MISSOURI HOUSING DEVELOPMENT COMMISSION

QUALIFIED MORTGAGE CREDIT CERTIFICATE PROGRAM

OPERATIONS MANUAL

Missouri Housing Development Commission
Qualified Mortgage Credit Certificate Program Operations Manual

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Section 1 – Introduction and Program Summary

The purpose of this operations manual is to describe the Mortgage Credit Certificate Program, (the "MCC Program"), sponsored by Missouri Housing Development Commission (MHDC), a state agency for the state of Missouri. This operations manual sets forth MHDC and federal eligibility restrictions, identifies the respective roles of MHDC, the certified lender, the borrower, the property seller, and details the procedures to issue a Mortgage Credit Certificate.

MCCs are being made available to borrowers in the program area on a first-come, first-served basis with MHDC reserving the right to make adjustments to provide (i) an equitable allocation of MCCs, and (ii) an allotment for certain "targeted areas". Except for such geographic area allocations and required reservation of MCCs for certain targeted areas, MCCs are not reserved, allocated or otherwise set-aside for any particular mortgage lender, builder, realtor or class of eligible borrowers.

An MCC operates as a federal income tax credit. The MCC reduces the federal income tax payment liability of eligible home buyers purchasing qualified residences, thereby making more funds available for mortgage payments. The MCC Credit Rate will be 25%, 35% or 45% for MHDC's MCC Program. The MCC is based on interest paid on the first deed of trust note only.

For example: A Borrower having a mortgage amount of $75,000 at a conventional interest rate of 10% for 30 years would pay $7,481 for the first year in mortgage interest.

With a 25% MCC, this buyer would be eligible to receive a direct federal income tax Credit of $1,870 (25% of $7,481).

The credit, in this example, effectively reduces the first year interest cost from 10% to less than 8% if the home buyer has at least $1,870 of federal tax liability. 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 (net) income to make loan payments.

The benefits to the borrower cannot exceed the amount of federal taxes owed after all other credits and deductions have been taken into account. The maximum Credit amount generally cannot exceed the lesser of $2,000 or 25% of the mortgage interest paid per year. If the amount of the Credit exceeds federal tax liability, then the unused Credit can be carried forward for up to 3 years.

A purchaser of a single-family residence may apply for a MCC by making application to a certified lender as described at the time of obtaining financing. A borrower may not combine the benefits of an MCC with any federal tax exempt mortgage revenue bond (MRB) program.

The MCC Program is designed to work with conventional or government insured or guaranteed mortgage loans. MHDC will not make, or credit underwrite the loan.

While the MCC Program cannot be used with any tax-exempt MRB programs, many of the standard requirements and certificates of those programs will be included for the MCC Program (e.g. income limits, acquisition cost limits, first-time home buyer requirement). MHDC will receive executed certificates and affidavits and other documents from borrowers in order to determine the qualifications and eligibility of borrowers. Certified lenders will process financing of any type of mortgage loan, using normal procedures, with additional procedures at relevant points to satisfy MCC requirements. For underwriting purposes, the MCC is currently given cash flow value by FHA, VA, GSE (Government Sponsored Entities), FHLMC and private mortgage insurance companies.

The MCC will become null and void if:

1. The mortgagor no longer occupies the property for which the MCC was issued, as his or her principal residence;
2. The property is sold, or the mortgagor pays the first mortgage in full

MCCs are not transferrable.

MHDC encourages all persons who believe they qualify for an MCC to apply for an MCC. However, borrowers and certified lenders should understand all MHDC and federal restrictions so that both buyers and sellers are aware of these restrictions before an application is made. MHDC must decline those MCC applications where the applicant or the residence does not qualify under the requirements of the MCC program.

Pursuant to a MHDC Notice, MHDC may revise and update the Mortgage Credit Certificate Program Operations Manual and any of the exhibits as needed.

For mortgage loans involving MCCs, conventional underwriting standards for housing expense and debt ratios may be modified to recognize the benefit of the MCC from the federal income tax credit. The secondary mortgage market and the mortgage insurance industry have established underwriting policies for loans involving MCCs. These are available separately as policy statements from the mortgage lending industry, but generally allow the credit available under the MCC to be treated as an adjustment to the monthly loan payment amount.

The borrower, acquisition cost, and loan underwriting requirements described in this manual are incorporated in the MCC program documents, specimens of which are included in the operations manual. It will be necessary for all borrowers and MCC program participants to complete and sign the appropriate MCC program documents supplied by MHDC.

If the certified lender becomes aware of misstatements, whether negligently or intentionally made, it must notify MHDC immediately. MHDC will take appropriate actions including, if necessary, denial or cancellation of the MCC. The borrower should be aware that federal law provides fines and criminal penalties for misrepresentation made in connection with participation in the MCC Program. In an attempt to assure that requirements are clarified, a Potential Borrower's Application Affidavit (Form #315) must be signed by all borrowers and must be included in the MCC conditional commitment submission package.

The MCC program allows the use of any financing instrument being used in the financial marketplace, and does not place restrictions on loan term or amortization method unless it is being used with the Next Step Program. A MCC may not be used in conjunction with a mortgage loan which is originated for sale or which is offered for sale to MHDC utilizing mortgage revenue bonds.

Effective Home Buying Power With and Without an MCC

	Without MCC	With MCC
First Mortgage Amount	$300,000	$300,000
Mortgage Interest Rate	7%	7%
Monthly Mortgage (Principal & Interest Only)	$1,996	$1,996
MCC Rate	N/A	15%
Monthly Credit Amount	N/A	$262.25
"Effective" Monthly Mortgage Payment	$1,996	$1,733.75
Annual Income Needed *	$85,542	$74,304

* Annual Income Needed is based on monthly Principal and Interest (P&I) not exceeding 28% of monthly income.

Section 2 – Definitions

In the Operations Manual, the following words and terms are defined below:

***Acquisition Cost**:* The cost of acquiring a residence from the property seller as a completed residential unit, calculated in accordance with section 4.

Act: Chapter 215, Revised Statutes of Missouri, as amended.

Affidavits: An affidavit filed in connection with the MCC Program on forms provided by MHDC, made under oath and subject to penalties of perjury.

Borrower: A person or persons satisfying the eligibility criteria set forth in section 4 of the operations manual and who is issued or applies for an MCC.

Certified Indebtedness Amount: The original principal amount of the mortgage loan which is incurred by the borrower to acquire the principal residence and which is specified in the MCC.

Closing Date: The date the borrower purchased the home and a mortgage loan which is executed by the borrower and closed by the certified Lender.

Code: The Internal Revenue Code of 1986, as amended.

***Commitment Expiration Date**:* The date that a reservation expires; a conditional commitment by MHDC as specified in section 3 C(4) of the operations manual, or such later date to which the conditional commitment has been granted or extended.

Commitment Fee: An amount equal to one percent (1%) of the certified indebtedness amount.

Conditional Commitment: A commitment by MHDC to a certified Lender to issue an MCC to the borrower upon compliance with the requirements.

Credit: A credit against a borrower's federal income tax to the extent provided in, and subject to the terms and conditions of the Tax Act.

Eligible Borrower(s): Borrowers who are natural persons and families of low and moderate Income: (i) none of whom had a present ownership Interest in a principal residence (exclusive of an interest in the property to be mortgaged pursuant to the Program) at any time during the three-year period ending on the closing date except for any borrowers receiving mortgage loans in the targeted area, and (ii) who otherwise meet the requirements.

Gross Annual Household Income: The annual gross income of (i) the borrower(s), spouses of the borrower. Annual gross income is gross monthly income multiplied by 12. Gross monthly income is the sum of monthly gross pay; any additional income from all sources, both taxable income and non-taxable income including but not limited to earnings, overtime, part-time employment, bonuses, dividends, interest, annuities, pensions, Veterans Administration (VA) compensation, gross rental or lease income, commissions, deferred income, welfare payments, social security benefits, disability payments, alimony, support payments, public assistance, sick pay, unemployment compensation, income received from trust from business activities and investments. Irregular income such as overtime, bonuses and commissions shall be projected using the most recent 12-month period. Information with respect to gross monthly income may be obtained from available loan documents executed during 4 month period ending on the closing date, provided that any income not included on the loan documents must be included in determining gross annual household income. (Refer to Section 4(E) for further MHDC income calculation guidelines.)

Loan Origination Agreement: The certified lender agreement between MHDC and each certified lender.

MHDC: Missouri Housing Development Commission, a government state agency for Missouri.

MHDC Notice: A notice from MHDC which amends this operations manual including, but not limited to, amendments with respect to the acquisition cost limits and/or gross annual household income limits contained in section 4 of this operations manual.

Mortgage Credit Certificate (MCC) Rate: Twenty-five percent (25%) Thirty-five percent (35%) or Forty-five percent (45%).

Mortgage Credit Certificate or MCC: A certificate issued by MHDC entitling a borrower to a federal tax credit. The MCC to be issued to borrowers, and the terms and conditions contained therein, shall be determined by the Tax Act. All MCCs must be issued by no later than December 31, 2025, unless extended in accordance with the Tax Act.

Mortgage Loan: A loan made by a certified Lender secured by a mortgage or deed of trust constituting a first lien upon real property located in the state and improved by a residential building or condominium or unimproved by a residential building if the proceeds of such loan are to be used for the purpose of acquiring, or acquiring and rehabilitating a residential building thereon or for the purpose of purchasing a condominium unit thereon.

MCC Program: MHDC's program of issuing MCCs to borrowers in accordance with Tax Act.

MCC Submission Package: Those documents required by section 5(A) (see MCC Application Package Checklist) to be submitted to MHDC before MHDC will issue a conditional commitment to the certified lender.

Operations Manual: The MHDC's MCC operations manual containing the requirements of the MCC program, as it may be amended from time to time by MHDC as provided.

Persons and Families of Low and Moderate Income: Persons and families, whose gross annual household income, as determined in accordance with section 4 do not exceed the amounts specified.

Present Ownership Interest: Any present ownership interest in real property as described in section 4, including without limitation those interests listed in said section 4.

Principal Residence: Residence which the eligible borrower intends to occupy as a primary residence within a reasonable time after the closing of mortgage loan (e.g. within 60 days) and which is not reasonably expected to be used in a trade or business, or as an investment property. Within this definition, the term residence includes: 1) a single-family house; 2) a condominium or townhouse unit; 3) stock held by a tenant-stockholder in a cooperative housing corporation (as those terms are defined in Section 216(b)(1) and (2) of the Code); and 4) any manufactured home which is permanently affixed to real property and taxed as real property. The term residence does not include mobile homes or other manufactured housing not permanently affixed to real property, recreational vehicles, campers, and other similar vehicles.

Program Area: Properties must be located in the state of Missouri.

Recapture Provision: Section 143(m) of the Code.

Reservation Period: That period of time for which a conditional commitment issued by MHDC to issue an MCC will be valid. The reservation period will begin on the date on which the lender reserves funds for the MCC on the online reservation system.

Residence: An owner-occupied dwelling located in the program area, other than a mobile home or other manufactured housing which is not permanently affixed to real property, including a single-family dwelling unit, one-half of a duplex or a single-family condominium unit. The term "Residence" includes stock held by a tenant-stockholder in a cooperative housing corporation (as those terms are defined in section 216(b) (1) and (2) of the Code.

Total Number of Occupants: Total number of borrowers or relative of the borrower(s) by marriage or biologically by birth or adoption means the total number of persons who will be occupying the residence as their principal residence.

State: The state of Missouri.

Targeted Area: An area designated as such by MHDC as described in section 7 including the census tracts in the counties listed in section 7 thereto and such other areas as MHDC may designate in accordance with the Tax Act.

Tax Act: Section 25 and Section 143 of the Code, the rules, revenue rulings and regulations promulgated, temporary or proposed under the Code as now in effect or as may be promulgated or proposed and from time to time amended, and any corresponding provision of prior or future federal tax laws that apply to the issuance of MCCs.

(End of Section 2)

Section 3 – Processing Procedures and Program Administration

Borrowers should apply for MCC in conjunction with their normal mortgage loan application. The borrower must apply for a mortgage loan before the certified lender can submit the application to MHDC for an MCC.

The MCC processing procedures are designed to coincide with the regular, on-going loan processing, credit and underwriting procedures that are in place at most certified lenders. They are the responsibility of the certified lender. Since MHDC is not part of the credit decision-making process, no formal notice of rejection of an MCC is required under the Equal Credit Opportunity Act. MHDC recognizes that there are procedure variations among the certified lenders; consequently, the procedures outlined here suggest the possible sequence of events. However, all the elements of the processing sequence noted below must at some point be completed by the responsible party.

The certified lender should notify MHDC at any time during the reservation period if the borrower's application for a mortgage loan has been declined, indicating the reason for declination, or if the certified lender determines that a mortgage loan cannot be closed during the reservation period.

The following is the loan processing and administration flowchart for the MCC Program:

A. Mortgage Loan and MCC Application

1. Borrower makes application for mortgage financing with a certified lender.

2. Certified lender obtains the following documents from the borrower: Potential Borrower's Application Affidavit (Form #315); Lenders should be advised to carefully study borrower's present and anticipated federal income tax estimates to judge the amount of the tax liability in order to determine the benefit of the MCC Program.

3. Certified lender initially determines if a loan applicant is eligible for a MCC based on preliminary information on gross annual household income, acquisition cost, prior home ownership, and other factors.

4. Certified lender retains the completed forms described in 2 above. Certified lender submits such forms to MHDC at the times specified in Section 3C and 3D below.

B. Lender Underwriting and Verification

1. Certified lender performs normal mortgage underwriting procedures except that the certified lender should consider the MCC when determining the amount of income available for the monthly housing payment in order to determine the borrower's qualifications. Certified lender determines general acceptability in accordance with applicable investor requirements (e.g. GSE (Government Sponsored Entities)., FHLMC, FHA, RD, VA and private mortgage insurance).

2. Certified lender determines whether gross annual household income limits, acquisition cost limits and other MCC Program requirements are met.

3. Certified lender completes all other mortgage underwriting and verification steps.

C. MCC Reservation Requirements

1. Prior to making a reservation, the lender must have:

   a. A signed application from an applicant who has entered into a fully executed real estate sales contract with the seller of the residence (contracts must contain the acceptance signatures of both the buyer and seller, prior to requesting a reservation of funds); Real estate sales contracts **may** be written and dated prior to the date reservations will be accepted.

b. made a preliminary determination that the applicant qualifies per the financial institution's guidelines for the mortgage loan; and

c. made a preliminary determination that the applicant is eligible to participate in the MHDC program, including but not limited to the first-time home buyer qualifications, maximum income limits and maximum purchase price limits in effect at that time.

NOTE: MHDC encourages pre-qualification of potential borrowers.

2. To reserve an MCC, the certified lender reserves funds on Lender Online (LOL) and obtains a MCC reservation number.

3. Funds will be reserved on an individual first-come, first-served basis.

4. There is no cost to the lender to participate in the program, nor to make reservations in Lender Online (LOL).

5. MHDC lender-on-line will maintain a cumulative-to-date total of MCC amounts reserved to monitor the aggregate certified indebtedness amount, and control the aggregate amount of MCCs to be issued. These aggregates cannot exceed the amounts MHDC has available for the MCC Program.

6. The reservations are good for 45 days for existing or new construction loans. The certified lender must have the loan closed and submit the final loan package to MHDC before the expiration date.

7. If the lender cannot complete the closing and submission to MHDC within this period, an extension of the expiration date is required. This may be accomplished by an email describing the reason for the extension request and the estimated date or period of time needed. Send this, to any staff member in the homeownership department at MHDC. A valid reason for the extension request is required. MHDC reserves the right to refuse any request. **Any request for an extension must be accompanied by a statement that a commitment letter has been issued to the borrower.** Loans that have not been approved by the end of the reservation period will not be extended.

   NOTE: If a reservation has expired and MHDC has not received a request for an extension, the reservation will automatically be canceled.

8. Lenders are required to notify MHDC immediately of any changes.

   a. A written explanation describing the reason for the change must include the reservation number and borrower name.

   b. Increases in loan amounts in excess of $3,000 must be approved prior to loan closing.

   These changes are to be emailed to MHDC in accordance with the extension instructions.

NOTE: Reservations may not have a change in the property address. If the applicant(s) choose another property, their original approved reservation must be canceled and a new reservation made on Lender Online (LOL). Reservations cannot be transferred to another certified lender. If the applicant chooses to apply with another lender, the original approved reservation must be canceled and a new reservation made on Lender Online (LOL).

D. <u>MHDC Review of MCC Conditional Commitment Submission Package</u>

1. MHDC confirms that the MCC reservation has not expired.

2. The MCC submission package is reviewed for compliance to determine that all necessary documents, certifications, and affidavits are present and properly executed.

3. If the package is complete and the borrower and property are eligible, MHDC issues a conditional commitment (Form #394) to the certified lender stating that the MCC will be issued upon receipt of the final submission package.

4. If the MCC conditional commitment submission package is incomplete, MHDC notifies the certified lender (deficiency memo) of the information or documents required to complete the MCC conditional commitment submission package.

5. MHDC review of the MCC conditional commitment submission package will normally be completed within 5 days of receipt by MHDC.

E. Loan Closing

1. Certified lender confirms that the conditional commitment has not expired.

2. Certified lender closes the mortgage loan using its normal procedure.

3. Certified lender executes the Lender Certificate (Form #320) which includes certifications regarding no material changes.

4. The borrower executes a Recapture Provision Disclosure (Form #355).

5. Certified lender gives borrower the amortization schedule for the loan to enable him or her to calculate the annual value of the credit.

6. Certified lender gives borrower a copy of the two page IRS Form W-4 (Employee's Withholding Allowance Certificate), which contains the IRS instructions for the taxpayer. The borrower completes the Form W-4, if necessary, to change his or her federal withholding tax, adjusting it to take into account the amount of the expected credit. Borrower should seek advise from a tax advisor with help filling out the form W-4.

F. MHDC Reviews Loan after it has closed

1. Certified lender forwards the final submission package (See MCC final submission Package Checklist Form #305), including a wire in an amount equal to one percent (1%) of the amount of the actual certified indebtedness amount, payable to "Missouri Housing Development Commission", to MHDC within 15 days after the closing date.

   The certified lender may request an extension of time to submit the final submission package. EXTENSIONS MAY OR MAY NOT BE GRANTED IT WILL BE DONE ON A CASE BY CASE BASES.

2. MHDC confirms that the reservation has not expired.

3. MHDC reviews the loan closing package to confirm that no material changes have occurred.

4. If MHDC determines the MCC submission is acceptable, MHDC will issue a commitment letter (From #395) to the lender and an MCC to the borrower within 30 days after the final submission package has been approved.

G. Record Keeping and Federal Report Filing

1. The certified lender must file an annual summary report using IRS Form #8329. The report is required to be filed only once for each MCC issue. The certified lender will supply MHDC with a copy of the executed IRS Form #8329 filed by the certified lender and a certification by the certified lender that such filing have been made.
2. The certified lender must retain, with respect to each mortgage loan:

a. Name, address, social security number or tax identification number (TIN) of each borrower who receives an MCC.

b. Name, address, TIN of MHDC:
Missouri Housing Development Commission
920 Main Street, Suite 1400
Kanas City, Missouri 64105
TIN: 43-0979983

c. Closing date, certified indebtedness amount, and MCC credit rate.

H. Revocations

1. A borrower will have a MCC revoked if the borrower does not meet the requirements to continue to hold a MCC, i.e.:

   a. If more than 15% of the square footage of the principal residence is used for business purposes; or

   b. If the property ceases to be the principal residence of the borrower; or

   c. The discovery of any material misstatement by the borrower, whether negligent or fraudulent when applying for an MCC. The certified lender must notify MHDC in writing of the discovery of any material misstatements.

Once revoked, the MCC cannot be reinstated.

Penalties for Misstatements

If any person makes a material misstatement in any Affidavit or certification made in connection with the application for, or the issuance of, an MCC and such misstatement is due to negligence of that person, that person may be subject to a fine of $1,000 for each MCC with respect to which a misstatement was made. If any person makes a material misstatement in any Affidavit or certification made in connection with an application for, or issuance of, an MCC and such misstatement is due to fraud, then any MCC issued shall be automatically null and void without the need for any further action on behalf of the Commission. In addition, that person may be prosecuted under Federal law and fined up to $10,000 for each MCC with respect to which the fraudulent misstatement was made. The above-described penalty will be imposed in addition to any criminal penalty provided by law.

I. Transfer of MCC for Mortgage Assumptions Prohibited

MCCs are not assumable or transferable. A loan assumption associated with a MCC will be treated as a new MCC request, and the procedure required by this MCC Operations Manual must be repeated.

J. Refinancing Original Mortgage Loan

A refinancing renders the MCC null and void. MCCs will not be reissued.

K. Post-Issuance Audit

MHDC reserves the right to perform post-audit of the records of certified lenders pertaining to MCC-assisted mortgage loans.

Section 4 - Borrower Eligibility Requirements

In order to qualify for a Mortgage Credit Certificate under the MCC Program, a borrower must:

- not have held a present ownership interest in a principal residence within the three years preceding the closing date.
- not have taken a real estate tax or mortgage interest deduction (on IRS Schedule A) for any residence occupied by the borrower within the three years preceding the closing date.
- Intend to occupy and use the residence to be financed with the mortgage loan as a permanent, principal residence within 60 days after the closing date (90 days in the case of a mortgage loan for the purchase and rehabilitation of a principal residence).
- Have a gross annual household income as determined by the certified lender in accordance with this operations manual not in excess of the maximum limits set forth in this section 4.
- not use the proceeds of the mortgage loan to acquire to replace an existing mortgage or debt, except that the replacement of construction period loans, bridge loans or similar temporary initial financing (i.e., financing which has a term of twenty-four (24) months or less) shall not be treated as the acquisition or replacement of an existing mortgage.
- have executed all of the necessary documents related to the MCC program.
- be qualified for the mortgage loan under the underwriting standards set forth by the certified lender.

A. First Time Homebuyer Requirement

(1) Except for borrowers receiving mortgage loans in targeted areas, an eligible borrower does not include any borrower who held a present ownership interest in a principal residence at any time during the three years preceding the projected closing date. Each borrower must certify in the Potential Borrower's Application Affidavit (Form #315) that at no time during the three years preceding the execution of the application has he or she held a present ownership interest in a principal residence.

Examples of interests which constitute "Present Ownership Interests" include:

(I) A fee simple interest.
(ii) A joint tenancy, a tenancy in common, or a tenancy by the entirety.
(iii) The interest of a tenant shareholder in a cooperative.

Exception: Interest of tenant shareholder in a HUD-sponsored or regulated cooperative housing project, provided:

- project is owned by a non-profit corporation,
- corporation does not issue stock,
- tenant possess only a membership in the corporation, and
- tenant occupies a specific unit in the project by virtue of an occupancy agreement or similar agreement which creates a landlord-tenant relationship pursuant to which the landlord may pursue remedies for breach in accordance with applicable landlord-tenant law.

(iv) A life estate.
(v) A land contract, a contract for deed, bond for a deed, a conditional sale contract or the like (i.e. a contract pursuant to which possession and the benefits and burdens of ownership are transferred but legal title is not transferred until some later time).
(vi) An interest held in trust for the borrower (whether or not created by the borrower) that would constitute a present ownership interest if held directly by the borrower.

Examples of interest which do not constitute "Present Ownership Interest" include:

(i) A remainder interest.
(ii) A lease, with or without an option to purchase.
(iii) A mere expectancy to inherit an interest in a principal residence.
(iv) The interest that a purchaser of a residence acquires upon the execution of a purchase contract.
(v) An interest in other than a principal residence during the previous three years.
(vi) An interest in a mobile home or other manufactured housing not permanently fixed to land and which mobile home is not considered real property for local tax purposes.

In the event that more than one borrower signs the mortgage note with respect to a particular residence, each borrower must meet the three-year requirement.

A person who is liable under the mortgage loan but does not have a present ownership interest in such residence need not meet the three-year requirement. For example, if a parent of the borrower is to co-sign the mortgage note, but the parent takes no interest in the residence, it is not necessary that the parent meet the three-year requirement.

All persons expected to utilize an MCC must meet the three year requirement.

To verify that the borrower meets the three-year requirement, a qualified employee of the Lender, as agent for the Commission, should review the credit reports with respect to the Mortgagor from all three national credit bureaus and verified that no credit report includes any indication that the Mortgagor incurred indebtedness to finance a principal residence during the three-year period prior to the execution of the Mortgage, unless the Mortgagor is a Qualified Veteran or the principal residence is located in a targeted area qualified census tract..

MHDC will also determine that the borrower(s) meet the three year requirement by reviewing the loan application that must show three years of previous residents and if they owned or rented each property.

(2) If the borrower or additional non-qualifying occupant lives in a mobile home, he or she may still be eligible. For the purposes for the three-year requirement, a mobile home owned and occupied by the borrower or additional non-qualifying occupant is not treated as a principal residence if it is not permanently affixed to real property. To verify the above situation for any portion of the time in which it may apply during the preceding three (3) years from the closing date, it will be necessary to provide the following:

(i) Personal property tax receipts and pad rental agreements, if applicable, with respect to the subject mobile home; and

(ii) The borrower and/or certified lender must submit other conclusive evidence that the mobile home was not permanently affixed to the real property. The lender must possess conclusive evidence that the mobile home was not permanently affixed to real property. MHDC will require the lender to execute Mobile Home Certification Form #385.

(3) Legal Separation

Any applicant who has been legally separated is still considered a married person. MHDC will require the spouse to sign documents.

(4) Waivers of Marital Rights-**NOT ALLOWED**

A spouse who does not currently live with the potential borrower and who does not plan to live with the potential borrower may waive his or her marital rights if the spouse and the potential borrower each sign the appropriate affidavit (Form #350-1 & Form #350-2).

A waiver is **not** permitted when the husband and wife currently live together and occupy (or plan to occupy) the subject property.

If a husband and wife both intend to live in the house being purchased utilizing the MCC Program, both spouses must sign all of the MCC documents connected with the mortgage loan.

(5) Applicants Who Own/Owned Rental Property

Applicants who own or have owned rental property may be considered eligible as first-time home buyers if they can prove the following:

a. They did not live in any of the rental property for which they held ownership interest at any time within the past three (3) years;

b. A mortgage interest deduction was not taken as a personal deduction on Schedule A of their federal income tax returns; or

c. A real estate tax deduction was not taken as a personal deduction on Schedule A of their federal income tax returns.

(Of course, the person would probably have a rental schedule showing rental income on his or her tax return. This would be acceptable because the deduction for real estate taxes, etc. would be on the schedule E, not on Schedule A, which is the personal deduction schedule of the federal income tax return.)

(6) Applicants who's Ex-Spouse Solely Owned Real Estate prior to the Marriage

Applicants/Occupants who were married within the past three years, but are now divorced, and the former spouse of the applicant/occupant owned the property prior to the marriage will **not** be considered a first-time home buyer.

In the state of Missouri an applicant/occupant will be considered an owner of the real estate, regardless of whose name is or was on the title, due to the marital rights law.

The applicant/occupant will not be considered a first-time home buyer until:

a. three (3) years from the date he or she stopped occupying the property as a principal residence or

b. three (3) years from the date of the quit claim deed.

(7) Non U.S. Citizens

Every applicant must be a U.S. citizen or a lawful permanent resident alien to be eligible for MHDC assistance. In addition, the subject property must be the borrower's principal residence and located within the State of Missouri. The borrower must also have a social security number.

MHDC will also provide a mortgage credit certificate to non-permanent resident aliens, provided:

a. Borrower occupies the property as his or her principal residence,
b. Borrower has a social security number, and
c. Borrower is eligible to work in the United States

B. Total Number of Occupants

For a person to be an eligible occupant of the household under the program, the occupant must occupy the residence as his or her principal residence at least 50% of the year and must be the borrower spouse or biological or adopted child. (i.e., dependents whose parents are divorced and, per the divorce decree, each parent has custody 50% of the time may be counted as an occupant in the residence.)

Dependents shown on tax returns may not be counted as a member of the household if such dependent does not occupy the residence as their principal residence.

Foster children are not counted as members of the household.

An unborn child may not be counted as a dependent.

C. Principal Residence Requirement

For the borrower to be an eligible borrower under the program, the borrower must intend to occupy the residence to be purchased as his or her permanent principal residence within 60 days after the closing date (90 days in the case of a mortgage loan for the purchase and rehabilitation of a residence).

A property will not qualify as a residence if it is primarily intended to be used in a trade or business. For purposes of the foregoing sentence, a residence more than fifteen percent (15%) of the total area of which is reasonably expected to be used primarily in a trade or business does not qualify. If a portion of the residence does contain a business, which occupies less than 15% of the total area, the borrowers may not deduct any portion of the home as a business expense (i.e., prorating the mortgage payment, taxes, insurance and utilities). Furthermore, a residence used as an investment property or a recreational home does not qualify.

Only such appurtenant land as is necessary to reasonably maintain the basic livability of the residence can be financed under the program. Such land may not include more than one building lot under applicable zoning regulations and must not provide, other than incidentally, a source of income to the borrower.

Whether appurtenant land is necessary to reasonable maintain the basic livability of the residence depends on the facts and circumstances of each case. Factors to be considered are:

1. Size of the lot in comparison with other residential lots in the area;
2. Customary non-business activities in the area which maintain the self-sufficiency of the household (e.g., gardening or raising of livestock for home consumption); and
3. The ratio of land value to total value as compared to the like ratio for other residences in the area.

MHDC has an imposed limit on acreage anything under 10 acres is acceptable.

In making a determination whether or not the property meets the principal residence requirement MHDC must review the borrower and property Seller's Affidavits as well as the residential appraisal report taking into account the location, structural and other characteristics of the residence. The following examples illustrate principal residence requirements:

Example (1): A contract to purchase a new residence from B. Since B is unable to move from the residence until one month after the closing date, A agrees to lease the residence to B for one month at a rent equal to the fair rental value. A applies for an MCC.

In light of the facts and circumstances in the case, the fact that A temporarily leased the residence to B does not prevent the residence from being considered as property that can reasonably be expected to be used as A's principal residence within a reasonable period of time after financing is provided.

Example (2): C contract to purchase a new residence located on two acres of land in town X. Town X has a zoning regulation which prevents the subdividing of any lot in that part of the town for use as a private residence into parcels of less than two acres.

In light of the circumstances in the case, the fact that the residence is located on two acres of land appurtenant to the residence does not prevent the entire property from being considered as property to be used by C as a principal residence.

Example (3): D contract to purchase a new residence located on 40 acres of land that D intends to farm in a town having no zoning regulation providing for a minimum lot size.

An MCC will not be issued in conjunction with any financing provided for the purchase of that portion of the property intended to be farmed as it will not be considered as financing provided for a principal residence. Principal residence within a reasonable period of time after financing is provided.

D. Limitation of Household Income

The gross annual household income shall be computed in accordance with the definition thereof and as provided in the gross annual household income worksheet (see Potential Borrower's Application Affidavit (form #315). The gross annual household income must not exceed the amounts specified from time to time in a MHDC Notice (such amounts are adjusted by household size and location of structure being financed).

<u>The Income limits set forth in a MHDC Notice are subject to change from time to time in accordance with the Tax Act as specified in a subsequent MHDC Notice</u>.

The purpose of MHDC's gross annual household income limit requirement is solely to establish the borrower's eligibility for an MCC and is not required to be used for purposes of credit evaluation. MCCs are considered a Special Credit Program under Regulation B of the Equal Credit Opportunity Act. Certified lenders are required to seek the income information necessary to determine that the gross annual household income does not exceed the Commission's limitation on income and shall require the borrower to execute a Mortgagor's Affidavit (form #335) relating thereto.
<u>Total Gross Annual Household Income</u> includes but is not limited to the following types of income:

1. Gross pay
2. Overtime

13. Welfare payments
14. Social Security benefits

3. Bonuses

4. Part-time employment

5. Dividends

6. Interest

7. Annuities

8. Pensions

9. Veterans Administration (VA) Compensation

10. Gross rental or lease income

11. Commissions

12. Deferred income

15. Disability payments

16. Alimony

17. Support payments

18. Public assistance

19. Sick pay

20. Unemployment compensation

21. Income received from trust or from business and investments

22. Any regularly occurring additional income from all sources (both taxable and non-taxable) including but not limited to earnings

Income exclusions include income from the following sources:

1. Full Time Student: A dependent who is taking courses at an accredited college/university and is considered a full time student within the meaning of that college/university, unless the student is a spouse or a part of the “major make up” of the household.

2. Foster Children: Income received for the care of foster children is not considered in determining eligibility under the Maximum Income Guidelines.

3. Food Stamps: Food stamps received are not to be considered in determining eligibility under the Maximum Income Guidelines.

The above exclusions are not taken into consideration for determining eligibility under MHDC’s maximum income guidelines UNLESS such income is taken into consideration in the credit underwriting of the loan.

E. Lenders Options for Verifying Income:

1. Alternative Documentation
2. Work-Number-For-Everyone
3. Third Party Verification of Income

Option One - Alternative Documentation

These guidelines are used to verify W2-reported income only. These guidelines are similar to the alternative documentation requirements in place for use with FHA, VA, USDA Rural Development or Fannie Mae loans. Lenders must also comply with any alternative documentation requirements of VA, FHA, USDA Rural Development or Fannie Mae if using alternative documentation for underwriting purposes.

Acceptable Documentation:

Under this option, the lender may elect to have the borrower provide, in addition to the last three years' federal tax returns:

- Certified copies of W2s for the most recent year,
- Certified copies of 30 days of detailed year-to-date paycheck stubs, and
- A processor telephone certification, which may be no more than 30 days old at time of closing. This form must contain the borrower's name, lender's name and address and identify the processor/contact that verified the information, employer name and address, business telephone number, show the date of contact, state employment dates.
- An additional certified copy of a paycheck stub dated within 30 days of closing will be required prior to closing to verify that the borrower's rate of pay has not increased.
- Pay check stubs must reflect overtime, commission, rate of pay, etc. as separate entries, and check stubs must be either computer generated or typed.
- **If borrower has changed jobs, and a W2 for their current job is not available, Alternative Documentation may not be used.**

If detailed check stubs containing year-to-date income are not available, this method may not be used.

<u>Calculation Method for Alternative Documentation</u>:

To utilize this method, the lender shall annualize the borrowers most recent check stub. Lender shall:

- Determine the rate of pay, and the pay period type: hourly, bi-weekly, semi-monthly or monthly.
- This rate shall be multiplied by the number of annual units for that type: 2,080 hours (units) for hourly, 52 units for weekly, 26 units for bi-weekly, 24 units for semi-monthly, 12 for monthly etc. This shall be the base rate. For example:

  $10 hourly = 2,080x10=$20,800 annually
  $600 weekly= 52x600=$31,200 annually
  $1400 bi-weekly= 26x1,400=$36,400
  $1800 semi-monthly= 24x$1,800=$43,200

- When using this method to determine first place program eligibility, income shall be the greater of the previous years' W2 income or the current years' annualized income from current paycheck stubs.

Overtime, Bonuses, Commissions, etc.:

If overtime, commissions, bonuses or any type of additional pay is disclosed on the paycheck stub, the lender shall annualize this income as well.

Some lenders include an additional request form with the Verification of Employment request regarding additional income earned. Following is a sample of that form:

> To Whom It May concern:
>
> Name of Borrower:_
>
> The above referenced borrower has applied for a mortgage loan utilizing the Missouri

Housing Development Commission (MHDC) first time home buyer program. Because of this type of financing, there are income limits to follow; we must break down all income by type for the past twelve (12) months.

Please complete the following:

Month (Print or Type In Year)	Base	Overtime	Bonus	Commission	Other
January	$____	$____	$____	$____	$____
February	$____	$____	$____	$____	$____
March	$____	$____	$____	$____	$____
April	$____	$____	$____	$____	$____
May	$____	$____	$____	$____	$____
June	$____	$____	$____	$____	$____
July	$____	$____	$____	$____	$____
August	$____	$____	$____	$____	$____
September	$____	$____	$____	$____	$____
October	$____	$____	$____	$____	$____
November	$____	$____	$____	$____	$____
December	$____	$____	$____	$____	$____

Is overtime paid at time and one-half? __

Describe Other Income:

____

____

Signature: ____________________ Title: ________________ Date: _

MHDC may request additional documentation at a later date.

I apologize for any inconvenience this may cause. Your help and assistance in this matter are appreciated.

Thank you in advance.

Loan Processor

Calculation Example:

Three person household. Qualifying non-targeted income: $68,655
Date of paycheck stubs: June 30, 2013

Applicant	**Borrower**	**Co-Borrower**
Full Time Job	**Yes**	**Yes**
Start of Employment	**6/30/2004**	**2/18/2004**
Salary	**$450 weekly**	**$15 hourly**

Date of Next Increase	**Not provided**	**Not provided**
Date of Last Increase	**Not Provided**	**Not Provided**
YTD Base	**$11,700**	**$15,600**
YTD Comm./OT	**0**	**$125**
2012 Income	**$22,750**	**$35,360**

All other forms of income (SSI, disability, child support, etc.) would be added to this figure on the Income Calculation Worksheet.

Option Two - "The Work Number for Everyone"

MHDC will accept TALX Corporation's verification providing the following is forwarded to MHDC in lieu of the verification of employment when this service is used:

1. The form must be a computer-generated or fax form indicating that it came directly from TALX, "The Work Number for Everyone" program. MHDC must receive the full version, indicating salary and YTD and prior year earnings.
2. The form must carry a certification added to it by the lender, as follows:

We hereby certify that this form was generated by the Work Number for Everyone program and is being submitted as we received it:

(Name of Lender)

Date: ____________________ By: _________________________________

(Typed Name of Person executing form)

The maximum fee charged to the buyer or seller by the lender cannot exceed $15, which is the maximum allowed by HUD for this service. Other verification companies may be used, but the forms submitted must contain at least the information contained on a standard Fannie Mae Verification of Employment form.

Option Three -Third Party Verification of Income

Calculating Total Gross Annual Household Income

Salaried Employees

Use the current base earnings, whether hourly, weekly, or monthly, etc. and project forward for a full 12-

month period**.**

If an applicant receives a pay increase prior to closing, the pay increase must be included in the base earnings.

If an applicant receives a pay increase and the mortgage lender closes the loan prior to the increase taking effect, then the increase would not be counted for income eligibility.

Irregular Income

Overtime, bonuses, commissions, part-time pay and unemployment compensation will be projected using the exact amount of all such pay received in the most recent 12-month period. (This does not mean a calendar year.)

This income must be counted, even if the employer states it is not likely to continue.

If the loan closes prior to April 15, it is acceptable to use the overtime, bonuses, commissions, part-time and unemployment pay earned for the previous calendar year.

If the loan closes on or after April 15, employers must provide the most recent 12-month period.

If an applicant has not been on the job for a full twelve months, determine the amount of overtime, bonuses, commissions, part-time and unemployment income earned within the period of time indicated. Divide the earnings received by the actual period of time worked. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division.

NOTE: If an applicant is far below the MHDC Maximum Income Limit and it is easily determined that under no circumstance would it be possible to exceed the MHDC maximum limit, an exact 12-month breakdown is not required. **However, the irregular income must be included in the calculation for MHDC purposes.**

CAUTION: It has been brought to the attention of MHDC that, in some cases, the employer's records do not reflect the full amount of overtime received. The employer, when paying the applicant for overtime, may report part of the overtime in the base pay.

EXAMPLE: An applicant receives base pay of $10.00 per hour and worked forty-four hours.the employer paid the employee:

Pay Type	# of Hours	Rate	Amount
Regular Hours	44.00	$10.00	$440.00
Overtime	4.00	$ 5.00	20.00

In this example, the actual amount of overtime the applicant received is $60.00. The employer reported $20.00.

Seasonal Type Workers (i.e., construction workers)

Use the exact income received in the most recent 12-month period (this does not mean a calendar year), then project anticipated income.

If an applicant has not been on the job for a full 12 months, determine the amount of income earned within the period of employment. Divide the earnings received by the actual period of time worked. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division.

EXAMPLE: Total earnings are $17,653 for a period of 8 months, paid monthly.

$17,653 / 8 = $2,206.62

$2,206.62 x 12 = $26,479.50

$26,479.50 is the projected annual income for qualifying purposes.

Self-Employed Applicants

Use net earnings from the most recently filed tax return. Deductions in connection with the business are allowable; however, all depreciation must be straight line depreciation. If net income is a loss, the amount of income would be -0-.

NOTE: If the loan closes after April 15, the previous year's federal income tax return will be required (e.g., loan closed April 16, 2019, the 2018 return will be required.)

If an applicant has not been self-employed for a full twelve months, determine the amount of earnings within the period of self-employment. This would be done by a P&L statement from a third party accountant. Divide the earnings received by the actual period of time worked. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division. Use the projected income for qualifying. Verify income per standard underwriting procedures for this situation, interim financial statements, etc.

Business Income from Partnerships, S-Corporations

In addition to income received from the business, make certain to include the income being retained in the business from the most recently filed corporate tax return. If the applicant owns the business 100%, include 100% of the business profit being retained in the company. If there are four equal partners, count 25% of the business profit being retained in the company for this applicant's qualifying income.

NOTE: If the loan file closes after the fiscal year ends for the corporation, the new return will be required.

If an applicant has not been in business for a full twelve months, determine the amount of earnings for the appropriate number of months. Divide the earnings received by the actual period of time in business. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division. Use projected income for qualifying.

Military Personnel

You must include any housing allowance, food allowance, etc. that is paid to the applicant that is not paid as a reimbursement.

Pastors & Ministers

You must include any housing allowance, food allowance, etc. that is paid to an applicant that is not paid as a reimbursement.

Child Support

Use total amount of child support received within past 12 months. A printout from the court is sufficient to show exact amounts of support received within past 12 months. In lieu of the printout, a copy of the divorce decree is acceptable.

If it is not paid through the courts, but the divorce decree states an amount, or if the applicant receives less than the amount stated in the divorce decree, a notarized statement from the applicant stating exact earnings will be acceptable.

If an applicant has not received child support for a full 12 months, determine the amount of child support earned for the appropriate number of months. Divide the earnings received by the actual period of time child support has been received. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division. Use projected income for qualifying.

If the applicant receives no support for a minor child, MHDC Form #323 must be signed and notarized, stating that the child receives no child support, SSI or SSA, disability, etc.

Car Allowance

If the car allowance is a reimbursement, the amount received would not be counted for MHDC purposes. However, if an applicant/occupant receives a car allowance without expenses to offset the allowance, it must be counted as income.

Unemployment Compensation

If an applicant has a job where he or she is consistently laid off due to weather conditions, model changes, etc., the unemployment compensation earned within the past 12 month period must be included in the calculation of income.

If an applicant has not been on the job for a full 12 months, determine the amount of unemployment compensation earned within the period of time of employment. Divide the regular earnings received by the actual period of time on the job. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division. Add unemployment compensation to regular income. Use projected income for qualifying.

Teachers

The contract in effect at the time of loan closing will be utilized. In addition, any supplemental contracts or extra duty pay must also be counted. Any summer employment must be counted as well.

Miscellaneous Criteria (applicable regardless of calculation method used)

Layoffs Due to Illness or Injury

The period of time that an applicant was not at work due to an illness or injury may NOT be counted to achieve a 12 month history for the purpose of overtime, bonuses, commissions, part-time employment, unemployment, seasonal work, etc.

To properly calculate income in this situation, determine the actual period of time worked within the 12 month period. Divide the earnings by actual period of time worked. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division. Use projected income to qualify.

Quitting a Job after Application

If an applicant quits a job after the application has been taken, the income from that job must be used for MHDC purposes. **An applicant may not quit a job for purposes of qualifying for an MHDC loan.** The exception is:

1. Applicant quits a full time position to accept a new full time position, or
2. Applicant quits one or more part-time positions to accept a full-time position.

<u>Applicants Close to the MHDC Maximum Income Limits</u>

When the applicant is close to the maximum income limit and the employer will not provide the exact 12 month breakdown, the lender may NOT:

1. Use an average of more than twelve months, or
2. Attempt to project the income by taking previous year(s) earnings, dividing by twelve and multiplying by the number of months needed to achieve twelve months' earnings.

The lender may count all of the income earned in a period of time (if more than twelve months) and treat it as if it was earned within the twelve month period and **if** the applicant is still below the maximum an exact twelve months would not be required. However, if the above cannot be accomplished and the employer cannot or will not break out the information, the mortgage loan will be denied.

Treatment of Assets

Any liquid asset of $5,000 or greater will need to be multiplied by 2% of the annual interest (which includes checking, savings, etc.) unless the funds are being applied toward the purchase of the property.

Exception: 401K, stock, etc. are excluded as long as consistent withdrawal transactions are not taking place.

Example: Checking account balance: $10,500 x 2%= $210 (this amount would be added to the borrowers annual income)

Prior Approvals on Calculating Total Household Income

If an applicant is close to the maximum income guidelines, the lender may request a prior approval from MHDC. To request prior approval, lenders should submit the Request for Prior Approval (Form #321), and the appropriate information detailed on this form for the type of prior approval requested. Such as:

1. The number of persons intending to occupy the residence,
2. The maximum income limits for the area where the property is located,
3. Details regarding all persons who intend to occupy the subject property and execute the note, whether employed or receiving other forms of income,
4. If overtime, commissions or bonuses are being used, the lender must set out details of exactly what was used and a schedule of income from pay stubs or other documentation used for arriving at the figures.

It is very difficult for MHDC staff to review a few pieces of paper and understand the entire situation. All applicable documentation including the current loan application must be included with the Form #521. This form will indicate what documentation must be included.

MHDC staff will not accept documents that do not provide background information and for which no income charts, etc. have been calculated. MHDC will either APROVE or DISAPROVE the file based on the information submitted to MHDC.

Requests will be accepted only if Form #321 and certifications are executed by a person who the lender has authorized to sign, and such authorization has previously been sent to MHDC.

MHDC requests that all prior approvals allow at least a 48-hour review time.

Form #321 and all documents referred to in the prior approval form. Please send the current loan application so that our staff will have access to all information.

ADDITIONAL INFORMATION TO CALCULATE TOTAL HOUSEHOLD INCOME

The following rule must be applied to the preceding methods for calculating total gross annual household income at all times.

If the income figure for credit underwriting is higher than the projected income for MHDC, the income used for credit underwriting must be used.

Be certain to indicate on the Gross Income Calculation Worksheet that the income for credit underwriting purposes was higher than income calculated for MHDC purposes.

The exception is if you are using the income of a co-signer for qualification purposes. If the co-signer meets the definition found on page 34, the co-signer's income need not be included for MHDC purposes.

After a borrower has made loan application, he or she may not quit a full time or part-time job in order to qualify under the maximum income guidelines.

NOTE: The calculation method for purposes of determining eligibility for the Mortgage Credit Certificate Program is a different process than that used for credit underwriting. The calculations are for two entirely different purposes.

Acquisition Cost

The total acquisition cost of the residence being financed by a mortgage loan for which an MCC is to be issued by MHDC must not exceed the amounts specified from time to time in a MHDC notice.

The principal mortgage amount must not exceed the amounts specified from time to time in a MHDC notice.

<u>The acquisition cost limits set forth in any MHDC notice are subject to change from time to time as specified in a subsequent MHDC notice</u>.

Existing construction is defined as a dwelling which has been previously occupied as a residence. New construction is defined as a dwelling which has recently been constructed and has never been occupied as a residence.

Acquisition cost means the total cost of acquiring a residence from the property seller as a completed unit.

(a) Acquisition cost includes:

(1) All amounts paid either in cash or in kind by the borrower (or a related party for the benefit of the borrower) to the seller (or a related party or for the benefit of the seller) as consideration for the residence. Such amounts include amounts paid for items which are fixtures under the law of the State, but not for items of personal property which are not fixtures under the law of the State. For purposes of the MCC Program, stoves, refrigerators, dishwasher, microwaves, light fixtures, curtain rods and wall-to-wall carpeting will be treated as fixtures in all cases.

Other items which are not specially adapted for use with the residence and are less essential to a residence than a stove may be considered personal property, e.g., washer, dryer, riding lawnmower.

(2) If the residence is incomplete or unfinished, the reasonable cost of completing the residence, whether or not the cost of completing construction is to be financed with the mortgage loan. The certified lender must provide MHDC with documentary evidence from a qualified contractor listing in detail the items and costs of work required to fully complete the residence.

"Incomplete or unfinished" means (i) that occupancy is not permitted under state or local law, or (ii) that the residence lacks fixtures or architectural appointments normally included in the design of any house of the general type and style of the residence or needed to provide adequate living space for the family members who intend to occupy the residence. The cost of completing the basement of a "hillside ranch" or the second floor of a "cape style" dwelling must be included in the acquisition cost only if the additional space is presently required for bedrooms or other basic living space or if the borrower intends to contract for completion of the additional space within two years of the closing date. Although neither a garage nor any other out building is necessarily a part of a residence, the cost of completing the same must be included in the acquisition cost if the design of the residence calls for a garage or an outbuilding. For instance, a dwelling sold with siding not completely installed on one wall will be deemed designed for the inclusion of an outbuilding or garage.

(3) The original cost of land (rather than the appraised value of the property) which has been owned by the borrower for less than two (2) years prior to the date on which construction of the residence begins.

(4) The capitalized value of ground rent if the residence is purchased subject to ground rent.

(b) Acquisition cost does not include:

(1) Usual and reasonable settlement and financing costs. Settlement costs include title and transfer costs, title insurance, legal fees, survey fees and similar costs. Financing costs include credit reference fees, appraisal expenses, or other costs of financing the residence. However, points paid by the property seller shall be included in the acquisition cost. Where the borrower pays more than a pro-rata share of property taxes, for example, the excess is to be treated as part of the acquisition cost.

(2) The unpaid value of services performed (sweat equity) by the borrower or members of his family (which includes only the borrower's brothers and sisters [whether by whole or half-blood], spouse, ancestors and lineal descendants) in constructing or completing the residence. The borrower must not receive any portion of the sweat equity in cash. However, the cost of the materials and work performed by subcontractors (whether or not related to the borrower) must be included in the acquisition cost.

(3) The original cost of land (rather than the appraised value of the property) which has been owned by the borrower for at least (2) years prior to the date on which construction of the residence begins.

(c) The following examples illustrate the determination of acquisition cost:

Example (1): A contract with B, a builder of single family residences, for the purchase of a residence. Under the terms of the contract, B will deliver a residential unit to A that contains an uncompleted recreation room and an unfinished third floor. Normally, a completed recreation room and finished third floor are provided as part of the residence built by B. The contract price for the residence is $45,000. At the same time, A contracts with C, an affiliate of B, to complete the recreation room and third floor for a contract price of $10,000. C will perform this work after A receives title to the unit from B.

The acquisition cost of A's completed residential unit is $55,000, which represents the contract price of the residence plus the cost of completion of the recreation room and third floor.

Example (2): E owns a single family residence which E has listed for sale. D contract to purchase E's residence and the contract provides for a selling price of $60,000. D also agrees to pay an unsecured debt in the amount of $5,000, which E owes X, a local bank. D further agrees to purchase from E the patio furniture located in E's residence, for $500, an amount equal to the fair market value of such property. D also agrees to purchase the light fixtures, curtain rods, and wall-to-wall carpeting for a fair market value price of $700.

The acquisition cost of D's completed residential units are $65,700. Such amount includes the $5,000 unsecured debt paid off by D as well as the $700 paid for the light fixtures, curtain rods and carpeting as provided under the definition of acquisition cost. The acquisition cost does not include the $500 paid for the refrigerator because that is not deemed to be a fixture under this guide.

To determine the acquisition cost for each MCC request processed under the program, the certified lender must have the borrower and the property seller complete and sign the Potential Borrower's Application Affidavit (Form 315) and Borrower's Mortgagor's Affidavit (Form 335) and Property Seller's Affidavit (Form 325).

MHDC must determine that the acquisition cost does not exceed the applicable acquisition cost limits indicated above. As part of its review, MHDC must check the acquisition cost to make certain the borrower does not pay more for the property than it is worth.

F. Residence Eligibility Requirements.

To qualify for the MCC Program, the residence to be purchased must meet the following definitions:

1. Residence – real property and improvements thereon consisting of:

    a. A single-family detached building,
    b. Row House,
    c. Townhouse,
    d. ½ Duplex, or
    e. Condominium.

2. To be owned by the mortgagor that:

a. Can reasonably be expected to become the principal residence of the mortgagor within a reasonable period of time (not to exceed sixty (60) days after the execution of the applicable mortgage),

b. The mortgagor shall have agreed to reside in the principal place of residence, as long as it:

- Is located within the program area,
- Is an existing residence or a new residence, as applicable

G. HUD-Owned Properties

HUD-owned properties are acceptable; however, an appraisal is also required. In lieu of the appraisal, a HUD-performed certification of value is acceptable. If a Certification of Value is used, sales price and loan amount may not exceed certified value. Either HUD or their appointed representative must sign the Seller's Affidavit form #325.

H. Flood plain zones:

The residence cannot be located within a 100-year flood plain.

(Effective 5/20/94). ***This means no portion of the property being purchased can be located within the 100-year flood plain, not just that the dwelling may not be in the flood plain. An elevation certificate will not affect eligibility.***

Zone	Definition
A	An area inundated by 100-year flooding for which no base flood elevations have been established.
AE	An area inundated by 100-year flooding for which base flood elevations have been established.
AO	Areas of 100-year shallow flooding where depths are between one and three feet; average depths of inundation are shown, but no flood hazard factors are determined.
AR	An area inundated by flooding, for which basic flood elevations or average depths have been determined.
AH	Areas of 100-year shallow flooding where depths are between one and three feet; base flood elevations are shown, but no flood hazard factors are determined.
ANI	An area that is located within a community or county that is not mapped on any published firm.
A99	**An area inundated by 100-year flooding for which no base flood elevations have been established. Areas of 100-year flood to be protected by flood protection system under construction**
B	Areas between limits of the 100-year flood and 600 year flood; or certain areas subject to 100-year flooding with average depths less than one foot or where the contributing drainage is less than one square mile; or areas protected by levees from the base flood.
C	Areas of minimal flooding; outside the limits of the 100-year and 500-year flood.
D	Areas of undetermined, but possible flood hazards.

X Areas of 600-year flood; areas of 100-year flood with average depths of less than one foot or with drainage areas less than one square mile; and areas protected by levees from 100-year flood.

X Areas determined to be outside 500-year flood plain.

Therefore, if a property is located within Zone A, AE, AO, AR, AH or A99, the property would not be considered an eligible property. For properties in Zone D, or in areas that have not been mapped, the lender must obtain prior approval for the property from MHDC. The Lender must provide a signed letter from a local government official, on letterhead, stating he or she can verify, without hesitation, that the property did not flood in 1993. This must be done before loan closing. MHDC requests at least a 48 hour review time for all prior approvals.

Several of our lenders have experienced difficulty in obtaining a letter from City and County governments to satisfy our requirements on Flood Zone D. Use of the language indicated in the following letter may assist you in obtaining their cooperation.

Note: Flood zones that have an "*" need a letter of explanation from the flood company.

Issuing Government Letterhead

Date

TO: Missouri Housing Development Commission

FROM: Issuing Government

RE: Subject Property Address

I, name, official title/office, am familiar with the property indicated above, I state, without hesitation, that this property did not flood in 1993 nor has it flooded since then. I understand that I am not being asked to comment on the possibility of future flooding, or on any measures that may have been taken that may affect future flooding. This statement is made based upon my personal experience, and is not provided as a function of my official office. By providing this letter, neither I nor my official office are accepting any liability should any flooding occur in the future.

This letter is provided only to comply with MHDC requirements for areas that do not participate in the Federal Flood Zone Mapping program.

I. Mobile Homes:

The residence cannot be a mobile home, which is defined as follows:

"A home that is transportable in one or more sections built on a permanent chassis."

The exception is a "double-wide" mobile home that meets ALL of the following criteria:

(1) Must be placed on a permanent foundation (no skirting),
(2) Must be taxed as a single family residential home on the real estate tax rolls, and
(3) Must be insured as a regular single family dwelling under an applicable Section of the act by HUD-FHA, RD or VA.

J. Properties That Have Been Inherited

An applicant's interest in a residence that has been inherited will not be taken into account unless the applicant has occupied the inherited property as their principal residence within the past three years. However, a mortgagor may not purchase a residence from the estate of a deceased relative, if such mortgagor is entitled under state law to inherit any interest in such residence upon final disposition of the estate, the program may not be utilized to "buy out the interest" of other owners of an inherited property.

K. Buyers Paying for Repairs

Buyers may not pay more for the property than the appraised value. Therefore, if the contract sales price and the appraised value are the same, the buyer may not pay for any repairs that are required on the appraisal. This includes repairs which were required as a result of an inspection required by the appraiser. The exception is if the buyer is paying less than the appraised value and the repairs plus the sales price does not exceed the appraised value.

NOTE: **If you are using a title company or escrow closing company, this should be a standard item on your instructions to the closer. Often this is not known until closing (i.e., amendment to contract produced at closing). The paying off of special assessments by the buyer can also be a problem if the special assessment payoff plus the contract price exceeds the appraised value. Lenders should always give specific instructions to the title company if the title company is doing the loan closing. Such instructions should include (but not be limited to) the fact that you are sending a copy of the real estate sales contract. No further amendments to the sales contract may be used unless approved by the lender. Also remember to spell out allowable charges.**

Section 5 - Mortgage Loan Requirements

(a) Eligible mortgage loans may be made only to persons who did not have a mortgage (whether or not paid off) on the residence securing the mortgage loan at any time before the execution of the mortgage loan. Mortgage loan proceeds may not be used to acquire or replace an existing mortgage or debt for which the borrower is liable or which was incurred on behalf of the borrower. For purposes of this new mortgage requirement, a Mortgage Credit Certificate used in connection with the replacement of construction period loans, bridge loans or similar temporary initial financing (which has a term of 24 months or less) shall not be treated as being used to acquire or replace an existing mortgage.

(b) Before the closing of a mortgage loan, MHDC must examine the Borrower's Affidavit and related submissions including (i) the borrower's income, in order to determine whether the borrower has met the new mortgage requirement or whether such examination discloses any existing mortgage or debt.

(c) Subsequent to the closing date, should the certified lender find that the borrower is repaying or refinancing an existing mortgage or debt with the proceeds of the mortgage loan, the certified lender is required to promptly notify MHDC and to take such actions with respect to the MCC as MHDC may thereafter request.

(d) Applications for MCCs for loans with rates or fees determined by MHDC to be excessive will not be approved.

Permissible fees and points which the lender may collect are as follows:

(1) A MCC fee equal to one percent (1%) of the original loan amount, payable to MHDC by a wire or check;

(2) Origination fees, consistent with current market rates;

(3) Discount fees, consistent with current market rates;

(4) The actual amounts expended for credit reports and verifications, home inspection fee, tests/inspections or treatments, flood letter, survey, title examination and opinion, title insurance, any required title policy endorsements, mortgage insurance premium, attorneys' fees, appraisers' fees, filing and recording fees, provided such amounts are not more than the amount which would be paid by the applicant in financing offered by the lender in its usual course of residential mortgage lending; and

(5) The actual amounts paid or escrowed for taxes, insurance and mortgage insurance premiums.

No other fees, charges or other remuneration will be received directly or indirectly by the lender in making any mortgage loan unless specifically authorized in writing by MHDC.

The following fees may **NOT** be charged:

1.	Document Preparation Fees	
2.	Commitment Fees	Not allowable under the MCC program except as set out above.
3.	Settlement/Closing Fees	These fees, when paid to a third party, are acceptable. However, the maximum allowable loan closing fee paid by the borrower or any amount paid on behalf of the borrower is $350.00.
4.		Title (Search) Insurance

2. Prohibited Mortgage Loans.

   An MCC cannot be used in conjunction with a mortgage revenue bond loan.

3. No Interest Paid to Related Persons

   No interest on the mortgage loan can be paid to a person who is a related person to the borrower, as the term related person is defined. The certified lender must obtain from the borrower an affidavit that a related person does not have, and is not expected to have, an interest as a creditor in the certified indebtedness amount. The definition of related person is further defined in Appendix C.

A. MCC Submission Package

To avoid cancellation of the MCC reservation, the certified lender must send to MHDC at least 5 business days prior to the closing date the complete MCC submission package. An MCC submission package submitted to MHDC for a conditional commitment must contain the documents listed below. Each document must be completed and signed where appropriate. All documents must be dated within 60 days of the submission date to MHDC. Original documents should be sent to MHDC, except as otherwise indicated. Reasonable efforts must be undertaken to verify the information given. An MCC submission package includes the following documents arranged in the order listed, with the first item on top:

1. MCC Application Package Checklist (Form #304);

2. Original executed Potential Borrower's Application Affidavit (Form #315);

3. Copy of executed Purchase and Sales Contract(s), and all amendments thereto;

4. Copy of executed Mortgage Loan Application;

5. Copy of verifications of employment for all persons intending to occupy along with Form #390;

6. Copy of certified lender commitment to borrower(s). The certified lender commitment must contain the interest rate, term, fees, amount of loan approval, expiration date and other documents as may be needed. (The expiration date must provide sufficient time for MHDC approval and closing.);

7. Original Mobile Home Certification (Form #385) (if applicable)

8. Original Co-Signor Affidavit (Form #375) (if applicable)

9. Copy of flood certification letter.

10. Copy of loan estimate.

B. Commitment for a Mortgage Credit Certificate

1. Issuance
MHDC will review each MCC submission package for acceptability and completeness. All MCC submissions will be kept on file at MHDC. MHDC must be in receipt of a complete, documented MCC submission package prior to the closing date and the expiration date of the reservation.

2. Extensions
In regard to any conditional commitment which is outstanding and will not close prior to the commitment expiration date, a request for extension may be requested prior to the commitment expiration date.

Borrowers do not have an automatic right to an extension.

The borrower and certified lender should understand that the borrower's gross annual household income must be within the MCC program income limits as of the closing date.

C. Changes Prior to Closing

The certified lender must notify MHDC of any changes that affect the conditions under the conditional commitment was issued.

1. Changes in the Borrower's Financial or Marital Status after Issuance of Conditional Commitment and Prior to Closing

The eligibility of a borrower for an MCC is based upon the current gross annual household income of the borrowers and all other persons expected to reside in the residence, and MHDC will issue a conditional commitment, provided that the MCC program has not been terminated, based on facts as they exist or as represented to MHDC as of the date of the conditional commitment. Changes in the borrower's financial status occurring during the reservation period may affect the validity of the conditional commitment. Although it does create certain practical problems, the determination of compliance with the income limits made and substantiated at the time of the loan application or commitment must be updated by a certification of the borrower executed at the loan closing certifying to the continued compliance with the income limits. If the borrower marries after issuance of the conditional commitment and prior to closing, the new spouse must satisfy the prior home ownership requirements contained in the Potential Borrower's Application Affidavit (Form #315) and the Borrower's Closing Affidavit (Form #335) and must execute these forms. The certified lender must obtain the original affidavits and forward them to MHDC in a timely manner.

2. Changes in Home Ownership Status, Acquisition Cost and Amount of Mortgage Loan after Issuance of Commitment and Prior to Closing

The conditional commitment shall be revoked, if the borrower acquires a present ownership interest in a principal residence prior to the closing date.

Additionally, the conditional commitment shall be revoked, if the total acquisition cost of the residence purchased in connection with the MCC increases so as to exceed the acquisition cost limitations set forth in this operations manual. However, if the amount of the mortgage loan increases between the time of reservation and closing, thereby causing an increase in the certified indebtedness amount, MHDC will honor increases on a discretionary basis, and only if MHDC has the credit authority to accommodate the increase.

3. Other Changes in Circumstances after Issuance of Conditional Commitment Prior to Closing

The conditional commitment is issued in reliance upon the Borrower's Affidavit (form #335), the Seller's Affidavit (form #325), and the Lender's Closing Certification (form #320) attesting that the requirements necessary for issuance of an MCC have been met.

The certified lender must immediately notify MHDC in writing of any change in the circumstances upon which the conditional commitment was issued. If any other changes of the circumstances upon which the conditional commitment was issued occur so that the borrower is no longer eligible for the MCC, the conditional commitment will be revoked.

Section 6 - Loan Closing Requirements

The mortgage loan must be closed within the reservation period. The loan closing submission package containing the following documents must be uploaded to MHDC within 15 days after the closing date and prior to expiration of the conditional commitment, in the following order:

1. MCC Closing Package Checklist (Form #305);

2. Check in an amount equal to one percent (1%) of the amount by which the actual certified indebtedness amount exceeded the certified indebtedness amount estimated at the time of submission of the MCC submission package, payable to "Missouri Housing Development Commission". (May not be a personal check; must be a wire or a certified check);

3. Original executed Mortgagor's Closing Affidavit executed by Borrower (Form #335);

4. Original executed Mortgage Lender Closing Certificate (Form #320);

5. Original executed sellers affidavit executed by the seller (Form #325);

6. Typed final loan application;

7. Copy of warranty deed;

8. Original executed Potential Recapture Tax executed by Borrower (Form #355);

9. Copy of Mortgage Loan Closing Settlement Statement, signed by borrower(s); and

10. Copy of executed first mortgage loan Note.

All certified lenders will be responsible for closing loans they originate. This means that all certified lenders will be responsible for the MCC documents of all buyers and sellers for home loans originated by them. However, a closing agent such as a title company or escrow closing company may be used.

1. The home mortgage must:

    a. be held in a fee simple title;

    b. is secured by a mortgage creating a first lien on a residence which is located within the program area;

    c. be fully documented and underwritten in accordance with prudent industry standards;

    d. be made for the purpose of purchasing the residence and not for the purpose of refinancing or replacing any existing loan on any such property other than a construction loan or similar temporary financing;

    e. have payments which are due on the first day of each month,

2. The home mortgage must NOT:

    be made to any of the officers, directors or principal shareholders of the Lender, any of the officers or directors of the Trustee or to Commissioners or executive officers of MHDC.

3. The mortgage loan may be any type of loan available with the exception of mortgages with balloon balances.

   The lender must use the appropriate Note and Deed of Trust form as required by the mortgage loan insurer or guarantor.

4. Co-signors are acceptable if acceptable for the type of loan being utilized.

   Co-signors sign only the Note and the MHDC Form #375 (Co-Signor Affidavit). The word "co-signor" must be typed and appear on the Note.

   The co-signor affidavit with signature and notary seal must accompany your package to MHDC.

   Co-Signors:
   1. Do not and cannot live in the property.
   2. Do not sign the borrower's affidavit.
   3. Do not submit their tax returns to MHDC.
   4. Do not include their income for purposes of meeting MHDC maximum income limitations.
   5. Do not and cannot take title.

   Co-Borrowers must live in the property and their income must be included in the calculation of total projected household income for MHDC purposes.

   Co-Borrowers:
   1. Must be a first-time home buyer.
   2. Must execute the borrower's affidavit.
   3. Must include their income for the purpose of meeting MHDC maximum income limitations.
   4. Must occupy the property as their principal residence, for the duration of the tax-exempt bond loan.

5. Power of Attorney (POA) – for the execution of MHDC documents.

   The seller's affidavit, when executed by an attorney-in-fact, must adhere to all requirements that would apply if the seller themselves were signing.

   It is the lender's responsibility to ensure that good title passes to the buyer when a Power of Attorney is used. Effective January 15, 2005, MHDC will no longer require prior approval of Powers of Attorney when used by the seller. In all cases, a Power of Attorney may only be used if the same POA was utilized to execute the real estate contract.

   Use of a Power of Attorney for a buyer is not acceptable under any circumstances, except active duty military personnel stationed outside of the continental United States. In this case, a Power of Attorney issued by the Judge Advocate Generals' office will be acceptable and must be prior approved by MHDC.

6. A minor (under the age of 18) in the State of Missouri, when married to an adult, becomes an adult for the purpose of real estate laws in Missouri and can own real estate.

   A minor cannot be held liable on a note or security agreement regardless of marital status.

   In these cases, the minor will <u>not</u> sign the note, but will sign all other Commission documents. The minor's name will be on the title.

7. Mortgagors are not required to pay their own prepays.

A. Escrowing for Repairs

MHDC documents recite that all funds have been disbursed.

The IRS rules do not recite any provisions for escrows. The lender should use common sense when agreeing to an escrow and all escrows must be weather related.

In addition, a minimum of two bids should be received by the lender and the lender must escrow a minimum of 1.5 times the highest bid.

All escrows for repairs should be prior approved by MHDC

B. FHA 203(k) Loans

It is acceptable for FHA 203(k) loans to be included in this program. All regulations in accordance with HUD Handbook 4240.4 Rev-2, and any subsequent changes or mortgagee letters will be followed, with the exception of the following:

1. **Borrowers must occupy the property within 60 days of loan closing if the rehab will not prevent occupancy; otherwise, within 30 days of completion.**
2. **Rehab must be completed within 180 days and final disbursement and all inspections completed prior to final closing date of the bond issue.**
3. **Discount fees approved by MHDC may not be included in the loan amount.**
4. **Additional discount fees may not be included in the loan amount.**
5. **Lenders may charge a supplemental origination fee of $350**.

C. Relocation Companies

Relocation companies may not sign the seller's affidavit (Form #325) as a power of attorney. The only time a relocation company may sign the seller's affidavit is when they take title and pass title to the MHDC borrower(s) by a warranty deed.

D. Underwriting

NOTE:
MHDC does not participate in the underwriting process. Any underwriting questions should be referred to your staff underwriter.

Lenders may utilize a contract underwriter. The fee for this service is an eligible closing cost. In the event a lender does not have the capacity to underwrite FHA or VA loans, these loans may be underwritten on a correspondent basis with any other lender. Fees for this service are an eligible expense, subject to MHDC maximums, and should be negotiated by the originating lender.

E. Timely Delivery

MHDC may, at its sole discretion, remove a lender from the MCC Program if delivery of files is consistently late, and documents are regularly unacceptable.

Section 7 - MCC Loan Closing Documents

Please refer to Section 10 for MCC Loan Closing Documents.

Lenders are not permitted to retype these documents or make any corrections or additions to the documents. Hand-printed documents will not be accepted.

Buyers and sellers are recommended to sign documents in blue ink in order to simplify the verification of the authenticity of the documents.

MCC Documents to be signed at the time of loan application.

The following MCC documents are to be signed at the time of loan application, or as soon as it is determined that the applicant is applying for an MCC:

A.	Form #315	Potential Borrower's Application Affidavit
B.	Form #350-1 & Form #350-2	Waiver of Marital Rights Affidavits (if applicable)
C.	Form 385	Mobile Home Certification (if applicable)
D.	Form 375	Co-Signor Affidavit (if applicable)

MCC Documents to be signed at the time of loan closing.

The following MCC documents must be signed at the time of loan closing:

A.	Form #335	Borrower's Affidavit
B.	Form #325	Sellers Affidavit
C.	Form #320	Mortgage Lender Closing Certification
D.	Form #355	Notice of Potential Recapture Tax

Lender's Certificate (Form #320).

For clarification purposes, on Page 2 of form #320 (Mortgage Lender Initial Certification), Item number eight, the only time the lender would complete this paragraph is in the event the lender has been unable to satisfy itself as to the truth of the statements made by the mortgagor.

Form #315 (Potential Borrower's Application Affidavit) states:

I have not and will not have held any present ownership interest in a principal residence at any time during the three year period prior to the closing date.

In the event the Lender doubts this statement, "a qualified employee of the Lender would examine the tax, assessment or deed records of (a) ____________ County and (b) the Mortgagor's last county of residence if different than above, for the purpose of determining whether any property owned by the mortgagee in either of said counties during the three-year period . . . "

In the event the above actions were taken by the lender, the name of the county for which the lender checked the records would be placed into this blank.

Otherwise, this blank should be not be completed.

Seller's Affidavit (Form #325)

All parties involved in the sale of the subject property must sign the form #325 (Seller's Affidavit).

If the property is in an estate and a personal representative/executor has been named, the personal representative/executor will sign the seller's affidavit.

If a husband and wife are selling the subject property, both must sign the seller's affidavit. If a spouse waives marital rights or signs a quit-claim deed prior to closing, he or she must also sign the seller's affidavit.

Each person who signs the warranty deed must sign the seller's affidavit. This includes all spouses of individuals holding title.

In the event that there is not a seller of the residence (i.e., the applicant owns the lot/land and performs the duty of a contractor), a certification of cost (Form #330) is used in lieu of the seller's affidavit.

Real Estate Sales Contracts

In certain circumstances, as noted above, there may not be a sales contract (i.e., applicants own the lot/land and they are performing the duty of a contractor). In these instances, applicants must complete a Certification of Cost (Form #330).

The real estate sales contract must have been executed by the seller and purchaser.

All pages and addendums must be fully executed and included in the MHDC submission package.

Federal Recapture Tax (Form #355)

All loans under the MCC Program and all loans which were closed on or after January 1, 1991, that were made possible through the use of MCCs, are subject to Federal Recapture Tax.

The applicant(s) should be made aware at the first onset of the application process that their loan may be subject to recapture tax. All loan officers and persons taking loan applications should familiarize themselves with the recapture tax provisions and be able to fully explain such regulations to the applicant(s).

The following three fact patterns must all occur in order for the borrower(s) to be subject to potential recapture tax:

a. a borrower sells the home within the first nine years of the home mortgage loan closing;

b. borrowers' income exceeds the income set out on the chart for the particular year in which the home is sold (the chart is on the reverse side of the recapture tax form), AND

c. residence is sold at a net profit (regardless of whether or not the gain is included in borrowers' income for federal income tax purposes for that year).

Items a-c must occur before the borrower is subject to recapture tax. If only one or two of the situations occur, the borrower would not be subject to recapture tax.

The maximum recapture tax which the borrower may be required to pay is the lesser of:

a. 6.25% of the highest principal amount of the mortgage loan, OR
b. 50% of the gain on the sale of the property.

It is not possible to predict the amount of recapture tax that would apply should someone sell the home. It depends on the year in which the residence is being sold, the amount of gain, etc.

Recapture tax is imposed by an IRS regulation. Lenders should refer the applicant to a tax consultant for additional information. The IRS Form 8828, instructions to the Form 8828 and IRS Publication 551, Basis of Assets are available at www.irs.gov. These forms, and Form #555, are needed to calculate the amount of tax that may be owed. In many cases, IRS Publication 551 will identify maintenance or improvement items that will increase the base price of the home, limiting the amount of recapture tax owed.

Closing Disclosure Statement (CD)

On January 1, 2014, the new RESPA requirements regarding the LE and CD statement went into effect. The CD must clearly identify all costs paid by the buyer and by the seller.

The fees must be broken out for MHDC loans in one of 3 ways:

1. Break out the fees on the LE,
2. Break out the fees on the CD, or
3. Break out the fees on a separate document just for MHDC.

If the lender is going to lump all the fees together on the LE and the CD then the lender must break them out on a separate document for MHDC. As long as MHDC can have an itemized break out of the fees, it will pass compliance.

NOTE: In no case may any portion of the CAL be paid to the buyer. The borrower can only get back funds that they paid out of pocket prior to closing. The buyer may also not receive any cash back for costs paid by the seller, any other loan program utilized in conjunction with the Next Step Program, or from any gifts provided on behalf of the buyer.

Issuance of the Mortgage Credit Certificate

MHDC will review the documents required to be included in the loan closing submission package described above and will issue the MCC, together with the acknowledgment of documents received to the borrower normally within 30 days of receipt of the submission package. Borrowers will be required to sign for MCC certificate (UPS).

Lender should advise borrower(s) that MHDC will forward the original of the Mortgage Credit Certificate to borrower(s) via UPS. Borrower(s) must make every effort to claim the UPS Package and sign for same to be eligible for the tax credit.

Use of MCC Program with Other Programs

The MCC program can be used in conjunction with MHDC's Next Step Program. MHDC will set the mortgage interest rates for the loan on a daily basis and the lender will lock that rate in when they reserve the loan on the Lender Online system (LOL).

The certified lender will have three options when using the MCC program.

- **MCC Stand Alone** - this option will allow the lender to use a market rate loan with various terms (except balloon loans). The lender will set the rate and the term of the loan and be able to sell the loan to any lender in the secondary market or retain the loan in their own portfolio. In return the borrower will receive a tax credit rate of **25%** for the interest paid on the loan annually for the life of the loan.

- **MCC CAL** – this option will allow the lender to use the MHDC Next Step Program where MHDC will set the interest rate based on when the lender reserves the loan. This loan will be a 30 year fixed mortgage loan. The lender will have to sell this loan to the master servicer post closing. In return the borrower will receive 4% of the loan amount for downpayment assistance in the form of a ten year forgivable second mortgage. The borrower will also receive a tax credit rate of **35%** for the interest paid on the loan annually for the life of the loan.

- **MCC NON CAL** – this option will allow the lender to use MHDC Next Step Program where MHDC will set the interest rate based on when the lender reserves the loan. This loan will be a 30 year fixed rate mortgage loan. The lender will have to sell this loan to the master servicer post closing. In return the borrower will also receive a tax credit rate of **45%** for the interest paid on the loan annually for the life of the loan.

MHDC GEOGRAPHICAL AREAS

St. Louis Metro:	Counties:	Franklin, Lincoln, Jefferson, St. Charles, St. Louis County, Warren, Crawford (Sullivan City only) and St. Louis City
Kansas City Metro:	Counties:	Caldwell, Cass, Clay, Clinton, Lafayette, Platte, Ray and Jackson
Columbia Metro:	Counties:	Boone
Joplin Metro:	Counties:	Jasper and Newton
Springfield Metro:	Counties:	Greene, Christian, Webster
St. Joseph Metro:	Counties:	Buchanan, Andrew and DeKalb
Jefferson City Metro:	Counties:	Cole and Osage

OUTSTATE (RURAL):

Northeast Counties:	Adair, Audrain, Clark, Cooper, Knox, Lewis, Macon, Marion, Monroe, Montgomery, Pike, Ralls, Randolph, Schuyler, Scotland and Shelby
Northwest Counties:	Atchison, Carroll, Chariton, Daviess, Gentry, Grundy, Harrison, Holt, Johnson, Linn, Livingston, Mercer, Moniteau, Nodaway, Pettis, Putnam, Saline, Sullivan and Worth
Southeast Counties:	Butler, Bollinger, Callaway, Cape Girardeau, Carter, Crawford, Dallas, Dent, Douglas Dunklin, Gasconade, Howell, Iron, Madison, Maries, Mississippi, New Madrid, Oregon, Ozark, Pemiscot, Perry, Phelps, Polk, Reynolds, Ripley, Scott, Shannon, St. Francois, Ste. Genevieve, Stoddard, Texas, Washington, Wayne and Wright
Southwest Counties:	Barry, Barton, Bates, Benton, Camden, Cedar, Dade, Henry, Hickory, Laclede, Lawrence, McDonald, Miller, Morgan, Pulaski, Stone, St. Clair, Taney and Vernon

MHDC Purchase Price and Income Limits may be found here:

https://mhdc.com/services/homebuyer-programs/mortgage-credit-certificate/

Section 8 - Gross Annual Household Income Limits

Effective 4/18/2022

MHDC MCC *Program*
State of Missouri

	NON-TARGETED AREAS		TARGETED AREAS	
	1-2 persons	3+ persons	1-2 persons	3+ persons
Kansas City MSA *(Counties of Caldwell, Cass, Clay, Clinton, Jackson, Lafayette, Platte & Ray) **	**$96,800**	**$111,320**	**$116,160**	**$135,520**
Jefferson City MSA *(Counties of Cole & Osage) ***	**$82,700**	**$95,105**	**$99,240**	**$115,780**
Columbia MSA *(Boone County)*	**$88,000**	**$101,200**	**$105,600**	**$123,200**
St. Louis MSA *(Counties of Franklin, Jefferson, Lincoln, St. Charles, St. Louis City, St. Louis County & Warren) ****	**$94,900**	**$109,135**	**$113,880**	**$132,860**
All Other Areas	**$80,900**	**$93,035**	**$97,080**	**$113,260**

SUBJECT TO CHANGE
PLEASE MAKE CERTAIN YOU ARE ALWAYS USING
*THE CORRECT CHART.**

(End of Section 8)

MHDC Maximum Purchase Price Limits

These are subject to change from time to time in accordance with regulations.

Effective March 30, 2022 there will be a single set of purchase price limits used state-wide.

Non-Target

1 Family: $349,525

Target

1 Family: $427,198

Section 9 - Federally Targeted Census Tract Areas

Targeted Area means an area in which 70% or more of the families have an income that is 80% or less of the statewide median income or an area of chronic economic distress in such an area has been designated by the commission and approved by the secretaries of the Treasury and Housing and Urban Development; provided that, in either case, only those areas meeting the foregoing criteria and designated by the commission as Targeted Areas shall be deemed to constitute Targeted Areas.

NOTE: Borrowers purchasing within a Targeted Area do not have to meet the first-time homebuyer requirement, and the income limits and purchase price limits are higher for said areas.

Please use the website www.ffiec.gov to locate census tract numbers.

2013 Federally Targeted Census Tracts are:

COUNTY	CENSUS TRACT NUMBER
Adair	9503
Benton	4604
Boone	0005, 0009, 0021 & 0022
Buchanan	0012
Butler	9507
Cape Girardeau	8814 & 8816
Cole	0207
Dunklin	3601 & 3606
Greene	0001, 0002, 0005.01, 0005.02, 0006, 0008, 0013.02, 0017, 0018, 0031, 0032, 0036, 0055 & 0056
Iron	9504
Jackson	0003, 0006, 0010, 0018, 0019, 0020, 0021, 0034, 0037, 0038, 0052, 0054, 0055, 0056.02, 0058.01, 0060, 0061, 0063, 0075, 0079, 0089, 0095, 0096, 0097, 0102.01, 0114.05, 0134.10, 0154, 0156, 0160, 0161, 0162, 0163, 0164, 0166, 0169
Jasper	0108 & 0110
Livingston	4805
Oregon	4803
Pemiscot	4702 & 4704
Pettis	4809
Pulaski	4703.90
Randolph	4903
Ripley	8701 & 8702
Scott	7812
St. Charles	3105.01
St. Louis City	1015, 1053, 1054, 1061, 1062, 1063, 1064, 1065, 1066, 1076, 1083, 1096, 1097, 1101, 1105, 1111, 1112, 1113, 1114, 1115, 1123, 1152, 1157, 1163.02, 1164, 1184, 1193, 1202, 1211, 1212, 1242, 1246, 1257, 1266, 1267, 1274 & 1275
St. Louis County	2119, 2120.02, 2121.01, 2121.02, 2136, 2139 & 2218
Vernon	9504

Section 10 - Staff Names and Telephone Numbers

Missouri Housing Development Commission
920 Main Street, Suite 1400, Kansas City, MO 64105
816-759-6600

Homeownership Department		**Phone**
Christopher Hendrickson	Homeownership Manager	(816)759-6812
Roxie Weaver	Homeownership Program Administrator	(816)759-6830
Hailey Wilkins	Homeownership Program Administrator	(816)759-6893
Mandy Gosney	Homeownership Program Administrator	(816)648-0538

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