MORTGAGE CREDIT CERTIFICATE GUIDE FOR OHFA MARKET RATE PROGRAM

May 1, 2014

Table of Contents

General Overview

The Mortgage Credit Certificate (MCC) Program was authorized by Congress in the 1984 Tax Reform Act as a new concept for providing housing assistance. An MCC permits an Eligible Borrower purchasing a qualifying home to claim a tax credit that may reduce the Homebuyer's federal income tax liability. Homebuyers may use any extra income from the tax savings to help with their mortgage payments.

An MCC is a dollar for dollar tax credit, not a tax deduction. While tax deductions lower the overall taxable income, a tax credit reduces the actual tax owed. The credit taken cannot be larger than the homebuyer's annual federal income tax liability, after deductions, personal exemptions and certain other credits are taken into account. Under no circumstances can the annual credit taken be greater than $2,000 per year. In any case, the amount of the credit will reduce the homebuyer's home mortgage interest deduction. An MCC tax credit may be used for the life of the loan as long as it remains a principal residence.

Eligible Borrowers must be First Time Homebuyers, Qualified Veterans or purchase a home in a Target Area, as defined in this Guide. Income limits and home purchase price limits are posted on www.ohiohome.org. Properties are limited to owner-occupied single family residences. A homebuyer should apply for an MCC at the time of obtaining financing from the Lender. An MCC cannot be issued to a homebuyer who is refinancing an existing mortgage.

MCCs are only available through Participating Lenders. Participating Lenders must execute an agreement with the Ohio Housing Finance Agency (OHFA) and pay the Participation Fee. There are two types of MCCs available to Eligible Borrowers: (1) a Basic MCC or (2) an MCC Plus used with of OHFA's Market Rate First Time Homebuyer mortgage products. The credit percentages and lender compensation are different for the two types of MCC.

Table 1.

	Basic MCC	MCC Plus OHFA Market Rate Loan
Annual Lender Participation Fee (pro-rated quarterly)	$1,000	$1,000
Credit Percentage		
Non-Target	20%	40%
Target	25%	40%
REO	30%	40%
MCC Fee to OHFA	$500	$250
MCC Fee Retained by Lender (Must be included in lender's origination fee.)	$0	Up to $250
Interest Rate	No more than 100 basis points higher than the current Freddie Mac Primary Mortgage Market Survey® (PMMS®) for a 30 year fixed rate mortgage	Per OHFA Rate Sheet for Market Rate Program

The OHFA Board authorized a $25,000,000 MCCs Mortgage Credit Certificate Program on February 19, 2014. This allocation covers both types of MCCs, and is available on a first-come, first served basis. Because Internal Revenue Service regulations require a 90 day public notice period, which began February 21, 2014, no MCCs will be issued until May 16, 2014, although lenders may begin reserving loans May 1, 2014.

Definitions

Any capitalized terms or phrases used in this MCC Guide shall have the following meanings:

Agency: means the Ohio Housing Finance Agency, exercising essential public functions.

Agreements: means this MCC Guide and all other agreements, contracts or instruments contemplated by or related to the foregoing.

Annual Gross Income: means the gross monthly Family Income of the Mortgagor's (which in the case of cohabitating adults shall relate to both or all) as shown on the Family Income Certification included in the Lender's Guide multiplied by 12. Information with respect to gross monthly income may be obtained from available loan documents.

Appraisal: means an appraisal of an Eligible Residence conducted in accordance with generally accepted standards by a qualified appraiser.

Borrower Affidavit: means the form of Mortgagor's Affidavit and Certification included in the Lender Guide, on which each prospective Mortgagor must certify, among other things, the amount of his and/or her Family Income, that he/she is a First time Homebuyer, the Purchase Price of the Residence and that the Residence is an Eligible Property.

Business Day: means any day of the week other than Saturday, Sunday or a day which shall be in the State a legal holiday or a day on which banking institutions are authorized or obligated by law or executive order to close.

Closing: means the execution of a Mortgage Note and Mortgage by an Eligible Borrower and the concurrent origination and funding of a Mortgage Loan by a participating Lender.

Code: means the Internal Revenue Code of 1986, as amended, and any rules or regulations promulgated thereunder.

Conventional Mortgage Loan: means a Mortgage Loan which is not insured by FHA or guaranteed by VA or USDA-RD.

Credit Rate: means the annual credit percentage as shown on the MCC Term Sheet.

Eligible Borrower: means An individual or family that (1) meets the annual income limits posted by OHFA at www.ohiohome.org; (2) intends to reside principally and permanently as a household in an Eligible Residence, and (3) has not had an ownership interest in a principal residence during the three-year period ending on the date of purchase, unless the residence purchased is in a Targeted Area or homebuyer qualifies for the one-time Veteran's Exemption.

Eligible Residence: means a completed single family residential unit located in the State, including a townhouse, or planned unit development, a condominium unit if such unit is a Qualified Condominium Unit, or factory-made housing (including a mobile home) which is permanently affixed to real property and titled as real estate.

The residence may not be used as an investment property, vacation home, or recreational home. No more than 15% of the area of the residence may be used in a trade or business. The land acquired in connection with the mortgage loan may not exceed two (2) acres within a municipal corporation and five (5) acres not in a municipal corporation. Property in excess of two (2) acres may not be subdivided for the purpose of qualifying for MCC Program, unless required by local health or safety code(s). The Eligible Property must be occupied and used as the principal residence within sixty (60) days after the date of Mortgage Loan closing.

Existing Home: means a dwelling unit that has been previously occupied prior to loan commitment.

Family Income: means the household income of a Mortgagor or Mortgagors and any other person eighteen (18) years and older living in the property and in the event of cohabitating adults and/or persons releasing dower interest shall refer to the aggregated income of both or all such persons, in accordance with the Lender Guide,. The current maximum Family Income limit as established by HUD is posted at www.ohiohome.org, which amount may be adjusted from time to time by the Agency to the extent required by the federal tax laws.

Fannie Mae: means the Federal National Mortgage Association or any successor thereto.

FHA: means the Federal Housing Administration of the United States Department of Housing and Urban Development, or other agency or instrumentality created or chartered by the United States to which the powers of the Federal Housing Administration have been transferred.

Freddie Mac: means the Federal Home Loan Mortgage Corporation or any successor thereto.

Homebuyer: refers to name of Eligible Borrower in which MCC shall be issued.

HUD: means the Department of Housing and Urban Development or any successor thereto

HUD Fair Housing Advertising Guidelines: means the Department of Housing and Urban Development Fair Housing Advertising Guidelines included in the Guide.

Issuer: means the Ohio Housing Finance Agency (OHFA), also referred to as the Agency.

Law(s): means all applicable statues, laws, ordinances, regulations, orders, writs, injunctions, or decrees of the United States, any state, municipality or court of competent jurisdiction.

Lender Guide: means collectively, the documents, agreements and regulations in effect from time to time relating to the issuance of the Mortgage Loans, the sale of such Mortgage Loans to Servicer and the securitization of such Mortgage Loans into Certificates, which Guidelines (including Term Sheets referenced therein and found on the Agency's Lender Online Reservation System the Standards and the various forms and certificates required to be used in connection with the First Time Homebuyer Program. All of the documents referred to collectively as the Lender Guide are available on the Agency's Lender Online Reservation

Loan Commitment: means a binding written commitment by the Participating Lender, to a particular Eligible Borrower to finance the purchase of a particular Eligible Residence with a Mortgage Loan, which commitment shall be for a stated period of time, for a stated amount, and for a stated interest rate.

Loan Type: means any fixed rate mortgage loan product currently used by a Participating Lender. The MCC Program cannot be used with variable or adjustable rate loans.

Maximum Purchase Price: means the amounts as may be published and effective from time to time by the Agency as the Maximum Purchase Price limitations for the statistical area in which a Residence is located and as set forth on the Agency's website at www.ohiohome.org.

MCC Commitment: means a written communication of conditional commitment for an MCC to the Participating Lender from the Agency.

MCC Guide: refers to this MCC Guide and all amendments or supplements hereto and where appropriate, all forms or reports prescribed by the Agency as provided herein.

Mortgage: means the instrument securing a Mortgage Loan which creates a first lien on a Principal Residence subject only to permitted encumbrances, and which shall in the case of a Conventional Mortgage Loan, or a Mortgage Loan which has FHA Insurance, USDA-RD, or a VA Guaranty, be in the form, as amended from time to time, of the Ohio 1 to 4 Family Fannie Mae/Freddie Mac Uniform Instrument, FHA Form No. HUD-99165, or VA Form No. 26-6333, respectively, with such additions or modifications as required under the Code or this Guide and prescribed by the Agency.

Mortgage Loan: means a loan to finance the purchase of an Eligible Residence which meets the requirements of the MCC Program.

Mortgage Note: means the promissory note evidencing the obligation to repay the Mortgage Loan, which shall, in the case of a Conventional Mortgage Loan, or a Mortgage Loan which has FHA Insurance or a VA Guaranty, be in the form, as amended from time to time, of the Ohio 1 to 4 Family Fannie Mae/Freddie Mac Uniform Instrument, FHA Form No. 92165, or VA Form No. 26-6333a, respectively, with such additions or modifications as required under the Code or this Guide and prescribed by the Agency.

Mortgagor: means a maker or makers of or any other party obligated on a Mortgage Note.

OHFA: refers to the Ohio Housing Finance Agency, also referred to as the Agency.

OHFA Market Rate Loan Program: means loans that conform to OHFA Product Term Sheets and are delivered by a Participating Lender for purchase by OHFA's Servicer. These loans are not financed with tax-exempt mortgage revenue bonds.

Ownership Interest: means Ownership by any means, whether outright or partial, including property subject to a mortgage or other security interest. Ownership interest also means 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, dower interest, or purchase by land contract.

Participant or Participating Lender: means a bank, trust company, mortgage company, savings and loan association, mortgage bank, national banking association, savings bank, building and loan association, credit union, or other lending institution, all authorized to make mortgage loans in the State and deemed eligible by the Agency to participate in the MCC Program to the extent permitted by law and the MCC Guide of the Agency who has entered into a Participation Agreement.

Participation Agreement: means the document executed by OHFA and the Participating Lender providing for the Participant's origination of Mortgage loans under the OHFA Mortgage Credit Certificate Program and the attachments.

Present Ownership Interest: means all forms of Ownership Interest including (i) a fee simple interest, (ii) a joint tenancy, a tenancy in common, or tenancy by the entirety, (iii) the interest of a tenant-shareholder-homebuyer in a stock cooperative, (iv) a life estate, (v) a land contract (i.e., a contract pursuant to which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time), (vi) a mobile home which is permanently affixed to real property or which has a minimum of 400 square feet of living space and a minimum width in excess of 102 inches and which is of a kind customarily used at a fixed location regardless of how it is titled, and (vii) an interest held in trust for the Mortgagor (whether or not created by the Mortgagor) that would constitute a Present Ownership Interest .

Present Ownership Interest does not include (a) an ordinary lease, without a purchase option or an ordinary lease with an option to purchase at fair market value, (b) the interest of a buyer under a standard residential purchase contract, (c) an expectancy to inherit property, (d) a remainder interest, (e) an Ownership Interest in a Residence that is not occupied as a Principal Residence, e.g., a vacation home, a recreational home or rental property and (f) any ownership interest in factory- made housing which does not meet the above specifications.

Principal Residence: means an Eligible Residence which, in accordance with Federal law, in view of all the facts and circumstances of each case, including the good faith of the proposed Mortgagor (i) has not been used by the proposed Mortgagor or is not primarily intended by the proposed Mortgagor to be used in a trade or business; (ii) has not been used or is not to be used by the proposed Mortgagor as an investment property or as a recreational home; and (iii) is otherwise deemed a "principal residence" under Federal law. In determining use pursuant to (i) above, (a) any use which fails to give rise to a deduction allowable for certain expenses incurred in connection with the business use of a home pursuant to Section 280A of the Code shall not be deemed used in a trade or business, and (b) if more than fifteen (15%) of the total area of a Residence has been used by the proposed Mortgagor or is expected to be used primarily in a trade or business, then such Residence shall be deemed to be used in a trade or business.

Program: means the Agency's Mortgage Credit Certificate Program described in this MCC Guide pursuant to which the Agency will issue Mortgage Credit Certificates to Eligible Borrowers with a copy to Participating Lenders.

Qualified Condominium Unit: means a condominium unit meeting the requirements of the GNMA and which is eligible for FHA Insurance.

Recapture Tax: means that the recapture provisions, which have been incorporated into the Code. The recapture of the federal mortgage subsidy applies only if the Homebuyer meets all of the following conditions. (1) The Homebuyer sells or otherwise disposes of their home within the first nine years of the purchase date, (2) if there is a net profit (gain) on the sale of the home and, (3) if the total household income exceeds OHFA's adjusted maximum income limits at the time of the sale. A portion of the interest rate subsidy must be recaptured upon the sale of the Eligible Property, but not in excess of fifty percent (50%) of the gain recognized by the Mortgagor. The recapture will be implemented through the filing of the Mortgagor's income tax return.

Recapture Reimbursement: means that if the Homebuyer is subject to the Recapture Tax upon disposition of their home, OHFA will reimburse Homebuyer in an amount equal to the Recapture Tax reported to the Internal Revenue Service. Under current law, the Lender and Servicer will not be subject to any additional administrative requirements regarding these provisions, other than disclosure to the Mortgagor at the time of closing.

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).

Single-Family Residence: means a housing unit consisting of only one unit provided the unit is occupied by the Homebuyer as the Homebuyer's principal residence.

State: means the State of Ohio.

Target Area: means one of the areas within the State listed as Qualified Census Tracts and Areas of Chronic Economic Distress and posted on the OHFA website.

USDA-RD: means United States Department of Agriculture, formerly Rural Economic and Community Development Agency, or any successor.

USDA-RD Guaranteed: means guaranteed by the USDA-RD.

VA: means Veteran's Administration, an agency of the United States, or any successor. 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.

Veteran's Exemption: Any veteran who has received an honorable discharge as evidenced by Form DD-214 from the United States military is eligible to use the MCC Program or the Mortgage Revenue Bond Program, does not have to meet the 3- year requirement for a first time homebuyer.

Borrower, Purchase Price and Mortgage Requirements

Borrower Eligibility

Based on federal and state regulations, Eligible Borrowers must meet the following requirements:

1. No homeownership within the last three years. Except for situations where an MCC application is being made for an MCC loan in a Target Area or when the Eligible Borrower is a Qualified Veteran, the Eligible Borrower cannot have had an Ownership Interest in a Principal Residence at any time during the preceding three years. This qualifies the Eligible Borrower as a first time borrower with respect to the Internal Revenue Code.
2. Principal Residence Requirement. The Eligible Borrower must occupy the Residence for with the MCC is issued as their Principal Residence. The Eligible Borrower must provide an Affidavit as to their intent to occupy the Residence as their Principal Residence within 60 days after the MCC is issued.
3. Income Limit. The Eligible Borrower's current gross annual Family Income can be no more than that allowed under the IRS Guidelines. OHFA will post income limits on the OHFA website and within the online loan reservation system.

Maximum Purchase Price

The purchase price of the Eligible Borrower's Residence must be no more than that allowed per the limits of OHFA's single-family mortgage program. OHFA will post purchase price limits on the OHFA website and within the online loan reservation system.

The seller must execute a Seller Affidavit which states the purchase price and that the Maximum Purchase Price requirements have been met. The Affidavit includes an itemized list of:

1. Any payments made by the Eligible Borrower or for the benefit of the Eligible Borrower;
2. An estimate of the reasonable cost of completing the Residence if it is incomplete;
3. The capitalized value of a ground rent, if applicable.

Mortgage Requirements

The following limitations apply to mortgages made to Eligible Homebuyers:

1. MCC Credit Amount. 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 a principal residence or refinances and obtains a re-issued MCC. (See Refinancing and Reissuance). The credit percentage is based on the property and type of financing. For a Basic MCC in a non-target area, the credit percentage is 20 percent. For a Basic MCC in a Target Area, the credit percentage is 25 percent. For a Basic MCC used to purchase an REO property in both non-target and Target Areas, the credit percentage is 30 percent. For MCC Plus, when the loan delivered to the OHFA Market Rate First Time Homebuyer Program, the credit percentage is 40 percent.

2. Underwriting Standards. For loans involving MCCs, underwriting standards may be modified to recognize the benefit of the MCC-derived federal income tax credit. Secondary mortgage market and the mortgage insurance industry have established underwriting policies for loans involving MCCs. The use of the MCC benefit in determining qualifying ratios is subject to the current guidelines of the insurer and/or investor. MCC Plus loans that are delivered to OHFA's Market Rate First Time Homebuyer Program must meet all the requirements of that program.
3. New Mortgage. An MCC cannot be issued in conjunction with the acquisition or replacement of the Eligible Borrower's existing mortgage. However, an MCC can be used in conjunction with the replacement of construction period loans or bridge loans of 24 months or less. The Eligible Borrower must provide an affidavit stating that the loan being acquired in connection with the MCC will not be used to acquire or replace their existing mortgage.
4. Prohibited mortgages. An MCC cannot be used on an adjustable rate or interest only mortgage. An MCC cannot be issued in conjunction with a loan financed with tax exempt mortgage revenue bonds.
5. No Interest Paid To Related Persons. No interest on the certified indebtedness amount can be paid to a person who is related to the Eligible Borrower, as the term Related Person is defined in the Internal Revenue Code and Tax Regulation Section 1.103-10(e). An affidavit must be provided stating that a Related Person does not have, and is not expected to have, an interest as a creditor in the certified indebtedness amount.
6. Underwriting. The Eligible Borrower must meet the credit and underwriting criteria established for OHFA Market Rate Loan Program.

Recapture Tax and Reimbursement

All Mortgage Loans that close after December 31, 1990 and that are the subject of Mortgage Credit Certificate will be subject to the recapture provisions that were incorporated in the Code pursuant to the Technical and Miscellaneous Revenue Act of 1988. These recapture provisions require that, where a Mortgagee's income has increased to more than an amount prescribed by the Code, a portion of the federal interest rate subsidy must be recaptured upon the sale of the Eligible Property. **If the Homebuyer is subject to the recapture tax upon disposition of their home, OHFA will reimburse Homebuyer in an amount equal to the recapture tax reported to the Internal Revenue Service.**

1. The recapture tax will be applicable if the Eligible Property is sold within nine (9) years of the date from which the Mortgage Loan is closed and is limited in amount to no more than fifty percent (50%) of the net gain recognized by the Mortgagor. The recapture tax is implemented by the filing of the Mortgagor's federal income tax return in the year of the sale.
2. The recapture of the federal mortgage subsidy applies only if the Homebuyer meets <u>all</u> of the following conditions: (1) The Homebuyer sells or otherwise disposes of their home within the first nine years of the purchase date, (2) if there is a net profit (gain) on the sale of the home and: (3) if the total household income exceeds OHFA's adjusted maximum income limits at the time of the sale.

3. With respect to the origination of a MCC subject to recapture, the Participant is required to present a Notice of Potential Recapture Tax to each Homebuyer at the time of mortgage loan application. A signed Notice of Potential Recapture Tax form must accompany the Commitment Submission package. The Participant is not subject to any additional administrative requirements regarding these recapture provisions.
4. The Agency will mail to the Homebuyer after loan closing a Notice of Maximum Recapture Tax and Calculation Form.
5. If either the Potential or Final Notice of Recapture Tax is provided to the Homebuyer, or the Mortgage Credit Certificate does not become subject to the recapture provisions because the Agency does not issue the MCC, then the Agency will give the Homebuyer prompt written notice that the recapture provisions are not applicable to the Mortgage Loan.
6. Additional information regarding the Recapture Tax can be found in IRS Publication 523 “Selling Your Home”, or by calling the IRS at 1-800-829-1040 or visiting their website www.irs.gov.

Refinancing and Reissuance

1. The Department of Treasury has released temporary and proposed income tax regulations governing the re-issuance of a mortgage credit certificate (MCC) when an MCC related mortgage is refinanced. The refinancing provision is an exception to the general requirement that the mortgage in an MCC program cannot be used when refinancing an existing mortgage.
2. Under the MCC program legislation, the IRS is authorized to issue regulations to permit the re-issuance of MCCs to the same homebuyer in the event of refinancing of the mortgage under conditions designed to prevent any increase in the allowable credit. The regulations apply to re-issuance of MCCs with respect to certain past refinancing as well as current or future refinancing of the residence. A reissued certificate is effective as of the date of the mortgage refinancing. The homebuyer of a reissued certificate may file an amended federal income tax return to claim credits for the period from the date of refinancing.
3. According to the IRS Form 8393 and Publication 530, and the Homebuyer must meet the following conditions to retain their existing MCC:
    a. MCC must be reissued to the same Homebuyer with respect to the same property;
    b. Reissued MCC must entirely replace the existing MCC;
    c. The certified indebtedness on the reissued MCC cannot exceed the outstanding balance on existing certificate;
    d. MCC credit rate must remain the same;
    e. Reissued MCCs cannot result in a larger credit amount than otherwise have been allowed under the existing certificate for any tax year: and
    f. After refinance, the Homebuyer has up to one year to notify the Agency to reissue their certificate.
4. The Agency must receive the following information to reissue an MCC.
    a. Copy of the Original MCC and/or Reissued MCC;
    b. Copy of Original Note;
    c. Copy of Settlement Statement;
    d. Copy of recent Federal Tax Return with schedules; and

    e. A current telephone number in case the Agency has questions.
5. There is a $55 reissue fee.

Revocation

1. Automatic revocation occurs when the Residence for which the MCC was used ceases to be the Homebuyer(s)' Principal Residence.
2. The MCC will be revoked if, at any time, it is determined that the Homebuyer did not meet the requirements of a qualified MCC.
3. Revocation will occur upon the discovery of any material misstatement whether negligent or fraudulent. If any person makes a material misstatement in any Affidavit or certification made in connection with application for, or issuance of an MCC and such misstatement is due to negligence of that person, that person shall pay a fine of $1,000 to OHFA for each MCC with respect to which a misstatement was made.
4. Automatic revocation will occur if the Homebuyer does not notify OHFA within one year from the date the Residences is refinanced.

Lender Procedures and Program Administration

The Ohio Housing Finance Agency (OHFA) is the designated program administrator for MCCs in Ohio. OHFA will delegate part of its administrative role to Participants through a Participation Agreement. OHFA 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 or an application for the OHFA Market Rate program..

Borrowers that may be eligible will apply for MCCs in conjunction with their OHFA Market Rate Loan Program application.

Lender Eligibility

1. Lenders must sign and comply with the MCC Participation Agreement and pay the appropriate fee to OHFA.
2. For MCC Plus, Lenders must be approved to participate in the OHFA Market Rate Program and sign the OHFA Mortgage Origination and Sale Agreement.
3. Lenders must also be approved by the Servicer for the OHFA Market Rate Loan Program or the OHFA Market Rate Specialty Loan Program.

Lender Responsibilities

1. Participating Lender must submit an annual Mortgage Credit Certificate report provided by the Agency to the Internal Revenue Service.
2. The Participating Lender must advise the Homebuyer of the following:
    a. He or she is to perform his or her own calculations of the estimated tax benefit of the Mortgage Credit Certificate.
    b. Homebuyers may choose to utilize the benefits of MCC tax credit each month by adjusting their W-4. It is recommended that they discuss this process with their tax preparer to properly adjust their W-4 Employee's Withholding Allowance. If Homebuyers choose to complete the W-4 Employee's Withholding Allowance themselves, use IRS Publication 919" How do I Adjust My Tax Withholding?" for assistance. After the adjustments to Form W-4 are completed, it should be returned to their Employer.
    c. That the mortgage interest deduction for federal income tax purposes might be reduced due to the use of a Mortgage Credit Certificate.
    d. Details on how the Mortgage Credit Certificate will reduce federal income tax liability are explained in the Internal Revenue Service (IRS) Publication 530 "Tax Information for First-time Homeowners". Participating Lenders are encouraged to provide Homebuyers with Publication 530.

MCC Fees

1. OHFA charges an annual lender participation fee of $1,000 which may be pro-rated quarterly and is due by March 31 of each year. For 2014 only, the annual fee is $500.
2. OHFA charges a non-refundable processing fee of $500 per loan. For MCC Plus, the lender may retain $250 of the MCC fee. Any party can pay the fee to the mortgage loan transaction if allowed by RESPA and disclosed on the GFE. OHFA must be paid by a lender check from an account of the lender of by certified check from the closing attorney with the closing package.

MCC Processing

The OHFA 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 OHFA's approval*. Since OHFA 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 OHFA to review the file and for the lender to make corrections. OHFA will review files on a first-come, first-served basis within three business days of receipt. This policy also applies to correction packages. All loans must be submitted electronically using the OHFA Online Reservation System.

1. Application - Eligible Borrower applies for mortgage loan financing for an eligible loan type, or through the OHFA's Market Rate First Time Homebuyer program.
    a. Participating Lender generally determines if a loan Homebuyer is a likely eligible candidate for the OHFA Market Rate First Time Homebuyer program and the MCC, based on preliminary indications of income, purchase price, prior home ownership, tax liability, and other factors under the Guide.
    b. Participating Lender determines if Eligible Borrower is specifically eligible under the OHFA income and sales price limitations.
    c. Participating Lender may give Eligible Borrower an MCC brochure (if available) that explains the MCC program and contains information for potential borrowers. Moreover, IRS Publication 530 "Tax Information for First-time Homeowners" has details on how the MCC is applied for federal tax purposes. Obtain information about Publication 530 by visiting the IRS website www.irs.gov.
2. Underwriting and Verification
    a. Participating Lender performs normal underwriting procedures for the loan type. For MCC plus, follow the procedures for the OHFA Market Rate Loan Program.
    b. Participating Lender may consider the MCC when determining the amount of family income available for the monthly housing payment in order to determine Eligible Borrower qualification.

    c. Participating Lender performs usual verifications for loan underwriting.
    d. In conjunction with Participant's regular verification process, and under the Participation Agreement with OHFA, the Participant performs reasonable investigation as to whether the MCC program requirements have been met. Participating Lender may verify these facts at different times and in various ways, depending upon that Participant's particular procedures for processing loans.
    e. Participating Lender verifies that income limits, purchase price limits, and other non-credit OHFA requirements are met.
    f. Participating Lender otherwise completes all other underwriting and verification.

3. OHFA Documents - The Participating Lender has the Homebuyer sign the **Disclosure of Potential Recapture**, and **MCC Borrower Affidavit**. OHFA does not allow a Power of Attorney to be sued for these affidavits. A recorded Power of Attorney may be used at closing for the legal documents. These document serves as the MCC application, and contain all the certifications and affidavits required by the federal MCC regulations and state requirements as follows:
    a. Certification that residence will be used as Principal Residence and the Homebuyer must notify the Agency when the home ceases being the Principal Residence of the MCC Homebuyer.
    b. Certification that Homebuyer has not owned or had an ownership interest in their Principal Residence during the preceding three (3) year period.
    c. Certification that the acquisition cost does not exceed Program Maximum Purchase Price limits. Seller signature required on Builder/Seller Affidavit.
    d. Certification that this is a new Mortgage Loan, as defined in the Code.
    e. Certification that the loan applied for does not constitute a prohibited Mortgage.
    f. Certification that the Homebuyer was not forced to apply through a particular Participating Lender.
    g. Certification that Eligible Borrower's Annual Gross Income does not exceed permitted income limits.
    h. Certification that no interest is being paid to a Related Person, as defined in Section 144(a) (3) of the Code.
    i. Acknowledgement that any material misstatement or fraud made by Eligible Borrower' is under penalty of perjury.
4. MCC Reservation
    1. For MCC Basic, the Participating Lender submits Homebuyer's information via Lender Online Reservation System (LORS). This system allows Participating Lenders to register loan/MCC reservations via the Internet and access information concerning the status of the application. The MCC Reservation is good for 60 days.

2. For MCC Plus, Participating Lender will use the same login name and password to access LORS as is used for the OHFA Market Rate First Time Homebuyer program. Once Participating Lender has reserved a loan for the OHFA Market Rate First Time Homebuyer program, the Lender will select the MCC Series. LORS initiates a computer file on each case, records the MCC reservation on the computerized reservation system by name and MCC loan tracking number, and records the estimated loan amount and reservation date.
3. The LORS system will keep a cumulative total of loan amounts reserved to achieve an estimate of expected aggregate certified indebtedness of loan amount, and aggregate amount of MCCs to be issued. The aggregate certified indebtedness amount cannot exceed the aggregate amount of MCCs mortgage credit certificates issued (25 percent of the amount Mortgage Revenue Bond issuing authority which OHFA has elected to convert to MCCs).

4. MCC Commitment

   a. For MCC Basic, Participating lender submits a completed and executed MCC Borrower Affidavit and MCC Commitment Package via LORS within 60 days. After 60 days the loan reservation will be cancelled.
   b. For MCC Plus, Participating Lender must submit a completed and executed MCC Borrower Affidavit and MCC Commitment Package together with the Underwriting Certification and Commitment Package for the OHFA Market Rate Loan Program to OHFA within 25 days of loan reservation.

5. OHFA Review of Commitment Package

   a. OHFA confirms that the MCC reservation has not expired unless an extension was requested in advance.
   b. OHFA reviews the MCC Commitment Package for completeness and determines whether or not all necessary certifications and affidavits are present and properly executed. If corrections are necessary the Participating Lender will incur a correction fee of $25.
   c. If OHFA determines the MCC Commitment Package is acceptable, OHFA will upload into LOL and/or send an MCC Commitment to the Participating Lender stating that the application is approved at the same time that OHFA issues the Commitment for the OHFA Market Rate Loan Program.
   d. The MCC Commitment will contain an expiration date of **45 days**.
   e. If the Lender requests an extension on the Commitment for the OHFA Market Rate Loan Program, the Lender must also request an extension of the MCC Commitment. There is no additional fee for the MCC Extension.

f. The OHFA Lender Online Reservation System will track MCC Commitments and will help Participating Lenders produce periodic reports of expiring MCC Commitments.

6. Mortgage Loan Closing and Post Closing Package

   a. The Participating Lender confirms that the MCC Commitment has not expired before submission of closing file to OHFA.
   b. Any changes that occur between the time of loan application and closing may impact eligibility for the MCC. If changes occur after issuance of the Conditional Commitment and prior to closing that are not detailed on the Borrower Closing Affidavit, the commitment will be revoked. Please contact OHFA concerning changes in borrower, household size and property status.
   c. The Participating Lender closes the loan in the normal fashion with the Eligible Borrower executing the Borrower Closing Affidavit.
   d. Participating Lender may charge the Eligible Borrower up to $500 MCC processing fee, which must be included in the Lender's origination fee.
   e. The Participating Lender executes the Borrower Closing Affidavit attesting to the fact that the loan was closed and there were no material changes, unless stated.
   f. The Participating Lender submits the closing package which must include all the executed certifications and affidavits: Self-addressed stamped envelope; $250 MCC fee to OHFA; MCC Loan Closing Voucher; Borrower Closing Affidavit; Settlement Statement.
   g. OHFA reviews the loan file to verify that the completion of the file that the MCC Commitment was exercised, and the loan was closed. OHFA will then forward to the Participating Lender an executed copy of the MCC with letter of responsibilities, and the original MCC to Homebuyer(s) with congratulatory letter 60 days after loan has closed.

Record Keeping and Report Filing

1. The Participating Lender must file a one-time annual report using IRS Form 8329. OHFA will provide each Participating Lender with a draft of this form for their certification and submission to IRS.
2. For six (6) years, the Participating Lender must retain:
   a. Name, address, TIN (social security number or tax identification number) of the Homebuyer. b) Name, address and TIN of Issuer.
   b. Date of loan, certified indebtedness amount, and credit rate.
3. OHFA may perform a random case audit of Participating Lender's records.

Appendix A