Chapter 1 Program Overview

1.1 General Information (Rev. 09/01/2019)

This MCC Program Policy and Procedure Guide provides information for a Mortgage Credit Certificate (MCC) with a first mortgage provided by the lender.

Lenders are fully responsible for the origination, closing and servicing of loans originated in conjunction with an MCC. VHFA does not set the rate, term or underwriting criteria for the associated loan. Lenders participating in the MCC Program, must take steps to become knowledgeable about MCCs and the MCC program, including the IRS reporting and compliance requirements lenders must comply with.

Lenders may be required to enter into a Mortgage Credit Certificate Agreement on an annual basis to continue offering the program uninterrupted. Failure to execute a new agreement when presented, will result in a Lender's removal as an approved lender offering MCCs.

1.2 Property Transfer Tax Exemption (Rev. 12/13)

Holders of an MCC that is combined with lender provided financing must pay the full amount of the applicable Vermont Property Transfer Tax. The transfer tax exemption that is applicable to borrowers that receive VHFA financing does not apply.

1.3 Targeted Area Set-Aside (Rev. 12/13)

VHFA will set aside 20% of the Program allocation of MCC authority for eligible dwellings located in a Targeted Area. This amount will be set aside for one year from the date VHFA first accepts applications for MCCs under the Program.

Chapter 2 Compliance

The compliance and minimum documentation requirements are covered below. Lenders are responsible for determining that each applicant and spouse, even if the spouse is not applying for the loan, must meet all compliance requirements. VHFA will review the eligibility documentation provided by the lender and make the final determination. Compliance requirements are subject to change.

2.1 First-Time Buyer Requirement (Rev. 09/01/2019)

In the following Counties: **Addison, Bennington, Chittenden , Grand Isle and Windsor**, all borrowers and non-borrowing spouses must not have held an ownership interest which includes spousal benefit in a principal residence at any time during the 36 months preceding the loan application date. This requirement is controlled by the Internal Revenue Service and cannot be waived or amended by VHFA under any circumstances.

Exceptions to the first-time buyer requirement are:

- Borrowers purchasing in Census Tract 4 and 10 in Burlington.
- Veterans, which includes anyone (a) who has served in the military and has been released under conditions other than dishonorable or (b) who has re-enlisted, but could have been discharged or released under conditions other than dishonorable. A current, active member of the military is not eligible for this exemption.

Examples of “Ownership Interest” include, but are not limited to these examples:

- Joint tenancy, tenancy in common or tenancy in entirety.
- An interest in a residence even when not liable for the debt.
- An interest in a residence currently occupied by an estranged spouse.
- An interest in a mobile home on owned land.
- An interest in a mobile home located in a park that is permanently affixed to the land.
- An interest held in trust that would constitute an ownership interest if held by the borrower or non-borrowing spouse.
- A life estate.
- Fee simple interest.
- The interest of a tenant-stockholder in a cooperative.
- A land contract, contract for deed, bond for 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), which may include some instruments called “leases” or “lease-purchase agreements.”

Examples of “Spousal Benefit” include, but are not limited to these examples:

- Non-title holder but occupied home as a primary residence with spouse who held title.
- Non-mortgage obligor but occupied home as primary residence with spouse who is/was a mortgage obligor.

Examples of interests which do not constitute “Ownership Interest” include, but are not limited to these examples:

- A remainder interest.
- A true lease, with or without an option to purchase.
- An expectancy to inherit an interest in a principal residence in the future.

- The interest that a purchaser of a principal residence acquired upon the execution of a Purchase and Sales contract.
- Being on the deed of a living parent's home, provided the parent(s) are residing in the property and neither the borrower nor non-borrowing spouse has lived in the property as his/her principal residence and/or claimed any mortgage interest deductions during the previous three years.
- An interest in a mobile home located in a mobile home park (not owned land) that is not permanently affixed to the land per VHFA's requirements. VHFA shall consider a mobile home affixed if the following is evidenced:
  - Axels, wheels, and hitch are removed from the mobile home.
  - The mobile home is affixed to a permanent foundation.

Sufficient documentation is required to determine that each borrower and any non-borrowing spouse meet this requirement. The minimum documentation required is listed below:

Credit Report – The credit report for each borrower must be reviewed for evidence of current or past mortgage loans as well as any other information that may indicate current or previous property ownership.

Compliance Affidavit – Each borrower and non-borrowing spouse must complete and execute a VHFA MOVE MCC Compliance Affidavit. This affidavit includes representations from all signers that they meet the first-time buyer requirement, as applicable, as well as other compliance requirements. If a borrower or non-borrowing spouse does not meet all compliance requirements described in the Compliance Affidavit, they are not eligible for an MCC with or without VHFA financing.

Federal Tax Returns – All borrowers and non-borrowing spouses must provide copies of executed, as-filed tax returns (with all schedules), or other acceptable documentation, for the three (3) previous tax years. Documents required are:

- **Form 1040** –Copies of as-filed, signed returns or transcripts. Transcripts can be obtained from the IRS by submitting IRS Form 4506T.
- **Form 1040A or 1040EZ** – Copies of as-filed, signed returns or certified as-filed copies. A Tax Return Listing (submit IRS Form 8821 to the IRS) or Tax Account Information from the IRS may also be acceptable.
- **IRS Summary** – This is obtained directly from local IRS offices, and must be signed by the IRS. The lender is responsible for assuring that all pages have been obtained and reviewed.

If federal income tax returns were not filed for any of the preceding three years, VHFA will require a written explanation from the borrower and/or non-borrowing spouse, as applicable, along with documentation verifying federal tax returns were not required to be filed.

2.2 Income Limits and Documentation (Rev. 09/01/2019)

The combined total gross annual income of each borrower and non-borrowing spouse cannot exceed the income limit specified for the program in effect at the time of loan reservation. For current program income limits go to www.vhfa.org.

To calculate the total gross annual income, all income sources for the previous 12 months for each borrower and any non-borrowing spouse must be included, the Federal Act Income and Acquisition Cost Worksheet should be used to compute the income.   Income should be calculated as follows:

Type of Income	**How to Calculate**
Regular Salaried or Hourly Wage	Total current annual base salary or weekly base pay annualized or multiplied by 52 weeks.
Overtime, Commission, Tips or Differentials	Total amount paid over the last 52 weeks, or if with this employer for less than 52 weeks use the weekly average to date multiplied by 52 weeks.
Bonus or Profit Sharing	If earned once a year, include last bonus paid or if paid multiple times in a year add total of all bonuses paid over the last 52 weeks.
Self-Employed	Net profit over the last 52 weeks *(depreciation does not need to be added back)*.
Military	Include base pay, any reserve pay for the last 52 weeks and any non-taxable stipends such as quarters, rations, clothing, etc.
Partnership Income	Total income and distributions reflected on last K-1.
VA Disability	Annualized amount received.
Social Security, Disability or Pension	Annualized amount received.
Alimony or Child Support	Annualized base amount decreed in court documents.
Dividend or Interest	Include amount reflected on most recent reported tax return. *(Note: If asset is being liquidated do not include. If asset is being partially liquidated reduce by % liquidated).*
Stipends	Annualized amount based on most recent award letter.
Unemployment	Include unemployment income when there is recurrence (i.e. seasonal worker) and reflect total amount received over the last 52 weeks.
Public Assistance	Annualized amount based on most recent award letter.
Subject Property Rental Income	Include 75% of gross rent based on (a) market rent or (b) lease agreement.
Other	Annualized amount received.

The lender must obtain sufficient documentation to verify the total income from all sources, even for a spouse that will not take title, occupy the property, be obligated on the loan, or is currently estranged but not legally divorced from a borrower. Documentation of income for all borrowers and any non-borrowing spouse must include, (*VHFA reserves the right to request additional documents):

Type of Income	**Minimum Documentation Required by VHFA***
Regular Salaried or Hourly Wage	☐ Most recent 3 years tax returns with all schedules ☐ Most recent W-2 ☐ 2 most recent paystubs ☐ Verification of Employment ☐ Most recent contract (for contracted field positions)
Self-Employed	☐ Most recent 3 years tax returns with all schedules ☐ YTD P&L after March 31
Military	☐ Most recent 3 years tax returns with all schedules

	☐ 2 most recent leave and earnings statements
Partnership Income	☐ Most recent 3 years tax returns with all schedules ☐ Most recent K-1 ☐ Most recent 2 years corporate tax returns with all schedules
VA Disability	☐ Certificate of Eligibility (if underlying product is VA) ☐ Award letter or most recent bank statement with VA auto deposit (if underlying product is conventional, RD or FHA)
Social Security, Disability or Pension	☐ Most recent 3 years tax returns with all schedules ☐ Most recent award letter
Alimony or Child Support	☐ Most recent 3 years tax returns with all schedules ☐ Divorce Decree ☐ Child Support Order
Dividend or Interest	☐ Most recent 3 years tax returns with all schedules
Stipends	☐ Most recent 3 years tax returns with all schedules ☐ Most recent contract, paystub or award letter
Unemployment	☐ Most recent 3 years tax returns with all schedules ☐ Most recent 1099-G
Public Assistance	☐ Most recent 3 years tax returns with all schedules ☐ Most recent award letter
Subject Property Rental Income	☐ Appraisal or Lease
Other	☐ Most recent 3 years tax returns with all schedules ☐ Most recent documentation supporting the income

VHFA will validate the total gross annual income calculated by the lender using the same Federal Act Income and Acquisition Cost Worksheet and the income documents provided to confirm that the income is within the program limit.

2.3 Principal Residence Requirement (Rev. 12/13)

Each borrower must occupy the residence as their principal residence on a full-time, year-round basis, within 60 days after the loan closing date. Depending on the circumstances, additional time may be acceptable for military personnel on active duty. VHFA will not finance or issue an MCC for properties to be used as part-time residences, investment properties, recreation homes or if more than 15% of the property will be used for a trade or business.

2.4 Purchase Price Limits / Acquisition Cost (Rev. 09/01/2019)

The total acquisition cost of a property cannot exceed the purchase price limit specified for the program in effect at the time of loan reservation. For current loan program purchase price limits go to www.vhfa.org.

The Federal Act Income and Acquisition Cost Worksheet should be used to compute the acquisition cost. To calculate the acquisition cost of the subject property:

Type of Value	How to Calculate
Purchase Price	Purchase price reflected on the purchase and sale agreement (or addenda).
Personal Property	Value of any personal property included in the sale (i.e. lawn tractor, above ground pool, any non-standard item that will convey with the sale above what is considered normal and customary).
Repairs	Enter any acceptable, suitable and reasonable improvements that will be made to the property and are not factored into the purchase price. *(Maximum of $15,000 may be included in the mortgage loan).*
Community Land Trust	Multiply the full monthly lease fee or stewardship fee by 12 and divide by the VHFA interest rate.

The acquisition cost must be supported by documentation, such as the Purchase and Sale Agreement.

VHFA will validate the acquisition cost calculated by the lender using the same Federal Act Income and Acquisition Cost Worksheet and the Purchase and Sale Agreement provided to confirm that the acquisition cost is within the program limit.

2.5 New Mortgage Requirement and Short-Term Debt (Rev. 09/01/2019)

This program is restricted to real estate purchase transactions. VHFA will not issue an MCC in connection with a loan to replace an existing debt, except in the case of short term financing, such as a construction or bridge loan. The following must apply for short-term debt to be eligible for replacement with VHFA financing:

- The loan constitutes a mortgage on the subject property (unsecured debt is not eligible).
- The loan has an original term of 24 months or less. The monthly payments may be based on a longer amortization, but the final maturity date must be within 24 months of the note date. (A longer term loan, in which less than 24 payments have been made, is not eligible.)
- The loan is the original first mortgage the borrower(s) and non-borrowing spouse gave on the property and is for an original term of 24 months or less. If the original mortgage loan had a longer term and/or it was refinanced to reduce the term, VHFA will not issue an MCC in connection with any loan to refinance the original loan.
- VHFA requires a copy of the Vermont Property Transfer Tax Return showing when the property was transferred to the borrower and a copy of the recorded deed.

2.6 Other Real Estate Owned (Rev. 09/01/2019)

At the time of the loan closing date, no borrower nor non-borrowing spouse can hold an ownership interest in any real estate other than the residence securing the first mortgage loan, with the exception of the following:

- Vacant land.
- Any property unsuitable for year-round occupancy and that has never been occupied as a primary residence.
- Commercial/industrial property that has no residential rental unit(s).
- A single-wide mobile home in a mobile home park that is not permanently affixed to land (inspection of the unit and the foundation, including photographs, by a qualified property inspector is required).

- Being on the deed of a living parent's home, provided the parent(s) are residing in the property and neither the borrower nor non-borrowing spouse has lived in the property as his/her principal residence and/or claimed any tax benefit for the property.

2.7 Land Size / Appurtenant Land (Rev. 12/13)

Properties with up to fifteen (15) acres will be considered provided the amount of land to be conveyed with the property is only the amount necessary to reasonably maintain the basic livability of the residence and cannot provide, other than incidentally, a source of income to the borrower. Properties with more than fifteen (15) acres are not eligible (deed restrictions on subdividing are not considered). VHFA will not provide financing for the purchase of two separately deeded lots.

2.8 Non-borrowing Spouse, Non-Occupant Borrowers & Eligible MCC Holders (Rev. 09/01/2019)

Non-borrowing Spouse: A non-borrowing must meet all compliance requirements and be approved by VHFA even if he/she will not be liable for the mortgage loan or take title to the property. At a minimum, a non-borrowing spouse must provide income documentation and sign certain VHFA forms where indicated.

Other Non-Occupant Borrowers: VHFA will not issue an MCC with the names of any non-occupant borrowers or co-signers.

Eligible MCC Holders: An MCC will only be issued in the name(s) of the borrower(s) of the first mortgage. A non-borrowing spouse is not an eligible MCC holder.

2.9 Prohibited Loans (Rev. 12/13)

An MCC will not be issued in conjunction with a mortgage loan funded, directly or indirectly from the proceeds of a Mortgage Revenue Bond or a Qualified Veterans' Mortgage Bond.

2.10 No Interest Paid to Related Parties (Rev. 12/13)

No interest on the Certified Indebtedness Amount (the loan amount) can be paid to a related person. When the associated mortgage loan is closed, a related person cannot have nor be expected to have, an interest as a creditor in the mortgage loan.

2.11 Federal Recapture Tax (Rev. 09/01/2019)

The MCC program provides federal tax benefits for the borrower. As a result, under certain circumstances, the federal government may recapture a portion of the benefit.

Recapture occurs if <u>all three (3) of the following conditions are met</u>:

1. Subject property is sold or disposed of in less than nine (9) years from the original purchase date, and
2. A gain is made on the sale/disposition, and
3. The total annual adjusted gross household income exceeds the income threshold for the year the subject property is sold or disposed:

a. The original Mortgagor Disclosure of Recapture Tax should be reviewed for the income thresholds.
b. Current tax year income thresholds can be viewed at https://ilrs.vhfa.org/.

How is recapture tax determined?
The factors that must be considered in calculating the tax (years of ownership, net profit from sale, and future family size and income) are unknown at the time of loan origination, therefore making it impossible to determine a homeowner's recapture tax at the time of loan origination. If the homeowner meets all three (3) conditions listed above the tax will be the lesser of:

a) 6.25% of the original principal balance,
b) 50% of the profit on the sale or
c) IRS recapture tax computation detailed in the Recapture of Federal Mortgage Subsidy Form 8828 instructions.

Further detail on these calculations can be found within the instructions for Form 8828 Recapture of Federal Mortgage Subsidy on www.irs.gov.

Lender Responsibility
During loan origination and prior to the pre-closing compliance submission to VHFA, the lender must provide the borrower the MOVE MCC Compliance Affidavit, this form is available to print, view or save in the VHFA Loan Origination Center and contains disclosure of the federal recapture tax.

During loan origination and no later than loan closing, the lender must provide the borrower with the Mortgagor Disclosure of Federal Recapture Tax, this form is available to print, view or save in the VHFA Loan Origination Center and contains disclosure and income thresholds for federal recapture tax.

VHFA Responsibility
VHFA is not responsible for calculating or collecting the tax. The Internal Revenue Service collects any recapture tax owed and due. VHFA does not provide advice or assistance for tax preparation or planning.

Borrower Responsibility
The recapture tax a borrower might owe is determined when taxes are filed for the tax year that the subject property was sold or disposed. The borrower is responsible for filing Form 8828 Recapture of Federal Mortgage Subsidy for the tax year the home is sold or disposed. More information can be found on www.irs.gov and in IRS Publication 523.

Reimbursement of recapture tax
A homeowner required to pay recapture tax may be eligible for reimbursement from VHFA. A reimbursement request can be submitted to VHFA after the tax is paid and no later than December 31 of the calendar year immediately following the tax year that the recapture tax was due and paid. A reimbursement request can be accessed on www.vhfa.org or by contacting VHFA.

Chapter 3 Mortgage Credit Certificate

VHFA is authorized by Internal Revenue Service (IRS) Code to issue Mortgage Credit Certificates (MCC) to eligible applicants. An MCC may be issued in conjunction with a lender funded mortgage loan as detailed in this guide, or with a VHFA funded mortgage loan as explained in the MOVE MCC Procedural Guide.

In addition to the information provided in this Chapter, please refer to Chapter 6, for information on lender required IRS reporting, record retention and revocation.

3.1 Mortgage Credit Certificate Rate and Tax Limits (Rev. 09/01/2019)

The following limits impact the tax credit the applicant is eligible to receive (subject to change):

- MCC Rate: The current rate on the MCC issued by VHFA is 30%.
- Maximum Credit: The maximum tax credit the holder is entitled to may not exceed 30% or the IRS threshold of $2,000 (whichever is lower) of the paid interest. The remaining interest paid may be taken as a standard deduction.
- Tax Liability: The tax credit may not exceed the holder's total tax liability for the tax year.

3.2 How a Mortgage Credit Certificate Works (Rev. 01/01/2019)

A Mortgage Credit Certificate (MCC) is a federal income tax credit that is determined based on a percentage of annual mortgage interest paid. VHFA currently issues MCCs at 30% of the annual mortgage interest paid not to exceed the IRS threshold of $2,000. A borrower who has obtained an MCC may use the remaining 70% of annual mortgage interest paid if itemizing deductions. An MCC is a direct dollar for dollar reduction in the total federal income taxes a homeowner owes. The basic formula for calculating an MCC is as follows:

Mortgage Interest Paid for year on Certified Indebtedness
X 30%
= Amount of Credit (cannot exceed $2,000)

Examples

Example A: If the original principal balance is $150,000 at a rate of 4.75% with a 30 year amortization, the borrower would pay approximately $7,075 in interest for the first year. An MCC allows the borrower to take up to 30% of the $7,075 as a mortgage tax credit not to exceed $2,000. In this case, 30% of the annual interest paid is $2,122.50 and the borrower may be able to take the maximum credit of $2,000.

Example B: If the original principal balance is $125,000 at a rate of 4.75% with a 30 year amortization, the borrower would pay approximately $5,896 in interest for the first year. An MCC allows the borrower to take up to 30% of the $5,896 as a mortgage tax credit not to exceed $2,000. In this case, 30% of the annual interest paid is $1,768.80 and the borrower may be able to take a maximum credit of $1,768.80.

The preceding examples are for reference only. It is the responsibility of the potential holder to understand how an MCC is used and all tax restrictions and requirements. VHFA will not provide guidance or advice in regards to tax preparation.

3.3 Carry Forward and Dividing the Credit (Rev. 01/01/2019)

Should the amount of the credit created by the MCC (i.e. lesser of 30% of the annual mortgage interest or $2,000) exceed the holder's total tax liability, the portion of the unused credit can be carried forward for up to three (3) years.

If the property has multiple owners, and each mortgagor is acknowledged as a Holder on the MCC, the credit may be divided as long as it does not exceed the total credit created by the MCC.

3.4 Using an MCC in Qualifying (Rev. 09/01/2019)

Fannie Mae and government guarantee programs may permit the reduction in federal income tax burden to be considered as additional disposable income. It is the lender's responsibility to follow all guidelines from Fannie Mae, RD, VA, and FHA, as well as mortgage insurers, in regards to how an MCC may impact a potential holder's income for qualification purposes.

If income is adjusted for the MCC, the FNMA Underwriting Transmittal 1008/FHLMC Underwriting Transmittal 1077 and AUS findings from the applicable agency must reflect that information.

3.5 Permissible Lender Fees and VHFA Issuance Fee (Rev. 12/13)

Lenders may collect and retain up to $250.00 for a processing fee. Any fee paid to the lender must be disclosed in compliance with Regulation Z and Federal TILA requirements.

Lenders can only charge an applicant for an MCC those reasonable fees for processing the financing as they would charge a potential borrower applying for financing that was not combined with an MCC.

VHFA assesses a one-time issuance fee in the amount of $1,000. The lender should collect this fee at closing and deliver to VHFA post-closing.

3.5 MCC Assumptions, Transfers and Reissuing (Rev. 12/13)

The original holder(s) of an MCC are the only persons eligible to receive the benefit of the MCC credit. The following applies to all MCCs:

- MCCs may not be assumed by or transferred to any person assuming the first mortgage associated with the MCC.
- After the MCC is issued, additional persons may not be added as holders. Only the original mortgagor(s) will be included on an MCC.
- MCCs will not be reissued if the holder refinances the first mortgage that was the basis of the MCC.

3.6 MCC Filing Requirements (Rev. 09/01/2019)

Each lender is responsible for filing a report annually with the IRS, see Chapter 6.

Each borrower who has been issued an MCC is responsible for independently filing the tax credit annually and ensuring they are still eligible to use the tax when filing IRS tax returns. The IRS Form 8396 is required. More information can be found at www.irs.gov.

Chapter 4 Lender Product Eligibility

4.1 Mortgage Eligibility (Rev. 11/15)

VHFA does not review or underwrite the first mortgage loan that the MCC is being combined. All underwriting and proper closing of the first mortgage is the responsibility of the lender.

VHFA's determination of eligibility is solely limited to the eligibility requirements for an MCC.

4.2 Qualifying with an MCC (Rev. 09/01/2019)

See Chapter 3.

4.3 Eligible MCC Holders (Rev. 09/01/2019)

Only approved borrowers that have been determined eligible by VHFA, can be a holder of an MCC. The MCC will not be issued if non-eligible borrowers are included on the loan or on Title.

4.4 Loan Types (Rev. 3/17)

VHFA requires sufficient information from the lender that the loan product being used meets the minimum MCC Compliance guidelines. Lenders may offer any financing instrument legally being used for a first mortgage using their own available terms and requirements, except for the prohibited funding sources see Chapter 2. There are no program-imposed restrictions on loan term or amortization methods.

4.5 Eligible Property Types (Rev. 12/13)

The following property types are eligible under the MCC Program:

- New and existing 1 unit detached
- New and existing condominium units
- Existing 2 unit detached occupied as a residence for five years prior to the date of the mortgage.
- New and existing manufactured housing permanently affixed to owned land (no leased land). The manufactured housing must be placed on a permanent foundation with the wheels, axle and hitch removed. The property must be financed as real estate.

It is the lender's responsibility to determine that manufactured housing is eligible. While VHFA retains the right to request additional documentation for manufactured housing, the determination that the unit is permanently affixed is the lender's responsibility. If it is determined by the IRS the property is not eligible, the MCC is subject to revocation.

4.6 Property Improvements (Rev. 12/13)

If there are improvements made to the property, the final acquisition cost paid by the borrower must be confirmed prior to the issuance of an MCC. The following must be provided prior to issuance of the MCC:

- Copy of a Completion Certificate from the appraiser or sufficient documentation for the property inspector clearly defining the improvements that were completed.

- Documentation to verify the source of funds for the cost of all improvements.
- Revised Federal Act Income and Acquisition Cost Worksheet reflecting all costs to the borrower.

If repairs are not completed prior to the loan closing, the MCC will not be issued until the final acquisition cost can be verified. A delay in providing information may impact the effective date of the MCC and the borrower's ability to benefit from the MCC in the year the associated mortgage loan closed.

Chapter 5 Process and Document Submission

5.1 Reservation Process and Terms (Rev. 09/01/2019)

To reserve an MCC for an applicant, the lender must submit a VHFA on-line MCC Reservation from https://ilrs.vhfa.org/.

Upon successful submission of a reservation in the VHFA Loan Origination Center, a Reservation Confirmation, Compliance Checklist, MCC Compliance Affidavit, Federal Act Income and Acquisition Cost Worksheet and Mortgagor Disclosure of Recapture Tax will be available to print, view or save in the VHFA loan Origination Center. See Documents and Forms Appendix.

The Reservation Confirmation and Compliance Checklist is conditionally issued based on lender provided information and does not guarantee future issuance of an MCC. The Reservation and Compliance Checklist includes the Required Compliance Documents, Compliance Submission Date (30 days from Reservation), and Final Issue Date (110 days from Reservation).

To withdraw an MCC Reservation notify VHFA in writing at homeownershipdept@vhfa.org.

5.2 Compliance Submission (Rev. 09/01/2019)

Documentation required to determine compliance for the borrower(s), a non-borrowing spouse and the property, must be submitted to VHFA for the MCC. The MCC Compliance Checklist that can be accessed, viewed or printed in the Loan Origination Center (https://ilrs.vhfa.org/) should be used as the coversheet, checklist and stacking order for the Compliance Submission.

If all submitted documents are satisfactory, VHFA will issue an MCC Conditional Commitment that includes the list of post-closing documents the lender is required to deliver to VHFA. VHFA's review and acceptance of submitted documents does not guarantee future acceptance of a loan for purchase.

To be acceptable, documents cannot be more than 90 days old from the date of receipt. If any documents are signed by a person who has a limited Power of Attorney (POA) or is a court authorized signer for the borrower(s), a copy of the recorded POA authorization must be submitted and all documents must be signed appropriately. VHFA reserves the right to require additional documentation.

If any VHFA form is deemed incomplete or inaccurate a new form must be fully executed before MCC Conditional Commitment will be issued. Corrected or modified copies of any VHFA forms will not be accepted.

VHFA MCC compliance submission - send copies of all documents:

- ☐ **VHFA MCC Compliance Affidavit**.
- ☐ **VHFA Federal Act Income and Acquisition Cost Worksheet**.
- ☐ **Underwriting Transmittal** 1008/Freddie Mac 1077 or Government equivalent
- ☐ **Uniform Residential Loan Application** (current FNMA/FHLMC) signed by all applicants.
- ☐ Current **Credit Report** that includes credit scores for all applicants.
- ☐ **Federal Tax Returns** 3 most recent filing years for each borrower and non-borrowing spouse
- ☐ **Income Verification documents** for each borrower and non-borrowing spouse to support gross total annual income.

- ☐ **Purchase and Sale Agreement** fully signed with all addenda and attachments.
- ☐ **Residential Appraisal Report** complete copy of the report applicable to the property type with clear photos of the subject property. If the property is subject to a lease agreement or covenant, the appraisal must be completed accordingly.

5.3 Conditional Commitment (Rev. 09/01/2019)

Upon receipt and acceptance of all documentation required per the Reservation Confirmation and Compliance Checklist, VHFA will issue a Conditional Commitment which will be available to print, view or save in the VHFA Loan Origination Center outlining the minimum documents and terms for the issuance of an MCC by VHFA. Upon Conditional Commitment closing forms will also be available to print, view or save in the VHFA Loan Origination Center. See Documents and Forms Appendix

The Conditional Commitment also includes the Final Issue Date VHFA will issue an MCC. If the MCC has not been issued by the Final Issue Date, the Conditional Commitment may be cancelled.

To withdraw an MCC Reservation, notify VHFA in writing at homeownershipdept@vhfa.org.

5.4 Final Document Submission (Rev. 09/01/2019)

Immediately after loan closing the documents required per the applicable Conditional Commitment must be delivered to VHFA. If any documents are signed by a person who has a limited Power of Attorney (POA) or is a court authorized signer for the borrower(s), a copy of the recorded POA authorization must be submitted and all documents must be signed appropriately. The Conditional Commitment that can be accessed, viewed or printed in the Loan Origination Center (https://ilrs.vhfa.org/) should be used as the coversheet, checklist and stacking order for the Post-Closing submission to VHFA. VHFA reserves the right to require additional documentation.

VHFA MCC post-closing submission - send copies of all documents unless original specified:

- ☐ **VHFA MCC Notice to Holder.**
- ☐ **VHFA Mortgagor Disclosure of Recapture Tax**.
- ☐ **ORIGINAL VHFA Reaffirmation of Affidavit.**
- ☐ **Processing Fee** in the amount of $1,000. A certified or attorney trustee account check payable to Vermont Housing Finance Agency is required. Personal checks will not be accepted.
- ☐ **Executed Note**
- ☐ **Closing Disclosure** for borrower and seller.
- ☐ **Final Underwriting Transmittal** (Fannie Mae 1008/Freddie Mac 1077 or Government equivalent).
- ☐ **Final Uniform Residential Loan Application** (current FNMA/FHLMC) signed by all borrowers
- ☐ **If repairs** were completed to the property, a revised Federal Act Income and Acquisition Cost Worksheet and Compliance Affidavit with supporting documentation on the final costs to the borrower must be provided for final determination of the acquisition cost.

Upon receipt of the post-closing documents listed on the Conditional Commitment, VHFA will review the documentation and notify the lender of either Post-Closing Conditions or Post-Closing Approval:

If…	Then…
The loan documents are acceptable…	VHFA will issue a Post-Closing Approval. VHFA will issue the MCC directly to the borrower, and provide a copy to the lender.
The loan documents are not acceptable…	VHFA will review the documentation and notify the lender of either conditions or acceptance. If any VHFA form is deemed incomplete or inaccurate a new form must be fully executed before Post-Closing Approval will be issued. Corrected or modified copies of any VHFA forms will not be accepted.

Chapter 6 Lender MCC IRS Requirements

6.1 Federal Reporting Requirements (Rev. 12/13)

Lenders are responsible for meeting the IRS requirements for filing an annual report, using IRS Form 8329, to summarize the lender's annual MCC activity. Each report must be filed at the applicable Internal Revenue Service Center on or before January 31st of the year following the calendar year to which the report relates.

VHFA will provide the lender with a summary report following the end of each calendar year with information that may be required to complete the form, including:

- VHFA Loan Number
- MCC Holder Name
- MCC Holder Social Security Number
- Property Address
- Amount of Certified Indebtedness related to the MCC
- Date MCC was issued
- Credit Certificate Rate
- Amount of MCC Issued

While VHFA will provide this information to lenders as a courtesy, it is the lenders sole responsibility to maintain appropriate and accurate records in order to report the correct information and meet all IRS requirements for filing form 8329 directly with the IRS.

For more information regarding lender reporting requirements, including all the information IRS Form 8329 requires lenders to track, and penalties for failure to file, see IRS Temp. Reg. {1.25-8T}.

6.2 Record Retention Requirements (Rev. 12/13)

The lender must follow all IRS guidelines regarding retention of information and documents associated with MCCs. At minimum, the lenders must retain the following for Six (6) years:

- Name, address, TIN of the Issuer.
- Closing Date of the mortgage loan associated with the MCC, Certified Indebtedness Amount, and Certificate Credit Rate.
- Name, address, TIN (Social Security Number or Tax Identification Number) of the MCC holder.

6.3 Revocation of Mortgage Credit Certificate (Rev. 12/13)

Should the lender become aware of information that varies from any of the information represented to the lender, VHFA, or the IRS due to neglect or fraudulent acts, it is the responsibility of the lender to inform VHFA immediately. The holder's MCC may be subject to revocation and other penalties from the IRS.

Chapter 7 Confirmation and Submission Documents and Forms

7.1 Confirmation and Submission Documents (Rev. 09/01/2019)

All documents are accessed at the loan level either upon reservation, conditional commitment or post-closing approval from the Loan Origination Center/Loan Detail/Print Documents queue; https://ilrs.vhfa.org/.

DOCUMENT	WHEN TO ACCESS
Reservation Confirmation (MLW4005)	Reservation
MCC Compliance Checklist (MLW8007)	Reservation
MCC Conditional Commitment (MLW8010)	Conditional Commitment
Lender Mortgage Credit Certificate (MLW8325)	Post-Closing Approved

7.2 VHFA Forms (Rev. 09/01/2019)

Execution of certain VHFA Forms are required by the borrower, co-borrower, non-borrowing spouse and lender at different points in the process. Forms can be access in two (2) places in the Loan Origination Center (https://ilrs.vhfa.org/):

1. At the loan level from the Loan Origination Center/Loan Detail/Print Documents queue, OR
2. Loan Origination Center/Guides Forms and Resources/Forms library; there are PDF-fillable and word versions available.

FORM	WHEN TO ACCESS
Federal Act Income and Acquisition Cost Worksheet (S-601)	Reservation
MCC Compliance Affidavit (MCC2014-A) Reservation	Reservation
Mortgagor Disclosure of Recapture Tax (5311)	Reservation or Conditional Commitment (depends on lender process)
Reaffirmation of Affidavit (S-645mbs)	Conditional Commitment
Mortgage Credit Certificate Notice to Holder (MCC-2014B)	Conditional Commitment
Lenders Final Cost Certification (S-644)	Conditional Commitment (post-closing repairs only)