Mortgage Credit Certificate Program
Disclosure Summary

Below is a summary of each of the disclosures and forms that you will complete at the time of closing. Please review the documents with your loan officer or mortgage closers prior to signing.

Borrower Affidavit

This document says that if you provide false information on your application, Minnesota Housing has the right to revoke your MCC and you will not receive the tax credit. By signing this document you are affirming, among other things, that:

- You intend to occupy the property as your primary residence within 60 days of closing.
- You will not use more than 15% of the residence as a business.
- You did not have a present ownership interest in a principal residence in the past three years.
- You provided true and correct copies of your tax returns.
- You have not completed any work on the subject property.
- You do not have any loans/liens/agreements with the property seller outside of the submitted purchase agreement and other agreements provided to Minnesota Housing.
- You are aware the MCC cannot be transferred.
- No part of the mortgage loan is being used to purchase of appliances, furniture or other items not affixed to the property.
- You have disclosed **all** sources of income.

Seller/Institutional Seller Affidavit

This document is very similar to the Borrower Affidavit but is for the property **seller** to sign. It states that the property seller (either private individuals or institutions) affirms, among other things, that:

- Buyer has not completed any work to the subject property.
- Buyer does not have any loans/liens/agreements with the property seller outside of the submitted purchase agreement and other agreements provided to Minnesota Housing.
- No part of the mortgage loan is being used to purchase of appliances, furniture or other items not affixed to the property.
- The purchase price of the property has not been altered because you are using the MCC program.

Notice of Potential Benefits

This document gives an overview and some examples of the benefits of the MCC Program. The highlights of the program are:

- A potential to reduce your federal tax liability and increase the amount of any tax refund due to you by up to $2,000 per year.
- This is a *tax credit* not a tax deduction. A tax deduction reduces the amount of income on which you pay taxes, but a *tax credit* reduces the total amount of taxes you owe, dollar for dollar.

- The amount of the credit is up to 35% of the annual amount of interest paid with respect to your mortgage loan, with a maximum credit of $2,000 per year. You can still deduct the remaining 65% of the mortgage loan interest you paid if you itemize your deductions.
- If you expect a tax refund, you can decrease the amount withheld from each of your paychecks for federal income tax (consult a tax professional for more info on this).
- The amount of any MCC tax credit that is greater than your federal tax liability can be carried forward for up to three tax years (total credit cannot exceed $2,000 annually).
- Minnesota Housing reviews MCC applications solely for program eligibility and does not determine whether or not you will benefit from this program.

Subsidy Recapture/Tennessen Warning

The first portion of this document explains **subsidy recapture**. It is important to note that while the possibility of a Recapture Tax exists, it is very rare and there are steps you can take to avoid assessment of this tax.

Recapture Tax will not be assessed if:

- You own the house more than 9 years (does not need to be your principal residence the entire 9 years).
- You have a modified adjusted gross income less than the qualifying income at the time of sale (your income percentage is zero so you would owe no tax).
- You sell or give your house to your spouse or to your ex-spouse incident to a divorce.
- You sell your house with no gain or at a loss.

The Recapture Tax may be assessed when you sell or "otherwise dispose of your home." Below is an explanation of the calculations for the amount of the Recapture Tax as well as a list of circumstances where you will not be required to pay any Recapture Tax.

Calculations:

- <u>Recapture Amount</u>: 6.25% x highest principal balance of your loan (usually the original principal balance of your mortgage loan). For example $100,000 x 6.25%= $6,250. This is the most you would be required to pay when you sold your house.
- <u>Gain on Sale</u>: Compute your gain upon the sale of your house. The actual Recapture Tax will not be greater than one-half of your gain upon the sale of your house.
- <u>Holding Period Percentage</u>: This percentage is used as a multiplier, meaning the Recapture Amount will be multiplied by this percentage so as to reduce the maximum tax amount. Starting in year 0 the percentage increases each year until it reaches 100% between years 4 and 5. Then the percentage decreases each year until year 9 after where the percentage is zero (which means you will not owe a Recapture Tax).
- <u>Income Percentage</u>: This calculation is the most complicated and is also a multiplier. Subtract the "Household Adjusted Qualifying Income" shown on the tables on the form from your adjusted gross income (modified as explained on the form) on your tax return for the year in

which you sold the house. If the result is greater than $5,000, your income percentage is 100%. If greater than $0 but less than $5,000, divide that number by $5,000 to determine your income percentage.

Example:

You sell the house in year 7 when the holding percentage is 40%. Your modified adjusted gross income for the tax year in which you sold the house was $120,000.

- Subtract the qualifying income from the table* ($116,648) from your adjusted gross income and get $3,352.
- Divide that number by $5,000 and your income percentage is 67%.
- Multiply the maximum Recapture Amount from the example above ($6,250) by the holding percentage (40%) and then multiply that result ($2,500) by your income percentage (67%).
- The result of **$1,675** (or one-half of your gain on the sale of your house, if less) is the amount of Recapture Tax you owe.

The second portion of the document is our **privacy policy and Tennessen Warning**. This explains that your personal information such as your social security number and other identification are treated as classified/private information. They are used solely for the purposes of approving your application and are shared only with persons or entities as required for the processing of your loan. It also states that failure to provide your social security number will render Minnesota Housing and your lender unable to approve your loan.

*There are separate tables in the disclosure for targeted and non-targeted areas. Targeted areas are explained in the form which will be completed at or close to closing, however a copy of the form can be provided to you by your loan officer at any time. If you have questions or concerns, please discuss them with your loan officer or contact Minnesota Housing directly. The links and tract information related to targeted areas are available at www.mnhousing.gov.