufactured homes eligible for FHA, VA, USDA or Conventional guidelines under a land-home transaction; fixed to a permanent foundation. [Note: the home

must be new/never occupied if combining with the N.C. Home Advantage Program under a FHA, VA, or USDA loan type].

5) Land Trust properties, as long as they meet all GSE requirements for land trust.

b) Maximum Acreage

The land acquired in connection with the mortgage loan may not exceed five (5) acres. The Property may not be subdivided for the purpose of qualifying for MCC Program, unless required by local health or safety code(s). No portion of the land or any appurtenant freestanding structure may be used as an income producing property.

c) Not Allowed – Business use of Home

No more than fifteen percent (15%) of the total area of the principal residence can be used for:

1) The 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 trade or business; or

3) A place that is used on a regular basis where the inventory is held for use in the trade or business of selling products at wholesale or retail but only if the residence is the sole fixed location of such trade or business.

d) Other Restrictions

The following restrictions must be observed:

- Rental to any person, including to a roommate, is not permitted.
- Use of the home on a regular basis as a place in the trade or business of providing day care for children, or for other individuals, regardless of age, is not permitted.
- The Business Use Worksheet is required when the subject property (or business use is shown on tax information) will host a business use. The business use calculation is based on the property being purchased. If an error is made in calculating the amount of business use, the worksheet can only be changed if the square footage of the entire dwelling used for the calculation was incorrect.
- Attached structures or square footage that appear to be intended for a rental or business use may require additional documentation or information.

- Unattached outbuildings disqualify borrowers for the MCC if the appraiser identifies the space as income producing or otherwise could function as a separate living unit.

- Property acquisition costs may not exceed NCHFA's limits, which are based on the home's sale price. Some living units include unfinished space (i.e. an area designed or intended to be completed or refurbished and used as living space). For example, if the unfinished square footage in the lower level of a tri-level residence or the upstairs of a Cape Cod exceeds 25% of the total square footage, the cost to complete this area, whether or not the work is actually to be done, must be added to the sales price to arrive at the acquisition cost.

    - The lender may use the appraiser's cost estimation for completion or a contractor's estimate. Alternatively, $35/sf as a proxy to determine finished cost is also acceptable. The Mortgage Affidavit and Borrower Certification and Seller Affidavit must include this cost.

- The mortgages are also subject to the FHA 203(b) maximum mortgage limits or published Agency acquisition limits, whichever are lower.

3.6 Financing Requirements

a) MCC Tax Credit Amount

NCHFA offers a 30% tax credit for existing, previously occupied properties (50% for new, never occupied homes). The maximum credit amount is up to $2,000 annually. The MCC is good for the life of the loan as long as the borrower occupies the property as their principal residence or refinances and obtains a re-issued Mortgage Credit Certificate. The MCC can be reissued one time if a borrower is refinancing the original mortgage assisted by the MCC. In no instance can the re-issued MCC exceed the term of the original mortgage or the original credit amount (%).

Request for re-issue of MCC has to occur within two (2) years of the refinance. Should borrower cease to occupy the property as their principal residence, the borrower must cease using the MCC and notify NCHFA so the Mortgage Credit Certificate (MCC) can be revoked.

b) Underwriting Standards

For loans involving MCCs, underwriting standards may be modified to recognize the benefit of the MCC derived federal income tax credit. The secondary mortgage market and the mortgage insurance industry have established underwriting policies for loans involving MCCs. See Section 7 for Utilizing the MCC Credit.

c) Construction Loan Requirements

The MCC cannot be issued in connection with the assumption of an existing mortgage that was not previously assisted with a MCC. However, the MCC can be used in connection with the replacement of construction loans. Construction loans must be less than 24 months old from the origination date.

Construction-to-permanent loans may utilize the MCC program. The tax credit is based on the modified (permanent) rate and is used only for the mortgage interest on the permanent loan. The Mortgage Credit Certificate will be dated with the date of conversion.

d) Federal Housing Administration's (FHA) 203(k) Program

NCHFA will allow the MCC in conjunction with a limited FHA 203(k) loan program in cases where the cost of repairs does not exceed $15,000.

e) Subordinate Financing

The MCC can only be a component of the first mortgage financing.

Example:

1st Mortgage = $90,000 (MCC benefit would only apply to the $90,000)
2nd Mortgage of DPA Portion = $10,000 (MCC does not apply to this portion)

MCC benefit is based on the first mortgage loan amount ($90,000) only. The benefit does not apply to subordinate liens (i.e., second mortgages or $10,000 in this example).

f) Assumption of MCC - Assisted Mortgage Loan

If a loan assisted with an MCC is to be assumed by a new borrower, an MCC may be issued to the new borrower under the following guidelines:

1) The lender and new borrower (i.e.,assumptor) must demonstrate to NCHFA that there will be an assumption of liability for the remaining balance of the loan previously closed with an MCC.

2) If the new borrower (i.e., assumptor) is preliminarily eligible, the lender must obtain signed federal tax returns for the previous three years (except for cases in Targeted Areas where only the last year's returns are required) and provide to the borrower a Preliminary Notice to Applicants of Potential Recapture of Federal Subsidy. The borrower must write a letter of explanation as well as furnish sufficient documentation to support the explanation if mortgage interest or real estate taxes are shown as deductions on the tax returns. See Section 6 for complete details.

3) The lender and new borrower must submit an MCC submission package. (The lender must be an approved MCC participating lender.)

4) NCHFA will require a non-refundable MCC processing fee of $475 with the closing package. The fee can be paid by any party to the mortgage loan transaction and must be disclosed on the Loan Estimate. NCHFA must be paid by an ACH (from lender account). The lender can charge an additional $300. All fees must be disclosed on the Loan Estimate and Closing Disclosure.

5) The new borrower's acquisition cost, income and assets must not exceed the NCHFA limits in effect at the time of loan assumption. The new borrower must occupy the unit as a principal residence within 60 days of the assumption, and must be a first-time home buyer or meet certain exceptions.

6) NCHFA must issue a new MCC.

   The new MCC must meet all the conditions of the original MCC and must comply with any changes in federal, state or NCHFA policies that have amended the MCC requirements.

   The new borrower will receive the same credit amount as the original borrower.

7) Inability of the proposed assumptor to qualify for an MCC does not preclude the loan from being assumed without the MCC benefit.

g) Loan Closed Before MCC Approval

If the lender closes a loan before NCHFA has approved the MCC loan submission package, the borrower(s) is no longer 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.**

h) Prohibited Mortgages

The MCC cannot be used in connection with qualified tax-exempt mortgage revenue bond financing (e.g. NCHFA's $8,000 DPA NC 1st Home Advantage) or USDA 502 Direct loans. Adjustable Rate Mortgages (ARMs) are allowed if the term is 5/1 or longer.

3.7 Electronic Signatures

Electronic Signatures are allowed on all Agency forms, provided the E-Signature complies with UETA, Uniform Electronic Transactions Act, and ESIGN, Electronic Signature Act 106. The use of e-signatures is voluntary. NCHFA underwriters will require the ESign envelope to be visible and valid. If the E-Signature is not UETA or ESIGN compliant, the document must be wet signed.

NCHFA does not accept documents that have been signed solely via voice or audio. The electronic signature and date should be clearly visible on any and all documents when viewed electronically and on a paper copy of an e-signed third-party document.

For borrowers that are entities:

1) the signatory must be a representative who is duly authorized in writing to bind the entity;
2) Evidence of such written authority must be maintained by lender;
3) Lenders are not permitted to have borrowers sign documents in blank or with incomplete documents;
4) E-signatures and the accompanying dates must be clearly visible on any and all e-signed documents; and
5) E-signatures are not permitted on promissory notes, mortgages, documents that require notarization or witnesses or transactions utilizing a power of attorney.

Section 4: Participating Lenders

4.1 Lender Qualifications

The Program is restricted to lenders who:

1) Are approved as a Fannie Mae or Freddie Mac seller/servicer in good standing (if originating conventional loans);

2) Are approved as an FHA mortgage originator (if originating FHA loans);

3) Are approved as a VA mortgage originator (if originating VA loans);

4) Are approved as a USDA mortgage originator (if originating USDA loans);

5) Have an office physically located in North Carolina that has originated residential mortgages for at least one year (if not in-state for 1-year, then 6 months in-state and be approved and in good standing with another state HFA);

6) Originate, process, underwrite, close and fund the loan;

7) In compliance with applicable minimum capital requirements imposed by federal banking laws and regulations;

8) 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;

9) Have a net company asset worth of $1,000,000 (may be subject to change);

10) Have executed a Lender Participation Agreement, and maintain a closed loan volume of ten NCHFA products within the calendar year; and

11) Complete a lender training session with Agency staff (required). Webinars are available for Operations staff. Loan officers must attend in-person training before originating any NCHFA products.

12) **Loan officers located out-of-state are not allowed to participate in the program.**

4.2 Lender Responsibilities

Any lender who does not close a minimum of ten (10) loans with NCHFA in a calendar year may be removed from the program at the Agency's discretion. A lender may be removed from participation from Agency programs at any time for fraud or program violations, without recourse.

By becoming an approved lender and participating in the Program, the lender understands and agrees that the Agency reserves the right to suspend the lender's ability to make new locks under the Program if the lender has outstanding fees, late documents, excessive withdrawal of locks, or for any other reason as determined by the Agency in its sole discretion. Any loan not re-purchased by lender as requested under the Agreement by Master Servicer will result in lender being terminated from program.

Loan officers must reside in North Carolina (or a county that touches the NC border) and are required to attend in-person training before offering NCHFA loan products. When possible, Operations Staff are encouraged to attend in-person training, however attendance at NCHFA conducted webinars, required as indicated, will satisfy the training requirement for Ops staff only. Loan officers must maintain at least five (5) closed loan products with NCHFA in a rolling 12-month period to remain eligible to originate NCHFA products. Loan Officers who fall below that threshold must repeat training.

All staff who originate, process, underwrite, close, or have access to NCHFA's On Line Lender Services system (OLS) must remain current on NCHFA program guidelines and requirements. All staff with access to the OLS must receive training before being issued a User ID by the Lender's System Administrator. After issuing a User ID, the system administrator must notify NCHFA of the new user, including the user's contact information and most recent training date. Loan officers must complete in-person training annually or remain current on NCHFA programs by closing at least 5 loans in a rolling 12-month year.

Training Policy

Operations Staff:

All processors and underwriters must attend an Ops based training webinar offered by NCHFA before working on, processing, or underwriting our loan products.

Training webinars are normally offered monthly. Processors and underwriters are not authorized to work on NCHFA products until they have completed a training webinar and passed the required quiz with a score of 80% or higher. The quiz is sent after each webinar and is comprehensive, but it only has to be passed once. After passing the quiz, the Operation's staff member should take a screen shot of their passing grade to give to their supervisor. They should save the screen shot as evidence of their passing score.

Closers, post-closers, and lock desk staff may elect to attend the webinars as well, however Program Guides are posted on the Forms and Resources page for their review. These Program Guides must be reviewed prior to working with NCHFA products. Post-closers must also review the ServiSolutions power point. The lender is responsible for determining that staff members have reviewed the power points and understand NCHFA and ServiSolutions policies and requirements. Failure to follow both NCHFA and ServiSolutions guidelines may result in a non-purchasable loan or non-issuance of the Mortgage Credit Certificate.

All members of the Lender's team must complete required training, even if they have worked with NC Housing Finance Agency products at their previous employer.

Loan Officers:

Prior to originating any NCHFA product Loan Officers must attend the three-hour Let's Make Home Happen (LMHH) class, in-person when available (on-line as a synchronous class until further notice). This class is normally offered monthly. After completing the class, Loan Officers must also pass a quiz with a score of 80% or higher. After completing both the class and the quiz, the Loan Officer should forward their class date and a screenshot of their passing quiz score to their supervisor and the Training Coordinator at NCHFA. At that time, Loan Officers are eligible to originate NCHFA products.

4.3 MCC Fees

This program is available on a loan-by-loan, first-come, first-served basis. Availability of MCC authority is not guaranteed.

NCHFA offers 60-day reservation period. The mortgage loan must close by the date of the reservation expiration. The lender must submit the Closing Package to NCHFA in accordance with Section 5.4 within 30 days of the expiration date. If the closing package is delivered later than 30 days after the expiration date, mandatory late fees will be charged.

Lenders who require a reservation extension will incur a $100 per month extension fee.

For lenders combining the MCC with the N.C. Home Advantage program, the 60-day lock requires the lender to have the first and second, if applicable, delivered to the Master Servicer and purchased by day 60. The lender will be subject to mandatory extension fees if the loan is not purchased by day 60.

NCHFA will charge a $100 late fee, per month, for all incomplete files. The late fee cannot be charged to the borrower. The lender must use procedures which will ensure accurate closing documentation is received in order for NCHFA to disclose the Notice to Mortgagors of Federally Subsidized Amount and Family Income Limits.

NCHFA charges a non-refundable MCC processing fee of $475.00. Any party can pay the fee to the mortgage loan transaction if allowed under RESPA and must be disclosed on the Loan Estimate (LE) and Closing Disclosure (CD).. NCHFA must be paid via ACH (account of the lender). Hard copy (paper) checks are not accepted.

The lender may collect an additional $300.00, which must be properly disclosed on the Loan Estimate (LE) and Closing Disclosure (CD).

Unless the MCC is combined with the N.C. Home Advantage loan program, the interest rate, term and fees for the mortgage loan are established by the participating lender. The combined lender charge is up to $775 ($475 plus $300) for a 60-day reservation.

Of this amount, $475 is due to NCHFA and should be collected at closing and listed on the Loan Estimate (LE) and Closing Disclosure (CD). The lender may keep the $300 balance as compensation.

4.4 Record Retention and IRS Reporting

NCHFA will perform random post-issuance reviews of lender records pertaining to MCC-assisted mortgages. Therefore, the originating lender is required to maintain a copy of the entire credit package, entire closing package, all NCHFA forms, and three years of federal income tax returns for a period of 36 months even if servicing is released.

For IRS purposes, the lender must retain for six years the following information:

1) Name, address, and social security number of the MCC holder.
2) Name, address, and TIN of the Issuer (i.e. NCHFA).
3) Loan date, certified indebtedness amount and credit rate.

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. NCHFA will assist the lender in preparing IRS Form 8329 by furnishing a computer printout of all MCCs closed during the calendar year giving the necessary information.

This report is based on all closing packages, which NCHFA has received and issued an MCC.

The processing fee for this report is $150.

The Request for MCC Printout on Closed MCC Loans Form (see next page for sample) must be submitted no later than January 20th in order for NCHFA to generate this report.

In order for this report to be accurate, the lender must have all closing packages on loans closed the prior calendar year submitted to NCHFA by January 15th so that an MCC can be issued.

Section 5: Mortgage Processing Steps

5.1 General

NCHFA will issue MCCs for eligible mortgages that are originated by approved participating lenders. MCC eligibility includes compliance with federal and state requirements. Eligible borrowers apply for the Program at participating lenders by completing a standard mortgage application. The NCHFA compliance review is done after the lender's regular underwriting procedures. If the loan meets the applicable compliance underwriting guidelines, the lender's underwriter issues an approval, subject to NCHFA's approval. Because NCHFA is not part of the decision-making process on credit, no formal notice of rejection of an MCC is required under the Equal Credit Opportunity Act (ECOA) but may be required otherwise.

Packages should be submitted as early as possible to allow sufficient time for NCHFA to review the file and for the lender to make corrections. NCHFA will review files submitted on a first-come, first-served basis and will make every effort to review all files within 48 hours of submission. This policy also applies to pend conditions.

All loans must be submitted electronically using the NCHFA OLS portal.

5.2 Loan Origination

NCHFA requires all borrowers and co-borrowers to sign our NCHFA documents. Non-Borrowing Adult Co-Occupants must sign Form 016. Powers of Attorney are not allowed to be used for any affidavits, with the exception of the Seller Affidavit.

NCHFA recognizes that there are procedural variations among lenders; consequently, the procedures outlined here only suggest the sequence of events.

1) The borrower reviews an NCHFA program brochure or visits our website at www.nchfa.com and schedules an appointment with a participating lender.

2) The lender determines if a borrower is eligible for the MCC Program based on preliminary information for income, acquisition cost and prior home ownership.

3) If the preliminary screening indicates that the borrower is eligible, the lender takes a formal application. The lender obtains normal information, as well as IRS Income

Tax Transcript/tax returns for the previous three years (for cases in Targeted Areas or Veteran's exemption, only the previous year's federal tax returns are necessary), and provides to the borrower an MCC Program Information packet and the Preliminary Notice to Applicants of Potential Recapture of Federal Subsidy (MCC-015).

4) If mortgage interest or real estate taxes are shown on federal tax transcripts (or tax returns), the borrower must write a letter of explanation as well as furnish sufficient documentation to support the explanation.

5) The lender obtains signatures from and borrowers and adult occupants on the Mortgage Affidavit and Borrower Certification (016). When the applicant(s) and occupant(s) complete and sign Form 016, they are fully disclosing all income from all intended household occupants, including a Fiancé/Fiancée. The lender must verify the information of all occupants as well as applicants, and all must be compliant with income and FTHB requirements.

6) After the application has been taken, the lender will access the Online Lender Services (OLS) (http://www.nchfa.org/ols/login.aspx) and input the requested borrower and subject property reservation information.

7) NCHFA maintains a current cumulative total of reserved MCCs and is limited by law to a specific amount of mortgage credits. It is very important that lenders advise NCHFA of reservation cancellations on borrowers when loans are withdrawn.

8) If necessary, the lender obtains a separation agreement and/or divorce decree if the borrower, co-borrower, or non-borrowing co-occupant, has been previously married or receives alimony or child support. If a separation agreement or Divorce Decree do not exist, a signed statement from the borrower or non-borrowing co-occupant detailing the terms of the separation including information regarding prior homeownership, and receipt of child support or alimony, will be acceptable. The use of a signed statement is solely for the purpose of establishing Household Income and First Time Homebuyer status, and does not supersede lender, investor or legal regulations regarding title, foreclosure or signatures on the Deed of Trust.

9) If a previous spouse owned a home prior to the marriage and borrower only had a marital interest, documentation is required to support that the borrower never had an ownership interest. Acceptable documentation would include a 3-year title search on the marital home, a warranty deed or the most recent property tax bill showing the previous spouse's name only.

10) The lender verifies that borrower's (and titleholder occupant's) income, acquisition cost and prior home ownership requirements are met. The borrower's (titleholder co-occupant's) income must be re-verified if the loan closes 120 days after the period ending date of the latest pay stub.

11) The lender completes the verification process and the borrower and all adult occupants sign and date the Mortgage Affidavit and Borrower Certification (016).

12) The Mortgage Affidavit and Borrower Certification includes the following requirements:

    a. Certification that the residence will be used as the borrower's principal residence within 60 days after the day of loan closing. Certification that the borrower(s) and all non-borrowing adult occupant(s) have not owned a residence in which he/she has lived during the preceding three-year period. This is not required for the purchase of a home in a Targeted Area or one-time Veteran's exemption.

    b. Certification that the acquisition cost does not exceed the acquisition cost limits.

    c. Certification that the borrower's and all non-borrowing adult occupant's gross annual income does not exceed permitted income limits.

    d. Certification that no mortgage interest from the loan is being paid to related person.

    e. Acknowledgment that any material misstatement or fraudulent statements made are under penalty of perjury.

    f. Acknowledgement of the borrower(s) & all adult occupants' signatures.

13) The lender completes the Seller Affidavit (MCC-013) and obtains the seller's signature. The seller's signature is subject to the following conditions:

    a. All sellers must sign the NCHFA Seller Affidavit. A Power of Attorney (POA) on the Seller Affidavit, is acceptable only if the seller is incapacitated. A letter of explanation is required from the holder of the POA and the POA must be submitted to NCHFA. A relocation company is authorized to sign Seller Affidavits. Active duty military personnel will be reviewed on a case by case basis.

    b. If signed by a relocation company official, the signature line must include the name of the selling company and the title of the individuals signing the Seller Affidavit.

    c. If the Seller Affidavit is executed by an estate, the Agency must have a copy of the signed and stamped Letter of Administration or Letter of Testamentary which authorizes the Executor/Executrix's signature. (See Section 11for an example of this form). The Letter of Administration/Testamentary can be obtained by the Executor/Executrix or from the county courthouse.

d. Copies of all forms are acceptable (originals are not required).

e. An electronic signature is acceptable (subject to verification). All E-Signatures must be UETA or ESIGN compliant, and the signature verification envelope with the authorization code must be visible.

14) Prior to submitting the file to the lender's underwriter, the processor should enter the appraisal & credit data information. The underwriter must sign and date the 1008 or initial and date FHA's 92900-LT, or initial and date the VA Loan Analysis before submitting to NCHFA.

15) For all loans, the lender's underwriter must review the file for NCHFA compliance issues. Once satisfied all industry underwriting and NCHFA compliance issues have been met, the lender must sign the 1008, or sign or initial the FHA 92900, or VA Loan Analysis, as applicable. The lender issues their approval, subject to NCHFA's approval.

16) After the loan is approved by the lender's underwriter, an underwriting submission package is sent to NCHFA. All submissions are uploaded through the Agency's online OLS portal. See section 5.3 for more information.

    Note: Form - 08, Underwriter's Certification must be signed/initialed for all loans prior to NCHFA's review of the submission package.

17) The lender will close the loan only after NCHFA approval. A loan must never be closed prior to NCHFA approval or the borrower will not qualify for an MCC. The lender will provide the borrower with a Recapture Tax Closing Packet (MCC-107). NCHFA does not allow dry closings.

18) The lender must submit (upload) a completed closing package to NCHFA for review no later than within thirty (30) days of the expiration date of the reservation period.

19) NCHFA will issue the Mortgage Credit Certificate and forward a copy of the MCC & Information packet to the lender upon review and approval of the closing package.

20) NCHFA will mail a "Notice to Mortgagors of Federally-Subsidized Amount and Family Income Limits" and the Mortgage Credit Certificate to the borrower within ninety (90) days of receipt of an acceptable loan closing package.

21) A $100.00 late fee, per month, will be submitted through the OLS system along with the ACH MCC fee payment if the Agency does not receive the MCC closing package or additional corrections within 30 days from the expiration date. This fee cannot be paid by or collected from the borrower.

Eleven Steps to Success

1) Pre-Qualify/Pre-Approve the applicant
2) Take Customer's Application
3) Have Customer complete & Sign NCHFA Forms 016, 015, 013
4) Reserve MCC via NCHFA's OLS system
5) Submit for Processing
   a. Verify household income for borrower & all non-borrowing adult occupants
   b. Verify FTHB or exceptions
   c. Verify Acquisition Cost
6) Underwrite & Approve internally
7) Submit/upload full file to NCHFA
8) Receive NCHFA approval (or pend conditions)
9) Close after NCHFA approval & commitment
10) Submit Closing Package & $475 through OLS
11) File Annual report with IRS

5.3 Loan Approval Submission Package

Once the loan is approved by the lender's underwriter, the lender will submit an underwriting package via the Agency's online OLS portal (upload the file). The package must include the following:

1) Form – 08, Underwriter Certification signed by Underwriter;

2) Signed and dated Mortgage Affidavit and Borrower Certification (MCC-016);

3) Preliminary Notice to Applicant of Potential Recapture of Federal Subsidy (MCC-015);

4) Signed Seller Affidavit (MCC-013);

5) Uniform Residential Loan Application (1003);

6) Uniform Residential Appraisal Report (URAR), all pages, color, pdf;

7) Verification of current Employment (written or verbal VOE) for all borrowers and non-borrower adult occupants;

8) Current Pay Stubs verifying year-to-date income for all borrowers and non-borrower adult occupants, must be dated within 45 days of pay period ending date;

9) Verification of prior employment (written VOE or verbal) to match last year's W-2s and any jobs held y-t-d for all borrowers and non-borrower adult occupants;

10) Copies of all other income documentation (if applicable) for all borrowers and titleholder occupants;

11) Copies of all of last year's W-2s and/or 1099s to match the tax returns or IRS Transcripts for all borrowers and non-borrower adult occupants;

12) IRS Transcripts or valid, signed tax returns for previous three years for all borrowers and titleholders anticipated to occupy the property;

13) Separation Agreement or Divorce Decree, Child Support Agreement, or if applicable.

    A tri-merged credit report(s) will also be required along with tax transcripts and/or tax returns for borrowers. If the lender is unable to furnish a tri-merge report, then the lender must provide a three-year rental history to show no ownership in a principal residence in the past three years.
    See Section 6 for complete details.

    Note: Lender loan approval is required before submitting the file to NCHFA.

Next:

1) NCHFA reviews the submission package for completeness and determines whether all necessary affidavits are properly executed. Lenders should allow sufficient time between submission and when approval is required for the lender to supply additional or corrected information. NCHFA operates with a 48 hour turn time for initial review and 48-hour review period for pend conditions.

2) Additional documentation must be received in a reasonable amount of time in order to issue an approval or denial. Pend conditions will be reviewed when all conditions have been received. The 48-hour review window begins when all conditions are received.

3) If the submission package is acceptable, the lender is notified via email with a written notice of the loan approval called the Conditional Commitment. The lender may also print the Commitment from the Online Reservation System (OLS) system, found in the documents section of the loan summary.

4) The Conditional Commitment states that NCHFA will issue an MCC in a specified loan amount on evidence of compliance with the program requirements and the closing of the mortgage loan. The Conditional Commitment will reflect the percent (%) of tax credit to be issued.

Table 2: Who Is Required to Sign the Forms?

Category of Borrower/Titleholder	Recapture Notice Form - 015	Mortgage Affidavit Form - 016	Notice to Borrower Form - 026
Borrower	Yes	Yes	Yes
Co-Borrower	Yes	Yes	Yes
Spouse	No	Yes	No
Someone Secondarily Liable, Occupant	No	Yes	No
Titleholder, Occupant	No	Yes	No
Titleholder, Non-Occupant	No	Yes	No
Adult Occupant only	No	Yes	No

5.4 Loan Closing Package

1) Lender receives the executed Conditional Commitment from NCHFA. A loan should never be closed without NCHFA's Conditional Commitment. (Conditions that need to be addressed prior to closing will be listed on the bottom of the Commitment. Until these conditions are cleared by NCHFA, the MCC will not be issued).

2) Lender closes the loan following their normal procedure making sure to obtain as part of the closing package the following NCHFA affidavits:

3) Lender Closing Affidavit (MCC -102) - Any co-borrower's or non-borrowing co-occupant's name must appear on the Lender Closing Affidavit. The last 4 digits of the Social Security number of all co-borrowers must also be shown.

4) Borrower/Co-Borrower Closing Affidavit (MCC-101) - All borrowers' and co-borrowers' names must be typed on the Affidavit and all borrowers/co-borrowers must sign this form.

5) Lender includes Recapture Tax Closing Packet (MCC-107) as a part of the closing package to the attorney. This packet is retained by the borrower.

   Note: The lender must understand the following closing requirements:

   The loan must be delivered within 30 days of the expiration date. A complete package contains the documents in the order listed on the Closing Package Checklist (MCC-100). A $100 late fee, per month, is due for all late submissions, collected through the OLS system along with the ACH MCC fee payment.

5.5 Post-Closing

The lender must submit the required signed and completed closing documents, along with an ACH payment made to NCHFA for $475.00 before the MCC is issued to the borrower. Closing Documents submitted more than thrity (30) days after the reservation expiration date are subject to a late fee of up to $100 <u>per month</u>.

All documents, affidavits, and fee(s) are submited electronically through the NCHFA OLS system.

a) Required Post-Closing Documents

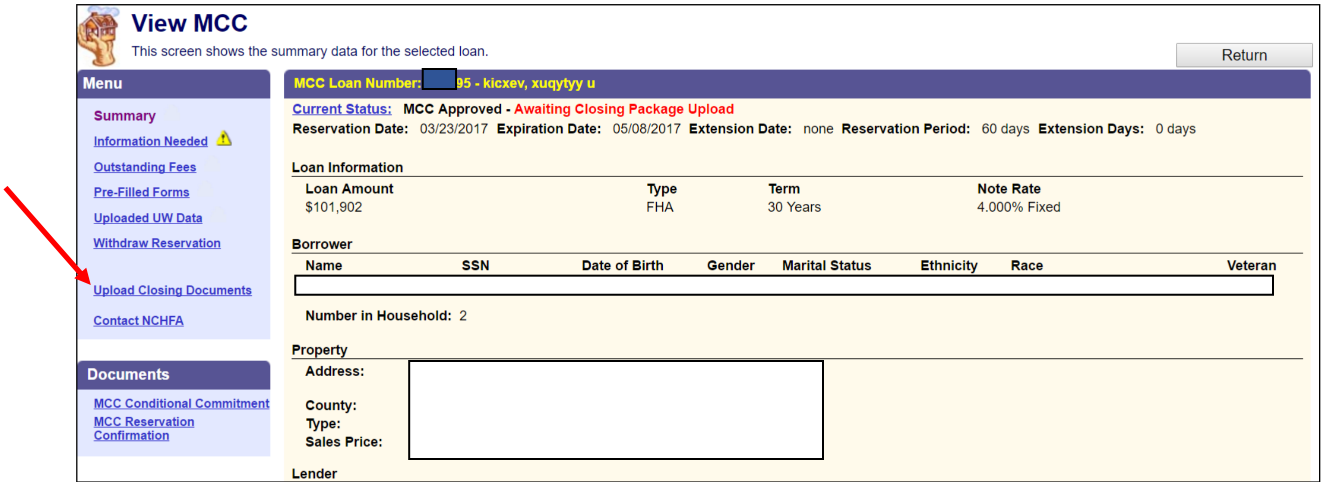
1) The Lender Closing Affidavit – must be completed and signed by the lender. The name of the borrower and co-borrower must be listed on the affidavit.
2) The Borrower Closing Affidavit – must be completed and signed by the borrower(s) and any co-borrower. The blank for the county should be completed with the subject property county name. The borrower(s) and any co-borrower(s)' names must be typed on the Affidavit.
3) The final signed Closing Disclosure (CD) showing all loan details, including the MCC fee.
4) Copy of General Warranty Deed.
5) Any other documents required by the underwriter and listed on the Conditional Commitment.
6) NCHFA reviews the MCC closing package for completeness and compliance and determines whether all necessary affidavits are properly executed.
7) NCHFA issues a Mortgage Credit Certificate if the MCC closing package is acceptable. One copy will be mailed to the lender and the original will be sent directly to the borrower.

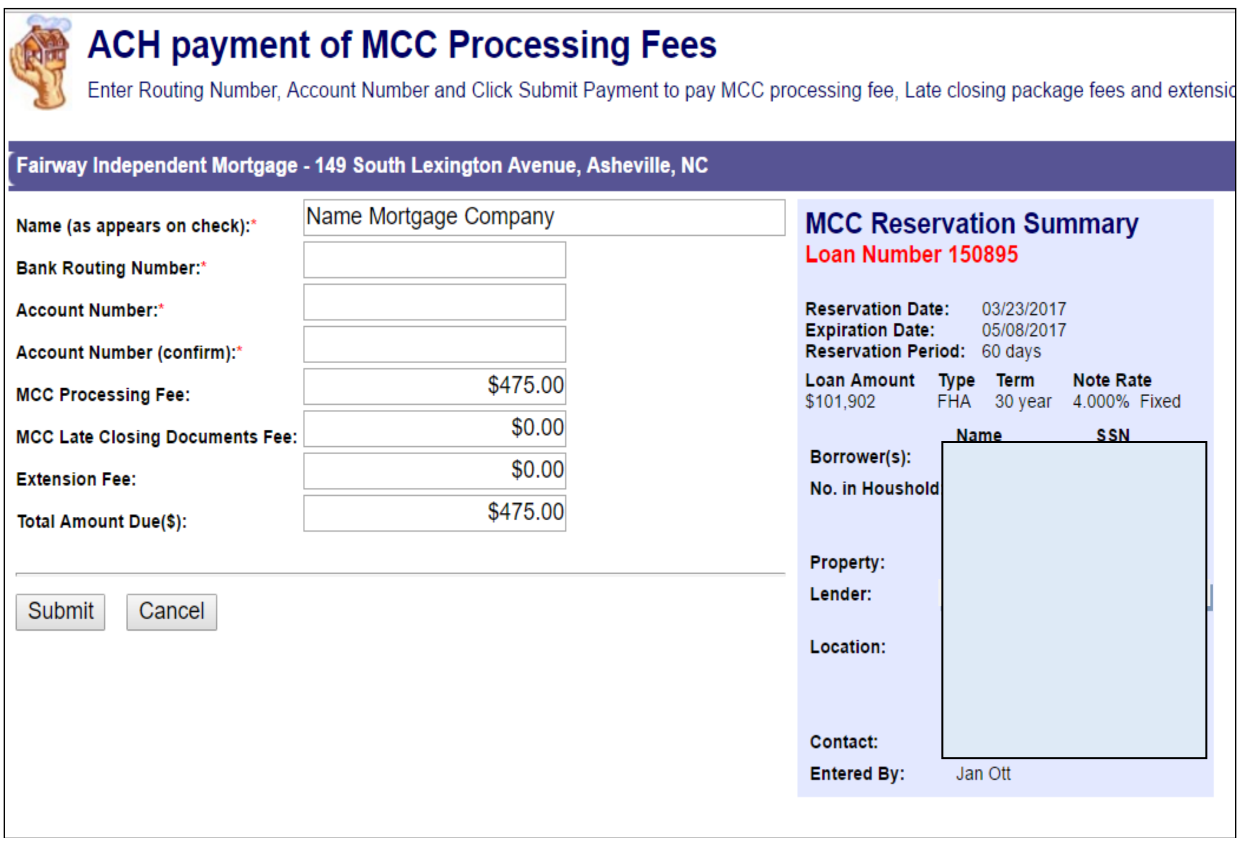
b) Submitting Documents & Fee to NCHFA (electronic uploads only)

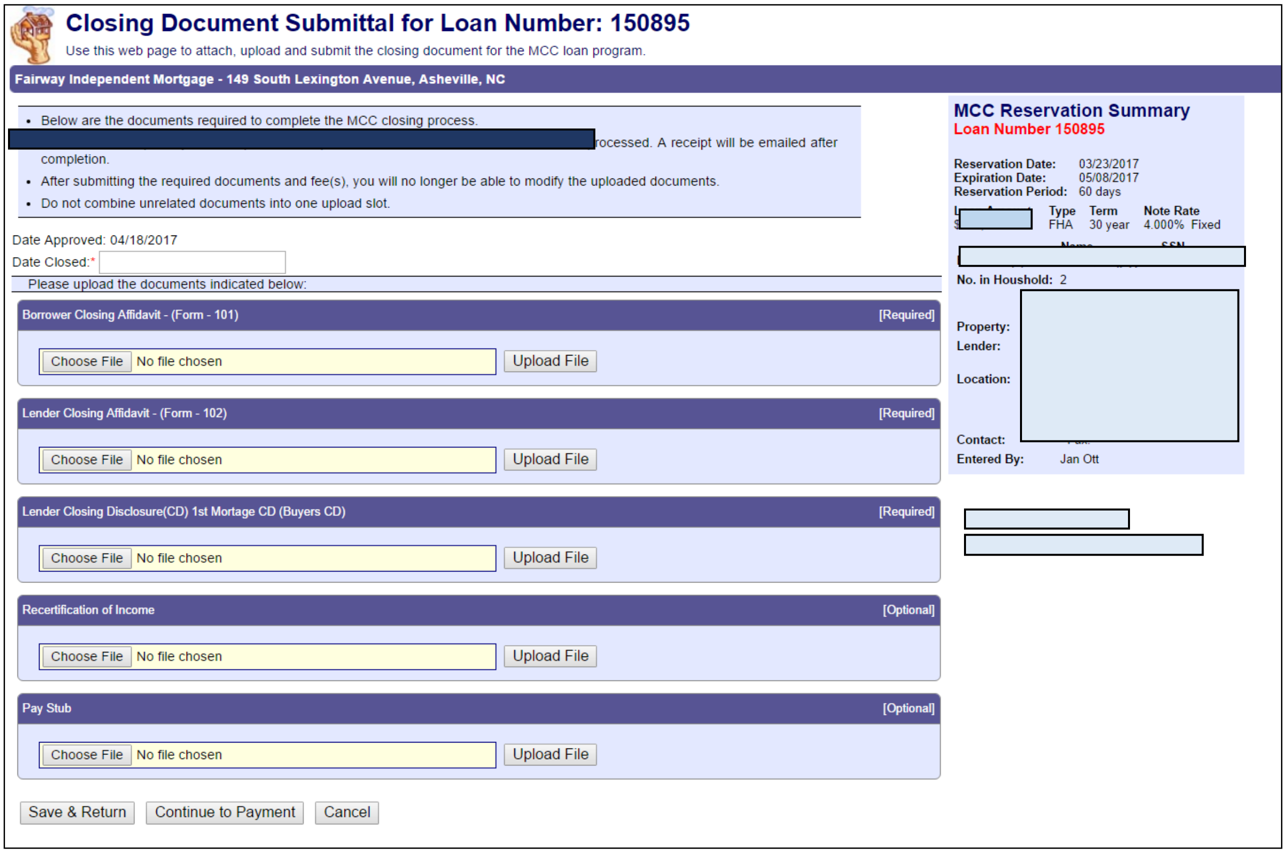
1) The lender must upload all documents via the OLS system.

2) Fee of $475.00, plus any late fees, must be paid by ACH. The lender contact who submitted the ACH payment through the OLS system will receive an auto-generated email receipt acknowledging payment and summary of the MCC fees made by ACH payment.

c) Screen shot images of the process







d) Rejected ACH Payment Returns

Electronic payments may be rejected several days after initial submission due to account number errors and/or insufficient funds. This system instantly verifies the routing number entered, but it does not verify the account number nor check for available funds. It can take several days to confirm successful payment. Bank accounts should be monitored accordingly. Lenders will be notified of rejected payments by NCHFA should a payment be rejected for any reason. At that time the lender should resubmit the ACH payment through the OLS System.

5.6 Construction to Permanent Transactions

Conversion is acceptable under the MCC Program. The lender must be aware that the income verifications can be no older than 120 days prior to the conversion date. Recertification may be necessary. The MCC Closing Package must contain a copy of the executed conversion document. The tax credit cannot be applied to the construction loan interest. The credit can be used only on the interest after conversion or permanent financing is in place. This is considered new construction and eligible for the 50% credit (maximum annual credit up to $2,000).

Section 6: Program Compliance

The lender is responsible for ensuring the borrower's compliance with various program requirements, including the first-time home buyer requirement. The first-time home buyer requirement does not apply if the residence purchased is in a targeted area or meets the Veteran's exemption requirements.

6.1 Submitting Federal Income Tax Returns

1) To meet the first-time home buyer requirement, the Lender must obtain the last three years of Federal Tax Transcripts/Returns for the borrower and all other titleholder household members. NCHFA requires a copy of all the prior year's W-2s & 1099s. No W-2s are required for the previous two years, unless the loan is closing between January 1, 2019 and February 15, 2019. In that case, both 2018 (previous year, if available) and 2017 W-2s & 1099s must be provided. If 2018 W-2s &/or 1099s are not available, a year-end paystub with year-to-date information will be required. The sum of the W-2s must match the federal tax transcripts/tax returns. Complete details are described throughout Section 6.

   Note: IRS form 8453, U.S. Individual Income Tax Declaration for an IRS e-file return cannot be used in lieu of the actual tax return.

2) If mortgage interest or real estate taxes are shown, the borrower must furnish documentation to support their first-time buyer eligibility. The lender includes this documentation to NCHFA in the submission package.

3) Only IRS tax transcripts or valid, signed tax returns are acceptable tax documentation.

4) NCHFA will accept IRS Tax Transcripts or valid, signed federal tax returns for the prior three (3) years, as is required by our program guidelines. For loans closing on or after February 16th, the prior year's tax return is required. A tri-merged credit report(s) will also be required along with tax transcripts and/or returns.

   Example: Loan submitted Jan 5, 2019 to close by February 15, 2019. We would require IRS Tax Transcripts/returns for 2017, 2016 & 2015 or Income Tax Affidavit for any missing year, and a year-end paystub or W2 for 2018.

5) The customer should sign and provide NCHFA Form-018 (Income Tax Affidavit) for any year indicating a missing tax return.

   Loans that close on or after February 16, 2019, will require IRS Tax Transcripts/Returns for 2017 & 2016. NCHFA will accept copies of the signed 1040 tax return for 2018.

6) For borrower(s) who are required to sign the Income Tax Affidavit (Form-018) or who mark item #7 on Form-016 stating they have not filed taxes for a certain year(s), lenders are required to provide a tri-merged credit report for the borrower(s) showing no prior home ownership.

7) A Tax Summary transcript is not acceptable in any circumstance.

6.2 If Federal Income Tax Transcripts/Tax Returns Are Not Available

If the borrower/titleholder was not required by law to file federal income tax returns for any year during the last three years, the lender must check 7(c) on the Mortgage Affidavit and Borrower Certification (016). The form should include the specific reason that the borrower was not required to file. As an alternative, the lender can provide the Income Tax Affidavit (MCC-018) with item 1(a) completed. Include this document in the NCHFA submission package.

If the loan is to close between January 1 and February 15 and the borrower has not yet filed a federal income tax return for the preceding year, the lender must complete 7(d) on the Mortgage Affidavit and Borrower Certification (016) for the preceding year. As an alternative, the lender can provide the Income Tax Affidavit (MCC-018) with item 1(b) completed. These sections on both forms state that the borrower is not entitled to claim deductions for taxes or interest on a principal residence for the preceding calendar year

All MCC/IRS Bond requests approved with previous year tax transcripts/returns that are one year old as of January 1, must close by February 15. For example: today is January 25, 2019. The MCC submitted contained 2015, 2016 and 2017 Federal Tax Transcripts/Returns, and 2017 and 2018 W2s and 1099s. This approved request must close by February 15, 2019. If it does not close by February 15, 2019, the MCC/IRS Bond request must be resubmitted with completed Federal Tax returns or Transcript for 2018. The Conditional Commitment issued with 2017 as the last filed tax year is no longer valid. Transcripts/Returns are not required for 2018; the lender only has to submit a copy of the filed Federal Tax form signed by the borrower.

If an occupant does not have a social security number or ITN, they must correctly complete Form 018, the Income Tax Affidavit.

If the spouse of the borrower is not eligible for entry to the U.S., but there is no separation agreement, or signed letter of intent to live separately, then the borrower/lender must provide documentation that the spouse has been denied entry to the U.S., otherwise the lender must verify the absent spouse's income and FTHB status.

6.3 Changes in Borrower Status

All NCHFA requirements must be met at the time of lender submission of documents for NCHFA loan approval.

Income, principal residence requirement, and first-time home buyer requirements must be met by all mortgagors (those signing the Deed of Trust) and any other adult occupant who is expected to occupy the residence being financed and have an ownership interest. The Agency's Mortgage Affidavit and Borrower Certification (016) must also be completed.

Any changes that occur between the time of loan approval and closing may impact eligibility for the Mortgage Credit Certificate (MCC) Program. If changes occur after issuance of the Conditional Commitment and prior to closing, the commitment is automatically revoked. NCHFA should be contacted concerning changes in borrower, household size and property status.

If a borrower marries or becomes engaged at any time during the processing and prior to closing, the new spouse or fiancée must be considered in determining eligibility.

The borrower's income must be re-verified with a Recertification of Income (MCC-103) including an updated written or verbal Verification of Employment and pay stubs, when any income document reaches 120 days at closing. The borrower's re-verified income must not exceed the income limits in effect based on household size.

6.4 Withdrawals of MCC Reservations

The lender must notify NCHFA of any loan withdrawals by accessing the Online Lender System (OLS) (http://www.nchfa.org/ols/login.aspx) and withdrawing the reservation. The lender will be prompted to enter a reason for withdrawing the loan.

Any MCC reservation or lock that is withdrawn for any reason, the lender cannot re-lock the same borrower(s) and subject property for 60 days.

6.5 Penalties

a) Misstatements

A material misstatement negligently made in connection with an MCC may constitute a federal violation punishable by fines or by criminal penalties. In addition, any material misstatement or any false statement, which affects eligibility for an MCC, will result in denial of an application for an MCC. If an MCC has been issued prior to discovery of the false statement, which is due to fraud, then any MCC issued will automatically become null and void without any need for further action on the part of NCHFA.

b) Revocation

The MCC will be revoked if the borrower no longer meets the requirements for a qualified MCC. Revocation will occur on the discovery of any material misstatement, whether negligent or fraudulent. Revocation occurs automatically if the borrower's residence ceases to be a principal residence.

Section 7: Utilizing the MCC Credit for Underwriting

The use of the Mortgage Credit Certificate benefit in determining qualifying ratios is subject to the current guidelines of the insurer and/or loan type. The lender is responsible for verifying MCC qualifications per GSE guidelines.

7.1 Underwriting Requirements

a) FHA

Per the FHA 4001.1 Handbook, the Mortgage Credit Certificate income may be included as Effective Income. The Mortgagee must use the current subsidy rate to calculate the Effective Income. The lender is responsible for meeting FHA guidelines.

b) USDA

The MCC tax credit amount should be added to the gross income of the borrower(s).
If the credit is used in qualifying ratios, USDA requires that the lender send a copy of a revised W4, signed by the applicant, when the loan is submitted to USDA for underwriting. NCHFA does not require a copy of the revised W4.

c) VA

Per the VA Lender Handbook Sections 4.03 & 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.

d) Conventional

The MCC tax credit amount should be added to the gross income of the borrower(s).

Note: The MCC is not a refundable credit; the amount of tax credit is limited to the amount of the mortgagor's maximum tax liability as shown on page 2 of their federal tax returns.

7.2 Underwriter Discretion

Use of the MCC when determining borrower qualification for a mortgage loan is always subject to underwriter discretion. NCHFA does not require that a lender consider the MCC when determining ratios in order for the borrower to be eligible to receive the MCC. Borrowers who may not benefit from an MCC immediately may feel that it will benefit them in the future. A borrower who does not receive MCC approval before closing on the purchase of their first home will not be able to add an MCC later.

A borrower whose income is non-taxable will not benefit from an MCC. Utilizing the MCC to increase their income for qualifying purposes may create a false impression that a borrower is better qualified than they truly are. It is not the intention of NCHFA that unqualified borrowers utilize the MCC solely to obtain a mortgage that may not be in their best interest.

It is also possible that a borrower may not have a current Federal Tax liability, but a change in employment, income, or family status may create a liability that would be appropriately offset by an MCC and therefore, subject to underwriter discretion, considered when qualifying.

Section 8: IRS/Tax Information

8.1 The “MCC Borrower Program Information Packet”

The MCC Borrower Program Information Packet should be given to the borrower when taking the loan application. The packet includes the following FAQs and other information:

a) Why is the Mortgage Interest Credit valuable to me?

Generally, a homeowner is allowed to claim 100% of their mortgage interest as a Federal income tax deduction. Deductions are recorded on IRS Schedule A and transferred to the Form 1040 to reduce the amount of income used to calculate Federal taxes.

Example:

Adjusted Gross Income		$ 34,000
Mortgage interest deduction	-	$ 4,000
Income used to calculate taxes		$ 30,000
Taxes owed (10% tax rate)		$ 3,000

With a 30% credit, 30% of the $4,000 ($1,200) is taken as a credit, while the remaining 70%, ($2,800) is a deduction. For example:

Income		$34,000	
Mortgage Interest deduction	-	$ 2,800	(70% of $4,000)
Income used to calculate taxes		$31,200	
Taxes owed (10% tax rate)		$ 3,120	
Apply 30% credit	-	$ 1,200	
Actual taxes		$ 1,920	

The example shows that the 30% credit will lower the tax liability by $1,080. New, never occupied homes qualify for a 50% credit.

The MCC credit is available as long as the borrower has the original mortgage and occupies the home as a principal residence. The amount of credit is limited to up to $2,000 annually.

b) How do I “claim” the credit?

By filing a revised W-4 Withholding Allowance Certificate with your employer, you will change your monthly tax withholding and you will receive the MCC credit amount on a monthly basis rather than “claiming” it at the end of the year. Your employer deducts less tax from your paycheck over the year, so that you can use the money to help pay a monthly house payment.

You must complete and file your federal tax return forms at the end of each year by submitting IRS Form 8329. After determining the amount of taxes owed, the amount of credit received will directly reduce the total taxes paid.

Whether you revise your W-4 or wait until the end of each year, you will get the total amount of credit you are eligible for based on your tax liability. Every tax situation is different, therefore there is no guarantee that you will realize the full benefit of the MCC tax credit in any given year.

NCHFA does not require the borrower to amend their W-4, however, your lender may require that you revise your monthly tax withholding so that you will have sufficient funds with which to make your mortgage payment. To do this, the lender may ask you to revise your W-4 and submit it prior to loan closing.

c) What must the lender do?

1) The lender must provide the following information to the borrower:

    a. A completed NCHFA Tax Credit Worksheet which provides an estimate of the first year's tax credit;

    b. The MCC Borrower Information Packet which includes:

        i. MCC Borrower Program Information

        ii. Recent IRS Form W-4, Withholding Allowance Certificate

        iii. Recent IRS Form 8396, Mortgage Interest Credit

    c. A copy of the Commitment from NCHFA which verifies that the borrower has conditionally been approved for the MCC.

2) The lender must advise the borrower if they are required to revise the W-4 prior to closing or if it is optional.

d) What must I (the borrower) do?

1) The borrower must complete the W-4 according to directions under “How do I change my withholding?”. Whenever in doubt, the borrower should consult a certified Tax Accountant.

2) The borrower must give the original W-4 to their employer.

3) At the end of the tax year, the borrower must complete Form 8396. The form must be completed and the credit amount from Form 8396 must be entered on Form 1040 (30% or 50% of the annual mortgage interest, as appropriate). See your MCC Certificate issued by NCHFA to determine your MCC tax credit rate. The borrower

may also enter 70% of the annual mortgage interest on Schedule A as an itemized deduction, or that which was not claimed as MCC the credit amount.

4) The Mortgage Credit Certificate form is mailed to the mortgagor(s) once NCHFA has received an acceptable closing package delivered by the lender. The Mortgage Credit Certificate form must be kept in a safe place. It will be proof that the borrower is entitled to receive the credit each year for the life of the loan while the borrower retains the original mortgage and occupies the home.

e) How do I change my withholding?

These examples and the descriptions of how to revise withholding certificates are to show you how tax laws work under certain circumstances. This material is to help you understand the effect of the Mortgage Credit Certificate on your income taxes. Tax law is complicated, and this is not a full explanation. Contact a tax advisor to help you with the tax forms and to properly adjust your tax withholding. Do not rely on this material to ensure compliance with tax law. This material should not be construed as tax advice; rather, it is an illustration of forms and procedures to help you understand your Mortgage Credit Certificate.

f) NCHFA Tax Credit Worksheet

Section A. The lender completes this section for borrowers eligible for 30% credit.

NCHFA Tax Credit Worksheet

Mortgage loan amount	$
Interest rate	%
Establish first year's interest by amortizing the loan for one year	$
Mortgage credit rate*	30%
Tax credit equals 30% of the first year's interest	$
The monthly benefit is calculated by dividing the tax credit by 12 months	$

Section B. Example for completing Section A.

NCHFA Tax Credit Worksheet

Mortgage loan amount	$ 127,400
Interest rate	5.00%
Establish first year's interest by amortizing the loan for one year ($127,400 x 5%)	$ 6,370
Mortgage credit rate*	30%
Tax credit equals 30% of the first year's interest ($6,370 x 30%)	$ 1,911
The monthly benefit is calculated by dividing the tax credit by 12 months ($1,911 ÷ 12)	$ 159.00

* Review federal income tax return to verify sufficient liability. New, never occupied homes qualify for a 50% federal tax credit. In no instance shall the annual MCC tax credit exceed $2,000.

Section 9: Refinancing Requirements

IRS regulations require that the reissued MCC be, in effect, a continuation of the existing MCC. The agency may reissue MCCs provided specific requirements are met. The lender should inform the borrower of the potential ramifications of a refinance on an MCC.

9.1 Specific Requirements

1) The certified mortgage indebtedness set forth on the reissued MCC will be the outstanding principal balance of the prior mortgage loan as of the date of the refinance.

2) The reissued MCC will only be issued to the holder of the original MCC and for the same property, provided the holder still occupies it as a primary residence.

3) The reissued MCC will expire on last month of the original term of the prior (original) mortgage loan.

4) The reissued MCC credit rate (i.e., 20%, 25%, 30% or 50%) will not be changed and the reissued MCC will only be reissued to the holder of the original MCC.

5) The reissued MCC will state that the credit allowable will not exceed the credit that would otherwise have been allowable to the holder under the original MCC for any taxable year.

6) The Agency will process one re-issuance request per eligible borrower.

7) The MCC will not be reissued later than two years after the date of the refinance.

9.2 How It Works

The MCC holder must provide the Agency with the following documentation in order to begin the reissue process:

1) Copy of the payoff statement from the prior mortgagee confirming the outstanding principal balance as of the date of the refinancing.

2) Copy of the executed Note and executed CD Settlement Statement for the new mortgage loan.

3) Two hundred twenty-five dollars ($225.00) in a non-refundable certified check to process the request. Note: the Agency will not accept personal checks.

4) Owner Occupancy Certification. (Exhibit A)

Information should be mailed to:

North Carolina Housing Finance Agency
ATTN: Home Ownership Lending Group
P O Box 28066
Raleigh, NC 27611-8066

The Agency will make every effort to process the information on a first-come, first-served basis within a 30 day time frame. However, a guarantee cannot be made since new loans will receive underwriting priority.

The reissued MCC form must be kept in a safe place. It will be proof that the borrower is entitled to receive the credit each year for the remaining term of the original mortgage while the borrower occupies the property.

9.3 Tax Information

The following should not be construed as tax advice. Federal laws relating to MCCs are complicated, and any questions about the potential impact of a reissued MCC on a borrower's federal tax liability should be referred to a tax advisor.

The Certified Indebtedness Amount set forth on the reissued MCC is equal to the outstanding principal amount of the prior mortgage loan at the time of refinancing. If the amount borrowed to refinance exceeded the outstanding principal amount of the mortgage loan at the time of refinancing (which typically would be the case if the borrower financed closing costs), the Certified Indebtedness Amount set forth on the reissued MCC will be less than the principal amount of the new mortgage loan. The Federal tax laws only allow a tax credit for interest paid with respect to the Certified Indebtedness Amount, which in such case will generally be less than the actual amount of interest paid in any tax year on the new mortgage loan.

The Federal tax laws also provide that the tax credit allowable under a reissued MCC cannot exceed the tax credit that would otherwise have been allowable to the holder of the prior MCC for any taxable year. In order to comply with this provision, the reissued MCC expires on the final payment date for the prior mortgage loan. If the term of the new mortgage exceeds the term of the prior mortgage loan, the right to receive a tax credit under the reissued MCC will expire prior to the final payment date for the new mortgage loan.

In addition, in the event the term of the new mortgage loan exceeds the term of the prior mortgage loan, the tax credit applicable to interest paid with respect to the Certified Indebtedness Amount may exceed the tax credit that would otherwise have been allowable under the prior mortgage loan. This can occur prior to the final payment date of the prior mortgage loan as illustrated in the example set forth in Exhibit B. Based upon the assumptions made in Exhibit B, in the 24th year, the allowable tax credit with respect to the Certified Indebtedness Amount ($846.28) would exceed the tax credit that would otherwise have been allowable under the prior mortgage loan ($841.95). In such case, the maximum allowable tax credit in the 24th year would be $841.95. This would remain true for the remaining tax years after the 24th year.

In order to ensure that you do not claim a tax credit greater than the tax credit that would have been allowable under your prior MCC, it will be necessary for you to compare the amount of interest eligible for credit under the reissued MCC to the interest that would otherwise be eligible for the tax credit under your prior MCC and apply the tax credit rate to the lower of the two amounts. We cannot provide you with an amortization schedule for your prior mortgage loan for the purposes of making this determination.

Section 10: Recapture Provisions and Disclosures

10.1 Summary of Recapture Requirements

Condition	Provision
Recapture applies to:	Buyers who receive FirstHome or other NCHFA Mortgage or MCCs starting January 1, 1991.
Recapture is due:	The year in which the owner sells or otherwise disposes of the home.
The amount of recapture:	The maximum amount is 6.25 percent of the assisted mortgage amount.
Reductions and limitations:	The recapture amount increases from $0 to the maximumamount over the first 5 years of ownership, and then decreases to $0 after 10 years. The recapture amount cannot exceed 50 percent of the gain realized on the sale. The recapture amount can be reduced depending on how much the household income exceeds the threshold income for that household size at the time of sale.
Recapture payment method:	Recapture is part of the mortgagor's individual income tax liability.
Other provisions	The housing agency must inform the mortgagor of the potential recapture amount within 90 days of settlement. Home improvement loans are exempt from recapture. Other requirements, including limited exceptions to those subject to recapture and refinancing, were also enacted.
You may have to pay recapture if:	• Sell your house prior to ninth anniversary date of closing; • Have significant increase in income and; • Make a significant net gain in the sale of the home.

10.2 The Basics of Recapture

Recapture applies to all NCHFA Mortgage Revenue Bond (MRB) financed mortgages and MCC-assisted loans closed after December 31, 1990.

The maximum recapture will occur if the home is disposed of during the fifth year. The lowest recapture will occur within the first year and the ninth year.

Recapture does not apply if the home is disposed of more than nine years after the loan closing.

Recapture does not apply if disposition occurs due to the death of the mortgagor(s). A successor may be subject to recapture if the property is disposed of.

Recapture does not apply to transfers to spouses and former spouses in which no gain or loss is recognized.

The maximum recapture amount is provided immediately after the loan closing. The actual recapture amount is calculated at the time of disposition. A holding period adjustment and an income adjustment may reduce the amount of recapture.

The recapture amount will be determined separately according to the respective interests in the residence when two or more persons (generally unmarried) receive an MCC-assisted mortgage or a bond loan.

The borrower is responsible for paying the recapture amount as additional federal tax liability upon the disposition of the home financed with an MCC-assisted mortgage or bond loan. The borrower is responsible for the recapture calculation and payment of the recapture amount to the federal government.

10.3 Mortgage Revenue Bond Financed Mortgage and MCC Recapture Provision

a) Purpose

Congress enacted legislation in 1988, subsequently amended in October of 1990, to recapture some or all the subsidy from first-time homebuyers who receive qualified mortgage bond assistance after January 1, 1991. This includes all buyers who use NCHFA Mortgage Revenue Bond (MRB) financed mortgage funds and mortgage credit certificates (MCCs). The purpose of recapture is to retrieve the subsidy from owners who receive rapid income increases after they purchase their home and, as a result, do not need the subsidy to remain homeowners. Recapture became effective for all loans closed after December 31, 1990.

- **Recapture Concept**

The recapture of subsidy on a MRB financed mortgage or MCC is triggered when a disposition of the financed residence takes place within nine years of the purchase date. Transfers to a spouse in which no gain or loss is recognized and dispositions by reason of death are excluded. The amount of recapture that owners might have to pay depends on how much their incomes have increased, their family size at the time of the sale, the size of their mortgages, the length of time they owned their home and any gain realized on disposition of their residence. The owner is responsible for paying the recapture amount as an additional federal tax liability for the tax year in which the home is disposed of. The owner is responsible for the calculation and payment to the federal government. The originating lender is only responsible for disclosure at time of application and closing.

b) How It Works

No recapture is required if the borrower's income at the time of disposition is below the threshold income. The threshold income is calculated as in the following example:

Example: The federal income limit at the time of purchase is $35,200 based on a family size of two at the time of disposition. The disposition occurred 2 years and 2 months from the purchase date.

Threshold Income
$35,200 x (1.05)(1.05) = $38,808

c) Adjustments

Two adjustments may reduce the maximum recapture amount.

1. *Holding-Period Adjustment*

   The holding period adjustment affects the actual recapture amount based on how long the home is owned prior to disposition. The holding period percentage increases from 20% to 100% of the original mortgage amount over the first 5 years and then decreases evenly during years 6 to 9. Assume the mortgage was $60,000 and the unit is sold at the end of 2 years and 2 months.

   Maximum Recapture Amount after Application of Holding-Period Percentage (HPP) $60,000 x .0625 x .6 (year 3 HPP) = $2,250

   2. Income Adjustment

   The income adjustment is to estimate, at the time of sale, whether the owner will still meet the income eligibility limits for an NCHFA mortgage or MCC. The threshold income is subtracted from the borrower’s adjusted gross income at the time of disposition and divided by a constant factor of 5,000 to determine an income adjustment percentage. The income adjustment percentage cannot exceed 1.0. Assume the owner's income in the year of disposition is $41,000.

Income Adjustment Percentage
$41,000 - $38,808 ÷ 5,000 = .4384

d) Gain-on-Disposition

The gain-on-disposition limitation ensures that the actual recapture amount does not exceed 50% of the gain realized on the disposition. Assume the realized gain is $12,000.

Gain-on-Disposition Limitation
50% x $12,000 = $6,000

e) Adjusted Recapture

The adjusted recapture amount includes the holding period adjustment and the income adjustment percentage.

Adjusted Recapture
$2,250 x .4384 = $986.40

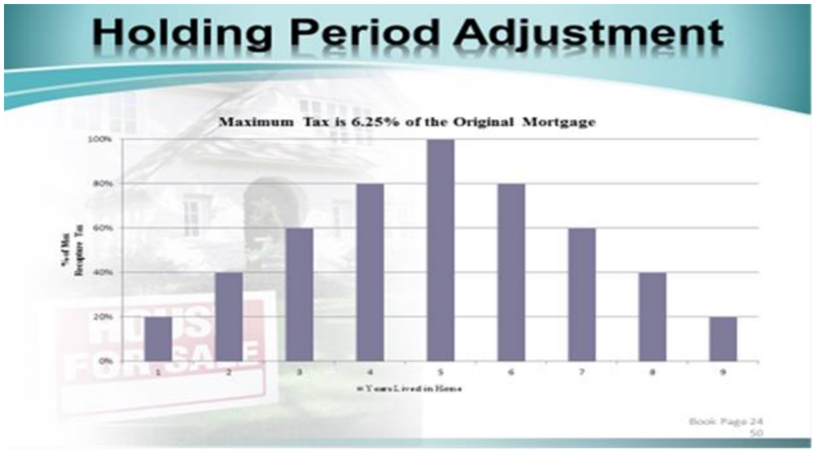
f) Recapture Calculation

The actual recapture equals the lesser of Adjusted Recapture ($986.40), or one-half the realized gain on the disposition ($6,000). In this example the recapture amount will be $986.40.

10.4 Recapture Formula

Several steps are required to calculate the actual recapture amount owed. Adjustments may be made based on the number of years the home is owned prior to disposition and the borrower's income at the time of disposition. The steps involved in the calculation are outlined as follows:

a) Holding Period Percentage



b) Threshold Income (Adjusted Qualifying Income)

The highest federal family income (based on family size at the time of disposition) at the date of the loan closing multiplied by 1.05 to the nth power, where n equals the number of full years between the loan closing and the date of disposition.

c) Maximum Recapture Amount

The federally-subsidized amount which is 6.25% multiplied by the original principal amount of the mortgage, multiplied by the holding period percentage.

d) Income Percentage

The modified adjusted gross income of the borrower for the taxable year in which the disposition occurs minus the threshold income divided by 5,000.

e) Adjusted Recapture Amount

The maximum recapture multiplied by the income percentage.

f) Recapture

Equals the lesser of the Adjusted Recapture Amount, or one-half the gain realized on the disposition.

10.5 Recapture Examples

a) Recapture Example 1

Mortgage Amount	*$ 108,800*	*$ 108,800*	*$ 108,800*	*$ 108,800*	*$ 108,800*
Disposition Period	13 months	37 months	13 months	13 months	61 months
Family Size at Disposition	3	3	1	3	3
Owner's Income at Disposition	$ 62,000	$ 62,000	$ 59,000	$ 70,000	$ 62,000
Federal Income Limit	$ 61,870	$ 61,870	$ 53,800	$ 61,870	$ 61,870
Realized Gain on Disposition	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Threshold Income	$64,963.50	$71,622.26	$56,490.00	$64,963.50	$78,963.54
Maximum Recapture	$ 2,720	$ 5,440	$ 2,720	$ 2,720	$ 5,440
Income Percentage	0	0	.5020	1.0	0
Adjusted Recapture	$ 0	$ 0	$ 1,365.44	$ 2,720	$ 0
Recapture Amount (lesser of adjusted recapture or ½ gain realized)	$ *0	$ *0	$ 1,365.44	$ 2,720	$ *0

**Owner's income at disposition less than threshold income.*

b) Recapture Example 2

J, a single individual, purchases a home with a $110,000 loan. At the time of purchase, the applicable income limit for small families (2 or fewer persons) was $71,600 and for large families (3 or more persons) was $82,340. He marries S, and they have two children. They sell their home 2 years and 2 months later and realize a gain of $15,000 on the sale of the home. In the year of sale, J and S's household income (adjusted gross income plus tax-exempt interest) is $92,000.

Threshold Income:	$82,340 x $(1.05)^2$ = $90,780
Holding Period Percentage (from Table)	60% (.6)
Maximum Recapture:	$110,000 x .0625 x .6 = $4,125
Income Adjustment:	($92,000 - $90,780) / 5000 = .2440 (rounded down)
Income Adjustment Calculation (not to exceed 1.0)	Recapture equals Income Adjustment x Maximum Recapture
Adjusted Recapture:	$4,125 x .2440 = $1,006.50

Recapture equals the lesser of Adjusted Recapture ($1,006.50), Maximum Recapture ($4,125), or one-half the gain on the house ($7,500).

10.6 Federal Subsidized Amount and Family Income Limits

a) Adjusted Qualifying Income Family Members Living in the Home at the Time of Sale (Example)

The maximum recapture tax that may be required in addition to federal income tax is $7,375. This amount is 6.25% of the original principal amount of the mortgage loan and is the federally subsidized amount with respect to the loan.

DATE HOME IS SOLD	**HOLDING PERIOD PERCENTAGE**	**2 OR LESS**	**3 OR MORE**
Before the first anniversary of closing (December 1, 2007)	20%	$ 71,600.00	$ 82,340.00
On or after the first anniversary of closing (December 1, 2007), but before the second anniversary of closing (December 1, 2008)	40%	$ 75,180.00	$ 86,457.00
On or after the second anniversary of closing (December 1, 2008), but before the third anniversary of closing (December 1, 2009)	60%	$ 78,939.00	$ 90,780.00
On or after the third anniversary of closing (December 1, 2009), but before the fourth anniversary of closing (December 1, 2010)	80%	$ 82,886.00	$ 95,319.00
On or after the fourth anniversary of closing (December 1, 2010), but before the fifth anniversary of closing (December 1, 2011)	100%	$ 87,030.00	$100,085.00
On or after the fifth anniversary of closing (December 1, 20011), but before the sixth anniversary of closing (December 1, 2012)	80%	$ 91,382.00	$105,089.00
On or after the sixth anniversary of closing (December 1, 2012), but before the seventh anniversary of closing (December 1, 2013)	60%	$ 95,951.00	$110,343.00
On or after the seventh anniversary of closing (December 1, 2013), but before the eighth anniversary of closing (December 1, 2014)	40%	$100,749.00	$115,860.00
On or after the eighth anniversary of closing (December 1, 2014), but before the ninth anniversary of closing (December 1, 2015)	**20%**	**$105,786.00**	**$121,653.00**

Note: The closing date for the loan is December 1, 2006.

b) Adjusted Qualifying Income Family Members Living in the Home at the Time of Sale (blank)

The maximum recapture tax that may be required in addition to federal income tax is **$________**. This amount is 6.25% of the original principal amount of the mortgage loan and is the federally subsidized amount with respect to the loan.

DATE HOME IS SOLD	**HOLDING PERIOD PERCENTAGE**	**2 OR LESS**	**3 OR MORE**
BEFORE THE FIRST ANNIVERSARY OF CLOSING (SEE NOTE BELOW)	20%	$ __________	$__________
ON OR AFTER THE FIRST ANNIVERSARY OF CLOSING, BUT BEFORE THE SECOND ANNIVERSARY OF CLOSING	40%	$ __________	$__________
ON OR AFTER THE SECOND ANNIVERSARY OF CLOSING, BUT BEFORE THE THIRD ANNIVERSARY OF CLOSING	60%	$ __________	$__________
ON OR AFTER THE THIRD ANNIVERSARY OF CLOSING, BUT BEFORE THE FOURTH ANNIVERSARY OF CLOSING	80%	$ __________	$__________
ON OR AFTER THE FOURTH ANNIVERSARY OF CLOSING, BUT BEFORE THE FIFTH ANNIVERSARY OF CLOSING	100%	$ __________	$__________
ON OR AFTER THE FIFTH ANNIVERSARY OF CLOSING, BUT BEFORE THE SIXTH ANNIVERSARY OF CLOSING	80%	$ __________	$__________
ON OR AFTER THE SIXTH ANNIVERSARY OF CLOSING, BUT BEFORE THE SEVENTH ANNIVERSARY OF CLOSING	60%	$ __________	$__________
ON OR AFTER THE SEVENTH ANNIVERSARY OF CLOSING, BUT BEFORE THE EIGHTH ANNIVERSARY OF CLOSING	40%	$ __________	$__________
ON OR AFTER THE EIGHTH ANNIVERSARY OF CLOSING, BUT BEFORE THE NINTH ANNIVERSARY OF CLOSING	20%	$ __________	$__________

NOTE: CLOSING MEANS THE CLOSING DATE FOR THE LOAN.

10.7 Recapture Calculation

a) Recapture Calculation Worksheet (Example)

A	Maximum federal family income for area, year, family size			$ 54,500.00
B	Home was sold or transferred __3_ years ______4_____months from the date of original loan closing.			
C	Amount in A x (1.05) to the nth power where *n* equals the number of full years from B			= $ 63,090.56
D	Mortgagor(s) modified adjusted gross income for year in which house is sold (Form 1040)			$ 65,000.00
	(tax-exempt income)			+ _____0 _ _
	(gain on sale on home) (report on tax returns as capital gain only.)			- _____0___
	(modified adjusted gross income)			= $ 65,000.00
E	If the amount in C is greater than or equal to the amount in D, no recapture; stop here.			
F	Original mortgage loan amount			$108,896.00
G	Applicable holding period percentage (year in which sale or disposition takes place)			
	Year 1 20%	Year 4 80%	Year 7 60%	
	Year 2 40%	Year 5 100%	Year 8 40%	
	Year 3 60%	Year 6 80%	Year 9 20%	80%
H	Amount in F x 6.25% x percentage from G			= $ 5,444.80
I	The amount in D subtract the amount in C ÷ 5000 ($*1909.44 ÷ 5000*) (use the lesser of the calculated % or 1%)			= .382%
J	The amount in H x I			= $ 2,079.91
K	Gain on sale of the home $10,000 x 50%			= $ 5,000.00
L	The recapture amount is the lesser of the amount in J or in K			= $ 2,079.91

b) Recapture Calculation Worksheet (Blank)

A	Maximum federal family income for area, year, family size			$
B	Home was sold or transferred ___ years ________months from the date of original loan closing.			
C	Amount in A x (1.05) to the nth power where *n* equals the number of full years from B			= $
D	Mortgagor(s) modified adjusted gross income for year in which house is sold (Form 1040)			$
	(tax-exempt income)			+
	(gain on sale on home) (report on tax returns as capital gain only.)			-
	(modified adjusted gross income)			= $
E	If the amount in C is greater than or equal to the amount in D, no recapture; stop here.			
F	Original mortgage loan amount			$
G	Applicable holding period percentage (year in which sale or disposition takes place)			
	Year 1 20%	Year 4 80%	Year 7 60%	
	Year 2 40%	Year 5 100%	Year 8 40%	
	Year 3 60%	Year 6 80%	Year 9 20%	%
H	Amount in F x 6.25% x percentage from G			= $
I	The amount in D subtract the amount in C ÷ 5000 (use the lesser of the calculated % or 1%)			= %
J	The amount in H x I			= $
K	Gain on sale of the home $ x 50%			= $
L	The recapture amount is the lesser of the amount in J or in K			= $

10.8 Recapture Threshold Income

a) Recapture Threshold Income Calculation (Example)

Holding Period*	Federal Income Limit	Multiplier		Threshold
1 years	$54,5000	x	$(1.05)^1$	$57,225.00
2 years	$54,5000	x	$(1.05)^2$	$ 60,086.00
3 years	$54,5000	x	$(1.05)^3$	$63,090.56
4 years	$54,5000	x	$(1.05)^4$	$66,245.09
5 years	$54,5000	x	$(1.05)^5$	$69,557.35
6 years	$54,5000	x	$(1.05)^6$	$73,035.21
7 years	$54,5000	x	$(1.05)^7$	$76,686.97
8 years	$54,5000	x	$(1.05)^8$	$80,521.32
9 years	$54,5000	x	$(1.05)^9$	$84,547.39
** Number of full years between loan closing and the date of disposition.*				

b) Recapture Threshold Income Calculation (Blank)

Holding Period*	Federal Income Limit	Multiplier		Threshold
1 years	$54,5000	x	$(1.05)^1$	$
2 years	$54,5000	x	$(1.05)^2$	$
3 years	$54,5000	x	$(1.05)^3$	$
4 years	$54,5000	x	$(1.05)^4$	$
5 years	$54,5000	x	$(1.05)^5$	$
6 years	$54,5000	x	$(1.05)^6$	$
7 years	$54,5000	x	$(1.05)^7$	$
8 years	$54,5000	x	$(1.05)^8$	$
9 years	$54,5000	x	$(1.05)^9$	$
** Number of full years between loan closing and the date of disposition.*				

10.9 Recapture Provision Federal Family Income Limits Table (Example)

	Federal Income Limit						Federal Income Limit			
	Small Family 2 or Less		**Large Family 3 or More**				**Small Family 2 or Less**		**Large Family 3 or More**	
Counties	**Non-Target**	**Target**	**Non-Target**	**Target**		**Counties**	**Non-Target**	**Target**	**Non-Target**	**Target**
Alamance	$53,800	$64,560	$61,870	$75,320		**Davidson**	$53,800	$64,560	$61,870	$75,320
Alexander	$53,800	$64,560	$61,870	$75,320		**Davie**	$58,200	$69,840	$66,930	$81480
Alleghany	$53,800	$64,560	$61,870	$75,320		**Duplin**	$53,800	$64,560	$61,870	$75,320
Anson	$53,800	$64,560	$61,870	$75,320		**Durham**	$61,700	$74,040	$70,955	$86,380
Ashe	$53,800	$64,560	$61,870	$75,320		**Edgecombe**	$53,800	$64,560	$61,870	$75,320
Avery	$53,800	$64,560	$61,870	$75,320		**Forsyth**	$58,200	$69,840	$66,930	$81,480
Beaufort	$53,800	$64,560	$61,870	$7,5320		**Franklin**	$71,600	$85,920	$82,340	$100,240
Bertie	$53,800	$64,560	$61,870	$75,320		**Gaston**	$64,400	$77,280	$74,060	$90,160
Bladen	$53,800	$64,560	$61,870	$75,320		**Gates**	$53,800	$64,560	$61,870	$75,320
Brunswick	$53,900	$64,680	$61,985	$75,460		**Graham**	$53,800	$64,560	$61,870	$75,320
Buncombe	$53,800	$64,560	$61,870	$75,320		**Granville**	$53,800	$64,560	$61,870	$75,320
Burke	$53,800	$64,560	$61,870	$75,320		**Greene**	$53,800	$64,560	$61,870	$75,320
Cabarrus	$64,400	$77,280	$74,060	$90,160		**Guilford**	$56,400	$67,680	$64,860	$78,960
Caldwell	$53,800	$64,560	$61,870	$75,320		**Halifax**	$53,800	$64,560	$61,870	$75,320
Camden	$53,800	$64,560	$61,870	$75,320		**Harnett**	$53,800	$64,560	$61,870	$75,320
Carteret	$53,800	$64,560	$61,870	$75,320		**Haywood**	$53,800	$64,560	$61,870	$75,320
Caswell	$53,800	$64,560	$61,870	$75,320		**Henderson**	$53,800	$64,560	$61,870	$75,320
Catawba	$53,800	$64,560	$61,870	$75,320		**Hertford**	$53,800	$64,560	$61,870	$75,320
Chatham	$61,700	$74,040	$70,955	$86,380		**Hoke**	$53,800	$64,560	$61,870	$75,320
Cherokee	$53,800	$64,560	$61,870	$75,320		**Hyde**	$53,800	$64,560	$61,870	$75,320
Chowan	$53,800	$64,560	$61,870	$75,320		**Iredell**	$56,900	$68,280	$65,435	$79,660
Clay	$53,800	$64,560	$61,870	$75,320		**Jackson**	$53,800	$64,560	$61,870	$75,320
Cleveland	$53,800	$64,560	$61,870	$75,320		**Johnston**	$71,600	$85,920	$82,340	$100,240
Columbus	$53,800	$64,560	$61,870	$75,320		**Jones**	$53,800	$64,560	$61,870	$75,320
Craven	$53,800	$64,560	$61,870	$75,320		**Lee**	$53,800	$64,560	$61,870	$75,320
Cumberland	$53,800	$64,560	$61,870	$75,320		**Lenoir**	$53,800	$64,560	$61,870	$75,320
Currituck	$60,300	$72,360	$69,345	$84,420		**Lincoln**	$55,100	$66,120	$63,365	$77,140
Dare	$57,900	$69,480	$66,585	$81,060		**Macon**	$53,800	$64,560	$61,870	$75,320

Table continued on following page

	Federal Income Limit						Federal Income Limit			
	Small Family 2 or Less		Large Family 3 or More				Small Family 2 or Less		Large Family 3 or More	
Counties	**Non-Target**	**Target**	**Non-Target**	**Target**		**Counties**	**Non-Target**	**Target**	**Non-Target**	**Target**
Madison	$53,800	$64,560	$61,870	$75,320		**Stokes**	$58,200	$69,840	$66,930	$81,480
Martin	$53,800	$64,560	$61,870	$75,320		**Surry**	$53,800	$64,560	$61,870	$75,320
McDowell	$53,800	$64,560	$61,870	$75,320		**Swain**	$53,800	$64,560	$61,870	$75,320
Mecklenburg	$64,400	$77,280	$74,060	$90,160		**Transylvania**	$53,800	$64,560	$61,870	$75,320
Mitchell	$53,800	$64,560	$61,870	$75,320		**Tyrrell**	$53,800	$64,560	$61,870	$75,320
Montgomery	$53,800	$64,560	$61,870	$75,320		**Union**	$64,400	$77,280	$74,060	$90,160
Moore	$56,300	$67,560	$64,745	$78,820		**Vance**	$53,800	$64,560	$61,870	$75,320
Nash	$53,800	$64,560	$61,870	$75,320		**Wake**	$71,600	$85,920	$82,340	$100,240
New Hanover	$53,900	$64,680	$61,985	$75,460		**Warren**	$53,800	$64,560	$61,870	$75,320
Northampton	$53,800	$64,560	$61,870	$75,320		**Washington**	$53,800	$64,560	$61,870	$75,320
Onslow	$53,800	$64,560	$61,870	$75,320		**Watauga**	$53,800	$64,560	$61,870	$75,320
Orange	$61,700	$74,040	$70,955	$86,380		**Wayne**	$53,800	$64,560	$61,870	$75,320
Pamlico	$53,800	$64,560	$61,870	$75,320		**Wilkes**	$53,800	$64,560	$61,870	$75,320
Pasquotank	$53,800	$64,560	$61,870	$75,320		**Wilson**	$53,800	$64,560	$61,870	$75,320
Pender	$53,800	$64,560	$61,870	$75,320		**Yadkin**	$58,200	$69,840	$66,930	$81,480
Perquimans	$53,800	$64,560	$61,870	$75,320		**Yancey**	$53,800	$64,560	$61,870	$75,320
Person	$53,800	$64,560	$61,870	$75,320						
Pitt	$53,800	$64,560	$61,870	$75,320						
Polk	$53,800	$64,560	$61,870	$75,320						
Randolph	$56,400	$67,680	$64,860	$78,960						
Richmond	$53,800	$64,560	$61,870	$75,320						
Robeson	$53,800	$64,560	$61,870	$75,320						
Rockingham	$53,800	$64,560	$61,870	$75,320						
Rowan	$53,800	$64,560	$61,870	$75,320						
Rutherford	$53,800	$64,560	$61,870	$75,320						
Sampson	$53,800	$64,560	$61,870	$75,320						
Scotland	$53,800	$64,560	$61,870	$75,320						
Stanly	$53,800	$64,560	$61,870	$75,320						

Note: Actual figures will be sent to mortgagors within 90 days of closing.[3]

[3] Information available at NCHFA's website:
https://www.nchfa.com/sites/default/files/page_attachments/107RecaptureTaxClosingPacket.pdf

10.10 Notice to Mortgagors of Potential Recapture of Federal Subsidy

The below-market rate on your FirstHome Mortgage or Mortgage Credit Certificate has been made possible through the use of tax-exempt bond authority by the North Carolina Housing Finance Agency (NCHFA).

If you dispose of all or part of the interest in your home at a gain within nine years of the date of loan closing, your federal income tax for the year in which the disposition occurs may be increased by a portion of the federal subsidy received by you ('Recapture").

The recapture is accomplished by an increase in your federal income tax for the year in which you sell your home. The recapture only applies, however, if you sell your home at a gain and IF your income increases above specified levels.

Within 90 days of the loan closing NCHFA will provide you with a “Notice to Mortgagors of Federally-Subsidized Amount and Family Income Limits.” This form contains information that you will need to calculate the maximum amount that you may be required to pay as an addition to your federal income tax liability if you dispose of all or part of the interest in your home. You may wish to consult a tax advisor or the local office of the Internal Revenue Service at the time you sell your home to determine the amount, if any, of the recapture tax. None of these calculations need be made unless you dispose of an interest in your home within nine years from the date of closing.

The actual amount of Recapture can only be calculated at the time of disposition. Several steps are required to calculate the actual Recapture amount. Adjustments may be made based on the number of years the home is owned by you and your income at the time of disposition.

The steps involved in the calculation of Recapture are defined below.

a) Threshold Income (Adjusted Qualifying Income)

The highest federal family income, (based on family size at the time of disposition) at the date of the loan closing multiplied by 1.05 to the n^{th} power where “n” is the number of full years between the loan closing and the date of disposition.

b) Holding Period Percentage

The percentage is based on the year in which the disposition occurs after the loan closing date according to the following table:

Year 1	20%		Year 4	80%		Year 7	60%
Year 2	40%		Year 5	100%		Year 8	40%
Year 3	60%		Year 6	80%		Year 9	20%

c) Maximum Recapture Amount

The federally-subsidized amount which is 6.25%, multiplied by the highest principal amount of the mortgage, multiplied by the holding period percentage.

d) Income Percentage

The modified adjusted gross income of the borrower for the taxable year in which the disposition occurs minus the threshold income divided by a constant factor of 5,000.

e) Adjusted Recapture Amount

The maximum recapture multiplied by the income percentage.

f) Recapture

Equals the lesser of the Adjusted Recapture Amount, or one-half the gain realized on the disposition. If the disposition occurs other than through a sale, exchange or involuntary conversion, gain for purposes of Recapture will be determined as if the interest had been sold for its fair market value on the date of disposition. Further, in the event your home is destroyed by fire, storm, flood or other casualty, no Recapture will be required if you purchase additional property for use as your principal residence on the site of the home financed with this mortgage within the period of time specified in Section 1033 (a)(2)(B) of the Internal Revenue Code.

This notice is furnished by the North Carolina Housing Finance Agency according to the requirements of Section 143 (m)(7) of the Code. It should be kept by you with your mortgage loan files. You should consult your own tax advisor regarding the calculation of the Recapture amount if you dispose of any interest in your home within nine years of the date of this notice.

10.11 Notice to Mortgagors of Maximum Recapture Tax and Method to Compute Recapture Tax on Sale of Home

a) General

If you sell your home within nine years after closing your mortgage, you may have to pay a recapture tax as calculated below. The recapture tax may also apply if you dispose of your home in some other way, for example, if you give your home to a relative. Any reference in this notice to the "sale" of your home also includes other ways of disposing of your home.

b) Exceptions

In the following situations, no recapture tax is due:

- Home is sold or otherwise disposed of more than nine years after mortgage closing.
- The home is disposed of as a result of mortgagor's death.
- Transfer of home spouse or to former spouse incident to divorce and mortgagor has no gain nor loss included in income under section 1041 of the Internal Revenue Code.
- The home is disposed of at a loss.

c) Maximum Recapture Tax

The maximum recapture tax that may be required is calculated in the enclosed notice. This amount is 6.25% of the original principal amount of the mortgage loan, and is the federally subsidized amount with respect to the loan. If recapture tax is due, the mortgagor would pay it in addition to any federal income tax for the year in which the mortgagor disposed of the home.

d) Actual Recapture Tax

The actual recapture tax, if any, can only be determined when the home is sold. It is the lesser of (1) 50% of any realized gain, regardless of whether the gain must be included in income for federal income tax purposes, or (2) the recapture amount determined by multiplying the following three numbers:

* The maximum recapture tax, as described above and as shown in the enclosure, multpilied by
* The holding period percentage, as listed in the enclosure, multiplied by
* The income percentage

e) The income percentage is calculated as follows:

1. Subtract the applicable “Adjusted Qualifying Income” in the taxable year in which you sell your home, with the following two adjustments:
    a. your adjusted gross income must be increased by the amount of any interest that you receive or accrue in the taxable year from tax-exempt bonds that is excluded from your gross income (under section 103 of the Internal Revenue Code); and
    b. your adjusted gross income must be decreased by the amount of any gain included in your gross income by reason of the sale of your home.
2. If the result is zero or less, you owe no recapture tax.
    a. If it is $5,000 or more, your income percentage is 100%.
    b. If it is greater than zero but less than $5,000, it must be divided by 5,000.
3. This fraction, expressed as a percentage, represents your income percentage.
    a. For example, if the fraction is $1,000÷5,000, your income percentage is 20%.

f) Limitations and Special Rules on Recapture Tax

If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual recapture tax as if you had sold your home for its fair market value.

If your home is destroyed by fire, storm, flood, or other casualty, there generally is no recapture tax if, within two years, you purchase additional property for use as your principal residence on the site of the home financed with your original subsidized mortgage loan.

In general, except as provided in future regulations, if two or more persons own a home and are jointly liable for the subsidized Mortgage loan, the actual recapture tax is determined separately for them based on their interests in the home.

If you repay your loan in full during the nine year period and sell your home during this period, your holding period percentage may be reduced under the special rule in Section 143(m)(4)(C)(ii) of the Internal Revenue Code.

Other special rules may apply in particular circumstances. You may wish to consult with a tax advisor the local office of the Internal Revenue Service when you sell or otherwise dispose of your home to determine the amount, if any, of your actual recapture tax. See Section 143(m) of the Internal Revenue Code generally.

Section 11: Forms for Mortgage Credit Certificate Program

11.1 Processing

MCC Submission Package Checklist	MRB/MCC-011
Underwriter Certification	MRB/MCC-012
Seller Affidavit	MRB/MCC -013
Seller Affidavit for HUD Repo Properties	MRB/MCC-013 HUD Repo
Copy of Letter of Testamentary	
Mortgage Affidavit and Program Certification	MRB/MCC-016
Preliminary Notice to Applicant of Potential Recapture of Subsidy	MRB/MCC-015
Trust Certification for Loan Application	MRB/MCC-017
Income Tax Affidavit	MRB/MCC-018
Mobile Home Certification	MRB/MCC-020
Information Memo	MRB/MCC-024
MCC Borrower Program Information	MRB/MCC-025
Notice to Borrower	MRB/MCC-026

11.2 Closing

MCC Closing Package Checklist	MRB/MCC-100
Borrower/Co-Occupant Closing Affidavit	MRB/MCC-101
Lender Closing Affidavit	MRB/MCC-102
Recertification of Income	MRB/MCC-103
Recapture Tax Closing Packet	MRB/MCC-107

11.3 Worksheets

Income Calculation Worksheet	MRB/MCC-201
Calculation of Business Use Worksheet	MRB/MCC-202
MCC Tax Credit Worksheet	MRB/MCC-204

To access these forms, please follow the link below:
https://www.nchfa.com/homeownership-partners/lenders/forms-and-resources

11.4 MCC Annual Report Printout Request Form

North Carolina Housing Finance Agency

MCC Annual Report Printout Request Form

Lender:

Mailing Address:

Phone No.

MCC Contact Person: **Email**:

Check for ($150) Enclosed?: Yes ____

Note: *Printout will be sent no later than January 15, 2018.*

Please attach check here ►

Mail Check & Request Form To:

North Carolina Housing Finance Agency
Attn: Jan Ott
3508 Bush Street
Raleigh, NC 27609

Please e-mail Jan Ott at jlott@nchfa.com if you have any questions.

11.5 Owner Occupancy Certification

NORTH CAROLINA HOUSING FINANCE AGENCY

OWNER OCCUPANCY CERTIFICATION

This is to certify that I/we currently occupy the property at the following address:

____

____

My/Our Primary Address:

____

____

Borrower's Signature **Date**

____

Co-Borrower's Signature **Date**

____

(_____)________________________
Cell Number

(_____)________________________
Home Number

(_____)________________________
Business Number

____
E-Mail Address

Appendix A: Targeted Areas

A Targeted Area is defined as a census tract in which 70% or more of the households have an income which is 80% or less of the area median family income. The first-time homebuyer requirement does not have to be met if the borrower's residence is located in a designated Targeted Area.

Note: This information is subject to change. Targeted status for specific census tracts can be verified at www.nchfa.com.To determine the census tract for a specific property address, you may access this website: www.ffiec.gov/geocode/default.aspx.

Index

Revision History

June 5, 2017

Section 6.3

- Removed language requiring the Spouse to sign the DOT.

June 7, 2017

Section 5.5

- Added screen shots of electronic upload of closing documents.

August 30, 2017

Definitions

- Add ACH
- Compliance
- Fannie Mae added
- First Time Homebuyer Added
- Free Trader Added
- Recapture – “interest” removed

Section 3 - Eligibility

- 3.1.4 - Clarified use of Notarized Statement
- 3.1.6-b – Added 1099s, changed pay period ending date within 45 days of submission. Added “Beginning January 1….Transcripts required” Income
- 3.1.6-j – Clarified use of Notarized Statement
- 3.1.2 b- Added “…alimony MUST be disclosed”
- 3.2 – Maximum Acreage – clarified Business use of land to include “or any appurtenant free standing structure”
- 3.4 – Electronic Signature – added “envelope”

Section 4 – Participating Lenders

- 4.1.10 – Added “Minimum 10 loans per year”
- 4.2 – changed late fee to $50
- 4.2 – Added Extension fee $100

Section 5 – Mortgage Processing Steps

- 5.2 – removed Recorded POA at closing.
- 5.2.5 – Clarified use of Notarized Statement
- 5.2.9b – added “non-borrowing co-occupant”
- 5.2.9e – Clarified Electronic Signature
- 5.3 Loan “approval” submission package
- 5.3 last bullet, added Child support
- 5.4.2a – changed to “last four digits of Social Sec
- 5.5 – changed late fee to $50
- 5.5.2c – Added ACH email receipt
- 5.6 – Rejected ACH

Section 6 – Program Compliance

- 6.1 – added info "beginning January 1, 2018
- 6.2 – added new info for process January 1, 2018
- 6.3 – added information on Free Trader…

Section 7 – Utilizing the MCC

- Changed FHA information
- Added page for Underwriter Discretion

October 9, 2017

Section 5

- 5.3 – Added URAR, Uniform Residential Appraisal Report, all pages

January 10, 2018

Section 2 – Definitions

- Acquisition Cost - #2 – clarified square footage
- Adult Occupant – clarified
- Borrowers – clarified
- Compliance Income – clarified
- Co-Borrower- clarified
- Eligible Borrower – clarified
- Free Trader Agreement – clarified
- Full Time Student – clarified
- Mobile Home – added
- Other Income – clarified
- Permanently Fixed – clarified
- Recapture Tax – clarified

Section 3 – Eligibility Guidelines

- 3.2d – updated
- Electronic Signature – clarified

Section 5 – Mortgage Processing Steps

- 5.2.3 – removed "signed tax returns"
- 5.2.17 – added ACH information
- 5.4.2 a & b – removed co-occupant from signature requirement
- 5.5 a & b – added co-borrower, removed co-occupant

Section 6 – Program Compliance

- 6.1 – clarified "household", removed returns, added IRS transcripts
- 6.3 – added "adult occupant"

Section 9 – Refinancing Requirements

- 9.2.4 – changed to 10 days
- 9.3 – deleted amortization schedule
- 9.3 – deleted Exhibit B

Appendix A

- updated form names
- added Notice to Borrower 026
- added Mobile Home Certification 020
- added Income Calculation 201
- added links to Forms & Resources

July 5, 2018

Document-wide revisions

- Formatted headings, added dynamic Table of Contents
- Formatted numbered and bulleted lists
- Edited indents and tab stops for consistency throughout document
- Updated appendices and forms to match updated HomeAd Guide
- Grammatical/typographical corrections throughout
- Added Section 10 Recapture Provisions (formerly Appendix B)
- Added Section 11 "Forms" (formerly Appendix A)
- Changed name of Appendix C to Appendix A

August 22, 2018

- 5.2 added Eleven Steps
- 6.3 added IRS electronic receipt as acceptable verification of filed federal tax returns
- Document wide revision – removed "notarized" and substituted "signed" with statement in lieu of separation agreement or Free Trader.
- 7.1 clarified FHA's current guidelines on utilizing the MCC for qualifying.

September 27, 2018

- Free Trader removed

November 26, 2018

- Added Underwriter Certification Form 012
- Removed #8 under section 3.1

November 13, 2019

- Added $35 cost to complete unfinished square footage to definition

June 2020

- **Added new titleholder and secondarily liable program changes**
- **Tax** returns added as an option

October 2020

- **Added to Pg. 13, Sect 3.1(8), Pg. 36, Sect. 5.3 (13), & Pg. 41, Sect 6.1 (4):** If the lender is unable to furnish a tri-merge report, then the lender must provide a three-year rental history to show no ownership in a principal residence in the past three years.

March 2021

- **Section 7.1 (b)** Changed to reflect new USDA guidelines based on HB-1-3555, Chapter 9, Mortgage Credit Certificate Guidance

July 2021

- Updated training requirements
- Added IRA/401k withdrawal info

Oct 2021

- Updated ARM product info to clarify 5/1 or longer.
- Clarified wording on Appraisal Waiver.
- Added Land trust to property types