HHFDC
Hawaii Housing Finance & Development Corporation

MORTGAGE CREDIT CERTIFICATE PROGRAM
FREQUENTLY ASKED QUESTIONS
September 20, 2013

<u>What is a Mortgage Credit Certificate?</u>

The Mortgage Credit Certificate Program was authorized by Congress in the 1984 Tax Reform Act as a means of providing housing assistance to families of low and moderate income. The Hawaii Housing Finance and Development Corporation (HHFDC) is an Issuer of Mortgage Credit Certificates.

The Mortgage Credit Certificate (MCC) reduces the amount of federal income tax you pay, thus giving you more available income to qualify for a mortgage loan and assist you with house payments.

The MCC is available to homebuyers who meet household income and home purchase price limits established for the MCC Program, as well as other federal eligibility regulations.

<u>How will a Mortgage Credit Certificate assist my home purchase?</u>

The federal government allows each homeowner to claim an itemized federal income tax deduction for the amount of interest paid each year on a mortgage loan.

For a homeowner with a MCC, this benefit is even better:

- 20% of your annual mortgage interest will be a direct federal tax credit, resulting in a dollar-for-dollar reduction of your annual federal income tax liability.
- The remaining 80% of your annual mortgage interest will continue to qualify as an itemized tax deduction.

The amount of your mortgage credit depends on the amount of interest you pay on your mortgage loan. However, the amount of your mortgage credit cannot exceed the amount of your annual federal income tax liability. Unused mortgage credit can be carried forward for three years to offset future income tax liability.

How does the Mortgage Credit Certificate work?

Here is an example of how a MCC can make buying a home affordable for you:

- You obtain a mortgage loan of $250,000 at 6.0% for 30 years with monthly principal and interest payments of $1,499 and a MCC credit rate of 20%.

- In the first year, you pay a total of $14,916 in interest on your mortgage loan. Because you have a MCC, you could receive a federal income tax credit of $2,983 (20% of $14,916). If your income tax liability is $2,983 or greater, you will receive the full benefit of the MCC tax credit. If the amount of your tax credit exceeds the amount of your tax liability, the unused portion can be carried forward (up to three years) to offset future income tax liability.

- The remaining 80% of mortgage interest, or $11,933, qualifies as an itemized income tax deduction.

- To receive the immediate benefit of your MCC tax credit, you would file a revised W-4 withholding form with your employer to reduce the amount of federal income tax withheld from your wages and increase your take home pay by $249 per month ($2,983 divided by 12).

- By applying the increase in your take home pay of $249 towards your monthly mortgage payment of $1,499, your effective monthly payment would be $1,250 ($1,499 minus $249).

What are the loan terms?
What types of loans can the MCC be used with?

You are free to seek financing from any lender. However, MCCs are available only through participating lenders listed on this brochure. The lender providing the financing is allowed to establish the interest rate, loan term, down payment requirement, credit and underwriting criteria, loan type, mortgage insurance requirement, fees, points, closing costs, and all other terms.

A MCC can be used in conjunction with a conventional fixed rate loan, variable rate loan, FHA loan, VA loan or privately insured loan. However, a MCC cannot be used with a Hula Mae loan.

How long does the Mortgage Credit Certificate last?

The MCC will remain in effect for the life of your mortgage loan, so long as the home remains your principal residence. The amount of your annual mortgage credit will be calculated on the basis of 20% of the total interest paid on your mortgage loan for that year.

What are the requirements?

The MCC requirements include the following:

- The home you buy must be used as your principal residence after you obtain your mortgage. If it stops being your principal residence, your MCC will be automatically revoked and you will no longer be entitled to claim the mortgage credit.

- You cannot have an ownership interest in a principal residence at any time in the last three years.

- The mortgage loan must be a new loan. You cannot be issued a MCC for the acquisition, replacement or refinancing of an existing mortgage loan. However, you may (on a case-by-case basis) be issued a MCC for the replacement of construction period loans, bridge loans, or similar financing of a temporary nature with a term of twenty-four months or less.

- The federal government considers the MCC tax credit to be a subsidy. As such, you may be subject to federal "recapture tax" if (1) you sell your home within nine years of purchase, (2) you sell your home at a gain, and (3) your income increases above a specified level.

What are the income and purchase price limits?

The purchase price limits vary by county, while the income limits vary by county and family size.

Income limits*:

County	Families of 2 or less	Families of 3 or more
Honolulu	$117,480	$137,060
Maui	$101,880	$118,860
Kauai	$103,800	$121,100
Hawaii	$83,760	$97,720

Purchase price limits*:

County	Newly Constructed or Existing Residences
Honolulu	$732,692
Maui	$729,230
Kauai	$714,231
Hawaii	$571,153

The above limits apply only to fee simple fully completed units. Leasehold residences and uncompleted units are subject to certain adjustment in determining their "acquisition cost" as defined by the U.S. Internal Revenue Service. The purchase price limits may be 1) increased by HHFDC for mortgage loans in targeted area residences; or (2) increased or decreased by HHFDC pursuant to the U.S. Internal Revenue Service guidelines.

* *The income and purchase price limits are subject to change. The income limits and purchase price limits may be increased or decreased by the HHFDC pursuant to U.S. Internal Revenue Service guidelines.*

<u>What happens if I refinance an existing MCC-assisted mortgage?</u>

If you choose to refinance an existing MCC-assisted mortgage, your original MCC becomes null and void. You must obtain a reissuance of the original MCC in order to continue to qualify for the tax credit.

(For more details on the reissuance of a MCC and related processing fees, please contact a participating lender.)

<u>Where can I get a Mortgage Credit Certificate?</u>

You are free to seek financing from any lender. However, MCCs are available only through the participating lenders listed below. Application for a MCC usually occurs at the same time loan application is made. Upon approval and closing of your loan, a fee of $400 will be charged for the processing of your MCC.

Participating Lenders:

American Savings Bank
Bank of America, N.A.
Bank of Hawaii
Castle & Cooke Mortgage, LLC
Central Pacific Bank
CUSO of Hawaii Services, LLC
DHI Mortgage
Envoy Mortgage
First Hawaiian Bank
Guild Mortgage Company
Hawaii HomeOwnership Center
Hawaii State Federal Credit Union
Wells Fargo Bank, N.A.
Hawaii USA Federal Credit Union
Hawaiian Tel Federal Credit Union
HomeStreet Bank
Honolulu HomeLoans, Inc.
House of Finance, Inc.
Island Mortgage
Mann Mortgage, LLC
Mason-McDuffie Mortgage Corporation
Pacific Access Mortgage
Point Financial, Inc.
Stellar Capital, Inc.
Territorial Savings Bank

Mortgage Credit Certificate Information Line – (808) 587-0567

> *If you require special needs/auxiliary aids (i.e. large print, taped materials, sign language interpreter, etc.), call the HHFDC Finance Branch at (808) 587-0567.*

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