

## What is a Mortgage Credit Certificate?

The Mortgage Credit Certificate Program was authorized by Congress in the 1984 Tax Reform Act as a means of providing housing assistance to families of low and moderate income. 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.

## How will a MCC assist my home purchase?

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.

## What are the loan terms?

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.

MCCs cannot be used in conjunction with qualified mortgage bonds or qualified veteran's mortgage bonds including Hula Mae loans.

## How long does the MCC 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.
- A \$25 Application Fee and a fee of \$400 will be charged for the processing of your MCC application. Loans must be closed within 90 days of issuance of a MCC Conditional Commitment. The MCC Conditional Commitment may be extended for 60 days subject to a \$100 fee. Please contact a MCC Participating Lender to learn more about MCC Program requirements.

## 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 | \$114,960             | \$134,120             |
| Maui     | \$ 92,040             | \$107,380             |
| Kauai    | \$103,560             | \$120,820             |
| Hawaii   | \$ 81,840             | \$ 95,480             |

*The income limits may be increased or decreased by the HHFDC pursuant to U.S. Internal Revenue Service guidelines. The annual gross income limits are available upon request. The income limits are for Non-Targeted Areas. Please contact the HHFDC for income limits in Targeted Areas.*

### PURCHASE PRICE LIMITS:

| County   | Newly Constructed or Existing Residences |
|----------|------------------------------------------|
| Honolulu | \$688,170                                |
| Maui     | \$627,804                                |
| Kauai    | \$680,488                                |
| Hawaii   | \$351,219                                |

*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.*

*Note: 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.)*

## Where can I get a MCC?

You are free to seek financing from any lender. However, MCCs are available only through the participating lenders listed online.

<http://dbedt.hawaii.gov/hhfdc/participating-mcc-lenders/>

## How does the MCC 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).

## MCC Information Line

**(808) 587-0586**

[www.dbedt.hawaii.gov/hhfdc/](http://www.dbedt.hawaii.gov/hhfdc/)

### The Hawaii Housing Finance & Development Corporation

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*If you require special needs/auxiliary aids (i.e. large print, taped materials, sign language interpreter, etc.) call the HHFDC Finance Branch at (808) 587-0586*

*HHFDC does not discriminate against any person because of race, color, religion, sex, including gender identity or expression, sexual orientation, disability, familial status, ancestry, age, marital status, or HIV infection.*



# MORTGAGE CREDIT CERTIFICATE PROGRAM

