WHEDA

Tax Advantage

A Mortgage Credit Certificate (MCC) Program Guide

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1.00 Introduction

The Wisconsin Housing and Economic Development Authority (WHEDA®) was created in 1972 by the Wisconsin Legislature as an independent authority, not a state agency. WHEDA is self-supporting. No federal or state tax dollars are received by WHEDA for the funding of its lending programs.

The Mortgage Credit Certificate (MCC) Program was authorized by Congress in the 1984 Tax Reform Act as a new concept for providing housing assistance.

WHEDA is the MCC program administrator and credit allocator for the State of Wisconsin. WHEDA will announce the amount of Mortgage Credit Certificate dollars available annually and for each new issuance.

The amount of the annual mortgage tax credit will be 25% for non-target areas and 40% for both federally designated target areas and for qualified veterans.

WHEDA will reserve 20% of the Mortgage Credit Certificate authority for federally designated target areas and for qualified veterans for a period of at least one year after the date the MCC is first made available.

Reservations for a MCC will be on a first-come, first serve basis.

This guide provides our lending partners with the information needed to carry out their responsibilities as an approved WHEDA originating lender. Lenders agree to originate and/or sell loans to WHEDA in accordance with the terms and conditions set forth in the Loan Origination Agreement, Lender Participation Agreement and this Program Guide.

2.00 What is a Mortgage Credit Certificate (MCC)

A MCC permits a qualifying applicant purchasing a home to claim a tax credit that may reduce the applicant's federal income tax liability.

2.01 How does it work?

Assume an applicant has a $90,000 mortgage at 5% interest for a 30 year term. The interest on the loan for the first 12-months would be $4,469.84. If the applicant has a MCC, the applicant could claim a tax credit of 25% of the interest amount paid, or $1,117.46, in the first year. This credit would reduce the amount of federal income tax they would otherwise owe (assuming the tax liability after certain other credits is at least $1,117.46) when filing their federal tax return.

The applicant's deduction for home mortgage interest on IRS Form 1040, Schedule A, would be $3,352.38 ($4,469.84 of the home mortgage interest credit paid, minus the $1,117.46 credit amount).

The credit taken cannot be greater than the home buyer's annual federal income tax liability after deductions, personal exemptions and certain other credits. Under no circumstance can the annual mortgage tax credit taken be greater than $2,000.00. In any case, the amount of the mortgage credit will reduce the homebuyer's home mortgage interest deduction.

The Tax Credit Worksheet (Exhibit 1) is available to assist the lender in explaining the benefit of the tax credit to the applicant.

2.02 Federal Income Tax Form

An applicant must file IRS Form 1040 when filing their taxes in order to claim the credit.
An applicant who files IRS Form 1040A or 1040EZ is not eligible to claim tax credit.

2.03 Tax Credit versus Tax Deduction

A mortgage interest deduction differs from a mortgage tax credit in a number of ways. For example, all homebuyers, regardless of income may take a mortgage interest deduction, whereas tax credits are available only to holders of a MCC. The dollar value of a mortgage interest deduction depends upon their tax bracket. If they are in a 15 % tax bracket, they will save 15 cents in taxes for each dollar of mortgage interest paid. With a MCC, an applicant will save $1 for each $1 of credit received. Using a MCC and itemizing the deductions on the Form 1040, Schedule A, will reduce the mortgage interest deduction by an amount equal to the mortgage tax credit claimed.

2.04 MCC Exclusions

An applicant cannot receive the tax benefit of a MCC in conjunction with the following:

- WHEDA FTHB Conventional (MI and No MI) Preferred Interest Rate

- WHEDA Conventional VALOR (MI and No MI) Veteran loan with special interest rates
- VA loan financed with a qualified veterans mortgage bond
- Any second mortgage loan product

2.05 Revocation

Revocation of the Mortgage Credit Certificate will occur upon discovery of any misstatement due to negligence or fraud or if an applicant ceases to occupy the subject property as their principal residence.

Revocation will occur under the following events:

- The property for which the MCC was issued ceases to be the applicant's principal residence
- Prior to loan closing it is discovered the applicant does not meet the requirements for a qualified MCC
- Discovery of any material misstatement whether negligent or fraudulent
- Applicant fails to notify WHEDA within one year from the date they refinance

2.06 Misstatement Penalty

If any person makes a material misrepresentation on any affidavit or certification made in connection with the application for the issuance of a MCC, and such misstatements are due to the negligence of that person, that person shall pay a fine of $1,000 for each MCC with respect to which a misstatement was made.

2.07 Federal Recapture Tax

MCC related first mortgage loans are subject to Federal Recapture Tax. If an applicant's income has increased to more than an amount prescribed by the Tax Code then a portion of the federal interest rate subsidy must be recaptured upon the sale of the property. The recapture tax is applicable when a property is sold within nine years from the date the loan closed and is limited to no more than fifty percent (50%) of the net gain recognized by the applicant. The recapture tax is implemented when an applicant files their federal income tax return in the year that they sell their home.

Additional information regarding Recapture Tax can be found in IRS Publication 523 "Selling Your Home" or by calling the IRS at 1-800-729-1040 or by visiting their website www.irs.gov.

The applicants must execute the document, Acknowledgement of Federal Recapture Tax (Form 4) as a part of the loan application package.

2.08 Federal Recapture Guarantee

If the applicant's tax professional has determined that the applicant is subject to a federal recapture tax, the applicant should contact WHEDA after they have completed and filed their tax return for the year in which the home was sold.

WHEDA will reimburse the applicant the amount equal to the recapture tax reported to the Internal Revenue Service provided the first mortgage was a standard WHEDA Conventional or FHA Advantage mortgage loan. Refer to Section 2.04 for MCC Exclusions.

Request for Recapture Tax Reimbursement

Borrowers are required to submit a Request for Recapture Tax Reimbursement (Exhibit 7) to WHEDA along with the following:

- A copy of the signed federal tax return, including a completed IRS Form 8828, Recapture of Federal Mortgage Subsidy, for the year in which the home was sold or otherwise disposed of;
- Proof federal taxes were paid;
- Copy of the completed Closing Disclosure issued in connection with the disposition of the home;
- An originally signed IRS Form 4506, Request for Copy of Tax Return, completed by every borrower, permitting WHEDA to obtain a copy of each borrower's federal tax return, including IRS Form 8828, Recapture of Federal Mortgage Subsidy.

2.09 Training

Lenders that would like to participate in the Mortgage Credit Certificate program must contact WHEDA for training. All mortgage loan originators are required to complete MCC training prior to submitting a MCC reservation request. Refer to the Lender Training Resource Center.

2.10 Program Directory

Questions Regarding	Telephone Number	E-Mail Address
Underwriting	800-334-6873	Underwriting@wheda.com
Reservation Status	608-266-3528	Underwriting@wheda.com
MCC Issuance	800-334-6873	Capitalmarkets@wheda.com
Sales and Training	608-266-9728	SF.Sales@wheda.com

2.11 Gramm-Leach-Bliley Act

To respect the privacy of our respective customers and to protect the security and confidentiality of those customers' nonpublic personal information, WHEDA shall comply with the applicable requirements of the Gramm-Leach-Bliley Act (15 USC 6801-6809, Disclosure of Nonpublic Personal Information).

3.00 Mortgage Eligibility

WHEDA provides a Mortgage Credit Certificate on a property that will be the borrower's principal residence. Refer to Section 8.02for eligible property types.

The first mortgage does not need to be a WHEDA Advantage loan, however, the applicant must obtain a qualifying fixed rate mortgage (FRM) loan, i.e. Conventional, FHA, VA or USDA, from an approved WHEDA participating Lender.

3.01 Purchase Transaction

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a 1-4 unit property located in the State of Wisconsin.

3.02 Prohibited Mortgage Loan Transactions, Types and Terms

- WHEDA Conventional FTHB (MI and No MI) Preferred Interest Rate Mortgage
- WHEDA Conventional VALOR (MI and No MI) Veteran Loan Preferred Interest Rate Mortgage
- Assumption of an existing first mortgage loan
- Refinance of an existing first mortgage loan
- Home Improvement
- High Priced Mortgage
- Balloon Payment
- Interest Only (IO)
- Adjustable Rate Mortgage (ARM)
- Negative Amortization (NegAM)
- First mortgages financed with the proceeds of a qualified mortgage revenue bond or a qualified veterans' mortgage bond.

3.03 Refinance

The MCC is good for the life of the loan as long as the applicant occupies the property as their principal residence or refinances and obtains a re-issued MCC.

Request for a re-issue of a MCC must occur within one-year from the date of the refinance.

While there is a MCC issued in conjunction with a property, the interest rate on the first mortgage loan must remain fixed for the term of the loan. Refer to Section 9.0 Refinance and Reissuance Subordinate Mortgage Financing

The mortgage credit cannot be applied to subordinate financing.

No interest on a subordinate loan can be paid to a person who is related to an applicant.

4.00 Applicant Eligibility

This Chapter provides the general requirements needed for an applicant to be eligible for a Mortgage Credit Certificate.

4.01 First-Time Home Buyer

To qualify for the Tax Advantage program, an applicant must be a first-time home buyer, defined as an applicant who has not had an ownership interest in a principal place of residence in the last three years.

The First Time Home Buyer requirement is waived if one of the following is true:

- An applicant is purchasing a home in a federally designated target area
- An applicant is a military veteran who served active duty with an honorable discharge or release.
  - Form DD-214 must be provided and indicate honorable discharge in the "Character of Service" field.
  - A VA "Certificate of Eligibility" does not satisfy the eligibility requirement
- An applicant applying for an Acquisition Rehabilitation loan

A non-applicant spouse must meet the definition of a First-Time Home Buyer.

Two years' federal income tax transcripts including all schedules, and a current credit report will be reviewed to determine no previous home ownership in the last three years. There must be no evidence of the following:

- Mortgages
- Mortgage interest deduction
- Property tax deduction

4.02 Income Limits

Income limits are based on the household size and property location.

The combined gross annual income of all persons intending to occupy the property cannot exceed the

MCC Income Limits for the county in which the property is located. Refer to Section 5.02-Calculating the Household Compliance Income for additional guidance.

The applicants must complete a

Borrower Affidavit (Form 2) listing all persons intending to occupy the subject property, their full names, ages and relationship to each applicant.

An applicant whose first mortgage loan closes with a MCC between January 1st and April 15th must execute the Income Tax Affidavit (MCC-004).

Good to Know

Compliance Income applies to all occupants
The number of occupants may be different than the number of loan applicants.

4.03 Purchase Price Limits

The accepted purchase price amount cannot exceed the MCC Purchase Price Limit for the county in which the property is located.

The seller must certify that the purchase prices does not exceed the limit by completing and signing the Seller Affidavit Seller Affidavit (MCC-007).

4.04 Citizenship

All applicants must have a valid Social Security Number and be one of the following:

- U.S. citizen
- Permanent resident alien (I-551)
- Temporary resident alien (I-766, I-94 or I-551 temporary stamp) with a card issued by the Department of Homeland Security U.S. Citizenship and Immigration Services.
    - Include a copy of the card in the application package

If the validity of the Social Security Number is in question, the lender must verify and validate the Social Security Number through one of the following:

- Social Security Administration
- Acceptable third party vendor

4.05 Occupancy

The applicants must occupy the property as their principal full-time residence within 60 days after the loan closing. The property must be owner occupied by the applicant for the term of the loan.

Good to Know

Residency in the State of Wisconsin at the time of application is not a requirement.

4.06 Child Support/Maintenance

Arrearages reported on the State of Wisconsin Support Lien Docket or on the credit report must be paid in full prior to closing or the applicant must provide a payment agreement that has been approved by the county child support agency with a 6 month satisfactory payment history.

4.07 Home Buyer Education and Counseling

A purchase of a 1-4 unit property requires at least one applicant signing the Note to complete pre-purchase home buyer education and counseling.

Approved sources of Home Buyer Education and Counseling

- Approved Mortgage Insurance (MI) Company
- Framework
- eHomeAmerica
- HUD Approved Counseling Agency

Costs set by the Home Buyer Education provider must be included in disclosures.

Provide a copy of the Home Buyer Education completion certificate reflecting the applicant's name, the name of the entity and/or the name of person providing the education and date completed. The education must have been completed within 12 months of the application date.

5.00 Compliance Income Assessment

Compliance income is the anticipated gross income of all persons who will occupy the subject property. Calculating total gross household income is a key to determining if the borrowers are income compliant for the Mortgage Credit Certificate program.

Good to Know

Compliance income is not the same as qualifying income.
Submit Form 29 - *Compliance Income Evaluation* for a WHEDA compliance income review.

5.01 Determining Household Size

Total Household Size includes all persons who will occupy the subject property. Occupants include, but are not limited to the following:

- Adults age 18 or older
- Children
    - If a borrower shares custody of a minor child, a copy of the final divorce decree and marital settlement agreement or any other type of written legal agreement or court decree is required to determine if the borrower has at least 50/50 placement.
- Partner, companion
- Parent, Grandparent
- Niece, nephew
- Aunt, uncle
- Boarder, Renter (2-4 unit property)

The borrower is required to complete the Borrowers Affidavit (Form 2) listing the names, ages, relationship to each borrower and the amount of income earned or received on behalf of each household occupant.

5.02 Calculating Total Household Compliance Income

Compliance income includes all earned and unearned income of all persons occupying the subject property. Lenders should review and compare information on the loan application to other documents in the loan file such as paystubs and tax returns to identify other potential occupants.

Refer to Section 4.2- Income Limits for additional guidance.

Compliance income is generally calculated using the greater of:

- Current gross income from all verified sources projected 12 months forward, or
- Gross income from all sources earned and unearned in the last tax year

Income Inclusions:

- Earned income of all occupants over the age of 18
- Unearned income of all occupants under the age of 18
- Social Security and Social Security Disability Income (SSI)
- Child support
- Alimony

- Pension/retirement
- Disability Income
- Public Assistance
- Interest and dividend income on funds retained after closing
- Re-occurring capital gain income
- Self-employment income (adding back depreciation, depletion, meals and entertainment, and business use of home). If a business is operated at a loss, such loss may not be used to offset income generated from other sources.
- Rental income being used for qualifying on a 2-4 unit property. Refer to Section 6.18 Rental Income from Subject Property for additional guidance.
- Mortgage Credit Certificate (MCC) income being used for qualifying income

Income Exclusions:

- Earned income from a child under the age of 18
- Foster care income
- Food Share Wisconsin
- Non-recurring payments from:
    - Inheritances
    - Insurance settlements
    - Lottery winnings
    - Gambling winnings
    - Capital gains
    - Settlements for personal loss

Good to Know

Re-occurring non-payroll deposits may indicate additional undisclosed sources of income that may be required to be documented for household income compliance.

6.00 Compliance Income Assessment Documentation Standards

Good to Know

Qualifying income is not the same as Compliance income.

See Section 5.02 for additional guidance on Calculating Compliance Income.

6.01 Base Pay Income

Base Pay income must be included regardless of the amount of time it has been received.

6.02 Bonus and Overtime Income

Bonus and overtime income must be included regardless of the amount of time it has been received.

6.03 Commission Income

Commission income must be included regardless of the amount of time it has been received.

6.04 Alimony or Child Support

Alimony and child support must be included regardless of the amount of time received.

A copy of the divorce decree, separation agreement, or other written legal agreement must be provided and state the amount that is being awarded and the duration it will be received.

Document no less than a six month history from the State of Wisconsin Department of Workforce Development.

If payment amounts are inconsistent with the amount court ordered or are sporadic, then the averaged amount will be projected forward and included in the total household income calculation.

6.05 Automobile Allowance

An automobile allowance must be included regardless of the amount time received. If the borrower files an Employee Business Expenses (IRS Form 2106) or IRS Form 1040, schedule C, then funds in excess of the borrower's monthly expenses are added to the borrower's monthly income

If the borrower does not report the allowance on either IRS Form 2106 or Schedule C, the full amount of the allowance is added to the borrower's monthly income.

6.06 Boarder Income

The boarder is someone who would not be obligated on the mortgage debt and may or may not be related to the borrower.

Any earned or unearned income from the Boarder must be included in the total household compliance income calculation.

Rental payments paid to the borrower from the Boarder are not included in the total household compliance income.

6.07 Disability Income – Long Term

Disability income must be verified with a copy of the disability policy or benefits statement from the provider, i.e. insurance company, employer, or other qualified disinterested party. It does not apply to disability income that is received from the Social Security Administration (SSA).

The policy or statement must verify the following:

- The borrower's current eligibility for the long term benefit,
- The amount and frequency of the disability payment, and
- If there is a termination or modification date.

6.08 Employment Offers or Contracts

A copy of the borrower's employment offer or contract can be used to determine the borrower's income, however, the borrower must begin employment before the loan closes.

6.09 Foster Care Income

Foster care income is not included in the total household income calculation.

6.10 Housing Choice Voucher (Section 8)

Each municipality's Housing Choice Voucher program must be approved by WHEDA.

The amount of the Housing Choice Voucher must be included in the total household income calculation.

6.11 Housing or Parsonage Income

Housing or Parsonage allowance is included in the total household income calculation.

6.12 Mortgage Credit Certificate (MCC)

The MCC may have a positive effect when qualifying an applicant for a mortgage loan because the tax credit recognized may result in an increase in the applicant's cash flow. The annual tax credit is divided by twelve (12) to obtain a monthly benefit for qualifying purposes. Refer to the Tax Credit Worksheet (MCC Exhibit 1).

If the borrower's need the MCC monthly income to qualify for their first mortgage, then it must be included in the total household income calculation.

[(Mortgage Amount) x (Note Rate) x (MCC %)] ÷12 = Amount added to borrower's monthly income.

The MCC %, Tax Certificate Percentage Rates, are as follows:

- 25% Statewide
- 40% Qualified Military Veteran
- 40% Property is located in a HUD designated target area

6.13 Social Security Income

Social Security and Social Security Disability income must be documented with a current Social Security Administrator's (SSA) award letter or proof of current receipt.

Supplemental Social Security income must be documented with a current SSA award letter and proof of current receipt.

If a borrower is eligible to receive Social Security benefits on behalf of a family member, a spouse, ex-spouse, dependent parents, a minor child or disabled child the following is required:

- A copy of the SSA award letter
- Proof of current receipt

6.14 Retirement Income

Verify receipt by providing one of the following:

- Award letter
- Federal income tax transcripts
- IRS W-2 or 1099 forms
- Proof of current receipt

6.15 Military Income

Military personnel who are full-time may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance and proficiency pay must be included in the total household income calculation.

Provide evidence a particular type or types of pay will continue to be received in the future, plus additional pay (hazard pay, ratios, clothing allowance, etc.) if the additional pay is likely to be received in the future.

Military reserve pay must be included.

VA education benefits should not be included as the benefit offsets the education expense.

6.16 Seasonal and Seasonal Unemployment Income

Seasonal and Seasonal Unemployment income must be included regardless of the amount of time received.

Provide a copy of the borrower's two most current federal tax transcripts.

The unemployment income must clearly be associated with reoccurring seasonal layoffs.

6.17 Secondary Employment Income

Secondary employment (part-time or full-time) is income the borrower earns from a second job or multiple jobs in addition to their primary job.

Secondary employment income must be included in total household income calculation.

6.18 Rental Income from the Subject Property

If the borrower's need rental income to qualify for the purchase, then the rental income must be included in the total household income calculation. Provide a copy of the current lease agreement. If the property is not currently rented, the fair market rent reflected on the Small Residential Income Property Appraisal Report can be used.

Accessory Unit

Provide a copy of the current lease agreement. If the property is not currently rented, the fair market rent reflected on the Single Family Comparable Rent Schedule (Form 1007) must be included in the total household income.

6.19 Temporary Leave Income

Temporary leave from work is generally for a short period of time and for reasons such as maternity or parental leave, short-term medical disability leave, or other temporary leave that is acceptable by law or by the borrower's employer. Borrowers may or may not be paid during their absence from work.

If the borrower's return to work date is prior to the first mortgage payment date, the borrower's regular employment income will be used for determining total household compliance income.

If the borrower will not return to work as of the first mortgage payment date, the following documentation will be required to determine total household compliance income:

- A letter from the borrower confirming their intent to return to work
- Verification from the borrower's employer or third party designee that specifies the duration of the temporary leave or the expected or agreed upon return date.
- Verification of the amount of regular employment income the borrower received prior to the temporary leave.

6.20 Tip Income

A VOE or a recent paystub and IRS W-2 forms covering the most recent two year period is required to calculate total household income.

6.21 Unreimbursed Expenses

Unreimbursed expenses must be analyzed for borrowers earning commission income that is 25% or more of their annual employment income. The expenses must be deducted from the commission income regardless of the length of time the borrower has filed the expenses with the IRS.

If the expenses include an auto lease or auto loan payment, further analysis is required to determine if the payment should be treated as a liability or deducted from the income.

6.22 Self-Employment, Corporations, Partnership and S-Corp Income

The lender must perform a written analysis of both the borrower's personal income, including the business income or loss, reported on the borrower's personal income tax returns and the borrower's business income.

Average the net income from the prior two years personal and business tax transcripts. If the income for the most recent year shows a substantial decline, the income from that year will be used.

6.23 Business Operated at a Loss

If the business is operated at a loss, such loss may not be used to offset income generated from other sources when determining total household income compliance.

6.24 Non-Borrower Income

The income from a non-borrower household member must be documented and included in the calculation of total household income.

- Obtain a current paycheck stub reflecting year-to-date earnings
- Obtain a complete copy of the non-borrowers most recent filed federal income tax return including all schedules and W2(s) and 1099(s).
- If the non-borrower household member is 18 years or older, and the person does not receive earned or unearned income, provide a completed Certification of Zero Income.

Employment verification can be provided by the non-applicant, the non-applicant's employer or by a third-party vendor employment verification vendor.

Income and employment documentation must be no more than four months old from the Note date. The lender must update the documentation if it has expired.

6.25 Employment Documentation provided by the Applicant

Paystubs

The paystub must be dated no earlier than 30 days prior to the initial loan application date, reflect a minimum 30 days of income, identify the name of the employer and the applicant, and include all year-to-date earnings. The paystub must include sufficient information to appropriately calculate income. If not, additional documentation must be provided.

W-2s

IRS W-2 forms must cover the most recent two year period and clearly identify the applicant as the employee. The sum of the W-2's must match the wages earned on the applicant's federal tax transcripts.

6.26 Employment Documentation provided by the Applicant's Employer

A Request for Verification of Employment (Form 1005 or Form 1005(S)) can be used to document income for base salary, overtime, bonus and/or or commissioned income.

6.27 Employment Documentation provided by a Third-Party Employment Verification Vendor

Employment and income verification obtained directly from a third-party employment verification vendor such as The Work Number® is acceptable.

6.28 Request for Verification of Employment (VOE)

If the applicant has been on their present job for less than 1 year, provide a Verification of Employment or a third-party vendor employment verification. The VOE should not be sent directly to an individual. It must include wage rate, base wage rate hours and other income hours per week, year-to-date earnings, date of employment, frequency of payment and previous year earnings.

6.29 Tax Transcripts

The lender must execute IRS Form 4506-T and provide a copy of the applicant's tax transcripts for the most recent two year period.

Transcripts will be reviewed for compliance income, self-employment activity, unreimbursed employee expenses, income from assets and claimed mortgage interest.

7.00 Credit

An applicant's credit history is used to determine if the applicant meets the definition of a first-time home buyer.

7.01 Credit Report

Provide a triple-merged credit report for all applicants, including a non-applicant spouse, if applicable.

The credit report must be no more than four months old on then Note date. If the credit report is stale dated, the lender must update the report.

7.02 Analysis of Credit Report

The borrower's credit report will be reviewed for past or current mortgages to determine if the borrower had previous homeownership in the past three years. The following documentation may be required:

- A copy of the Closing Disclosure or HUD-1 Settlement to verify the exact date the mortgage loan was paid off;
- Proof the borrower did not reside in the property within the last three years
    - A copy of a Lease Agreement
    - Billing statement reflecting a mailing address different from the property address

7.03 Non-Applicant Spouse Credit Report

The lender must pull a triple merged credit report on the non-applicant spouse.

The non-applicant spouse's credit report will be reviewed for past or current mortgages to determine if the non-applicant spouse had previous homeownership in the past three years. The following documentation may be required:

- A copy of the Closing Disclosure or HUD-1 Settlement to verify the exact date the mortgage loan was paid off;
- Proof the non-applicant spouse did not reside in the property within the last three years
    - A copy of a Lease Agreement
    - Billing statement reflecting a mailing address different from the property address

8.00 Property Eligibility

This Section provides Lenders guidance on the property eligibility requirements and purchase price limits for the program.

8.01 Location

The property must be located in Wisconsin.

8.02 Eligible Property Types

- Existing single family dwelling
- 2-4 unit which is at least 5 years old
- Condominium
- Manufactured Housing (Single- and Double-wide)
- New Construction (Property must be complete/permanent financing only)
- WHEDA Approved Community Land Trust
- Acquisition Rehab
  - An Acquisition Rehab is a loan used to finance the purchase and rehabilitation of an existing property. The applicant does not have to be a first-time homebuyer, but must occupy the property as their principal residence once the rehabilitation work is completed.

  - Additional requirements for this type of loan are:
    - Property must have been a principal residence for the last 20 years
    - 50% of the existing external walls must remain as external
    - 75% of the existing internal structural framework must be retained in place and 75% of the external must remain internal or external
    - Cost of the rehabilitation must be at least 25 % of the purchase price of the property
    - Rehabilitation must be completed within 180 days of property purchase

  - Submit the following additional documentation with the Reservation Package Checklist:
    - Copy of the Construction Contract
    - Copy of the contractor's Scope or Work
    - Floor Plans –Prior to rehabilitation and post rehabilitation
    - Completion Certificate when available, but no later than 180 days after the property has been purchased.

8.03 Ineligible Property Types

- Commercially used properties
- Time share units

8.04 Property Use

No more than 15% of the property can be used for trade or business purposes. The property cannot be subdivided, farmed, or used commercially.

8.05 Offer to Purchase

Provide a copy of the complete and fully executed contract including all addendums, counters, amendments, notices and Real Estate Condition report, if applicable.

Purchase Price Limits

The lender must review the accepted Offer-to-Purchase to determine if the purchase price is less than or equal to the maximum purchase price allowed based on the determined household size and county the property is located in. Refer to the MCC Purchase Price Limits for additional guidance.

Personal Property

Only the acquisition of real property and fixtures (carpeting, built-in appliances, window coverings, etc.) can be included in the total purchase price.

8.06 Appraisal Report

A copy of the Appraisal Report is required to confirm the number of units in the property.

Acceptable Forms

- Uniform Residential Appraisal Report (1004
- Small Residential Income Property Appraisal Report (1025)
- Market Conditions Addendum to the Appraisal Report (1004MC)
- Appraisal Update and/or Completion Report (1004C)

Condition of Property

The property must be in average or better condition.

9.00 Refinance and Reissuance

MCC's can be reissued for a fee of $300. The request must be received within one year of the refinance. To request an MCC reissue, borrowers need to verify:

- At minimum, one original borrower remains on the mortgage and note,
- Property address remains the same,
- Property will remain owner occupied, and
- The financing for the new mortgage has a fixed interest rate.

Borrowers are required to submit a Request for Reissuance of MCC (Form MCC-011) along with required documentation and check made payable to WHEDA. Submit documentation to:

WHEDA
ATTN: MCC Reissuance Request
908 E Main Street Suite 501
Madison, WI 53703
or
PO Box 1728
Madison, WI 53701-1728

Any questions please email Capitalmarkets@wheda.com.

10.00 Policy and Procedures

Prior to submitting a reservation request, a lender must either be an approved WHEDA lender or become an approved WHEDA Lender, and enter into a Lender Participation Agreement (MCC-010). For additional guidance on How to Become a WHEDA Lender, refer to the Policy and Procedures Guide. All mortgage loan originators must receive mandatory MCC training.

WHEDA will maintain a list of MCC Participating lenders and their mortgage loan originators on wheda.com. Applicants can select a lender from the list.

Good to Know

An Applicant is not limited to obtaining a WHEDA Advantage first mortgage.
Refer to Section 3.0 – Mortgage Eligibility

10.01 MCC Reservation

Reservations are on a first-come, first-serve basis.

Lender Responsibilities

Prior to submitting a reservation request, the lender must have taken a mortgage loan application from a potential eligible applicant. The lender is responsible for making a preliminary determination to see if the applicant meets the eligibility requirements of the MCC program. Refer to Sections 3.0-Mortgage Eligibility, 4.0- Applicant Eligibility and 8.0-Property Eligibility.

A Reservation may be submitted any time after the lender holds a completed loan application and a copy of the accepted Offer to Purchase or a copy of the construction contract entered into by the seller/builder and the applicant.

The lender must advise the applicant of the following:

- There is a MCC Issuance Fee
    - Non-WHEDA first mortgage - $600
    - WHEDA first mortgage - $150
- They are responsible for performing their own calculations of the estimated tax benefit of the MCC specific to their own circumstances. Best practice would be to consult a tax advisor to determine the estimated tax benefit for them.
- The mortgage interest deduction for federal income tax purposes may be reduced due to the use of a MCC.
- Details on how the MCC will reduce federal income tax liability are explained in the IRS Publication 530 "Tax Information for First-Time Homeowners". Lenders are encouraged to provide the applicants with Publication 530.
- They may choose to utilize the benefits of the MCC tax credit each month by adjusting their W4. It is recommended that the applicant consult with their tax preparer to properly adjust their W4 Employee

Withholding Allowance. Applicants choosing to complete the W4 Employee's Withholding Allowance form themselves should refer to IRS Publication 919 "How Do I Adjust My Tax Withholding?"

- They may be subject to Federal Recapture Tax

The lender must obtain the following completed and executed documents:

- Request for Conditional Commitment (MCC-002)
- Acknowledgment of Federal Recapture Tax (MCC-003)

The lender must submit a complete reservation package using Reservation Checklist (MCC-001) via secure email.

The application will be reviewed for completeness and for program compliance eligibility. The request will be reviewed within 2 business days of receipt and the lender will be provided with one of the following:

Approval Notice

- The MCC Commitment notice is issued to the lender.
- The commitment is valid for 90 days

Pend Notice

- The lender will be notified in detail the items required to decision the MCC request
- The lender is given 10 business days to provide the required documentation

Denial Notice

- The lender will be notified if the applicant does not meet the eligibility requirements of MCC program.
- The application will not be returned to the lender.

If an unforeseen circumstance arises and the loan cannot close, provide a written request to cancel the MCC Reservation.

10.02 Pre Closing

Upon receipt of the MCC Reservation Approval notice, the lender may complete the processing of the first mortgage loan approval request.

If the applicant is applying for a WHEDA financing, the lender should follow WHEDA Advantage procedures.

If the applicant is not applying for a WHEDA Advantage loan, the lender performs standard underwriting and verification procedures for a fixed rate mortgage program that meets MCC financing requirements.

Lender Responsibilities

Provide the following completed and executed documents:

- Closing Affidavit (MCC-008)
- Lender Affidavit (MCC-006)
- Seller Affidavit (MCC-007)

10.03 Post Closing

The lender is responsible for the following activities post close:

- Provide the documents indicated on the Closing Package Checklist (MCC-005) within 10 business days of the first mortgage loan closing date.
- Provide a cashier's check made payable to WHEDA for the MCC issuance fee
  - Non-WHEDA first mortgage - $600
  - WHEDA first mortgage - $150
- File an annual report to the IRS
  - WHEDA will provide each lender with a list of the MCC's issued in the calendar year along with reporting instructions. The lender should review for accuracy and then complete the following:
    - Submit IRS Form 8329 to the IRS by January 31st
    - Submit a completed copy of IRS Form 8329 to WHEDA
    - Retain a copy of the IRS Form 8329 for six (6) years

Good to Know

WHEDA will be responsible for completion and filing IRS Form 8329 for loans closed under the WHEDA FHA Advantage Sponsored Originator Channel.

WHEDA will be responsible for the following activities:

- MCC Issuance
  - A Mortgage Credit Certificate (MCC) will be issued and mailed to the applicant
  - A copy of the Certificate will be sent to the lender
- Mailing a Federal Recapture Tax Booklet to the applicant
- Performing a compliance review of the closing documents
- Performing a random sampling audit of MCC Reservations and Commitments for compliance.
  - The lender will be notified if additional action is required as the result of an audit finding.

10.04 Representations and Warranties Regarding Mortgage Loans

Lender acknowledges representations and warranties as identified in the Loan Origination Agreement, the Tax Advantage Guide and the Lender's Affidavit (MCC-006).

11.00 Timeline

Reservation to Closing	90 days
Closing Package	Receipt within 10 business days from loan closing date
Closing to Occupancy	60 days from the loan closing date

12.00 Resources

- MCC Income Limit and Purchase Price Limits
- WHEDA Tax Advantage Forms and Exhibits
- State of Wisconsin Support Lien Docket