Mortgage Credit Certificate Program Guide

Mission Statement

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

North Carolina Housing Financing Agency
3508 Bush Street
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919-877-5700
Website: www.nchfa.com
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Section 1

Introduction

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 the program eligibility of borrowers.

For lenders combining an MCC with the N.C. Home Advantage mortgage program, all MCC eligibility requirements in this manual (borrower eligibility, income limits, sales price limit, 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 can 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.
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 their principal residence and has a tax liability. Should they 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 by an NCHFA mortgage revenue bond. However, N.C. Home Advantage is an eligible loan product that can be combined with an MCC.

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

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

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

or

Home Ownership Lending Group
3508 Bush Street
Raleigh, North Carolina 27609-7509

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.

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NCHFA displays current interest rates, loan types and other program information on the Agency website. Our website address is: [www.nchfa.com](http://www.nchfa.com)

Participating lenders must use our Online Lender Services (OLS) system to maintain their pipeline. It can be accessed via [https://www.nchfa.org/OLS/login.aspx](https://www.nchfa.org/OLS/login.aspx).
Section 2

Definitions

**Acquisition Cost** - The cost of acquiring residential property as a completed residential unit, including:

1. all amounts paid, either in cash or in kind, by the mortgagor or a related party for the benefit of the mortgagor to the seller(s); or related parties for the benefit of the seller(s) as consideration for the residential property;

2. if the dwelling unit on the residential property is incomplete, the reasonable cost of completing the same, whether or not the costs of completion are to be financed with the current loan;

3. if the residential property is purchased subject to ground rent the capitalized value of the ground rent.

The following costs are excluded:

1. those settlement costs and financing costs that are usual and reasonable and that would be paid by the mortgagor where financing is not provided through a qualified mortgage bond issue;

2. the value of any services performed by the mortgagor and family members in completing a dwelling unit on the residential property;

3. the cost of any land that was owned by the mortgagor for at least two years prior to the construction of a dwelling unit on the residential property.
Adult Occupant - All household members over the age 18 who are not full time dependent students.

Affidavit - A document that is made under oath and subject to the penalties of perjury. The affidavits include the Request for Conditional Commitment (MCC-012); the Seller Affidavit (MCC-013); the Program Certification (MCC-014); 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) - Person or Persons applying for mortgage loan financing assisted by a Mortgage Credit Certificate.

Business Use - 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. The principal place of business for, or in connection with, any trade or business on an exclusive and regular basis.

Compliance Annual Income - Total of the occupants' gross annual household income at time of lender submission of the documents to NCHFA for Loan Commitment/approval, plus any additional income from alimony, annuities, auto allowance, bonuses, child support, commission, disability or death benefits, dividends, education benefits used for subsistence fees, interest, income received from business activities or investments, income received from trusts, insurance policies, 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, special pay and allowances of a member of the armed forces (excluding hazardous duty pay), tips, Veterans Administration (VA) compensation, and workers compensation. This includes any income from any source for all persons 18 years or older who are not full-time dependent students, and who are expected to occupy the property. For more specific criteria refer to Section 3.

The income to be taken into account in determining the gross annual income includes all sources of household income for the mortgagor(s) and any other person who is expected to live in the residence being financed even if they will not be secondarily liable on the mortgage.
Compliance Guidelines - Guidelines that are used in conjunction with credit and property 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* - An individual who is on loan documents and whose income and credit are used to qualify for the loan. They need to:
   a. meet the annual income limits,
   b. has or will establish North Carolina residency within 60 days of closing and,
   c. has not had an ownership interest in a 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 meets one-time Veteran’s exemption.

*Income for ALL borrowers and adult occupants must be counted toward household income for MCC compliance purposes. All adult occupants must also meet all other MCC requirements.

Co-signer - Not Allowed

Discount Points - Discount points cannot be charged on N.C. Home Advantage loans.

Electronic Signatures - Are acceptable on all NCHFA documents, except Promissory Note and Deed of Trust.

Eligible Borrower - An individual or family that (1) meet 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.

**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.

**Full Time Student** – Dependent adult, 18 years or older, currently enrolled for a minimum of 12 semester hours. (A borrower’s spouse is never eligible for this exception.)

**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.

**Household** - Any person or persons who intend to occupy a home as a principal residence. The income of all household members who are 18 years of age or older (except full-time dependent students) must be included in the total annual income calculation, whether or not they will execute the Promissory Note. To determine household size the Agency will include all individuals who intend to occupy the property at a future date (i.e. fiancée).

**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); is approved as a USDA mortgage originator (if originating USDA loans); has an office located in North Carolina that has originated single-family mortgages for at least one year; must originate,
close and fund the loan; has a company net worth of $1,000,000 and has executed a NCHFA Lender Participation Agreement.

**Loan Approval** - Issued after the NCHFA underwriter has reviewed & approved all required documents.

**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.

**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 (Look for HUD label). Manufactured housing (i.e. double-wide) 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 (3) at least 20 feet wide.

**Marital Interest** - An interest one had only because he/she was married to a person that owned a property, as 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. An occupant who has only a marital interest, as opposed to an ownership interest (refer to definition in Section 2), is eligible for the Mortgage Credit Certificate Program.

**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 Loan Origination and Sale Agreement** - An agreement describing the mortgage originator’s rights and responsibilities, made between the North Carolina Housing Finance Agency and lenders participating in the respective issue of the Home Ownership Mortgage Program.

**Mortgagor** - The borrower(s) in a mortgage transaction.

**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(s) age 18 years of age or older, who is not a full time dependent student, who will occupy the property and who will not be secondarily liable on the mortgage. Must meet all MCC income and First Time Home Buyer requirements.

Non-Occupying Co-Borrower - Not allowed

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

“Other” income - all income other than base pay

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). However, we do not consider ownership interest in a timeshare as prior 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 code.

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 as a primary residence.
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 interest savings that the borrower receives from a MCC-assisted mortgage. This federal tax, if applicable, is payable to the IRS on the home owners federal income tax returns.

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).

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 C.

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 by the appraiser to determine the total acquisition cost.

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.
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 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. 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.

Ownership in a mobile or manufactured home on a permanent foundation and titled as real estate would not be eligible for an MCC.
There are two exceptions to the three year non-ownership requirement.

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

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: Even though a household may be exempt from the three year non-ownership requirement, the MCC income and acquisition cost limits still apply.

3. **Tax Liability** - No tax liability is required for MCC eligibility.

4. **Married borrowers** who do not have a separation agreement or divorce decree may submit a notarized statement of the borrower’s intent to live separately from their spouse. This statement must also include any information regarding alimony, child support, or ownership in property.

5. Borrower & all adult occupants, with the exception of full time dependent students, must meet household income limits for the program and lenders must calculate income by using the procedures of this section.

   a. **Income Limits**

   Household income is defined as the gross annual income of the mortgagor(s) (those signing the Deed of Trust) and any other person who is expected to live in the residence being financed; including income received by any household member who is 18 years of age or older (except a full-time
dependent student), even if they will not be secondarily liable on the mortgage.

The income limits can be found on our Online Lender System (OLS) or our website at [www.nchfa.com](http://www.nchfa.com).

**b. Income Calculation for Compliance Underwriting**

*Compliance Income*

NCHFA will count all household 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, 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, etc.)

**Note:** The pay stub must be dated within 45 days of submission of documents to NCHFA for loan approval and clearly indicate all sources of income (i.e., shift differential, overtime, etc.) 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 company official.

NCHFA requires a copy of all of last year’s W-2s. The sum of the W-2s must match the federal 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 returns. Verbal Verification of Employments (VOE’s) are acceptable.
Disclosure of Income

Lenders should always ask the borrowers 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).

Other Income

The lender should also ask the borrower for specific other income.

Examples include:

- alimony
- annuities
- auto allowance
- bonuses
- child support
- commission
- disability or death benefits
- dividends
- 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
- special pay and allowances of a member of the armed forces (excluding hazardous duty pay)
- tips
- unemployment income
- Veterans Administration (VA) compensation
- Workers compensation
Read further for more specific details on certain types of income. Types of income not listed in this guide but disclosed by borrowers should also be counted.

c. **Income Calculation: Salaried Base Pay**

The lender will use each borrower's 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. Lender should investigate discrepancies and document the file appropriately.

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 until June 30. On July 1, current base pay projected for 12 months will be averaged with year to date “other” income.

d. **Income Calculation: Self-Employment Income**

The lender must calculate gross annual income for self-employed borrower 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).
Example:

2014 net earnings from Schedule C  $ 33,003.00
Depreciation +  2,550.00
2014 earnings (12 month period) $ 35,553.00

2015 net earnings from Schedule C  $ 38,000.00
Depreciation +  3,000.00
2015 earnings (12 month period) $ 41,000.00

2016 net earnings for 9 months from P&L  $ 36,000.00
Depreciation +  1,000.00
2016 year-to-date earnings (9 month period) $ 37,000.00

2014 earnings $ 35,533.00
2015 earnings +  41,000.00
2016 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 $0. NCHFA would use $0 to calculate compliance income.

Self-Employment Income (Less than 2 years)

If the borrower has been self-employed for less than two years, the borrower must submit to the lender, in addition to personal income tax returns (including any schedules), a current, signed year-to-date (based on most recent quarter) profit and loss statement (may be self-prepared). 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.
Example:

2015 net earnings from Schedule C $ 38,000.00
Depreciation +  3,000.00
2015 earnings (12 month period) $ 41,000.00

2016 net earnings 9 months from P&L $ 36,000.00
Depreciation +  1,000.00
2016 earnings (9 month period) $ 37,000.00

2015 earnings $ 41,000.00
2016 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 2015 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 small corporation (i.e., assets of one million dollars or less).

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 that the last date of self-employment.
e. Income Calculation: 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 \times 15 \text{ hours} \times 52 \text{ weeks} = \textbf{$5,850}\text{ annual income} \quad \text{Part-time employer states $7.50 per hour but does not state the hours worked. The date of employment was February 19, 2015, date of VOE was October 22, 2015, and year-to-date earnings were $3,806; from February 19, 2015, to October 22, 2015, is 35 weeks.}$

$3,806 \text{ year-to-date earnings} \div 35 \text{ weeks} \times 52 \text{ weeks} = \textbf{$5,655}\text{ annual income}.$
f. Income Calculation: 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. This can be detected when the tax returns are reviewed. The part-time self-employment income is calculated in the same way as when the borrower is self-employed on a full-time basis.

When 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.

g. Income Calculation: 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 until June 30. On July 1, use only year to date to average and project forward for the next 12 months.

h. Income Calculation: 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 until June 30. On July 1, use only year to date to average and project forward for the next 12 months.
i. **Income Calculation: 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.

j. **Income Calculation: 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 **Program Certification form (MCC-014)**. For married borrowers (or non-borrowing co-occupants) who do not have a separation agreement or divorce decree, NCHFA will accept a notarized 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.

k. **Income Calculation: 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.

l. **Income Calculation: 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
l. Income Calculation: 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.

m. 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, 2015. The income verifications are valid for 120 days, in this case until July 5, 2015. If the loan closes after July 5, 2015, the borrower’s income must be re-verified prior to closing.

2. Other borrower requirements are as follows:

a. **Compliance Certification for Non-Borrower Occupant**

   He/she must execute all NCHFA documents.

   The Compliance Certification for Non-Borrower Occupant on the **Program Certification (MCC-014)** form, the **Request for Conditional Commitment (MCC-012)**, 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 the non-borrowing spouse or other adult occupant 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 3 years signed federal tax returns, IRS printouts or tax transcripts.

   Neither the spouse nor other adult occupant(s) can 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 notarized statement that must include the date of their separation, amount of child support or alimony received, if any, and that they have not owned any property as a primary residence within three years of the closing date.

Information regarding child support or alimony can be disclosed on the Program Certification and supported by other documents gathered by the lender.

3.2 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 is the cost of acquiring residential property as a completed residential unit. Please review our complete definition of “acquisition cost” in Section 2. The limit is $245,000 and is subject to change and can be found on our website 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 reviews a copy of the appraisal for compliance underwriting.

Property Types Allowed

- Single Family Detached Homes
- Condominiums/PUDs approved by Fannie Mae or Freddie Mac, or insurer (FHA, VA, USDA)
- Townhomes
- Manufactured homes eligible for FHA, VA, USDA or Conventional guidelines under a land-home transaction; fixed to a permanent foundation. [Note: Must be new, never occupied if combining with N.C. Home Advantage Program under a FHA or USDA loan type]
3. Maximum Acreage

The land acquired in connection with the mortgage loan may not exceed two (2) acres; however, exceptions may be made to permit lots larger than 2 acres, **but in no event in excess of 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 may be used as an income producing property.

Exceptions to the 2-acre limit may be granted based on the following:

- If the land is owned free and clear and is not to be financed by the loan, the lot may be as large as 5 acres.
- If difficulty is encountered locating a well or septic field, the lot may include the additional acreage as needed.
- Local city or county ordinances (not just subdivision restrictions) require more acreage, or
- If the lot size is determined by the appraisal to be usual and customary in the area for comparably priced homes.

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

   a. The principal place of business for, or in connection with, any trade or business on an exclusive and regular basis.

   b. 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.

   c. 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.
Not Allowed:

a. Rental to any person, this includes rental to a roommate. Roommate rental is assumed to be using more than 15% of the residence for business purposes.

b. A place that is used on a regular basis in the trade or business of providing day care for children, or for other individuals, regardless of age.

5. Property acquisition costs may not exceed NCHFA’s limits, which are based on the 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. The Request for Conditional Commitment form and Seller Affidavit must include this cost.

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

3.3 Financing Requirements

1. 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 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.

2. **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.

3. **Construction Loan Requirements**

The MCC cannot be issued in connection with an 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 24 months or less.

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 the date of conversion.

4. **Prohibited Mortgages**

The MCC cannot be used in connection with qualified mortgage revenue bond financing (e.g. NCHFA’s former FirstHome loan) or USDA 502 Direct loans. Adjustable Rate Mortgages are not allowed, except FHA 5/1 ARMs and certain credit union ARMs.
5. **Federal Housing Administration's (FHA) 203(k) Program**

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

6. **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 1st mortgage loan amount ($90,000) only. The benefit does not apply to subordinate liens (i.e. 2nd mortgages or $10,000 in this example).

7. **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 these guidelines:

a. 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.

b. If the new borrower (i.e., assumptor) is preliminarily eligible, the lender obtains 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 provides 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.
c. The lender and new borrower must submit an MCC submission package. (The lender must be an approved MCC participating lender.)

d. 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 LE. NCHFA must be paid by a lender check from an account of the lender or by certified check from closing attorney. The lender can charge an additional $300. All fees must be disclosed on the LE and CD or Loan Estimate and Closing Disclosure.

e. 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.

f. NCHFA must issue a new MCC.

g. 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.

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

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

8. **Loan Closed Before MCC Approval**

If the lender closes a loan before NCHFA has approved the MCC underwriting file, 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.
3.4 Electronic Signatures

1. Electronic Signatures allowed on all Agency forms, subject to these general rules:

The use of e-signatures is voluntary, but lender transactions utilizing e-signatures must meet the following standards:

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, the signatory must be a representative who is duly authorized in writing to bind the entity;
- Evidence of such written authority must be maintained by Lender;
- Lenders are not permitted to have borrowers sign documents in blank or with incomplete documents;
- E-signatures and the accompanying dates must be clearly visible on any and all e-signed documents; and
- 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 an 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 and be approved and in good standing with another state HFA);

6. Must originate, process, underwrite, close and fund the loan;

7. Are 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 Master Lender Participation Agreement.

11. Complete a lender training session with Agency staff (required).

### 4.2 Lender Responsibilities

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

We offer a 60-day reservation period. The mortgage loan must close by the expiration 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 extension fees will be charged.

[For lenders combining the MCC with the N.C. Home Advantage program, the 60-day lock requires the lender to have the 1st and 2nd mortgage, if applicable, delivered to our Master Servicer and purchased by day 60. Lender will be subject to mandatory extension fees if 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.
4.3 MCC Fees

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 LE and CD. NCHFA must be paid by a lender check from an account of the lender or by certified check from closing attorney with the closing package.

The lender may charge an additional $300.00 and must be properly disclosed on the LE and CD.

Unless the MCC is combined with our N.C. Home Advantage loan program, the interest rate, term and fees for the mortgage loan are established by the participating lender. Lender may charge up to $775 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.

1. The lender must retain for six years for IRS purposes:

   i. Name, address, and social security number of the MCC holder.
   ii. Name, address, and TIN of the Issuer (i.e. NCHFA).
   iii. Loan date, certified indebtedness amount, and credit rate.
2. The lender must file a report to 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.

Submit Request for MCC Printout on Closed MCC Loans Form (see next page for sample) no later than January 20th in order for NCHFA to generate this report. Remember that 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 in order for an MCC to be issued.
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, 2017.

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.
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. Since 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. This policy also applies to correction packages.**

*All loans must be submitted electronically using the NCHFA OLS portal.*
5.2 Loan Origination

NCHFA requires all borrowers and non-borrowing occupants to sign our NCHFA documents. We do not allow a Power of Attorney to be used for our affidavits with the exception of the Seller Affidavit. A recorded Power of Attorney may be used at closing for the legal documents.

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

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

2. 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 signed federal tax returns or IRS Income Tax Transcript for the previous three years (except for cases in Targeted Areas or Veteran’s exemption; obtain only the previous year’s federal tax returns), and provides to the borrower an MCC Program Information packet and the Preliminary Notice to Applicants of Potential Recapture of Federal Subsidy (MCC-015).

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

4. 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.

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.
5. If necessary, 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 previous spouse owned a home prior to the marriage and borrower only had a martial interest, we would need documentation to support our 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.

6. Lender verifies that borrower’s income, acquisition cost, and prior home ownership requirements are met. Borrower’s income must be re-verified if the loan closes 120 days after the period ending date of the latest pay stub.

7. Lender obtains the borrower(s) signature(s) on the Program Certification (MCC-014), as part of the Agency’s quality assurance program. This form must also be dated.

8. Lender completes the verification process and the borrower and all adult occupants, with the exception of a full time dependent student, sign and date the Request for Conditional Commitment (MCC-012). The Request for Conditional Commitment 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.

   b. Certification that the borrower has 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.

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

   d. Certification that the borrower’s gross annual income does not exceed permitted income limits.
e. Certification that no mortgage interest from the loan is being paid to related person.

f. Acknowledgment that any material misstatement or fraudulent statement is made under penalty of perjury.

g. Acknowledgement of the borrower(s) & all adult occupants’ (with the exception of full time dependent students) signatures.

9. Lender completes the Seller Affidavit (MCC-013) and obtains the seller’s signature. Be aware of the following requirements on the seller’s signature.

a. All sellers must sign the NCHFA Seller Affidavit. We will accept a Power of Attorney on the Seller Affidavit, only if 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 Appendix A for 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.

10. Prior to submitting the file to the lender’s underwriter, the processor should enter the appraisal, credit data information, and print the Underwriter Data Summary
& Approval form. The Underwriter Data Summary & Approval form is uploaded with the submission package to the lender’s underwriter.

11. 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 Underwriter Data Summary & Approval form at the bottom left hand side. The lender issues their approval, subject to NCHFA’s approval.

12. 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: Underwriter Data Summary and Approval form must be signed by the lender’s underwriter for all loans prior to NCHFA’s review of the submission package. The Underwriter Data Summary form is available to be printed/signed from our OLS AFTER all reservation data is entered into the OLS.

13. 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.

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

15. NCHFA will issue an MCC and forward a copy of it to the lender upon review and approval of the closing package.

16. 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.
17. A $100.00 late fee, per month, will be collected from the lender 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 for or collected from the borrower.**

### 5.3 Loan Submission Package

1. 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). *

   - Underwriting Summary and Approval Form (Signed by Underwriter)
   - Signed and dated Request for Conditional Commitment (MCC-012)
   - Program Certifications with all applicable sections checked (MCC-014)
   - Preliminary Notice to Applicant of Potential Recapture of Federal Subsidy (MCC-015)
   - Signed Seller Affidavit (MCC-013)
   - Uniform Residential Loan Application (1003)
   - Verification of current Employment (written or verbal VOE) for all borrowers and non-borrower adult occupants
   - Current Pay Stubs verifying year-to-date income for all borrowers and non-borrower adult occupants
   - Verification of prior employment (written VOE or verbal) to match last year’s W-2s for all borrowers and non-borrower adult occupants
   - Copies of all other income documentation (if applicable) for all borrowers and non-borrower adult occupants
   - Copies of all of last year’s W-2s and/or 1099s to match the tax returns for all borrowers and non-borrower adult occupants
   - Signed copies of borrower(s) three previous years federal tax returns with applicable schedules OR IRS Transcripts (IRS Transcripts preferred) for all borrowers and non-borrower adult occupants.
   - Separation Agreement or Divorce Decree if applicable
*All adults 18 or older, unless they are full time dependent students, are required to execute all NCHFA documents and provide the same income and tax information as the borrower.

2. NCHFA reviews the submission package for completeness and determines whether all necessary affidavits are properly executed. Lenders should allow 72 hours between submission and when approval is required for the lender to supply additional or corrected information.

3. Additional documentation must be received in a reasonable amount of time in order to issue an approval or denial.

4. 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.

The Conditional Commitment states that NCHFA will issue an MCC in a specified amount from the lender 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.

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:
a. Lender Closing Affidavit (MCC-102) - Please note that any co-borrower’s or non-borrowing co-occupant’s name must appear on the Lender Closing Affidavit. The Social Security number of all co-borrowers must also be shown.

b. Borrower Closing/Co-Occupant Affidavit (MCC-101) - Please note that all co-borrower’s or non-borrowing co-occupant’s name must appear on the Affidavit and all adult occupants must sign this form.

3. 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.

4. Lender MUST understand these closing requirements:

a. 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.

b. NCHFA reviews the MCC closing package for completeness and compliance and determines whether all necessary affidavits are properly executed.

c. 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.

5.5 Post-Closing

The lender must submit correctly completed required closing documents, along with a check to NCHFA for $475.00, before the MCC is issued to the Borrower. Documents sent more than thirty (30) days after the reservation expiration date may be subject to a late fee of up to $100 per month.
1. Required Post-Closing Documents

a. The Lender Closing Affidavit – must be completed and SIGNED by the Lender. The name of the borrower and any non-borrowing co-occupant must be listed on the affidavit.

b. The Borrower Closing Affidavit – must be completed and SIGNED by the Borrower(s) and any Non-Borrowing Adult Occupant. The blank for the county should be completed with the subject property county name. The NCHFA loan number is the MCC loan number assigned at reservation.

c. Any other documents required by the underwriter and listed on the Conditional Commitment.

2. Submitting Documents & Fee to NCHFA

a. The lender must MAIL documents to the address listed below. POST CLOSING DOCUMENTS CANNOT BE UPLOADED via OLS at this time.

   Email to: jlott@nchfa.com

b. Fee for $475.00, plus any late fees, must be mailed to NCHFA.

c. Mail to: NCHFA
   3508 Bush St
   Raleigh, NC 27609

   Attention: Jan Ott, MCC Post Closing Docs

5.6 Construction to Permanent Transactions

This 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

To meet the first-time home buyer requirement, the borrower and any other adult household members, including a fiancée, must submit to the lender the last three years of signed federal tax returns including Forms 1040A, 1040EZ, Tele file Tax Record or 1040 federal tax returns with all schedules showing no deductions for interest or taxes for a principal residence. NCHFA requires a copy of all last year’s W-2s. No W-2s are required for the previous two years. The sum of the W-2s must match the federal tax returns.

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.

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.
6.2 If Federal Income Tax Returns Are Not Available

If the borrower is unable to provide signed federal tax returns for the submission package, the following steps must be taken:

1. If the borrower is unable to produce signed federal tax returns, NCHFA will accept copies of the Income Tax Transcript for any year during the last three years. The IRS logo must be legible on the IRS Transcripts.

   **NOTE:** The IRS Account Transcript Summary is not acceptable.

2. If the borrower was not required by law to file federal income tax returns for any year during the last three years, the lender must check 4(c) on the Request for Conditional Commitment (MCC-012). 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.

3. If 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 4(d) on the Request for Conditional Commitment (MCC-012) 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.

4. All MCC requests approved with previous year tax returns that are one year old as of January 1, must close by February 15. For example: today is January 25, 2016. The MCC submitted contained 2012, 2013, and 2014 Federal Tax Transcripts, and 2014 and 2015 W2s and 1099s. This approved request must close by February 15, 2016. If it does not close by February 15, 2016, the MCC must be resubmitted with completed Federal Tax returns for 2015. The Conditional Commitment issued with 2014 as the last filed tax year is no longer valid. Transcripts are not required; the lender only has to submit a copy of the filed Federal Tax form signed by the borrower.
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 person (i.e., fiancée) who is expected to occupy the residence being financed, including income received by any household member who is 18 years of age or older (except a full-time dependent student), even if they will not be secondarily liable for the mortgage. Spouses are required by NCHFA to execute the Deed of Trust whether or not they are included on the Note. The Agency's Program Certifications (MCC-014) 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. Please contact NCHFA 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 Loan 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. You will be prompted to enter a reason for withdrawing the loan.
6.5 Penalties

1. **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.

2. **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.

**FHA** - According to HUD 4155.1: 4.E.3.d the MCC benefit is either “…added to gross income or may be used to directly offset the mortgage payment before calculating the qualifying ratios.” Per the Atlanta HOC, “The guidelines for the treatment of MCC in the new handbook 4000.1 did not eliminate the previous guidelines.”

**USDA** – Loans guaranteed by the United States Department of Agriculture use the credit by deducting the credit from PITI. 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.

**VA** – According to 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.

**Conventional** – The MCC tax credit amount should be added to the gross income of the Borrower(s).

Lenders must realize that the MCC is not a refundable credit, that 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.
Section 8

IRS/ Tax Information

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 information:

**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:*

<table>
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<th>Amount</th>
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<td>Adjusted Gross Income</td>
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<tr>
<td>Mortgage interest deduction</td>
<td>- $4,000</td>
</tr>
<tr>
<td>Income used to calculate taxes</td>
<td>$30,000</td>
</tr>
<tr>
<td>Taxes owed (10% tax rate)</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$34,000</td>
</tr>
<tr>
<td>Mortgage Interest deduction</td>
<td>- $2,800</td>
</tr>
<tr>
<td>Income used to calculate taxes</td>
<td>$31,200</td>
</tr>
<tr>
<td>Taxes owed (10% tax rate)</td>
<td>$3,120</td>
</tr>
<tr>
<td>Apply 30% credit</td>
<td>- $1,200</td>
</tr>
<tr>
<td>Actual taxes</td>
<td>$1,920</td>
</tr>
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</table>
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.

**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 the 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.

**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:
   - MCC Borrower Program Information
   - Recent IRS Form W-4, Withholding Allowance Certificate
   - 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.

**What Must I (the Borrower) Do?**

1. The borrower must complete the W-4 according to directions in the “How Do I Change My Withholding?” section. (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.
**How Do I Change My Withholding?**

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. These examples and the descriptions of how to revise withholding certificates are to show you how tax laws work under certain circumstances.

This is not a complete discussion and you should contact a tax advisor to help you with the tax forms and to properly adjust your tax withholding.

You should not rely on this material to ensure compliance with tax law; this is not tax advice but an illustration of forms and procedures to help you understand your Mortgage Credit Certificate.
NCHFA Tax Credit Worksheet

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

1. Mortgage loan amount $___________
2. Interest rate ____________%
3. Establish first year's interest by amortizing the loan for one year $___________
4. Mortgage credit rate* 30__%
5. Tax credit equals 30% of the first year's interest $___________
6. The monthly benefit is calculated by dividing the tax credit by 12 months $___________

Section B. Example for completing Section A.

1. Mortgage loan amount $ 127,400
2. Interest rate 5.00__%
3. First year's interest amortized ($127,400 x 5%) $ 6,370 (e)
4. Mortgage credit rate 30__%
5. Tax credit ($6,370 x 30%) $ 1,911 (e)
6. The estimated monthly benefit ($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

The IRS regulations require that the reissued MCC be, in effect, a continuation of the existing MCC. The agency may reissue MCCs provided that specific requirements are met.

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 you are entitled to receive the credit each year for the remaining term of the original mortgage while you occupy the property.
9.3 Tax Information

THIS SHOULD NOT BE CONSTRUED AS TAX ADVICE. FEDERAL TAX LAWS RELATING TO MCCs ARE COMPLICATED, AND YOU SHOULD CONSULT YOUR TAX ADVISOR IF YOU HAVE ANY QUESTIONS RELATING TO THE EFFECT OF YOUR REISSUED MCC UPON YOUR FEDERAL TAX LIABILITY.

The Certified Indebtedness Amount set forth on your reissued MCC is equal to the outstanding principal amount of your prior mortgage loan at the time of refinancing. If the amount that you borrowed to refinance exceeded the outstanding principal amount of your mortgage loan at the time of refinancing (which typically would be the case if you financed the closing costs), the Certified Indebtedness Amount set forth on your reissued MCC will be less than the principal amount of your 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 your new mortgage loan.

To help you determine the amount of interest that is eligible for application of the tax credit, we will provide you with an amortization schedule showing the monthly interest payments with respect to the Certified Indebtedness Amount set forth in your new mortgage loan as illustrated in the example set forth in Exhibit B.

Assuming that you make no early prepayments of principal, the interest eligible for application of the tax credit should not exceed the interest paid or accrued in each tax year with respect to the Certified Indebtedness Amount as shown on Exhibit B.

In the event that you prepay any principal on your new mortgage loan, the interest eligible for application of the tax credit will be reduced below the interest amounts set forth as illustrated in the example set forth in Exhibit B.

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, your reissued MCC expires on the final payment date for your prior mortgage loan. If the term of your new mortgage exceeds the term of your prior mortgage loan, your right to receive a tax credit under your reissued MCC will expire prior to the final payment date for your new mortgage loan.

In addition, in the event the term of your new mortgage loan exceeds the term of your 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.
Exhibit A

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
**Rate Reduction**

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<td>Term (years)</td>
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**Refinance Transaction**

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<th>$148,000 *</th>
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<tbody>
<tr>
<td>Interest Rate</td>
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<td>Term (years)</td>
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* Borrower refinanced after making 36 scheduled payments and included closing costs in the new loan amount. However, the certificate is reissued for the unpaid principal balance. In this scenario, the unpaid principal balance is $139,190.13.

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<tr>
<th>Year</th>
<th>Original Mortgage Interest</th>
<th>Original MCC Credit</th>
<th>Mortgage interest for remaining unpaid principal balance</th>
<th>Reissued MCC Credit</th>
<th>Applicable MCC Credit</th>
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<td>373.12</td>
</tr>
<tr>
<td>29</td>
<td>1,169.97</td>
<td>233.99</td>
<td>2,307.97</td>
<td>461.59</td>
<td>233.99</td>
</tr>
<tr>
<td>30</td>
<td>424.02</td>
<td>84.80</td>
<td>1,850.91</td>
<td>370.18</td>
<td>84.80</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1,366.28</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>852.40</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>307.50</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

* Certificate expired. Note: This example is based on regularly scheduled payments. Any prepayment of principal will change the above figures.
Appendix A

Forms for Mortgage Credit Certificate Program

Processing

- Reservation Request
- Underwriting Summary and Approval Form
- MCC Submission Package Checklist
- Request for Conditional Commitment
- Seller Affidavit
- Seller Affidavit for HUD Repo Properties
- Copy of Letter of Testamentary
- Program Certifications
- Preliminary Notice to Applicant of Potential Recapture of Subsidy

- Trust Certification for Loan Application
- Income Tax Affidavit
- Information Memo
- MCC Borrower Program Information

Closing

- MCC Closing Package Checklist
- Borrower/Co-Occupant Closing Affidavit
- Lender Closing Affidavit
- Recertification of Income
- Recapture Tax Closing Packet

Worksheets

- Calculation of Business Use Worksheet
- MCC Tax Credit Worksheet

To access these forms, please follow the link below:

http://www.nchfa.com
Appendix B

Recapture Provisions and Disclosures

Summary of Recapture Requirements

General Information for Lenders, Realtors, Builders

Recapture Formula

The Basics of Recapture

Recapture Example: $108,800 Mortgage Amount

Recapture Calculation Worksheet

Recapture Threshold Income

Recapture Federal Family Income Limits Table

Preliminary Notice to Applicants

Notice to Mortgagors of Potential Recapture of Federal Subsidy

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

<table>
<thead>
<tr>
<th>Condition</th>
<th>Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>To whom recapture applies</td>
<td>Buyers who receive FirstHome Mortgage or MCCs starting January 1, 1991.</td>
</tr>
<tr>
<td>When recapture is due</td>
<td>The year in which the owner sells or otherwise disposes of the home.</td>
</tr>
<tr>
<td>How much is recaptured</td>
<td>The maximum amount is 6.25 percent of the assisted mortgage amount.</td>
</tr>
<tr>
<td>Reductions and limitations</td>
<td>The recapture amount increases from $0 to the maximum amount over the first 5 years of ownership, and then decreases to $0 after 10 years.</td>
</tr>
<tr>
<td></td>
<td>The recapture amount cannot exceed 50 percent of the gain realized on the sale.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
<tr>
<td>How recapture is paid</td>
<td>Recapture is part of the mortgagor’s individual income tax liability.</td>
</tr>
<tr>
<td>Other provisions</td>
<td>The housing agency must inform the mortgagor of the potential recapture amount within 90 days of settlement.</td>
</tr>
<tr>
<td></td>
<td>Home improvement loans are exempt from recapture.</td>
</tr>
<tr>
<td></td>
<td>Other requirements, including limited exceptions to those subject to recapture and refinancing, were also enacted.</td>
</tr>
<tr>
<td>You may have to pay recapture if:</td>
<td>• Sell your house prior to ninth anniversary date of closing and;</td>
</tr>
<tr>
<td></td>
<td>• Have significant increase in income and;</td>
</tr>
<tr>
<td></td>
<td>• Make a significant net gain in the sale of the home.</td>
</tr>
</tbody>
</table>
The Basics of Recapture

- Recapture applies to all NCHFA FirstHome 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.
FirstHome Mortgage and MCC Recapture Provision

General Information
For Lenders, Realtors, Builders

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 FirstHome mortgage revenue bonds 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 FirstHome 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.
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

Assume 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

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.

\[
\text{Income Adjustment Percentage} = \frac{41,000 - 38,808}{5,000} = .4384
\]

**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.

\[
\text{Gain-on-Disposition Limitation} = 50\% \times 12,000 = 6,000
\]

**Adjusted Recapture**

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

\[
\text{Adjusted Recapture} = 2,250 \times .4384 = 986.40
\]

**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.
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:

Holding Period Percentage
**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.

**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.

**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.

**Adjusted Recapture Amount**

The maximum recapture multiplied by the income percentage.

**Recapture**

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

$108,800 Mortgage Amount

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

*Owner’s income at disposition less than threshold income.
Recapture Examples

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 \times (1.05)^2 = $90,780

Holding Period Percentage (from Table) 60% (.6)

Maximum Recapture: $110,000 \times .0625 \times .6 = $4,125

Income Adjustment: ($92,000 - $90,780) / 5000 = .2440 \text{ (rounded down)}

Income Adjustment Calculation (not to exceed 1.0). Recapture equals Income Adjustment \times Maximum Recapture.

Adjusted Recapture: $4,125 \times .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).
The maximum recapture tax that you may be required to pay as an addition to your federal income tax is $7,375. This amount is 6.25% of the original principal amount of your mortgage loan and is your federally subsidized amount with respect to the loan.

### Adjusted Qualifying Income

<table>
<thead>
<tr>
<th>Family Members Living in Your Home at the Time of Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date You Sell Your Home</td>
</tr>
<tr>
<td>Before the first anniversary of closing</td>
</tr>
<tr>
<td>(December 1, 2007)</td>
</tr>
<tr>
<td>On or after the first anniversary of closing</td>
</tr>
<tr>
<td>(December 1, 2007), but before the second anniversary of closing (December 1, 2008)</td>
</tr>
<tr>
<td>On or after the second anniversary of closing</td>
</tr>
<tr>
<td>(December 1, 2008), but before the third anniversary of closing (December 1, 2009)</td>
</tr>
<tr>
<td>On or after the third anniversary of closing</td>
</tr>
<tr>
<td>(December 1, 2009), but before the fourth anniversary of closing (December 1, 2010)</td>
</tr>
<tr>
<td>On or after the fourth anniversary of closing</td>
</tr>
<tr>
<td>(December 1, 2010), but before the fifth anniversary of closing (December 1, 2011)</td>
</tr>
<tr>
<td>On or after the fifth anniversary of closing</td>
</tr>
<tr>
<td>(December 1, 2011), but before the sixth anniversary of closing (December 1, 2012)</td>
</tr>
<tr>
<td>On or after the sixth anniversary of closing</td>
</tr>
<tr>
<td>(December 1, 2012), but before the seventh anniversary of closing (December 1, 2013)</td>
</tr>
<tr>
<td>On or after the seventh anniversary of closing</td>
</tr>
<tr>
<td>(December 1, 2013), but before the eighth anniversary of closing (December 1, 2014)</td>
</tr>
<tr>
<td>On or after the eighth anniversary of closing</td>
</tr>
<tr>
<td>(December 1, 2014), but before the ninth anniversary of closing (December 1, 2015)</td>
</tr>
</tbody>
</table>

*Note: The closing date for the loan is December 1, 2006.*
Notice to Mortgagors of Federally Subsidized Amount and Family Income Limits

The maximum recapture tax that you may be required to pay as an addition to your federal income tax is $ __________. This amount is 6.25% of the original principal amount of your mortgage loan and is your federally subsidized amount with respect to the loan.

<table>
<thead>
<tr>
<th>Date You Sell Your Home</th>
<th>Holding Period Percentage</th>
<th>Adjusted Qualifying Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2 or less</td>
</tr>
<tr>
<td>Before the first anniversary of closing (see note below)</td>
<td>20%</td>
<td>$ _________</td>
</tr>
<tr>
<td>On or after the first anniversary of closing, but</td>
<td>40%</td>
<td>$ _________</td>
</tr>
<tr>
<td>before the second anniversary of closing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On or after the second anniversary of closing, but</td>
<td>60%</td>
<td>$ _________</td>
</tr>
<tr>
<td>before the third anniversary of closing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On or after the third anniversary of closing, but</td>
<td>80%</td>
<td>$ _________</td>
</tr>
<tr>
<td>before the fourth anniversary of closing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On or after the fourth anniversary of closing, but</td>
<td>100%</td>
<td>$ _________</td>
</tr>
<tr>
<td>before the fifth anniversary of closing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On or after the fifth anniversary of closing, but</td>
<td>80%</td>
<td>$ _________</td>
</tr>
<tr>
<td>before the sixth anniversary of closing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On or after the sixth anniversary of closing, but</td>
<td>60%</td>
<td>$ _________</td>
</tr>
<tr>
<td>before the seventh anniversary of closing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On or after the seventh anniversary of closing, but</td>
<td>40%</td>
<td>$ _________</td>
</tr>
<tr>
<td>before the eighth anniversary of closing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On or after the eighth anniversary of closing, but</td>
<td>20%</td>
<td>$ _________</td>
</tr>
<tr>
<td>before the ninth anniversary of closing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Closing means the closing date for your loan.
Recapture Calculation Worksheet

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)
   (tax-exempt income) $65,000.00
   (gain on sale on home) (report on tax returns as capital gain only.) 0
   (modified adjusted gross income) 0
   = $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) 80%
   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 = $5,444.80
I. The amount in D subtract the amount in C \( \div 5000 \) ($1909.44 \( \div 5000 \) ) = .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
Recapture Calculation Worksheet

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 calculated % or 1% whichever is less) = __________ %

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 = $____________
## Recapture Threshold Income

<table>
<thead>
<tr>
<th>Holding Period</th>
<th>Federal Income Limit Based on Family Size and County (see Table)</th>
<th>Threshold Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 years</td>
<td>$54,500 x (1.05)^1 = $57,225.00</td>
<td></td>
</tr>
<tr>
<td>2 years</td>
<td>$54,500 x (1.05)^2 = $60,086.00</td>
<td></td>
</tr>
<tr>
<td>3 years</td>
<td>$54,500 x (1.05)^3 = $63,090.56</td>
<td></td>
</tr>
<tr>
<td>4 years</td>
<td>$54,500 x (1.05)^4 = $66,245.09</td>
<td></td>
</tr>
<tr>
<td>5 years</td>
<td>$54,500 x (1.05)^5 = $69,557.35</td>
<td></td>
</tr>
<tr>
<td>6 years</td>
<td>$54,500 x (1.05)^6 = $73,035.21</td>
<td></td>
</tr>
<tr>
<td>7 years</td>
<td>$54,500 x (1.05)^7 = $76,686.97</td>
<td></td>
</tr>
<tr>
<td>8 years</td>
<td>$54,500 x (1.05)^8 = $80,521.32</td>
<td></td>
</tr>
<tr>
<td>9 years</td>
<td>$54,500 x (1.05)^9 = $84,547.39</td>
<td></td>
</tr>
</tbody>
</table>

* Number of full years between loan closing and the date of disposition.
# Recapture Threshold Income

<table>
<thead>
<tr>
<th>Holding Period</th>
<th>Federal Income Limit Based on Family Size and County (see Table)</th>
<th>Threshold Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 years</td>
<td>$ ____________________ x (1.05)^1 = $ ____________________</td>
<td></td>
</tr>
<tr>
<td>2 years</td>
<td>$ ____________________ x (1.05)^2 = $ ____________________</td>
<td></td>
</tr>
<tr>
<td>3 years</td>
<td>$ ____________________ x (1.05)^3 = $ ____________________</td>
<td></td>
</tr>
<tr>
<td>4 years</td>
<td>$ ____________________ x (1.05)^4 = $ ____________________</td>
<td></td>
</tr>
<tr>
<td>5 years</td>
<td>$ ____________________ x (1.05)^5 = $ ____________________</td>
<td></td>
</tr>
<tr>
<td>6 years</td>
<td>$ ____________________ x (1.05)^6 = $ ____________________</td>
<td></td>
</tr>
<tr>
<td>7 years</td>
<td>$ ____________________ x (1.05)^7 = $ ____________________</td>
<td></td>
</tr>
<tr>
<td>8 years</td>
<td>$ ____________________ x (1.05)^8 = $ ____________________</td>
<td></td>
</tr>
<tr>
<td>9 years</td>
<td>$ ____________________ x (1.05)^9 = $ ____________________</td>
<td></td>
</tr>
</tbody>
</table>

* Number of full years between loan closing and the date of disposition.
## Recapture Provision

### Federal Family Income Limits Table

<table>
<thead>
<tr>
<th>Counties</th>
<th>Federal Income Limit</th>
<th>Federal Income Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small Family 2 or Less</td>
<td>Target</td>
</tr>
<tr>
<td></td>
<td>Non-Target</td>
<td>Target</td>
</tr>
<tr>
<td>Alamance</td>
<td>$53,800</td>
<td>$64,560</td>
</tr>
<tr>
<td>Alexander</td>
<td>$53,800</td>
<td>$64,560</td>
</tr>
<tr>
<td>Alleghany</td>
<td>$53,800</td>
<td>$64,560</td>
</tr>
<tr>
<td>Anson</td>
<td>$53,800</td>
<td>$64,560</td>
</tr>
<tr>
<td>Ashe</td>
<td>$53,800</td>
<td>$64,560</td>
</tr>
<tr>
<td>Avery</td>
<td>$53,800</td>
<td>$64,560</td>
</tr>
<tr>
<td>Beaufort</td>
<td>$53,800</td>
<td>$64,560</td>
</tr>
<tr>
<td>Bertie</td>
<td>$53,800</td>
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**Note:** Refer to “Notice to Mortgagors of Federally Subsidized Amount and Family Income Limits” for actual figures, which will be sent to you within 90 days of closing.
### Recapture Provision

#### Federal Family Income Limits Table

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<th>Non-Target</th>
<th>Target</th>
<th>Non-Target</th>
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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 following outlines the steps involved in the calculation:

**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.
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:

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<th>Year</th>
<th>Percentage</th>
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<tr>
<td>Year 2</td>
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<tr>
<td>Year 3</td>
<td>60%</td>
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<td>Year 4</td>
<td>80%</td>
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<td>Year 5</td>
<td>100%</td>
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<td>Year 7</td>
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<td>Year 8</td>
<td>40%</td>
</tr>
<tr>
<td>Year 9</td>
<td>20%</td>
</tr>
</tbody>
</table>

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.

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.

Adjusted Recapture Amount

The maximum recapture multiplied by the income percentage.

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

Introduction

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.

Exceptions

In the following situations, no recapture tax is due.

- You dispose of your home more than nine years after you close your mortgage.
- Your home is disposed of as a result of your death.
- You transfer your home to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under section 1041 of the Internal Revenue Code.
- You dispose of your home at a loss.

Maximum Recapture Tax

The maximum recapture tax that you may be required to pay is calculated for you in the enclosed notice. This amount is 6.25% of the original principal amount of your mortgage loan. This is your federally subsidized amount with respect to the loan. If recapture tax is due, you would pay it as an addition to your federal income tax for the year you dispose of your home.
Actual Recapture Tax

The actual recapture tax, if any, can only be determined when you sell your home. It is the lesser of (1) 50% of any gain you realize, regardless of whether you have to include that gain in your income for federal income tax purposes, or (2) your recapture amount determined by multiplying the following three numbers:

- The maximum recapture tax, as described above and as shown in the enclosure, times
- The holding period percentage, as listed in the enclosure, times
- The income percentage

Calculate the income percentage as follows:

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.

If the result is zero or less, you owe no recapture tax. If it is $5,000 or more, your income percentage is 100%. If it is greater than zero but less than $5,000, it must be divided by 5,000. This fraction, expressed as a percentage, represents your income percentage. For example, if the fraction is $1,000÷5,000, your income percentage is 20%.

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.
Appendix C

Targeted Areas

The first-time homebuyer requirement does not have to be met if the borrower’s residence is located in a designated Targeted Area, as listed below.

A Targeted Area is any area designated by the federal government to receive special consideration based on economic conditions and the housing stock. 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. Such areas are not subject to the prior home ownership restriction. Federal regulations require NCHFA to set aside a portion of the bond funds for Targeted Areas for one year.

To determine the census tract for a specific property address, you may access this website: www.ffiec.gov/geocode/default.aspx.

Targeted areas are as follows:

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<th>County</th>
<th>Census Tract</th>
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*THIS LIST IS SUBJECT TO CHANGE. VERIFY CURRENT TARGETED CENSUS TRACTS AT [www.nchfa.com](http://www.nchfa.com).*
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