TEXAS STATE AFFORDABLE
HOUSING CORPORATION
(TSAHC)

MORTGAGE CREDIT CERTIFICATE PROGRAM

MANUAL

TSAHC
Mortgage Credit Certificate Program
Manual

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SECTION 1 - INTRODUCTION TO THE MCC PROGRAM

1.1 Forward

The Housing Finance Corporation (the "Issuer") has created the Mortgage Credit Certificate Program (the "Program") under authority granted by Congress in the 1984 Tax Reform Act as a means of providing housing assistance to low- and moderate-income homebuyers. The Issuer has authority to issue bonds to assist homebuyers, but has elected to exchange its mortgage bond issuance authority for the authority to issue Mortgage Credit Certificates ("MCCs") under this Program within its designated territory ("Eligible Loan Area").

This Mortgage Credit Certificate Program Manual ("Manual") is intended to fully describe the Program, outline the roles of the Issuer, Program Administrator, Lenders, and Applicants, and set forth the requirements for Applicants and Lenders to participate in the Program. The capitalized terms in this Manual that are not defined herein shall have the meanings set forth in Appendix A. The Program Administrator, on behalf of the Issuer, may revise the Program guidelines from time to time. Public notice of any material changes to the Program or Manual will be published on the Program Administrator's website www.FSCHousing.com. The Fact Sheet, which summarizes the Program, is also available on the Program Administrator's website.

The Issuer encourages eligible homebuyers, after conferring with a participating Lender regarding the Program's minimum qualifications, to apply for an MCC. Current contact information for the Program Administrator is as follows:

Mary Bert-Koelling or Sharon Gonzalez
First Southwest Company
325 N. St. Paul Street, Suite 800
Dallas, Texas 75201
877 983-3792
214-953-8799 Fax
www.FSCHousing.com

1.2 What is a Mortgage Credit Certificate?

An MCC is a federal income tax credit designed to assist persons of low to moderate income to better afford individual ownership of housing. With an MCC, the qualified homebuyer is eligible to write off a portion of the annual interest paid on the mortgage as a special tax credit, not to exceed $2,000, during each year that they occupy the home as their Principal Residence. The portion or amount of the tax credit is equal to the mortgage credit rate on the MCC (for example 35%) multiplied by the annual interest paid. This credit reduces the federal income taxes of the buyer, resulting in an increase in the buyer's net earnings. Increased buyer income results in increased buyer capacity to qualify for the mortgage loan. The MCC has the potential of saving the MCC holder thousands of dollars over the life of the loan. Please see the Fact Sheet for the Mortgage Credit Certificate Rate used in this Program.

1.3 The Difference Between a "Tax Credit" and a "Tax Deduction"

A "tax credit" entitles taxpayers to subtract the amount of the credit from their total federal income tax liability, receiving a dollar for dollar savings. A tax deduction is subtracted from the adjusted gross income before federal income taxes are computed. Therefore, with a deduction, only a percentage of the amount deducted is realized in savings.

1.4 MCC and the Federal Income Tax Mortgage Interest Deduction

A taxpayer receiving an MCC reduces the portion of his/her normal deduction taken for interest paid on the mortgage loan by the percent of tax credit taken. However, the homebuyer can deduct the remainder of the annual mortgage interest payment not claimed as a credit. Although the interest deduction is reduced, the holder of the MCC still pays considerably less in taxes.

Example below, assumes the taxpayer is married with two children and has an annual income of $60,000. The example also assumes the family purchases a home for $120,000 at a 6.00% interest rate. Interest paid the first year is approximately $7,200. An MCC tax credit of 35% of the interest paid would equal $2,520. (35% x $7,200 = $2,520). However, the maximum annual credit allowable is $2,000.

EXAMPLE **Benefit Realized with an MCC**

	With MCC	No MCC
Annual Income	$60,000	$60,000
Taxable Income	$36,441	$34,441
Tax from Table	$4,734	$4,434
MCC Credit	-2,000	- 0 –
Child Care Credit	$-2,000	$-2,000
Total Tax Liability	**$734**	**$2,434**

The same taxpayer owes $1,700 less with an MCC than without one ($2,434 - $734 = $1,700). Please refer to the Program Administrator's website for the IRS tax forms that were used in the above example.

The MCC will reduce the amount of federal income taxes otherwise due to the federal government from the homebuyer; however, the IRS will not pay out more than should have been paid in. Therefore, the benefit to the home owner in any one year cannot exceed the amount of federal taxes owed for that year, after other credits and deductions have been taken into account. Tax credit amounts not used in a given year may be carried forward into subsequent years, as explained in Section 1.7, below. In addition, the amount paid for an MCC is not refundable.

1.5 How a Homebuyer Applies for an MCC

The homebuyer may obtain an MCC through any of the participating Lenders. A list of the Lenders can be found on the Program Administrator's website. The total allocation of MCCs for the Program is not divided among participating Lenders. The homebuyer should apply for the MCC at the same time he or she makes a formal application for a mortgage loan.

During the processing of a mortgage application, the Lender registers the Applicant by emailing or faxing the Program Administrator the Reservation of Funds form and then submits an MCC Application Package to the Program Administrator by email, fax, mail or other delivery method on behalf of the Applicant. Provided that the Applicant and the chosen property are eligible, the Program Administrator provides the Lender with an MCC Commitment which reserves an MCC for that purchase transaction. The MCC is issued to the Applicant after the mortgage loan has been closed.

1.6 How a Homebuyer Uses the MCC

The homebuyer may receive the complete MCC credit savings annually at the time they file their tax returns or monthly by adjusting his or her federal income tax withholding by filing a revised Form W-4 with his or her employer. By taking this latter action, the number of exemptions will increase, reducing the amount of taxes withheld and increasing the buyer's disposable net income.

Using Example 1 above, during the first year of the Program, this Applicant would be entitled to a tax credit of $2,000. Based upon such an entitlement, he or she would be able to file in advance a revised Form W-4 withholding form taking into consideration this tax credit and have approximately $166.67 per month in additional disposable income. ($2,000/12 = $166.67).

Taxpayers who file itemized returns may take a deduction for his or her mortgage interest paid each year, less the amount equal to the tax credit taken. (In Example 1 above, the interest deduction would be $7,200 less $2,000, or $5,200).

In any event, when the homebuyer files his or her taxes each year, they must fill out IRS Form 8396 and attach a copy of their MCC with his or her filed taxes. This is not intended to be a full explanation, nor an assurance that such information will guarantee compliance with the tax laws. We encourage the homebuyer to contact their tax advisor or their employer to help them with the necessary tax forms and, if they so choose, to properly adjust their tax withholding.

1.7 When the MCC Credit Exceeds the Tax Liability

If the amount of the MCC credit exceeds the MCC holder's tax liability, reduced by any other personal credits for the tax year, the unused portion of the credit can be carried forward to the next three tax years or until used, whichever comes first. The homebuyer will have to keep track of the unused credit each year. The current year credit is applied first and then the oldest amount of unused credit applied next.

1.8 The MCC Recapture Tax

Applicants who receive an MCC may be subject to a Recapture Tax if they sell their residence within nine years. The tax, if any, will always be the lesser of: half the gain from the sale of the home, or a tax based on a formula which takes into consideration: (1) the original principal amount of the home mortgage; (2) the number of complete years that pass before the home is sold; (3) the median family income for the buyer's area at the time he/she bought the home, and (4) the buyer's adjusted gross income at the time the home is sold. There are several conditions that can exempt the MCC holder from the Recapture Tax. These include: (a) no net gain on the sale of the property, (b) insufficient increase in the income of the MCC holder between the time of purchase and the time of sale, (c) sale of the home after the ninth year, and (4) a sale due to death or divorce. The homebuyer receives detailed information on the Recapture Tax from the Lender and is asked to sign a statement at time of application that he or she is aware of the tax. Please refer to Appendix C for more information regarding Recapture Tax.

SECTION 2 – MORTGAGOR ELIGIBILITY

2.1 First-Time Homebuyer Requirement

The Applicant applying for an MCC cannot have had an ownership interest in a Principal Residence at any time during the preceding three years ending on the date the mortgage is executed. This requirement does not apply to acquisitions of homes in Targeted Areas, Disaster Areas, Rita GO Zone or if an Applicant is a Qualified Veteran. The Applicant and spouse, and any other adult who will be reflected on the title, must meet this First-Time Homebuyer requirement. This requirement also applies to both members of separated couples.

To demonstrate compliance with this requirement, the Lender must obtain from the Applicant a signed (i) MCC Application and Affidavit and (ii) MCC Closing Affidavit to the effect that the Applicant had no ownership interest in a Principal Residence at any time during the three year period prior to the date on which the mortgage for the MCC is executed. This must be verified by the Lender's examination of the Applicant's federal tax returns for the preceding three years (or by acceptable alternate documents, discussed in Section 2.2 below) to determine whether the Applicant has claimed a deduction for mortgage interest or taxes on real property claimed as a "Principal Residence." In addition, the Lender must obtain rental verification (either written or verbal) from the last tax return filed to the application date.

Any person who is living in a home as their Primary Residence and is listed on the Deed of Trust or Mortgage has ownership interest, even if he or she does not take a deduction for mortgage interest on his or her federal tax returns. For married couples, both spouses hold an ownership interest, even if only one is listed on the title. However, a person (for example, a parent of a mortgagor) who is a payor under or a guarantor of a promissory note secured by the mortgage, but who does not occupy and has no present ownership interest in the financed Residence, need not satisfy the First-Time Homebuyer requirement.

Each Applicant is required to submit acceptable documentation with his or her MCC application to demonstrate that he or she meets the First-Time Homebuyer requirement. These following are the documentation options that will satisfy this requirement:

a. Each Applicant provides the signed and dated Form 1040, 1040A or 1040EZ federal income tax returns for the past three years with all schedules that show no deductions for mortgage interest or real estate taxes for a Principal Residence. If these documents are available, they should be included in the MCC Application Package.

b. For Applicants who do not have copies of the actual tax returns submitted to the IRS, the Applicant may submit printouts from the local IRS office that reflect their three most recent federal tax returns. The printouts are usually provided free of charge, on a while-you-wait basis. The printouts from the IRS do not have to be signed. Provided that the printout shows that no mortgage interest deduction was taken, the printout can be submitted in lieu of the tax return copies. However, if the IRS has determined that an error was made on any of the requested tax returns, the staff will not issue a printout; they will instead issue an IRS Letter 1722.

c. For Applicants who are unable to obtain a computer printout from the IRS, as described above, the Applicant can request instead IRS Letter 1722, which summarizes pertinent data from the Applicant's tax returns for the requested years. However, the Applicant must also obtain on the Letter 1722 a statement from the IRS that no mortgage interest deduction was taken during the three year period if the Applicant filed a Form 1040 (long) for one or more of the three years.

d. For Applicants who cannot locate copies of their actual tax returns submitted to the IRS, the Applicant may request copies of the returns from the IRS using Form 4506. Copies generally will be sent to the Applicant within 6-8 weeks. The IRS may charge a fee for this service.

e. In the event the Applicant was not obligated to file federal income tax returns for any of the preceding three (3) years, it will be necessary for the Lender to state so on the Tax Return Affidavit or on their own form. This document must be included in the MCC Application Package. Applicants who cannot provide tax returns because they did not file them when required to do so, and who have failed to file for an extension, are not eligible for the Program.

Applications that are not completed by April 15th of a given year need to be accompanied by the preceding year's tax return, or acceptable substitute documentation, discussed above. For example, after April 15, 2010, the completed 2009 return will be required.

If one or more of an Applicant's tax returns reflect that the Applicant took a deduction for mortgage interest or real estate taxes on property claimed not to be the Principal Residence, documentation is required to demonstrate the rental status for that property during the relevant period (for example, rent receipts or canceled checks). Documentation of the rental history may be required for the period from the last tax return filed to the MCC application date.

An ownership interest in a mobile home will be considered a prior ownership interest in a Principal Residence if the mobile home was (1) permanently attached or anchored to land and has had the wheels and other components used in transportation removed, and (2) taxed as real property. The same test for "permanently attached" applies for the First-Time Homebuyer requirement as for the Residence Requirement.

Remember, except for cases involving a self-employed Applicant, the Applicant submits copies of three year's tax return NOT to verify Income, but to verify First-Time Homebuyer status.

2.2 Income Limitation

Qualified Applicants must have an annual gross household income that is within Program limitations. Income is calculated by taking the Applicant's current gross monthly income, as well as that of anyone else who is expected to live in the Residence and become liable on the Deed of Trust or Mortgage (including a non-purchasing spouse) and multiplying that amount by 12. For the maximum Income limitations, see the current Fact Sheet. Verification of the Applicant's income is performed by the Lender and the Program Administrator. All persons whose income must be considered in processing the MCC application must also meet all other individual requirements of the Program, including the First-Time Homebuyer requirement, and each such person must execute all applicable Program Affidavits. This generally applies to spouses whether or not such spouse's Income is used to qualify for credit underwriting purposes.

Two Methods of Computation The Lender chooses from two methods of Income computation depending on whether the Applicant is employed or self employed. Generally, Income for an employed person is computed by multiplying the current gross monthly income figure times twelve. Sporadic income may be averaged and added to that base figure for a total. Income for a self-employed person is computed by averaging the year-to-date total on a current profit and loss statement with the net income figures from the two most recent years' federal income tax returns (with depreciation added back in). Detailed instructions for calculating the Applicant's Income are included in Appendix B.

Sources of Income The IRS requires that every source of income, taxed or untaxed, be included in the calculation of Income for the MCC. See Appendix B for a complete listing of the sources of income which must be considered in computing Applicant Income.

Prior Year Earnings On some pay stubs the year-to-date earnings include pay from the last part of the prior year. In such circumstances, the Applicant should request that the employer provide a signed statement of verification. Otherwise, the Applicant may be deemed to exceed the Income limitations, due to an inflated average, and be disqualified.

Certification of No Income Each adult living who will be living and liable on the Deed of Trust or Mortgage at the Residence but who does not receive any income must submit an executed statement saying the earn no income and include it in the MCC Application Package. A Certification of No Income form is provided on the Program Administrator's website.

2.3 Residence Requirement

The Applicant must use the Residence for which the MCC is issued as his or her Principal Residence. The Applicant must submit all applicable Program Affidavits, which includes a statement of the Applicant's intent to use the Residence as his or her Principal Residence, within a reasonable time (60 days) after the MCC is issued. This Affidavit further states that the MCC holder will promptly notify the Lender and the Issuer of the MCC if the Residence ceases to be his or her Principal Residence. A residence that is primarily intended to be used as a vacation home or in a trade or business is not a "Principal Residence."

2.4 Usage of Residence in a Trade or Business

The land attached to a Residence will be considered a part of the Residence only if such land reasonably maintains the basic livability of the Residence and does not provide, other than incidentally, a source of income to the mortgagor.

Except for the units rented in a two-to-four unit dwelling, where one unit is owner-occupied, the Applicant cannot use more than 15% of the Residence in a trade or business. The Lender should review the Applicant(s) tax returns to see if the Applicant(s) deducted any portion of the cost of the Residence as a home business expense and determine whether more than 15% of the Residence was used. Applicants providing childcare in the home are assumed to be using more than 15% of the residence for business purposes and, therefore, would not qualify for the Program.

2.5 Legal Separation/Prenuptial Agreements

Legal separation agreements are not sufficient to exclude a spouse from the determination of whether the separated spouse meets the Program's eligibility requirements. Program compliance requires verification of both spouse's income and property ownership status. The Lenders must treat separated Applicants as married, and both Applicants must meet the Income and property guidelines. Prenuptial agreements are not acceptable to exclude a spouse from the eligibility requirements in cases where Applicants have filed joint tax returns and real estate tax deductions have been realized at any time in the previous three years.

2.6 Non-Purchasing Spouses

Non-purchasing spouses must be considered in determining eligibility to participate in the Program. A spouse may never be excluded from the calculation of Income. Although a spouse may not be an applicant for the mortgage, and his or her income may be excluded for credit underwriting purposes, a spouse's income must always be considered in the calculation of Income. Spouses must also execute all applicable Affidavits, even if the spouse has no income.

In addition, any person whose income is used for purposes of Program qualification (i.e. non-purchasing spouses) must also meet the standard of First-Time Homebuyer, where applicable. A non-purchasing spouse may disqualify the purchasing spouse even if the purchasing spouse fully meets the Program terms. The Lenders are cautioned to ensure that non-purchasing spouses provide tax return and income information as well as executing all applicable Affidavits.

2.7 MCC Assumptions

The MCC is assumable. A loan assumption associated with an MCC will be treated as a new MCC application, and the procedures outlined in this Manual will be repeated. Since an MCC will already be outstanding, an MCC Commitment will not be issued, but all of the required Program documents will be submitted at one time with the MCC Application Package. A single MCC Assumption Fee of $250.00 will be charged by the Program Administrator in connection with such transfers.

If the loan is assumed by a new purchaser, the MCC may be transferable under certain circumstances:

a. The transferee must demonstrate he or she has assumed the liability for the remaining balance of the loan.

b. The new MCC must meet all of the conditions of the original certificate, and any changes in federal, state or Issuer policy that amends the requirements of the original MCC.

2.8 Eligible Borrowers

An Eligible Borrower under the Program is someone:

(i) A Professional Educator is a person, at the time such person files an application for a Mortgage Loan:

(a) who is at least one of the following—

(i) Classroom teacher;

(ii) Full-time teacher's aide;

(iii) Full-time school librarian;

(iv) Full-time school counselor;

(v) Full-time school nurse; or

(vi) Allied health or professional nursing program faculty member

(b) who resides in the State;

(c) whose income does not exceed the Maximum Family Income (which cannot exceed the maximum amount permitted under Section 143(f) of the Code);

(d) who intends to occupy the Residence to be financed with a Mortgage Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the Closing of such Mortgage Loan;

(e) who (except in the case of an Eligible Borrower who is obtaining a Targeted Area Mortgage Loan, the property they are purchasing is in a Rita GO Zone or Disaster Area, or is a Qualified Veteran) has not had a Present Ownership Interest in a Principal Residence (except for the Residence being financed with the Mortgage Loan) at any time during the three-year period ending on the Closing Date;

(f) who has not had an existing mortgage (including a deed of trust, conditional sales contract, pledge, agreement to hold title in escrow, or any other form of owner-financing), whether or not paid off, on the

Residence to be financed with such Mortgage Loan at any time prior to the execution of the Mortgage, other than an existing mortgage securing a construction period loan, construction bridge loan, or similar temporary initial construction financing initially incurred within 24 months of the Closing Date, having an original term not exceeding 24 months, and not providing for scheduled payments of principal during such term; and

(g) who has not previously obtained a Commitment for a Mortgage Loan under the Program.

(ii) A Hero is a person, at the time such person files an application for a Mortgage Loan:

(a) who is at least one of the following—

(i) Fire Fighter;

(ii) Corrections Officer or Juvenile Corrections Officer;

(iii) County Jailer;

(iv) Public Security Officer;

(v) Peace Officer; or

(vi) Emergency Medical Service Personnel;

(b) who resides in the State;

(c) whose income does not exceed the Maximum Family Income (which cannot exceed the maximum amount permitted under Section 143(f) of the Code);

(d) who intends to occupy the Residence to be financed with a Mortgage Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the Closing of such Mortgage Loan;

(e) who (except in the case of an Eligible Borrower who is obtaining a Targeted Area Mortgage Loan, the property they are purchasing is in a Rita GO Zone or Disaster Area, or is a Qualified Veteran) has not had a Present Ownership Interest in a Principal Residence (except for the Residence being financed with the Mortgage Loan) at any time during the three-year period ending on the Closing Date;

(f) who has not had an existing mortgage (including a deed of trust, conditional sales contract, pledge, agreement to hold title in escrow, or any other form of owner-financing), whether or not paid off, on the Residence to be financed with such Mortgage Loan at any time prior to the execution of the Mortgage, other than an existing mortgage securing a construction period loan, construction bridge loan, or similar temporary initial construction financing initially incurred within 24 months of the Closing Date, having an original term not exceeding 24 months, and not providing for scheduled payments of principal during such term; and

(g) who has not previously obtained a Commitment for a Mortgage Loan under the Program.

(iii) A Low Income borrower is a person, at the time such person files an application for a Mortgage Loan:

(a) whose Family Income does not exceed the applicable Maximum Family Income amount, which amount shall not be greater than 80% of Applicable Median Family Income without adjustment for family size;

(b) who intends to occupy the Residence to be financed with a Mortgage Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the Closing of such Mortgage Loan;

(c) who (except in the case of an Eligible Borrower who is obtaining a Targeted Area Mortgage Loan, the property they are purchasing is in a Rita GO Zone or Disaster Area, or is a Qualified Veteran) has not had a Present Ownership Interest in a Principal Residence (except for the Residence being financed with the Mortgage Loan) at any time during the three-year period ending on the Closing Date;

(d) who has not had an existing mortgage (including a deed of trust, conditional sales contract, pledge, agreement to hold title in escrow, or any other form of owner-financing), whether or not paid off, on the Residence to be financed with such Mortgage Loan at any time prior to the execution of the Mortgage, other than an existing mortgage securing a construction period loan, construction bridge loan, or similar temporary initial construction financing initially incurred within 24 months of the Closing Date, having an original term not exceeding 24 months, and not providing for scheduled payments of principal during such term; and

(e) who has not previously obtained a Commitment for a Mortgage Loan under the Program.

2.9 Qualified Veteran

A Qualified Veteran means a person who is a "veteran" (as defined in 38 U.S.C. Section 101) who has not previously obtained a loan financed by single family mortgage revenue bonds or a loan which utilized a mortgage credit certificate program using the veteran's exception to the 3-year requirement set forth in Section 143(d)(2)(D) of the Code. The Qualified Veteran must provide true and correct copies of their discharge or release papers, which demonstrate that such discharge or release was other than dishonorable.

2.10 Homebuyer Education

Homebuyer Education is required on <u>any loan closed</u> under the Texas State Affordable Housing Corporation's MCC Program. Homebuyer Education Requirement may be met by:

1) Attending one-on-one counseling as provided through a network of HUD-approved certified Texas Statewide Homebuyer Education providers

2) On-line counseling offered through mortgage insurance companies;

3) HUD, Fannie Mae or Freddie Mac approved lender programs.

A copy of the Homebuyer Education Certificate must be included in the MCC Application Package submit to the Program Administrator.

<u>SECTION 3 – LOAN ELIGIBILITY</u>

3.1 Types of Loans

The Program does not place restrictions on the mortgage financing with regard to type, term or rate. If a loan is not being financed as an FHA, VA, USDA-RHS, Fannie Mae or Freddie Mac mortgage loan, you must obtain an exception from the Program Administrator. However, only first mortgages (as opposed to second mortgages) qualify for this Program. In addition, mortgages funded with a qualified mortgage bond or a qualified veteran's mortgage bond are not eligible. The Lender and the Applicant, using the Program Affidavits, represent that no portion of the financing for acquisition of the Residence is provided by a qualified mortgage or veteran's bond.

3.2 New Mortgage Requirement

An MCC cannot be issued in conjunction with the replacement of an existing mortgage; however, an MCC can be used in conjunction with the replacement of construction period loans or bridge loans of a temporary nature. Construction period or bridge loans cannot have durations of longer than 24 months. The Lender must obtain from the Applicant, via the Program Affidavits, a statement to the effect that the loan being made in connection with the MCC will not be used to acquire or replace an existing mortgage or land contract.

SECTION 4 – PROPERTY ELIGIBILITY

4.1 Eligible Loan Area

The home being purchased must be located in the Eligible Loan Area. Please see the Fact Sheet on the Program Administrator's website for the Eligible Loan Area for this Program. The Lender should verify the property's location within the Eligible Loan Area by reviewing the property appraisal and location where the property taxes are paid.

4.2 Qualifying Residences

An MCC can be used for either new or existing single-family homes, detached or attached structures, consisting of not more than four connected dwelling units intended for residential housing, each for one family, or a single unit in a condominium, or townhouse. A single unit in a duplex, triplex, or fourplex, or an entire duplex, triplex, or fourplex can be financed, provided that one of the units will be occupied by the Applicant and the Residence was first occupied for residential purposes at least five years prior to origination of the mortgage loan. However, this five-year requirement does not apply to a single unit in a duplex.

If the subject property has two, three or four units and is in a Non-Targeted Area census tract, the Lender must submit documentation verifying that the structure was first occupied at least five years prior to the date of application. An appraisal or property profile of the subject property showing that it was more than five years old would normally suffice as verification. Two- to four- unit properties of any age, new or existing, are eligible in Targeted Areas.

Manufactured homes are also eligible, but they must meet agency guidelines and Program requirements. To qualify, a manufactured home must be manufactured in a factory after June 15, 1976 that is delivered to a home site in more than one section and affixed on a permanent foundation. The dimensions of the completed dwelling shall be not less than 20 feet by 40 feet, the roof must be sloping, the siding and roofing must be the same as those found in site built dwellings.

Mobile homes are allowed but must meet be permanently affixed to the ground with a poured foundation, and taxed as real property.

The following types of properties are not eligible for the Program:

a. Rental homes
b. Cooperative housing
c. Home used as investment property
d. Recreational, vacation or "second" homes
e. Motor homes, campers and similar vehicles

Property being purchased must meet the applicable agency guidelines and be located in the Eligible Loan Area.

4.3 Purchase Price Limitation

The Acquisition Cost cannot exceed the maximum Purchase Price limits. The maximum Purchase Price (or Acquisition Cost) figures are based on a percentage of the Average Area Purchase Price, as determined and updated by the IRS. For current maximum Purchase Price figures, see the Fact Sheet on the Program Administrator's website.

4.4 Targeted Area Set-Aside Requirement

If applicable, certain census tracts within the Eligible Loan Area of the Program will be designated "Targeted" by the Census Bureau as "areas of chronic economic distress." Applicants purchasing in these census tracts do not have to meet the First-Time Homebuyer requirement. Also, the federally recommended Income and Purchase Price maximums in targeted census tracts are higher. Of each MCC allocation received by a participating issuer, 20% is set aside for use in Targeted Areas for one year (the "Targeted Area Origination Period"). If applicable, a list of census tracts in the Program's Targeted Areas are in the Fact Sheet on the Program Administrator's website.

4.5 Rita GO Zone

If applicable, certain areas within the Eligible Loan Area of the Program will be designated as a Rita GO Zone. Applicants purchasing in these areas do not have to meet the First-Time Homebuyer requirement. Also, the federally recommended Income and Purchase Price maximums in the Rita GO Zone are higher. The Texas counties designated pursuant to the Act are Angelina, Brazoria, Chambers, Fort Bend, Galveston, Hardin, Harris, Jasper, Jefferson, Liberty, Montgomery, Nacogdoches, Newton, Orange, Polk, Sabine, San Augustine, San Jacinto, Shelby, Trinity, Tyler, and Walker.

4.6 Disaster Areas

The following Texas counties have been declared disaster areas (not included in the Rita GO Zone): Austin, Cameron, Cherokee, Grimes, Hidalgo, Houston, Madison, Matagorda, Waller, Washington and Willacy. Applicants purchasing in these areas do not have to meet the First-Time Homebuyer requirement. Also, the federally recommended Income and Purchase Price maximums in the Disaster Areas are higher.

SECTION 5 – HOW TO BECOME A PARTICIPATING LENDER

5.1 Lender Eligibility

For the Program, a "Lender" is any corporation licensed to originate and/or fund first mortgage loans in the State of Texas. All brokers and retail and wholesale Lenders who wish to participate in the Program in any way must be enrolled in the Program. To enroll and maintain active status in the Program a Lender must sign a Lender Participation Agreement and abide by the Program requirements and procedures, including but not limited to:

a. Designate a contact person for each branch office participating in the Program and for the main business office.

b. Pay the Program Participation Fee referred to in the Lender Participation Agreement, if applicable.

c. Require all lending personnel involved in the Program to attend and complete the MCC training sessions. Lenders will not be listed as a participating lender on the Program Administrator's or Issuer's website until training has been completed.

d. Provide this Manual to all personnel involved in the Program.

e. Return the Applicant's MCC Closing Package to the Program Administrator within ten days after loan Closing or by the end of the Program Period, whichever occurs first.

f. Cooperate with the Issuer and Program Administrator in providing the highest quality service to all Applicants.

SECTION 6 - LOAN PROCESSING AND UNDERWRITING PROCEDURES

6.1 Overview

In general, Lenders process mortgage loan applications for MCC Applicants similarly to traditional mortgage applications. The principal difference is processing of the MCC application along with the mortgage loan.

The procedures below are designed to coincide with the mortgage loan processing and underwriting procedures that are standard in the industry and among most mortgage lending institutions. Recognizing there are procedural variations among the participating Lenders, the procedures outlined herein are meant to serve as guidelines with respect to the sequence of events. However, all the elements of the processing sequence outlined in this Manual must be completed, regardless of sequence, by the Lender, the Program Administrator, the Applicant, and the Seller.

The Lender will be required to submit certifications on which it will state that to the best of its knowledge, no material misstatements appear in the application and program documents. If the Lender becomes aware of misstatements, whether negligently or willfully made, it must notify the Program Administrator immediately, who will take action to correct or mitigate the problem.

The Lender should also be aware and inform the Applicant that criminal penalties are provided by federal and state law if a person makes a false statement or misrepresentation so as to obtain participation in this Program. In an attempt to assure that all requirements are clear, an Affidavit, which is part of the MCC application, is required to be executed by each Applicant and must be included in the MCC Application Package that is submitted.

The MCC cannot be used with special bond-backed mortgages. The MCC program imposes no other restrictions on the type of financing arrangement the Lender uses. The Lender is to follow FHA, VA, USDA-RHS, Fannie Mac and Freddie Mac guidelines, as applicable. The MCC Program allows the use of any standard mortgage instrument being generally used in the marketplace and places no restrictions on terms such as the length of the mortgage, underwriting ratios or buyer credit status.

6.2 The Steps of Loan Origination and MCC Application

The following is a step-by-step description for the processing of MCC applications for the Program.

a. The Applicant applies for a mortgage loan through a participating Lender.

b. The Lender gives the Applicant a Program brochure and discusses the requirements of the Program to determine eligibility for an MCC.

c. The Lender determines that the Applicant is an eligible candidate for an MCC, based upon Profession, if applicable, Income, Purchase Price, First-Time Homebuyer status unless the home being purchased is within a Targeted Area census tract, Disaster Area, the Rita GO Zone or the Applicant is a Qualified Veteran, tax liability, and the other factors discussed herein.

d. The Lender asks the Applicant to supply copies of his or her signed income tax returns (or applicable alternatives listed in Section 2.1) for the last three years, unless the home being purchased is within a Targeted Areas, Disaster Areas, Rita GO Zone or if an Applicant is a Qualified Veteran. Explain to the Applicant that his or her spouse must also submit signed income tax returns, whether or not the couple is living together.

e. Explain to the Applicant that the MCC Application Fee (see the Fact Sheet for the amount) is non-refundable. The only exception made to this rule is when funds are no longer available. In such circumstances, the MCC Application Package and fee will be returned to the sender at the sender's expense. The MCC Application Fee must be a corporate check. The MCC Application Fee will be sent in the MCC Closing Package submitted to the Program Administrator. It will be included in one check with the MCC Closing Package Review Fee and the MCC Issuance Fee made payable to First Southwest Company.

f. Collect all required Income documentation from the Applicant, including:

   1. If Applicant is employed, obtain a copy of a recent (30 days or less) year-to-date pay stub. If the Applicant is self employed, ask for a profit and loss statement for the current year, as well as two prior year's tax returns.

   2. Collect documentation of all additional sources of Income (see Appendix B for types of Income to be included). Explain to the Applicant that his or her spouse must also submit Income documentation, whether or not the couple is living together.

g. The Lender reviews the sales agreement for the Residence to determine that the sales price is less than the Program's maximum Purchase Price.

h. Explain to the Applicant that he or she will receive the MCC in the mail from the Program Administrator after the Close of Escrow.

i. Explain to the Applicant how to calculate the amount of tax credit that they will be entitled to upon the issuance of the MCC.

j. Upon fully discussing the Program with the Applicant and gathering all of the necessary documentation to verify the Applicant's eligibility, the Lender is ready to start the reservation process.

k. The Lender reserves funds by emailing or faxing the Program Administrator the Reservation of Funds form. The following are the steps for reserving funds:

   1. The Lender commits to accept applications for MCCs in all its lending offices within the Eligible Loan Area and, subject to funding limitations, MCC applications must be accepted and MCCs will be issued on a first-come, first-served basis, irrespective of the Applicant's race, color, religion, national origin, age, or gender. There will be no restrictions as to the total number of Reservations of Funds issued to any particular Lender except for the Program limits.

2. At the time the Lender makes a Reservation of Funds, the Lender must have a mortgage loan application from an Applicant and the Lender must have made a preliminary determination that the Applicant qualifies for the Program. In addition, the Applicant must have furnished the Lender with a property sale contract or construction contract executed by the Applicant and the seller or builder of a Residence.

3. Beginning on the date designated by the Issuer, the Lenders may begin reserving funds by emailing or faxing the Program Administrator the Reservation of Funds form. Within 2 business days of receipt of the Reservation of Funds form, the Program Administrator will email the Lender a Reservation Confirmation which includes a commitment number and Commitment Expiration Date. The Lender should print a copy of the Reservation Confirmation to include it with the MCC Application Package.

4. The Lender must furnish the Program Administrator with the MCC Application Package within 72 hours (three working days) after issuance of an MCC commitment number. Failure to deliver the requested documentation to the Program Administrator within the time specified may result in cancellation of the Reservation of Funds.

5. The MCC reservation is valid for 120 days. 30 day extensions may be allowed with the prior approval of the Program Administrator, but in no event can a reservation be extended past the expiration of the Program Period.

6. The Program Administrator will not allow a transfer of any Reservation of Funds from one eligible Applicant to another, but may allow a loan transfer from one approved Lender to another. The Program Administrator will honor the original Commitment Expiration Date as long as all other conditions are unchanged. The transfer will be recognized and approved by the Program Administrator only after written notification is received from the originating Lender. The Reservation of Funds committed to an eligible Applicant may be transferred from one property to another with the prior approval of the Program Administrator.

l. Once a Reservation of Funds has been made, the Lender prints the Affidavits from the Program Administrator's website. The Lender needs to complete all blanks and review these Affidavits for accuracy.

m. The Lender and Applicant together review and execute the MCC Application and Affidavit. This document serves as the application and contains the certifications in affidavit format required by regulations governing the Program. These include:

1. Certification that the Residence will be used as a Principal Residence and that the MCC holder will promptly notify the Lender and the Program Administrator if the home ceases to be the Principal Residence of the MCC holder;

2. Certification that the Applicant has not had an ownership interest in a Principal Residence during the preceding 3-year period (not required for property in a Targeted Areas, Disaster Areas, Rita GO Zone or if an Applicant is a Qualified Veteran);

3. Certification that the Purchase Price does not exceed the Program Purchase Price limits;

4. Certification that the Residence is located within the Eligible Loan Area;

5. Certification that the borrower is an Eligible Borrower, if applicable;

6. Certification that the MCC application accompanies a new mortgage loan, as defined in the Internal Revenue Code;

7. Certification that the loan applied for does not constitute a prohibited mortgage, such as a mortgage financed through the sale of bonds or a single family bond loan;

8. Certification that the Lender was selected by the Applicant in his or her sole discretion;

9. Certification that the Applicant's gross annual income does not exceed permitted Program Income limits;

10. Certification that no interest on the loan is being paid to a related person;

11. Notice to the Applicant of potential recapture tax. The Lender should provide the Applicant with the Reality of Recapture Tax and Frequently Asked Questions, all of which can be found on the Program Administrator's website. The Lender can refer to Appendix C for additional information on Recapture Tax, as well as refer Applicants to the Program Administrator for any additional questions.

12. Certification that the MCC cannot be transferred without the prior written approval of the Program Administrator in accordance with the Program requirements;

13. Acknowledgement that that statements are made under penalty of perjury and that any material misstatement or fraud may create civil or criminal liability; and

14. Certification that the Lender's signature is by an authorized agent of the Lender.

n. The Lender reviews and completes any blanks on the MCC Seller Affidavit, has Seller execute and submits a copy of the completed form in the MCC Application Package. If Seller Affidavit submitted in the MCC Application Package is not signed, a copy of the completed and signed MCC Seller Affidavit must be included in the MCC Closing Package.

o. Within 72 hours of registering the Applicant with the Program Administrator, the Lender transmits to the Program Administrator by email, fax or mail the MCC Application Package containing:

1. Copy of MCC Application Checklist
2. Copy of MCC Reservation Confirmation
3. Copy MCC Application and Affidavit signed by any individual who executes the Deed of Trust and the Lender.
4. Copy of supporting Income documentation (i.e. current pay stubs) for any individuals executing the Deed of Trust.
5. Copy of professional certification or license, as applicable
6. Copy of Homebuyer Education Certificate
7. Copy of DD214 or discharge papers showing honorably discharged, if a Qualified Veteran
8. Copy of Loan Application (1003)
9. Copy of MCC Seller Affidavit signed by the Seller.
10. The MCC Application Fee will not be included in the MCC Application Package. It will be collected at closing and included in the MCC Closing Package in one check with the MCC Closing Package Review Fee and the MCC Issuance Fee made payable to First Southwest Company (see Fact Sheet for amount). Payment must be in the form of a corporate check.
11. Copy of three years tax returns (not required if purchasing a home in a Targeted Area, Disaster Area, Rita GO Zone or Applicant is a Qualified Veteran). If submitting the forms the Applicant filed with the IRS, they must be signed. Printouts from the IRS do not need to be signed. Tax return are required for any individual who executes the Deed of Trust.

12. Copy of rental verification (written or verbal) from the last tax return to the application date (not required if purchasing a home in a Targeted Area, Disaster Area, Rita GO Zone or Applicant is a Qualified Veteran)
13. Copy of the first and last pages ONLY of the purchase contract agreement and any counter offers (signed by all parties)

In all cases, the Lender must submit the MCC Application Package and receive the MCC Commitment prior to Closing the mortgage loan.

p. The Program Administrator accepts and reviews the contents of the MCC Application Package within 5 calendar days of receipt, inspects it for the Lender's and Applicant's certifications, and reviews it for completeness and accuracy. The Program Administrator will review the MCC Application Packages in the order in which they are received. After the Application Package is approved, the Program Administrator issues an MCC Commitment to the Lender. By the MCC Commitment Expiration Date, the Lender must either: (1) submit the Closing Package; (2) submit written notice of MCC cancellation; or (3) request a 30-day extension. The MCC Commitment Expiration Date is the sooner of: (1) the 30th calendar day after the Close of Escrow, (2) 120 days from the issuance of the MCC Commitment, or (3) the end of the Program Period. The Lender should note that Income may be re-verified and a 30 day extension requested if the period between original verification and the closing is longer than 120 days. If the MCC Application Package is rejected for any reason, the Program Administrator will send the Lender an email explaining the basis for the rejection.

q. In addition to the MCC Commitment, the Program Administrator issues the MCC Closing Package Checklist and the MCC Closing Affidavit to the Lender, which must be reviewed, and any remaining blanks completed, dated and executed at the Closing.

r. The Program Administrator maintains a cumulative-to-date total of credit amounts reserved and the aggregate amount of MCCs to be issued, and notifies the Lenders in advance when funds are about to be depleted.

s. The Lender completes the remainder of the mortgage application process according to standard mortgage procedures.

6.3 Lender Underwriting and Verification Steps

a. The Lender performs standard mortgage loan underwriting procedures. Since the Issuer and the Program Administrator will not make or hold these mortgages, neither the Issuer nor the Program Administrator will underwrite the mortgages. Rather, all loan approval, underwriting and execution of the required state and federal certifications or Affidavits will be performed by the Lenders participating in the Program.

b. The Lender must take into consideration the effect of the MCC when determining the total amount of household Income available for the monthly housing payment in order to determine the Applicant's qualifications. The conventional approval and underwriting standards should be modified to reflect recognition of the MCC-derived mortgage interest credit in determining housing expense and indebtedness ratios. The secondary mortgage market and the mortgage insurance industry have established underwriting policies for loans involving MCCs. These are available as policy statements from the mortgage lending industry.

c. In conjunction with the Lender's regular verification process, and pursuant to the Lender Participation Agreement, the Lender performs reasonable investigation that all MCC Program requirements have been satisfied. The Lender may verify these facts in any reasonable, efficient manner, as dictated by standard industry practices for processing mortgage loan applications.

SECTION 7 – LOAN CLOSING PROCEDURES

7.1 Loan Closing

Once the Lender has received the MCC Commitment, the Lender is allowed to proceed with the Closing of the mortgage loan.

a. The Lender confirms that the MCC Commitment has not expired and closes the loan in the normal fashion with the Applicant.

b. Using the MCC Package Closing Checklist and MCC Closing Affidavit issued to the Lender with the MCC Commitment, the Lender reviews and completes any remaining blanks on the form, indicating the date of closing, and declaring any material changes. The Lender forwards it the Applicant for execution prior to Closing or to the title company to have the Applicant sign at Closing.

c. The Lender forwards loan documents, a copy of the MCC Seller Affidavit, if not executed prior to Closing, the copy of MCC Closing Affidavit, the amount of the MCC fees to be collected (MCC Application Fee, the MCC Closing Package Review Fee and the MCC Issuance Fee) and any other Closing conditions the Program Administrator stated on the MCC Closing Package Checklist to the selected escrow officer with instructions for closing the loan and having the Applicant date and sign the MCC Closing Affidavit and any other documents per the MCC Closing Package Checklist. The escrow officer returns proper documentation for the MCC

Closing Package and the executed MCC Closing Affidavit to the Lender or sends directly to the Program Administrator in the MCC Closing Package.

d. No later than the 30th calendar day after the Close of Escrow or the end of the Program Period, whichever occurs first, the Lender submits the MCC Closing Package to the Program Administrator's office. The package includes:

1. Copy of MCC Closing Package Checklist;

2. MCC Application Fee, MCC Closing Package Review Fee and the MCC Issuance Fee (See Fact Sheet for amounts). These fees must be in the form of a corporate check or cashiers check made payable to the First Southwest Company.;

3. The MCC Closing Affidavit with: a) the date of Closing, b) the Maturity Date c) both the date and signature of Applicant(s), executed in no case more than 14 days before the date the loan is recorded;

4. Copy of Mortgage Note;

5. Copy of executed MCC Seller Affidavit if not provided in MCC Application Package; and

6. Any additional documentation required as a condition of the MCC Commitment.

The MCC Application Fee, MCC Closing Package Review Fee and the MCC Issuance Fee may be paid by the Applicant, the Seller, the Lender or any other person on the Applicant's behalf. In addition to the fees above and the other fees discussed herein, the Lender may collect and retain at loan Closing an MCC Document Handling Fee of up to $100.00. Such fee may be paid by the Applicant, the Seller or any other person on the Applicant's behalf.

e. The Program Administrator reviews the Closing Package and verifies that all necessary documents have been submitted within 30 calendar days after the Close of Escrow or by the end of the Program Period, whichever occurs first. Upon approval, the Program Administrator issues the MCC directly to the Applicant(s). The Applicant also receives the completed 009 - MCC Recapture Tax Notice and a copy of the IRS Form 8396 to be filed with the Applicants' federal income tax returns. The Program Administrator will send the Lender a copy of the MCC and other documents sent to the Applicant(s) for their records.

f. The Lenders must adhere to the timeframe of the Program Period and promptly notify the Program Administrator in writing of any MCC cancellations and requests for MCC Commitment extensions. **Regardless of the MCC Commitment Expiration Date, the Closing Package is due to the Program Administrator no later than 30 calendar days after the Close of Escrow or by the end of the Program Period, whichever occurs first. At the discretion of the Program Administrator, failure to meet this deadline more than once may result in the levying of a Late Submission Fee to the Lender or expulsion from the Program, at the sole discretion of the Program Administrator.**

7.2 Resubmission of MCC Documentation

If an MCC Application Package or an MCC Closing Package has been returned or denied by the Program Administrator, any resubmission, if appropriate, must include all information which the Program Administrator has determined necessary for reconsideration. MCC Application Packages and MCC Closing Packages that are not legible or contain multiple errors will be returned to the Lender for correction and resubmission at the Lender's expense.

7.3 Cancellation and Commitment Expirations

Once a Lender has obtained the MCC Commitment, the Lender is obligated to complete the processing of that MCC application. The following steps apply in the event of a cancellation or MCC Commitment expiration:

a. In a case where the Applicant cancels or withdraws his or her application, written notice must be given to the Program Administrator prior to the expiration of the MCC Commitment. The notice must include the reason for the cancellation and be signed by both the Lender and the Applicant.

b. In a case where the MCC Commitment expires, the Lender must take one of the following steps, as applicable:

   1. If the loan has Closed, and the Closing took place within 120 days of the MCC Commitment, submit the MCC Closing Package;

   2. If the loan has not Closed, the Lender requests an extension and submits new Income verification documentation and the estimated closing date;

   3. If 120 days have passed since the MCC Commitment was issued, the Lender submits new Income verification documentation, and the MCC Commitment now becomes subject to the availability of Program funds; or

4. If the loan was cancelled, the Lender submits a cancellation notice, as described in Section 7.3a above.

In all cases, the expiration of the MCC Commitment without the required action by the Lender will result in the following (a) the Lender is placed on "Inactive Status," meaning the Lender may submit no new MCC applications until the problem is resolved; and (b) the Lender may be charged a Late Submission Fee, at the sole discretion of the Program Administrator. Late Submission Fees cannot be passed on to the Applicant. Failure to comply with this provision may result in the Lender's expulsion from the Program.

7.4 Delinquent Closing Documentation

If more than 30 days have passed since the MCC Commitment was issued, the Program Administrator may contact the Lender to request the status of the loan. If the Lender fails to timely provide to the Program Administrator the required MCC closing documentation (or a notice of loan cancellation or request for MCC Commitment extension), the corresponding MCC application will automatically be considered delinquent. A written notice will be sent to the Lender allowing 30 days to remedy the situation. A copy will be sent to the Applicant as notification that the MCC cannot be issued until the Lender meets the Program requirements. Such action may result in the Lender being charged a Late Submission Fee and/or suspended from the Program until the problem is remedied.

7.5 Program Fees and Charges

The Program Fees are outlined in the Fact Sheet, which is available on the Program Administrator's website.

Other than the required MCC fees, the Lender can only charge an Applicant those reasonable fees that the Lender would charge for a non-MCC mortgage loan application.

7.6 Revocations

a. Revocation of an MCC occurs when the Residence for which the MCC was issued ceases to be the MCC holder's Principal Residence.

b. Revocation will occur upon discovery by the Program Administrator or a participating Lender of any material misstatement, whether negligent or intentional, made in connection with the issuance of the MCC.

c. Revocation will occur if it is later discovered that the holder does not meet the requirements for an MCC.

d. Revocation will occur if the original (first) mortgage loan is refinanced, unless the Applicant applies for a Re-Issued MCC after the refinancing has closed. The tax credit may only be claimed for interest paid to the date of the recording of the refinancing, unless a Re-Issued MCC has been applied for and issued.

7.7 Re-Issued MCCs

The Program Administrator shall, upon payment by the MCC holder of an MCC Re-Issuance Fee, reissue an MCC for certain refinancings if the Program Administrator receives to its satisfaction evidence that:

a. The re-issued MCC is issued to the holder of an existing MCC with respect to the same property to which the existing MCC relates;

b. The re-issued MCC entirely replaces the existing MCC (that is, the holder cannot retain the existing MCC with respect to any portion of the outstanding balance of the certified mortgage indebtedness specified on the existing MCC);

c. The certified mortgage indebtedness specified on the re-issued MCC does not exceed the remaining outstanding balance of the certified mortgage indebtedness specified on the existing MCC;

d. The re-issued MCC does not increase the MCC credit rate specified in the existing MCC; and

e. The re-issued MCC does not result in an increase in the tax credit that would otherwise have been allowable to the holder under the existing MCC for any taxable year. The holder of a re-issued MCC determines the amount of tax credit that would otherwise have been allowable by multiplying the interest that was scheduled to have been paid on the refinanced loan by the MCC rate of the existing MCC. In the case of a series of refinancings, the tax credit that would otherwise have been allowable is determined from the amount of interest that was scheduled to have been paid on the original loan and the MCC rate of the original MCC.

7.8 Replacement MCCs

Replacement MCCs will be issued by the Program Administrator, subject to the provisions of Section 3.2 and at the expense of the MCC holder, a fully registered MCC in exchange for or in lieu of a mutilated, destroyed, lost, or stolen MCCs, so long as such replacement does not result in over issuance of the MCC. Every new MCC issued pursuant to this Section shall constitute a replacement of the predecessor MCC and shall be entitled to all the benefits of the MCC Resolution. Upon the satisfaction of the Program Administrator and the Issuer that an MCC has been mutilated, destroyed, lost or stolen, including the surrendering of the mutilated MCC to the Program Administrator, and upon receipt by the Program

Administrator and the Issuer of such indemnity or security as they may require, the Program Administrator shall cancel the original MCC, noting in its records that such MCC was mutilated, destroyed, lost, or stolen, and issue a replacement MCC.

The Program Administrator shall charge the owner of such MCC the Program Administrator's reasonable fees and expenses in connection with issuing a replacement MCC.

7.9 Penalties for Applicant Misrepresentation

Strict penalties may be imposed on any Applicant making a material misstatement, misrepresentation or fraudulent act on an MCC application or other document submitted to obtain an MCC. Further, any person making a material misstatement or misrepresentation in any affidavit or certification made in connection with the application for or the issuance of an MCC shall be subject to all applicable fines and penalties. Any MCC issued based on materially false information shall be automatically null and void without the need for any further action on behalf of the Issuer.

7.10 No Interest Paid to Related Persons

No interest on the mortgage (or certified indebtedness) amount may be paid to a person who is a "Related Person," as that term is defined under the Internal Revenue Code and applicable regulations. The Lender must obtain from the Applicant, using the Program Affidavits, a statement to that effect prior to Closing.

SECTION 8 – MODIFICATIONS

8.1 Changes in Current Income

The eligibility of the Applicant for an MCC is based upon the Applicant's current Income. The Program will issue the MCC Commitment based on facts pertaining to Income as they are determined as of the date the MCC Commitment is issued. The income verified for the MCC Commitment is valid as long as the loan closes within 120 days after the financial information was originally submitted and there are no additional sources of Income which should have been reported and were not.

Increases in Income sources already reported (i.e., salary increase) will not affect the validity of an MCC Commitment as long as the loan closes within 120 days from the time the MCC Commitment was issued. If the loan does not close within 120 days, a new application for a MCC must be submitted and current Income verified.

8.2 Changes in Marital Status

If the Applicant gets married after issuance of the MCC Commitment and prior to Closing, the spouse must satisfy the First-Time Homebuyer requirement unless the home being purchased is within a Targeted Areas, Disaster Areas, Rita GO Zone or if an Applicant is a Qualified Veteran and the Lender must notify the Program Administrator of the marriage. The Program Administrator will re-calculate the Applicant's household income to include the new spouse's Income. If the re-calculated total household Income exceeds the applicable maximum Income guideline, the MCC Commitment will be cancelled.

8.3 Change in Acquisition Cost

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 herein, the MCC Commitment shall be revoked. For a change in Acquisition Cost after the MCC Commitment and prior to Closing which does not exceed maximum Purchase Price guidelines, the Lender and Applicant will be required to submit a new version of: a) copy of the MCC application (page one amended and initialed by the Applicant), b) amended escrow instructions, and c) copy of the MCC Seller Affidavit.

8.4 Change in Property Address

If an Applicant has a pending application and changes the property he or she intends to purchase, the Lender must submit a new signed property sales agreement and a notice to the Program Administrator stating whether or not the mortgage amount has changed. If the change occurs after the Program Administrator issues the MCC Commitment, the following documents should be revised and resubmitted to reflect the new property address and any change in mortgage amount:

a. Copy of MCC Application and Affidavit (first page amended and initialed by the Applicant)
b. Property sales contract (first and last pages and any counter offers)
c. Copy of MCC Seller Affidavit

The Program Administrator re-prints the MCC Commitment with the original expiration date, provided that Program funding is available.

8.5 Changes in Loan Amount

Any change to the loan amount that occur after the MCC Commitment is issued, but before the Escrow Closing, must be reported to the Program Administrator immediately by telephone, and promptly followed up in writing. The change must also be declared on the MCC Closing Affidavit.

If the amount of the loan increases, thereby causing an increase in the credit amount, the MCC Commitment will be revoked if that increase exceeds Program limitations.

8.6 Change in Home Ownership Status

If the Applicant acquires a present ownership interest in a Principal Residence prior to the Closing, the MCC shall be revoked.

8.7 Lender's Obligation to Notify Program Administrator of Material Changes

Issuance of MCC Commitments is based (in part) upon the Applicant's and Seller's Affidavits and the Lender's certification that the Program requirements have been met. MCC Commitments are issued subject to the condition that all Program requirements are or will be met prior to issuance of the MCC. Thus, the Lender must immediately notify the Program Administrator in writing of any change in the circumstances upon which the MCC Commitment was issued. If any change of circumstances occurs such that the Program requirements are not met, the MCC Commitment will be revoked.

SECTION 9 – REPORTING

9.1 Lender Record Keeping and Federal Report Filing

a. The Lender is required by the IRS to file a report on or before January 31 for all of the MCCs issued during the previous calendar year. In early January, the Program Administrator will send the Lender the completed IRS Form 8329 with the MCCs issued the previous year. It is the Lender's responsibility to verify that the information on the form is correct and, if necessary, make any changes or additions and then submit the form to the IRS.

b. For six years after each Closing, the Lender must retain:

    1. Name, mailing address, and tax identification or social security number ("TIN") of the MCC holder.
    2. Name, mailing address, and TIN of the Issuer.
    3. Date of issuance for each loan, the certified amount of indebtedness and the credit rate of the MCC.

c. The Program Administrator, on behalf of the Issuer, may conduct audits of participating Lender records to ensure compliance with the recordkeeping provisions.

9.2 Program Administrator Reports

The Program Administrator, on behalf of the Issuer, must make quarterly reports on IRS Form 8330, beginning with the quarter in which the election for the MCC Program is made. The report must include:

a. Name, address, and TIN of the Issuer;
b. Date of election;
c. The sum of the products of the certified indebtedness amount (the mortgage amount or the initial principal balance) and the MCC credit rate for each MCC issued; and
d. Name, address, and TIN of each MCC holder where an MCC was revoked.

9.3 Program Administrator Annual Record Keeping

The Program Administrator shall make an annual report to the IRS for each year beginning July 1 and ending June 30. The report will include:

a. Number of MCCs issued by Income and Acquisition Cost; and
b. Volume of MCCs issued by Income and Acquisition Cost.

In January following each year during which MCCs are issued, the Program Administrator, on behalf of the Issuer, will mail an IRS Form 8396, Mortgage Interest Credit, to each MCC holder of record as a reminder to properly declare the MCC tax credit for federal income tax purposes.

SECTION 10 – AFFIDAVITS

10.1 Affidavits

The Program Affidavits can be found attached to this Manual and on the Program Administrator's website. When completing the Affidavits, be sure they are legible and accurate. All blanks must be completed. If a question is not applicable, insert N/A in the blanks for the answer. Changes to the Affidavits must be initialed by the Lender and the appropriate party.

Signatures under Power of Attorney are acceptable, provided they are accompanied by a copy of the Power of Attorney in the MCC Application Package or MCC Closing Package submitted to the Program Administrator.

APPENDICES

A. **DEFINITIONS**

B. **INCOME GUIDELINES**

C. **RECAPTURE TAX**

APPENDIX A

DEFINITIONS

As used in this Manual and all Program documents, unless the context requires otherwise, the following words and terms have the meanings set forth below:

ACQUISITION COST is used interchangeably with "purchase price". As new Average Area Purchase Price figures are determined, the maximum Purchase Price for non targeted areas represents 90% of the Average Area Purchase Price for new and previously occupied homes. In Targeted Area census tracts, Disaster Area or the Rita GO Zone, the maximum Purchase Price is 110% of the Average Area Purchase Price for new and previously occupied homes. The maximum Purchase Price limits can be found in the Fact Sheet.

The term "Acquisition Cost" has the meaning given under Section 143(k)(3) of the Code and the regulations thereunder, which currently is the cost to an Applicant of acquiring a Residence from the Seller as a completed residential unit, including:

- All amounts paid by the Applicant for the Residence.
- If Residence is incomplete or in need of rehabilitation, the reasonable cost of completing or rehabilitating the Residence.
- If Residence is purchased subject to a ground lease, the capitalized value of the ground rent.
- Cost of the property, such as light fixtures or wall-to-wall carpeting, so long as such property is considered to be a fixture under State Law, whether or not such fixtures are separately purchased by the Applicant.

Acquisition Cost **does not** include:

- Usual and reasonable settlement or financing costs. Settlement costs include titling and transfer costs, title insurance, survey fees, or other similar costs. Financing costs include credit reference fees, legal fees, appraisal expenses, "points" that are paid by the Applicant, (but not points paid by the seller) or other costs of financing the Residence.
- The value of services performed by the Applicant or members of the family in completing the Residence. The Acquisition Cost includes the cost of materials provided and work performed by subcontractors – whether or not related to the Applicant – but does not include the imputed cost of any labor actually performed by the Applicant or member of the family.
- If an Applicant has owned the land for more than two years prior to the date construction begins on a Residence, the Acquisition Cost for maximum Purchase Price is based on the cost of improvements only.
- If the land has been owned less than two years from the date construction begins on a Residence, the Acquisition Cost for maximum Purchase Price is determined by adding the cost of land to the cost of improvements.

- In cases where the land is received through inheritance or as a gift, Acquisition Cost for maximum Purchase Price is determined by adding the value of land to the cost of improvements.

The Acquisition Cost limitations are set forth in the Fact Sheet.

AFFIDAVIT means written statements made under oath and subject to the penalties of perjury that are filed in support of an MCC application.

AGGREGATE MCC ISSUANCE AUTHORITY means the total amount of funds available to issue MCCs. See the Fact Sheet for the amount of funding available.

ALLIED HEALTH PROGRAM FACULTY MEMBER means a full-time member of the faculty of an Undergraduate Allied Health Care Program or a Graduate Allied Health Care Program of a public or private institution of higher education in the State.

APPLICANT also **BORROWER, MORTGAGOR** or **HOMEBUYER** means any person who applies for an MCC under the Program that meets the criteria for an eligible borrower set forth in this Manual who is in the process of securing financing for the purchase of a Principal Residence.

AVERAGE AREA PURCHASE PRICE means with respect to a Residence, the safe harbor average area purchase price figures most recently published by the Department of the Treasury pursuant to section 143(e) of the Code for the statistical area (i.e., "metropolitan statistical area" as defined by the Secretary of Commerce, or county (or portion of a county) that is not within a metropolitan statistical area) in which such Residence is located, or such other average area purchase price figures that are based on more accurate and comprehensive data, as confirmed by the Internal Revenue Service or approved by Bond Counsel, than that used in calculating the safe harbor figures, as stated separately for New Housing and Existing Housing. Such figures may change from time to time.

CLOSE OF ESCROW or CLOSING means the date the mortgage loan is completed and the lien is recorded by the County Recorder.

CODE means the Internal Revenue Code of 1986, as amended.

COMMITMENT or MCC COMMITMENT is the securing of Program funds as evidence by a form issued by the Program Administrator based on funding availability and review of application documentation and the Lender's certification that the requirements necessary for issuance of a qualified MCC have been met. An MCC Commitment will be valid for 120 days or through the end of the Program Period. Generally, the Program permits a commitment for a loan that has not been funded. Depending on the circumstances, exceptions can be made. These exceptions may require payment of penalties by the Lender.

COMMITMENT EXPIRATION DATE means the date the MCC Commitment expires. The MCC Commitment Expiration Date is the **SOONER** of: (1) the 30th calendar day after the Close of Escrow, (2) 120 days from the issuance of the MCC Commitment, or (3) the end of the Program Period.

CORRECTION OFFICER means a corrections officer employed by the Texas Department of Criminal Justice or a juvenile correctional officer employed by the Texas Youth Commission.

COUNTY JAILER has the meaning assigned by Section 1701.001 of the Texas Occupation Code.

DISASTER AREAS mean areas declared disaster areas in the State of Texas other than the Rita GO Zone.

ELIGIBLE BORROWER means,

(i) <u>A Professional Educator</u> is a person, at the time such person files an application for a Mortgage Loan:

(a) who is at least one of the following—

(i) Classroom teacher;

(ii) Full-time teacher's aide;

(iii) Full-time school librarian;

(iv) Full-time school counselor;

(vii) Full-time school nurse; or

(viii) Allied health or professional nursing program faculty member

(b) who resides in the State;

(c) whose income does not exceed the Maximum Family Income (which cannot exceed the maximum amount permitted under Section 143(f) of the Code);

(d) who intends to occupy the Residence to be financed with a Mortgage Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the Closing of such Mortgage Loan;

(e) who (except in the case of an Eligible Borrower who is obtaining a Targeted Area Mortgage Loan, the property they are purchasing is in a Rita GO Zone or Disaster Area, or is a Qualified Veteran) has not had a Present Ownership Interest in a Principal Residence (except for the Residence being financed with the Mortgage

Loan) at any time during the three-year period ending on the Closing Date;

(f) who has not had an existing mortgage (including a deed of trust, conditional sales contract, pledge, agreement to hold title in escrow, or any other form of owner-financing), whether or not paid off, on the Residence to be financed with such Mortgage Loan at any time prior to the execution of the Mortgage, other than an existing mortgage securing a construction period loan, construction bridge loan, or similar temporary initial construction financing initially incurred within 24 months of the Closing Date, having an original term not exceeding 24 months, and not providing for scheduled payments of principal during such term; and

(g) who has not previously obtained a Commitment for a Mortgage Loan under the Program.

(ii) A Hero is a person, at the time such person files an application for a Mortgage Loan:

(a) who is at least one of the following—

(i) Fire Fighter;

(ii) Corrections Officer or Juvenile Corrections Officer;

(iii) County Jailer;

(iv) Public Security Officer;

(v) Peace Officer; or

(vi) Emergency Medical Service Personnel;

(b) who resides in the State;

(c) whose income does not exceed the Maximum Family Income (which cannot exceed the maximum amount permitted under Section 143(f) of the Code);

(d) who intends to occupy the Residence to be financed with a Mortgage Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the Closing of such Mortgage Loan;

(e) who (except in the case of an Eligible Borrower who is obtaining a Targeted Area Mortgage Loan, the property they are purchasing is in a Rita GO Zone or Disaster Area, or is a Qualified Veteran) has not had a Present Ownership Interest in a Principal Residence (except for the Residence being financed with the Mortgage Loan) at any time during the three-year period ending on the Closing Date;

(f) who has not had an existing mortgage (including a deed of trust, conditional sales contract, pledge, agreement to hold title in escrow, or any other form of owner-financing), whether or not paid off, on the Residence to be financed with such Mortgage Loan at any time prior to the execution of the Mortgage, other than an existing mortgage securing a construction period loan, construction bridge loan, or similar temporary initial construction financing initially incurred within 24 months of the Closing Date, having an original term not exceeding 24 months, and not providing for scheduled payments of principal during such term; and

(g) who has not previously obtained a Commitment for a Mortgage Loan under the Program.

(iii) A Low Income borrower is a person, at the time such person files an application for a Mortgage Loan:

(a) whose Family Income does not exceed the applicable Maximum Family Income amount, which amount shall not be greater than 80% of Applicable Median Family Income without adjustment for family size;

(b) who intends to occupy the Residence to be financed with a Mortgage Loan as his or her Principal Residence within a reasonable period (not to exceed 60 days) following the Closing of such Mortgage Loan;

(c) who (except in the case of an Eligible Borrower who is obtaining a Targeted Area Mortgage Loan, the property they are purchasing is in a Rita GO Zone or Disaster Area, or is a Qualified Veteran) has not had a Present Ownership Interest in a Principal Residence (except for the Residence being financed with the Mortgage Loan) at any time during the three-year period ending on the Closing Date;

(d) who has not had an existing mortgage (including a deed of trust, conditional sales contract, pledge, agreement to hold title in escrow, or any other form of owner-financing), whether or not paid off, on the Residence to be financed with such Mortgage Loan at any time prior to the execution of the Mortgage, other than an existing mortgage securing a construction period loan, construction bridge loan, or similar temporary initial construction financing initially incurred within 24 months of the Closing Date, having an original term not exceeding 24 months, and not providing for scheduled payments of principal during such term; and

(e) who has not previously obtained a Commitment for a Mortgage Loan under the Program.

ELIGIBLE LOAN AREA means the geographical area designated for the MCC Program by the Issuer. See the Fact Sheet for the Eligible Loan Area.

EMERGENCY MEDICAL SERVICES PERSONNEL has the meaning assigned by Section 773.003 of the Texas Health and Safety Code.

EXISTING HOUSING means a dwelling unit that has been previously occupied prior to the mortgage loan application.

FACT SHEET means the fact sheet found on the Program Administrator's website that contains Program specific information.

FIRE FIGHTER means a member of a fire department who performs a function listed in Section 419.021(3)(C) of the Texas Government Code.

FIRST-TIME HOMEBUYER means those persons who have not had an ownership interest in a "Principal Residence" in the last three years.

GRADUATE ALLIED HEALTH CARE PROGRAM means a postbaccalaureate certificate or master's or doctoral degree program in an allied health profession that is accredited by an accrediting entity recognized by the United State Department of Education.

GRADUATE PROFESSIONAL NURSING PROGRAM has the meaning assigned by Section 54.221 of the Texas Education Code.

HURRICANE RITA DISATER AREA means an area with respect to which a major disaster has been declared by the President before October 6, 2005, under Section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, by reason of Hurricane Rita.

INCOME means sources of revenue or income of the mortgagor (or mortgagors) and any other person who is expected to both live in the Residence being financed and to be secondarily liable on the Deed of Trust or Mortgage. All income derived from any source including income from wages, gross pay, overtime, pension, veterans compensation, bonuses, public assistance, alimony, net rental income, dividends and interest, and assets. The maximum Income limits can be found in the Fact Sheet. See Appendix B for more information on Income.

ISSUER means the housing finance corporation that is authorized to issue MCCs for the Program.

LATE SUBMISSION FEE means the fee paid by the Lender to the Program Administrator when the Lender consistently submits MCC Closing Packages late in the amount of $100.00. The payment of this fee will be at the discretion of the Program Administrator. See the Lender Participation Agreement for the amount.

LENDER means an institutional lender regulated by state or federal law, or any other entity that makes loans in its regular course of business that would qualify for MCC assistance, is authorized to do business in the Eligible Loan Area, and who has entered into a Lender Participation Agreement with the Issuer. A participating Lender can be either a Lender, correspondent or mortgage broker.

LENDER PARTICIPATION AGREEMENT means the various Lender Participation Agreements entered into by the Program Administrator, on behalf of the Issuer, and various Lenders, as they may be amended or supplemented, and relating to the issuance of the MCC's.

MANUAL means the document that outlines the requirement, limitations, qualifications and procedures associated with the Program, as such document may be amended or supplemented from time to time.

MCC APPLICATION FEE means the fee paid by the Applicant, the Seller, the Lender or any other person on the Applicant's behalf in accordance with agency guidelines for the review and issuance of the MCC Commitment. See the Fact Sheet for the amount.

MCC APPLICATION PACKAGE means the package submitted to the Program Administrator by the Lender once a Reservation of Funds have been made as stated in the Manual.

MCC CLOSING PACKAGE means the package submitted to the Program Administrator by the Lender within 30 calendar days of closing or by the end of the Program Period whichever occurs first.

MCC CLOSING PACKAGE REVIEW FEE means the fee paid by the Applicant, the Seller, the Lender or any other person on the Applicant's behalf in accordance with agency guidelines for the review of the MCC Closing Package. See the Fact Sheet for the amount.

MCC DOCUMANT HANDLING FEE means the fee collected by the Lender paid by the Applicant, the Seller or any other person on the Applicant's behalf in accordance with agency guidelines in the amount of up to $100.00 for the review of the MCC.

MCC ISSUANCE FEE means the fee paid by the Applicant, the Seller, the Lender or any other person on the Applicant's behalf in accordance with agency guidelines, which is the basis for the MCC. See the Fact Sheet for the amount.

MCC RE-ISSUANCE FEE means the fee of $100.00 paid by the MCC holder to the Program Administrator for the re-issuance of an MCC for certain refinancings.

MCC RESOLUTION means the resolution, or authorization, given by the governing body of the Issuer pursuant to which MCC's are issued.

MORTGAGE CREDIT CERTIFICATE RATE means the rate specified by the Program for the MCC. See the Fact Sheet for the Mortgage Credit Certificate Rate.

MORTGAGE CREDIT CERTIFICATE (MCC) means a document issued by the Program Administrator on behalf of the Program that entitles the holder to claim a federal income tax credit. This tax credit is designed to reduce the federal income tax of a qualified buyer purchasing a qualified home in order that he/she will have more disposable income to apply towards his/her mortgage payments. The MCC is issued by the Program Administrator pursuant to Section 25 of the Internal Revenue Code of 1986, as amended, and applicable State and Local Requirements. An MCC issued pursuant to the terms and conditions of the Program, the annual federal income tax credit for which shall not exceed $2,000.

NEW HOUSING means a dwelling unit that is proposed to be constructed, currently under construction, or existing but not previously occupied.

OWNERSHIP: means any of the following interests in residential real property:

- fee simple interest
- joint tenancy
- tenancy in common
- tenancy by the entirety
- interest of a tenant-shareholder in a cooperative
- life estate
- land contract
- interest held in trust for the Applicant that would constitute a present ownership interest if held by the Applicant
- community property

Ownership does not include a remainder interest, a lease with or without an option to purchase, a mere expectancy to inherit an interest in a Principal Residence, any interest acquired on the execution of the purchase contract or an interest in other than a Principal Residence. An Ownership interest in a mobile home or other factory-made housing which was permanently affixed to real property owned by the Applicant constitutes Ownership in a Principal Residence.

PEACE OFFICER has the meaning assigned by Section 1.07(a)(36) of the Texas Penal Code.

PRINCIPAL RESIDENCE means a Residence (or the unit in a two to four family Residence) that can reasonably be expected to be occupied by the Applicant as the Principal Residence of the Applicant. The term "Principal Residence" does not include a home used as an investment property or as a recreational home or a home that is primarily intended to be used in a trade or business, as evidenced by the use of more than 15% of the total area in a trade or business. Any use of a home that does not qualify for a deduction allowable for certain expenses incurred in connection with the business use of a home under section 280A of the Code shall not be considered as a use in a trade or business. The term Residence also does not include recreational vehicles, campers, and other similar vehicles. It does not include property such as appliances or furniture, which, under applicable law, are not fixtures.

PROFESSIONAL EDUCATOR means a full-time classroom teacher, full-time paid teacher's aide, full-time librarian, full-time school nurse, or full-time counselor, as certified under Subchapter B, Chapter 21 of the Texas Education Code, as amended, a Professional Nursing Program Faculty Member or an Allied Health Program Faculty Member.

PROFESSIONAL NURSING PROGRAM FACULTY MEMBER means a full-time member of the faculty of either an Undergraduate Professional Nursing Program or a Graduate Professional Nursing Program.

PROGRAM means the Mortgage Credit Certificate Program established by the Issuer and administered by the Program Administrator, pursuant to the rules and regulations included in the Manual.

PROGRAM ADMINISTRATOR means First Southwest Company or any successor as administrator for the Program on behalf of the Issuer.

PROGRAM PARTICIPATION FEE means a fee to be paid by the Lender to the Issuer to become a participating Lender. See the Lender Participation Agreement for the amount, if applicable.

PROGRAM PERIOD means the period in which Mortgage Credit Certificates can be issued. The Program Period can be found in the Fact Sheet.

PUBLIC SECURITY OFFICER has the meaning assigned by Section 1701.001 of the Texas Occupations Code.

PURCHASE PRICE In all MCC program documents, "Purchase Price" is used interchangeably with "Acquisition Cost", defined above.

QUALIFIED VETERAN means a person who is a "veteran" (as defined in 38 U.S.C. Section 101) who has not previously obtained a loan financed by single family mortgage revenue bonds or a loan which utilized a mortgage credit certificate program using the veteran's exception to the 3-year requirement set forth in Section 143(d)(2)(D) of the Code. The Qualified Veteran must provide true and correct copies of their discharge or release papers, which demonstrate that such discharge or release was other than dishonorable.

RECAPTURE TAX If a home is purchased in connection with an MCC and that home is sold within nine years from the date of escrow closing, the seller of the home may be subject to a recapture tax in the year in which the sale takes place. Please see Appendix C for a complete explanation of the Recapture Tax.

RESERVATION OF FUNDS means the funds reserved with the Program Administrator for an MCC Commitment.

RESERVATION CONFIRMATION means the confirmation emailed to the Lender by the Program Administrator once the Reservation of Funds have been made.

RESIDENCE means real property and improvements permanently affixed thereon (but does not include property not constituting "fixtures" under State law) (i) that is located within the Eligible Loan Area; (ii) that consists of a new or existing single family detached or attached structure consisting of not more than four connected dwelling units intended for residential housing for one family or a single unit in a condominium or townhouse, a single unit in a duplex, triplex, or fourplex, or an entire duplex, triplex, or fourplex to be financed, provided that one of the units will be occupied by the Applicant and the Residence was first occupied for residential purposes at least five years prior to origination of the mortgage loan (however, this five-year requirement does not apply to the extent described in the next sentence) or a single unit in a duplex (but not including a mobile home or any personal property); and (iii) the Acquisition Cost of which does not exceed the maximum Acquisition Cost; provided, however, that land appurtenant to a Residence shall be considered as part of such Residence only if such land reasonably maintains the basic liability of such Residence and does not provide, other than incidentally, a source of income to the Mortgagor. The requirement that a multiple unit building have first been occupied for residential purposes at least five years prior to the Closing of the mortgage loan does not apply in the case of a two-family Residence that is a Targeted Area Residence, but only if the Income of the Applicant does not exceed 140% of the Applicable Median Family Income (for families of three or more) or 120% of the Applicable Median Family Income (for families of two or less). No portion of a Residence shall consist of a health club facility, a facility primarily used for gambling, or a store the principal business of which is the sale of alcoholic beverages for consumption off premises.

RITA GO ZONE means that portion of the Hurricane Rita Disaster Area determined by the President of the United States to warrant individual or individual and public assistance from the Federal Government under Section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Rita.

SELLER means the party that is selling the Residence to the Applicant.

SINGLE-FAMILY RESIDENCES For purposes of determining eligibility of a home to be purchased under this Program, the term "single-family" Residence means a housing unit intended and used for occupancy by one household.

TARGETED AREA or (TARGETED CENSUS TRACT) means part of the Eligible Loan Area that has been or may be designated from time to time as a qualified census tract or an area of chronic economic distress in accordance with Section 143(j) of the Code. Any Targeted Areas determined by the Issuer within the Eligible Loan Area are listed on the Fact Sheet.

TARGETED AREA ORIGINATION PERIOD means the period for the origination of Targeted Area MCC's by the Lenders, which period is stated in the Fact Sheet. Any MCC authority allocated to Targeted Area remaining after the end of the Targeted Area Origination Period shall be made available for home mortgage loan throughout the Eligible Loan Area.

TARGETED AREA RESERVATION means 20% of the Issuer's MCC authority for home mortgage loan in Targeted Areas.

UNDERGRADUATE PROFESSIONAL NURSING PROGRAM has the meaning assigned by Section 54.221 of the Texas Education Code.

APPENDIX B

INCOME GUIDELINES

"General Guide"

The Issuer and Program Administrator are relying on the Lenders and Applicants to provide correct information on income. This reliance is based upon the Lender certifications about reasonable investigation of the Applicant and statements by the Applicant that facts are correct.

Each Lender and Applicant provides information and signed certifications, which are specific about the information provided and its correctness. In the event of false statements or fraud, there are substantial penalties, which may be levied. Therefore, the Issuer and Program Administrator encourage the Lenders and the Applicants to provide accurate information and assure that calculations are within the limits.

IN MOST CASES, STANDARD CREDIT UNDERWRITING PROCEDURES ARE ACCEPTABLE. **THE MAIN EXCEPTION IS THAT FOR MCC COMPLIANCE PURPOSES ALL SOURCES OF INCOME MUST BE INCLUDED, WHETHER OR NOT USED TO QUALIFY APPLICANTS UNDER STANDARD UNDERWRITING GUIDELINES.** Under no circumstances will the income used for MCC compliance be less than that used by the Lender when qualifying Applicants for repayment of their mortgage loan. (The maximum Income limits are specified in the Fact Sheet.)

It is important to understand the basis upon which these guidelines are written. Congress has instituted maximum Income limits under which Applicants may qualify for loans made available through tax-exempt bonds. Congress and the Treasury Department have determined that the total of all sources of income of the Applicants may not be above the maximum Income levels to receive the benefits of the MCC. The total Income is to be recorded in the Affidavit and is signed.

In cases that have complicated calculations, the Lenders are encouraged to communicate with the Program Administrator to assure themselves that calculations are within the guidelines.

The Program's maximum Income limits are set pursuant to the Internal Revenue Code and restrictions of the Federal Department of Housing and Urban Development. For purposes of whether an Applicant has exceeded the maximum Income limit, the gross income of the Applicant(s) must be determined. **The income of the following persons must be taken into account:**

1. Any mortgagor (or co-mortgagor) liable on the mortgage loan (i.e. on the Deed of Trust/Mortgage).
2. Any other person who is “secondarily liable” and is expected to live in the financed residence.

The income of any persons listed on the Deed of Trust/Mortgage must be included to determine eligibility for the Program. For a married couple, total gross income must be counted, regardless of who is on the title. Typically in Texas co-signers or guarantors execute the Note which means their income does not need to be included.

Gross income shall not be reduced by the amount of child support payment a husband/wife makes for the care of a child or children. However, a husband/wife who receives child support payments must include this amount as income.

The anticipated rental income to be received from a two to four unit complex being financed through the Program may not be used when calculating the qualifying income, but must be used in the Income calculations.

If the prospective mortgagor has earned income during the current period and has a history of such earnings, then the income is to be calculated and included in the Income.

Base pay is calculated based on current income. (i.e., if someone earning a salary has received or will receive a raise in the current period, the increased income should be used and not a year to date average.)

When calculating additional or other income, it is important to calculate the income on a pro-rata, monthly basis. This will assist in calculating the Income accurately.

Information with respect to current gross monthly income may be obtained from available loan documents which include but are not limited to, paycheck stubs, and loan applications.

When to submit a Verification of Employment.
We realize that the Lenders are finding it more and more difficult to obtain an employer’s verification of income. Therefore, we will only require a VOE if the circumstances render it necessary. Try the test below.

Test: Take the Applicant’s current year-to-date gross earnings from their pay stub. Divide by the number of months to obtain a monthly average. Take the monthly average and multiply it by twelve for an annualized income. (This is what the Program Administrator will do.) If that annualized income is over the program maximum, your Applicant is disqualified unless special circumstances apply. Examples of special circumstances might include a case where the year-to-date gross earnings figure includes bonus income, prior year earnings, or other non-scheduled pay which causes the average monthly figure to be inflated. Such special circumstances can only be proven with a clear and complete VOE from the employer.

Generally a VOE from the employer will be required by the Program Administrator when the income documentation submitted with the MCC application is insufficient for the Program staff to make an income determination.

1. Gross Income Shall Be Determined Without Deductions for the Following:

a. Funds paid into a tax shelter retirement account.

b. Child support payments made by an Applicant for the benefit of the Applicant's child or children.

c. Alimony, separate maintenance, or similar periodic payments that an Applicant is required to make to a spouse or former spouse.

2. Gross Income Shall Include, but Not be Limited to, All of the Following:

a. The gross amount, before payroll deductions, of wage and salaries, overtime pay, commissions; fees; tips; bonuses; gambling winnings and prizes (even if a one-time occurrence); and other compensation for personal services.

Overtime
Income earned from overtime will be included if the Applicant has a history of such income or the income was earned during the current period. Even though overtime is not used in calculating ratios, it is always included in Income.

Bonus
The gross amount of bonus earnings before any payroll deductions is to be included in the Income calculation.

Bonus Income
The bonus is to be included in the Income if:
1. The bonus is part of a collective bargaining agreement and must be paid; **or**
2. The bonus is included in the computation of income by the employer or if there is a history of bonuses.

If there is a history of bonuses but the Applicant does not know if a bonus is planned, nor does the employer divulge its plans for a bonus nor the projected bonus amount, the Lender is to use an average of the past two years' bonuses to calculate income.

The bonus is not to be included in the Income if:
1. The bonus is totally discretionary by the employer and there is no previous bonus history; **and**
2. The Applicants cannot anticipate with certainty whether such bonus may be received in the future.

Seasonal/Part-Time/Temporary Income
Include part-time or seasonal employment in calculating Income. For example, if the Applicant worked for three months during the summer and earned an average of $3,600 during each of the past two years, then divide the $3,600 by 12 months which equals $300 per month. Add the $300 per month to the gross monthly income. Multiply by 12 to determine the Income.

Include short-term, part-time or seasonal employment in calculating Income if the mortgagor earned this in the last twelve months. If the mortgagor earned $1,000 during the application period by painting the Applicant's parents' house, add this income to the Income.

b. The net income from an operation of business or profession or from the rental of real personal property. For this purpose, if this operation results in a loss, the loss may not be used to offset income generated from other sources. For this purpose, any shareholder that owns 10 percent or more of any outstanding class of stock in a corporation, shall also be deemed to have received income in its proportionate share of net earnings not otherwise distributed in salaries or dividends.

c. All dividends and interest, including otherwise tax-exempt interest. Interest earning from IRAs, VIPs and 401ks need not be included.

d. The full amount of the periodic payments received from social security, housing assistance payments, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts including any lump sum payment for the delayed start of a periodic payment.

e. Payments in lieu of earnings, such as unemployment and disability compensation, workers' compensation, and severance pay.

f. The full amount of public assistance payments.

g. Periodic and determinable allowances, such as alimony and separate maintenance payments received, housing allowances received, and regular contributions or gifts received from persons not residing in the dwelling, where such sums are received on a current basis and which may be reasonably expected to continue.

h. The distributive share of partnership income.

i. Child support payments received by an Applicant for the benefit of the Applicant's child or children.

j. All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is the head of the household of spouse (or other persons whose dependents are residing in the unit).

k. Education Grants: the portion of the income from grants that is used for living expenses is to be added to the Income.

l. Car Allowance: income received from employers for car allowance must be included in the Income calculation if the Applicant has no accounting responsibility to their company. Example: If the Applicant receives $300 per month from his employer for car allowance and is not required to file a mileage/expense report monthly, then this income must be included in the Income calculation.

m. Capital Gains/Losses: both the taxable and non-taxable portions of capital gains are to be included as income if a history of these incomes exists. If the two-year average results in a gain, then it must be added to gross monthly income, and losses are to be disregarded (losses cannot be used to reduce gross monthly income).

n. **Rental Property (not subject property)** Net rental income currently being received is to be used to calculate Income; Applicants must provide leases and applicable tax forms.

3. Gross Income Does Not Include:

a. Casual, sporadic or irregular gifts.

b. Amounts which are specifically for, or in reimbursement of, medical expenses.

c. Lump sum additions to family assets, such as inheritances, re-enlistment bonuses, insurance payments, (including payments under health and accident insurance and workers' compensation), capital gains and settlement for personal property losses. If the income is received in any other form other than lump sum (i.e., monthly or annual), then it must be treated as permanent income and added to the Income calculation.

d. Amounts of educational scholarships paid directly to the student or the educational institution, and the amount paid by the government to a veteran for use in meeting the cost of tuition, fees, books, and equipment.

e. Special pay to a family member in the Armed Forces who is away from home and exposed to hostile fire.

f. Relocation payments under Title II of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970.

g. Foster child care payments.

h. The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1977, 7 U.S.C. Section 2011 and 2027, which is in excess of the amount actually charged the eligible household.

i. Payments to volunteers under the Domestic Volunteer Service Act of 1973.

j. Payments of allowances made under the Department of Health and Human Services' Low-Income Home Energy Assistance Program.

k. Payments received from Job Training Partnership Act.

l. Income from employment of children (including foster children) under the age of 18 years of age and under unless executing the Deed of Trust.

m. Income from caring for one or more foster children.

Military Pay

For purposes of computing the buyer's gross monthly income regarding military pay, the monthly income is the "total entitlement" shown on the Applicant's most recent monthly Leave and Earnings Statement. Non-taxed income, such as a housing allowance is counted as income. Certain categories of pay, which may be revised only sporadically, may need to be considered on a case-by-case basis.

Self-Employed
The Lenders should watch for all types of self-employment (i.e., 1099 income received from employer run through Schedule C, Form 2106, etc.).

The procedure to calculate Income for self-employed mortgagors is the same as under the respective underwriting guidelines.

As in standard underwriting, depreciation, depletion and self-employment tax are to be "added back" to determine annual income. Tax returns and a self-employed YTD Profit and Loss are required for all self-employed mortgagors.

<u>EXAMPLES OF INCOME</u>
The following examples are based upon standard credit underwriting guidelines. This illustrates the underwriting for MCC compliance and is not substantially different from your standard procedures. Please note that income earned in a fashion as illustrated by these examples must be added to the Income calculation.

Example: Permanent Seasonal Income
Include part-time or seasonal employment in calculating Income if Applicant works every summer. If Applicant worked for 3 months and earned an average of $3,600 during each of the past two years, then divide the $3,600 by 12 months which equals $300 per month. Add the $300 per month to the gross monthly income. Multiply by 12 to determine the Income.

Example: Seasonal/Temporary Income
Include short-term, part-term or seasonal employment in calculating Income if the Applicant earned $1,000 during the application period by painting the Applicant's parents' house (unless the Applicant is a painter either part-time or full-time). This is calculated by dividing the $1,000 by 12 or $83.33 per month. This amount of $83.33 is added to gross monthly income. Multiply by 12 to determine the Income.

Example: Overtime and Bonus
When calculating other income, the first thing that needs to be determined is base income. The base income is then multiplied by the number of months that has been covered by the most current pay stub. This calculation will give the year-to-date base income or the amount of income that would have been earned if compensation of another kind had not occurred. After having established a

year-to-date base, subtract it from the year-to-date total gross income on the pay stub. The difference will be the year-to-date total of other income.

The next step is to determine the other income earned in the months missing from the 12-month period. (If the pay stub covered eight months, four months is still needed.) This is done by taking the current annual base and subtracting it from the W-2 from the previous year. This is the other income earned for the previous year. Divide this number by twelve and multiply by the number of months needed to complete the 12-month period.

Once a year-to-date total of other income from the pay stub and other income from the previous year is established, combine the two totals to get all other income earned in the previous 12 months.

Closing Date:	April 27, 2009
Pay Stub Dated:	March 15, 2009 (2.5 months)
Year-to-Date Gross:	$4,625
Base Income:	$1,800 (monthly)
2002 W-2:	$22,500 (9.5 months of other income will be taken from this.)

Year-to-Date Base	Year-to-Date Other
$1,800 x 2.5 = $4,500	$4,625 - $4,500 = $125

Other Income From Previous Year
$22,500 – ($1,800 x 12) = ($900/12) x 9.5 = $712.50

Total Other Income, i.e. Overtime, Bonus
$125 + $712.50 = $837.50*
*To be added to the current base income to determine total annual income.

Omission of Other Income, i.e. Overtime, Bonus
Allowing someone to omit other income that has been earned in the last twelve months is very difficult to do, but it is not impossible. At least two of the items listed below must be present in order to omit income of this nature:

- At least two pay stubs showing compensation for base income only.
- A very special letter from an employer (on company letterhead) stating that compensation for overtime and bonus will never happen again.
- Documentation that employment status has changed from non-exempt to exempt.

APPENDIX C

RECAPTURE TAX

According to Section 143(m) of the Internal Revenue Code of 1986, homebuyers with loans closing after January 1, 1991, who receive a Mortgage Credit Certificate may be subject to a "Recapture Tax" if they sell or transfer their home within nine years after the Closing. A number of factors determine the amount of tax, if any, the Applicant must pay.

In no case will the recapture liability exceed 50% of the gain from the sale of the Residence. The liability will always be the lesser of: (1) half of the gain from the sale of the home, (2) 6.25% of the original loan amount, or (3) the Recapture Tax, as computed through the following formula:

$$PRT = 6.25\% \times P \times H \times \frac{M - (IL \times 1.05\ Y)}{5000}$$

PRT = potential Recapture Tax	M = Applicant's adjusted gross income at sale
P = original principal amount	IL = original Income limit
H = holding period percentage	Y = number of complete years Applicant owned home

NOTE: If "M - (IL x 1.05 Y)" is greater than $5,000, that amount is treated as equal to $5,000.

Some MCC holders who sell their home within nine years will not be subject to any Recapture Tax. Generally, there are four tests to be met in order to incur a Recapture Tax:

1. The home must be sold or transferred within nine years
2. The sale or transfer must result in a GAIN
3. The transfer must not be due to death or divorce
4. The income of the seller must exceed an amount which equals an increase of 5% per year over the qualifying Income in effect when the home was first purchased with the MCC. (This maximum income amount is referred to as the "Income Threshold".)

Further, if the seller's income exceeds the Income Threshold by less than $5,000, the seller is entitled to a reduction in the Recapture Tax.

There are two basic steps in computing the Recapture Tax: (1) compute the basic tax by multiplying the original principal balance by a percentage assigned to the year in which the home is sold; and (2) (only if the seller's income exceeds the threshold by less than $5,000) reduce the tax computed in #1 by multiplying it times the excess income divided by $5,000.

EXAMPLE

The following is an example of how to compute the Recapture Tax in a situation where the MCC holder is selling the home between the first and second year after the mortgage closing, the original loan amount is $100,000, and the seller's income exceeds the threshold by $3,000.

STEP 1 - First, the loan amount of $100,000 is multiplied by 2.5%, the percentage in the table below which is assigned to a sale between the 1st and 2nd year after closing.

MPRT
(MAXIMUM POTENTIAL RECAPTURE TAX)
Dollar Amount of Original Mortgage = $100,000

Date of Sale or Transfer of Home Before	Percentage	Dollar Amount
1 year after Mortgage Closing:	1.25%	$ 1,250.00
1 or more years, but less than 2 years after Mortgage Closing:	2.50%	$ 2,500.00
2 or more years, but less than 3 years after Mortgage Closing:	3.75%	$ 3,750.00
3 or more years, but less than 4 years after Mortgage Closing:	5.00%	$ 5,000.00
4 or more years, but less than 5 years after Mortgage Closing:	6.25%	$ 6,250.00
5 or more years, but less than 6 years after Mortgage Closing:	5.00%	$ 5,000.00
6 or more years, but less than 7 years after Mortgage Closing:	3.75%	$ 3,750.00
7 or more years, but less than 8 years after Mortgage Closing:	2.50%	$ 2,500.00
8 or more years, but less than 9 years after Mortgage Closing:	1.25%	$ 1,250.00

STEP 2 - Multiply the tax computed in Step No. 1 ($2,500) by $3,000 (excess income) divided by $5,000.

$$\$2{,}500 \times \frac{\$3{,}000}{\$5{,}000} = \$2{,}500 \times 60\% = \$1{,}500$$

FINALLY - The seller's tax will be $1,500 or half the gain from the sale of the home, whichever is less.

Lender's Responsibility Regarding Recapture Tax

The Internal Revenue Service requires that the Lender:

1. Has a basic understanding of the Recapture Tax and explains it to the Applicant before collecting the MCC Application Fee from the Applicant.

2. Have the Applicant sign the form entitled "Initial Notice to Mortgagor of Potential Recapture Tax". This is then included in the MCC Application Package to the Program Administrator. It is sometimes referred to as "MCC Recapture Tax Notice #1".

In an effort to clearly and adequately explain the Recapture Tax, the Program uses a three page form entitled "Notice to Mortgagor of Information Regarding Potential Recapture Tax" or "009 - MCC Recapture Tax Notice". This form is generated by the Program Administrator and is tailored to reflect the particular loan amount and income thresholds which pertain. The Program Administrator forwards it to the Applicant with the Mortgage Credit Certificate after loan Closing.

NOTE: The Applicant should be advised to consult a tax advisor or the local office of the IRS for any in-depth questions about recapture, or when the property is sold or otherwise disposed of to determine the amount, if any, of the actual Recapture Tax.

AFFIDAVITS

001 – Reservation of Funds
002 – MCC Application and Checklist
003 – MCC Application and Affidavit
004 – MCC Seller Affidavit
005 – Certification of No Income
006 – Tax Return Affidavit
007 – MCC Closing Package Checklist
008 – MCC Closing Affidavit
009 – MCC Recapture Tax Notice

001 – MCC RESERVATION OF FUNDS

Fax or email to the Program Administrator at 214-953-8799 or sgonzalez@firstsw.com

LENDER INFORMATION

Company Name	
Contact Name	
Phone Number	
Email	

APPLICANT INFORMATION

	Primary Applicant	Co-Applicant or Non-Purchasing Spouse
First Name		
Middle Initial		
Last Name		
Social Security #		
Current Address		
City, State Zip		
Email Address		
Marital Status		
Owned a Home in the Last Three Years?	☐ Yes ☐ No	☐ Yes ☐ No
Occupation		
Employer		
Annual Income		

HOUSEHOLD INFORMATION

Number of Persons that will live in the Residence: ___________

Name	Age	Relationship	Will they be executing the Mortgage/Deed of Trust?
____________________	_____	____________________	☐ Yes ☐ No
____________________	_____	____________________	☐ Yes ☐ No
____________________	_____	____________________	☐ Yes ☐ No
____________________	_____	____________________	☐ Yes ☐ No
____________________	_____	____________________	☐ Yes ☐ No

LOAN INFORMATION

Loan Amount: $_______________ Interest Rate: _______% Term: ____________ Sales Price: $__________

Expected Closing Date: ______________________ Loan Type: ______________________________

PROPERTY INFORMATION

Street Address: ____

City: ___________________State: ________ Zip Code: ___________ County: ____________________

Census Tract: __________________ Targeted Area: ☐ Yes ☐ No

New/Existing: ______________________ Property Type: ________________________________

FORT BEND COUNTY HFC MCC PROGRAM ONLY

Applicant will be utilizing the Fort Bend County HFC DPA Grant Program in conjunction with the MCC Program?	☐Yes ☐No

002 – MCC APPLICATION CHECKLIST

The MCC Application Package will not be processed, nor will a Mortgage Commitment Letter be issued for the Applicant, until all the items below are received by the Program Administrator. The below information is to be faxed or emailed to the Program Administrator at 214-953-8799 or fschousing@firstsw.com prior to Closing.

Applicant Name	
Total Loan Amount	$

LENDER CONTACT INFORMATION

Company Name	
Contact Name	
Phone Number	
Email	

This MCC Application Package contains:

_____ 1. **Copy of Reservation Confirmation** provided by the Program Administrator once a Reservation of Funds have been made.

_____ 2. **Copy of 003 - MCC Application and Affidavit**

- ☐ Review and make sure all information filled in is correct. Complete all blanks.
- ☐ Signature with Date - of Applicant(s) – executed by anyone who executes the Deed of Trust
- ☐ Signature with Date - of Lender

_____3. MCC Application Fee of $100.00 will be collected at closing and sent in the MCC Closing Package with the MCC Closing Package Review Fee and the MCC Issuance Fee made payable to First Southwest Company. Must be a corporate check.

_____ 4. **Copy of Supporting Income Documentation (Needed for anyone who signs the Deed of Trust)**

- ☐ **Current pay stub – No More Than one Month Old** - for each Applicant
- ☐ Current (not averaged) base monthly salary
- ☐ **Calculator tape** explaining your calculation and how often paid, if applicable
- ☐ VOE for each Applicant - if needed to prove eligibility. If needed, it can be written or verbal.
- ☐ If "Self Employed" - signed current P&L statement
- ☐ Certification of No Income – if applicable, (signed by an adult on the Deed of Trust who earns no income)

_____ 5. **TSAHC ONLY - Copy of professional certification or license, as applicable.**

_____ 6. **TSAHC ONLY** - **Copy of Homebuyer Education Certificate.**

_____ 7. **Copy of DD214 or discharge papers showing honorably discharged, if a Qualified Veteran.**

_____ 8. **Copy of Loan Application (1003)**

_____ 9. **Copy of 004 - MCC Seller Affidavit: All Blanks must be completed**. If not executed, it will become a Closing condition and must be included in the MCC Closing Package.

- ☐ Signature with Date - of Seller

_____ 10. **Copy of Purchase Contract (legible copy), signed** by both Borrower and Seller.
Only include **first and last pages**, and any counter-offers.

_____ 11. **Copy of Tax Returns** for each Applicant (anyone who executes the Deed of Trust): **Three (3) most recent years.** Not required if purchasing a home in a Targeted Area, Disaster Area, Rita GO Zone or if Applicant is a Qualified Veteran.

- ☐ **Signed if they are the forms the Applicant filed with the IRS. Printouts from the IRS do not have to be signed.**

_____ 12. **Copy of Rental Verification** (written or verbal) from the last tax return to the application date if the address is different on the 1003 from the previous years tax return. Not required if purchasing a home in a Targeted Area, Disaster Area, Rita GO Zone or if Applicant is a Qualified Veteran.

003 - MCC APPLICATION AND AFFIDAVIT

The undersigned Applicant hereby states under oath that:

(1) I am a purchaser and mortgagor of the Residence which is a [ ] new [ ] existing Residence and is located at ____ and is located within the Eligible Loan Area.

(2) I will occupy such Residence as my Principal Residence within 60 days of Closing.

(3) No part of the mortgage loan proceeds is or will be used to acquire or replace an existing mortgage, and I did not have a mortgage (whether or not paid off) on said Residence at any time prior to the execution of the mortgage (except that I may have a construction period loan or temporary initial financing of 24 months or less with respect to the Residence and may use the proceeds of the mortgage to repay such financing).

(4) The Purchase Price of the Residence, excluding personal property but including fixtures, is $____________________ or less and does not exceed the applicable maximum Purchase Price limit. The Purchase Price means the cost of acquiring the Residence excluding usual and customary settlement or closing costs. If the Applicant agrees to pay a cost usually paid by the Seller, that amount must be included in the above figure representing the Purchase Price.

(5) Please **select only one** of the following:

________I am a Professional Educator utilizing the Texas State Affordable Housing Corporation's mortgage credit certificate program. A "Professional Educator" means a full-time classroom teacher, full-time paid teacher's aide, full-time librarian, full-time school nurse, or full-time counselor, as certified under Subchapter B, Chapter 21 of the Texas Education Code, as amended, a Professional Nursing Program Faculty Member an Allied Health Program Faculty Member. A "Professional Nursing Program Faculty Member" means a full-time member of the faculty of either an Undergraduate Professional Nursing Program or a Graduate Professional Nursing Program (as each such term is defined in the Agreement). An "Allied Health Program Faculty Member" means a full-time member of the faculty of an Undergraduate Allied Health Care Program or a Graduate Allied Health Care Program (as each such term is defined in the Agreement) of a public or private institution of higher education in the State of Texas.

________I am a [Fire Fighter] [Corrections Officer] [County Jailer] [Emergency Medical Service Personnel] [Public Security Officer] [Peace Officer]. "Fire Fighter" means a member of a fire department who performs a function listed in Section 419.021(3)(C) of the Texas Government Code utilizing the Texas State Affordable Housing Corporation's mortgage credit certificate program. "Corrections Officer" means an officer employed by the Texas Department of Criminal Justice. "County Jailer" has the meaning assigned by Section 1701.001 of the Texas Occupations Code. "Emergency Medical Services Personnel" has the meaning assigned by Section 773.003 of the Texas Health and Safety Code. "Public Security Officer" has the meaning assigned by Section 1701.001 of the Texas Occupations Code. "Peace Officer" has the meaning assigned by Section 1.07(a)(36) of the Texas Penal Code.

________I am a borrower whose income is at or below 80% of AMFI utilizing the Texas State Affordable Housing Corporation's mortgage credit certificate program.

________I am a borrower whose income is at or above 100% of AMFI utilizing a Local Housing Finance Corporation's mortgage credit certificate program.

(6) The residence [ ] is [ ] is not in a Targeted Area.

The Applicant or Co-Applicant [ ] is [ ] is not a Qualified Veteran. If the Applicant or Co-Applicant is a Qualified Veteran, then such person intends to occupy the residence as his or her principal residence. A "Qualified Veteran" means a person who is a "veteran" (as defined in 38 U.S.C. Section 101) who has not previously obtained a loan financed by single family mortgage revenue bonds or a loan which utilized a mortgage credit certificate program using the veteran's exception to the 3-year requirement set forth in Section 143(d)(2)(D) of the Code. The Qualified Veteran must provide true and correct copies of their discharge or release papers, which demonstrate that such discharge or release was other than dishonorable.

If the residence is not in a Targeted Area or if the Applicant or Co-Applicant is not a Qualified Veteran, I have not had a present ownership interest in a principal residence of mine at any time during the three-year period prior to the date on which I am executing the mortgage on said Residence, and to the best of my knowledge, the same is true with respect to each other person (if any) purchasing and mortgaging said Residence with me. I have provided true and correct copies of the federal income tax returns filed by me or any Co-Applicant for the previous three years. If me or any of my Co-Applicants were not required to file federal income tax returns for the previous three years, I have provided a signed statement listing the years that I or my Co-Applicants were not required to file. Federal income tax returns are not required if Residence is located in a Targeted Area, Disaster Area, Rita GO Zone or if Applicant is a Qualified Veteran.

I understand that for the purposes of the foregoing, examples of interests which constitute present ownership interests (and thus would result in me not meeting such requirements) are the following: (a) a fee simple interest; (b) a joint tenancy, tenancy in common, or tenancy by the entirety; (c) the interest of a tenant-shareholder in a cooperative; (d) a life estate; (e) A land contract or contract for deed (i.e., a contract pursuant to which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time); (f) an interest held in trust for the Applicant (whether or not created by the Mortgagor) that would constitute a present ownership interest if held directly by the Applicant; and (g) an interest in a mobile home that is required to be taxed as real property under Texas law.

(7) I will not permit any person to assume my obligations under the mortgage (and related mortgage note) unless such person is approved by the Program Administrator in accordance with the requirements of the Issuer's Program.

(8) I do not expect to use the Residence or any part thereof in a trade or business. The land appurtenant to the Residence is only that amount of land which reasonably maintains the basic livability of the Residence and will not provide a source of income to the Applicant.

(9) I understand that INCOME means the current annualized family income at the time of Closing, as determined in accordance with the IRS Code. Income means the gross monthly income of all mortgagors living in the property and liable on the Deed of Trust/Mortgage, multiplied by 12.

Gross monthly income includes the sum of current monthly gross pay AND any additional income from investments, pensions, VA compensation, part-time employment, bonuses, dividends, interest, current overtime pay, net rental income, royalties, etc. Other income must also be included such as alimony and child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from Trusts, business activities or investments. In determining gross monthly income, the income of all mortgagors living on the property and liable on the Deed of Trust must be taken into account. The income of a spouse who will live in the Residence must be included, and he/she must meet all other bond requirements and sign all affidavits.

Under no circumstances will the income used for bond compliance (Income) be less than that uses by the Lender when qualifying Applicants for repayment of their mortgage loan (i.e., income used to calculate qualifying ratios).

The information contained in the following table is true and correct, and accurately sets forth all information relevant to make a determination of my family's Income as of the date hereof and the continuation of which is probable based on foreseeable economic circumstances, and to the best of my knowledge and belief.

COMPUTATION OF TOTAL INCOME

Type of Income	**Applicant**	**Co- Applicant or Spouse**	**Other Co-Applicants**	**Total of 3 Columns to the Right**
Total Monthly Income (must include any & all types of Income earned as stated above)	$_______________	$_______________	$_______________	$_______________
				X 12
Total Income Annual				$_______________

*This total cannot exceed the maximum Income limits established by the Program.

(10) The number of persons constituting my family who will reside in the Residence (together with any other persons who will reside in the Residence) is ______.

(11) I understand, acknowledge, and agree that in the event I sell the Residence within nine years from the date that the mortgage loan is originated, the IRS may levy a tax on me upon such disposition up to a maximum of 50% of the amount of gain that I realized upon the disposition, depending upon my income level, the amount of the mortgage loan, and the number of years I hold the Residence. I further acknowledge that I have received and read the Recapture Tax Notice that describes the potential interest recapture in detail and that was provided to me by the Lender that is providing the financing for my purchase of the Residence.

(12) **INITIAL NOTICE TO MORTGAGOR OF POTENTIAL RECAPTURE TAX** - Notice is hereby given that you may be subject to a special "Recapture Tax" for federal income tax purposes, which would be imposed at the time you sell the residence for which you obtained an MCC ("Residence"), if you sell the Residence within the first nine years. This potential tax, which is not imposed unless and until you sell your home, is based on the concept that through the MCC, the federal government has enabled you to take a tax credit of the interest you pay on your home mortgage. The amount of the potential tax increases for the first five years that you own the home and thereafter declines. No tax is imposed if you hold (do not sell) your home for a total of nine or more years. In the event you sell your home within the first nine years, a number of factors determine the amount of tax, if any, imposed at the time of the sale of the home. These include: (1) the original principal amount of the home mortgage, (2) the number of complete years that pass before you sell the home, (3) the median family income for your area at the time you bought the home, and (4) your modified, or adjusted, gross annual income at the time you sell the home. If you sell the Residence more than nine years after the close of escrow, no recapture liability arises. Also, if you sell the Residence during the first nine years after closing, but your income does not increase more than 5% per year during that period, you will likely not incur recapture liability. In addition, if there is no net gain on the sale of the home, no recapture liability arises. Finally, in no case will the recapture liability exceed 50% of your gain from the sale of the Residence. When preparing your post-sale tax return, you should consult a tax professional regarding your calculation. After your loan closes, you will be given a second notice by the Program Administrator with a more detailed explanation of the recapture tax and certain additional information that will be needed to calculate the amount, if any, of Recapture Tax liability you may have.

(13) I have not made application to and been rejected by another Lender for an MCC under the Program for a loan similar in type and amount, and I have not been the recipient of an MCC under the Program.

(14) I have not been required to seek financing for the purchase of the Residence through any particular Lender.

(15) I understand in the event that I sell the Residence at any time and desire to have my MCC transferred pursuant to the transfer provisions of the Program that the person assuming my loan must qualify as an Applicant and that the Purchase Price may not exceed the maximum Purchase Price then applicable to Existing Housing.

(16) The above information is being submitted for the purposes of establishing eligibility for the Issuer's Program. Because the Lender has explained the Program to me, I am familiar with and understand the provisions of the Program. I (we) agree to submit such other evidence of income as may be reasonably required by the Lender including, but not limited to, pay stubs and copies of federal income tax returns. The statements and information set forth herein are made under penalty of perjury. I understand that perjury is a felony offense punishable by fine or imprisonment or both.

Date: ______________________

______________________ ______________________

Printed Name of Applicant **Signature of Applicant**

______________________ ______________________

Printed Name of Applicant **Signature of Applicant**

CERTIFICATION OF THE LENDER

Based upon reasonable investigation, the Lender has no reason to believe that either the Applicant or the Seller of the Residence has made any negligent or fraudulent material misstatements in connection with the Applicants application for an MCC, and submits the completed information above as accurate and true to the best of the Lenders knowledge. I certify that I have reviewed this MCC Application and Affidavit for accuracy and completeness. I also certify that the financing attached to this MCC does not use any of the prohibited financing such as mortgages funded with a qualified mortgage bond or a qualified veteran's mortgage bond.

Date: ______________________

______________________ ______________________

Company Name **Signature of Lender Representative**

______________________ ______________________

Title of Lender Representative **Printed Name of Lender Representative**

004 - MCC SELLER AFFIDAVIT

To the Seller: *The Party purchasing your home is applying for a Mortgage Credit Certificate ("MCC"). The MCC is a federal tax credit. The IRS requires you (the Seller) to sign this document as verification that you and the buyer have agreed upon the sales price reflected below. The Lender should have completed the blanks prior to forwarding this affidavit to you.* ***Your cooperation in executing this completed document, and returning it to the Lender as quickly as possible, is vital because the sale transaction cannot close before this executed affidavit is received.*** *Feel free to call the Lender with any questions.*

I, as the Seller of a single family residence at____ understand that the buyer,____, is applying for an MCC from the Program.

The purchase price is $______________________, excluding all settlement costs, title and transfer costs, title insurance, survey fees, credit reference fees, legal fees, appraisal fees and points paid by the buyer.

The property is a completed unit, suitable for occupancy.

Outside of the funds tendered for the escrow, I have received no money from the buyer. Further, outside of the contract for the sale of the property, the buyer and I have entered into no contract or agreement regarding the disposition of this property.

I acknowledge that any material misstatement negligently or fraudulently made by me in connection with the MCC application is a federal violation punishable by a fine and revocation of the MCC, in addition to any criminal penalty imposed by law.

Date: ________________________________

________________________________	________________________________
Printed Name of Seller	**Signature of Seller**
________________________________	________________________________
Printed Name of Seller	**Signature of Seller**

When executed, Seller should promptly return this document to the Lender.

MCC PROGRAM

OPTIONAL FORMS

The following two pages are optional forms and are to be completed and submitted **– only when necessary**.

Certification of No Income is to be completed for any adult in the household who will be signing the Deed of Trust/Mortgage and earns NO INCOME.

Tax Return Affidavit is to be completed for any adult in the household who will be signing the Deed of Trust/Mortgage and was NOT REQUIRED TO FILE FEDERAL TAX RETURNS.

005 - CERTIFICATION OF NO INCOME

All income must be verified for anyone receiving assistance. To comply with this requirement, please complete and sign the information requested in the certification below. This information will be held in strict confidence and used only for the purpose of establishing eligibility for the MCC Program.

I, ____, do hereby certify that I do NOT receive income from ANY source.

I understand sources of income include, but are not limited to, the following:

Employment a Company or Individual	Retirement Funds
Unemployment Compensation	Alimony
Social Security Income	Income from Assets
Workers Compensation	Pensions
Child Support	General Assistance
Education Grants/Work Study	Disability
Self Employment	Union Benefits
Aid to Families with Dependent Children	Family Support
Annuities	

I certify that the foregoing is true, complete and correct. I consent to the making of any reasonable inquiries to verify the statements herein. I also understand that false statements or omissions are grounds for disqualification and/or prosecution under the full extent of the law.

This signature signifies that I receive NO INCOME from ANY SOURCE.

Date: ____________________________

____________________________________ ____________________________________

Printed Name **Signature**

006 – TAX RETURN AFFIDAVIT

I hereby certify that I was not required by law to file a federal income tax return for the following year(s) :

____

I certify that the foregoing is true, complete and correct. Inquiries may be made to verify statements herein. I also understand that false statements or omissions are grounds for disqualification and/or prosecution under the full extent of the law.

This signature signifies that I was not required to file federal income tax returns for the years listed above.

Date: ______________________________

______________________________ ______________________________
Printed Name **Signature**

007 – MCC CLOSING PACKAGE CHECKLIST

The MCC Closing Package will not be processed, nor will a Mortgage Credit Certificate be issued for the Applicant, until all the items below are received by the Program Administrator.

Applicant Name	

LENDER CONTACT INFORMATION

Company Name	
Contact Name	
Phone Number	
Email	

PLEASE SEND ONLY ITEMS LISTED BELOW:

_____ 1. Copy of **008 - MCC Closing Affidavit**

- ☐ Review and make sure all information filled in is completed and correct.
- ☐ Signature with Date - of Applicant(s) (anyone who executes the Deed of Trust)

_____2. **Corporate check** made payable to **First Southwest Company** (the **Program Administrator)** for the MCC Application Fee of $100.00, the MCC Closing Package Review Fee of $250.000 and the MCC Issuance Fee (1% of the loan amount). Total fee due stated below:

$100.00	MCC Application Fee
$250.00	MCC Closing Package Review Fee
$0.00	MCC Issuance Fee (1% of the loan amount)
$0.00	**Total MCC Fees Due***

Please make payable to:
First Southwest Company
325 N. Saint Paul Street, Suite 800
Dallas, Texas 75201

*** This total is based on loan amount information provided in the MCC Application Package. Please notify us as to any changes in the loan amount prior to Closing.**

_____ 3. Copy of **Mortgage Note**

_____ 4. Copy of signed **004 - MCC Seller Affidavit**, if not included in the MCC Application Package

After loan closing and receipt of all items on this page, the MCC will be issued to the borrower via mail and a copy will be emailed to the lender. The borrower will also receive the completed Recapture Tax Form 009 for their records.

008 - MCC CLOSING AFFIDAVIT

MCC No: ______	**Last Name:** ______	**Issuer:** ______

This document must be executed and returned to the Program Administrator within 30 days after the loan Closing or by the end of the Program Period, whichever occurs first.

Lender Printed Name: ______

I certify that the date of the mortgage loan Closing was: ______ First Year Interest Rate: ______%

Purchase Price: $______ Loan Amount: $______ Credit Amount: $______

☐ FHA ☐ VA ☐ USDA-RD ☐ Conv | 30 Year Fixed? ☐ Yes ☐ No | ☐ Existing ☐ New

First-Time Homebuyer? ☐ Yes ☐ No | ☐ Non-Targeted ☐ Targeted

Professional Educator, Hero or Low Income Borrower? ☐ Yes ☐ No

Applicant No.	Last Name	First Name	Social Security Number
1.			
2.			

The Applicant(s) and the Lender submitted an MCC Affidavit(s) in reference to the home purchase mortgage loan transaction featured above.

The purpose of this "MCC Closing Affidavit" is for the Lender and Applicant(s) to indicate any changes which took place between the signing of the MCC Affidavit(s) and the date of the loan Closing regarding the above features.

Instructions to the Lender and Applicant(s):
(1) Complete the "I certify that the date of the mortgage loan Closing was".
(2) Draw a line through any of the items that have changed; type or make the correction(s) in ink nearby. If the Lender has changed, contact the Program Administrator.
(3) If the Lender is different from the named above, this affidavit is invalid. Contact the Program Administrator to requested amended affidavit showing the correct Lender.

BUYERS CERTIFICATION:
I acknowledge and understand that this Affidavit will be relied upon for purposes of determining my eligibility for an MCC. I acknowledge and understand that a material misstatement fraudulently made in this Affidavit or in any other statement made by me in connection with application for an MCC will constitute a federal violation punishable by a fine and revocation of the certificate, which will be in addition to any criminal penalty imposed by law. In addition, any false statement which affects my eligibility under Section 25 if the Internal Revenue Code of 1986, as amended, and the regulations thereunder will result in denial of my application for an MCC or, if an MCC has been issued prior to discovery of the false statements, immediate cancellation of the MCC issued. In addition, I hereby acknowledge and understand that any false pretense, including false statement or representation or the fraudulent use of any instrument, facility, article, or other valuable thing or service pursuant to my participation in any Program, is punishable by imprisonment or by a fine.

______ ______
Signature of Applicant **Date**

______ ______
Signature of Applicant **Date**

009 - MCC RECAPTURE TAX NOTICE

MCC No.: __________________________

NOTICE TO MORTGAGOR OF INFORMATION REGARDING POTENTIAL RECAPTURE TAX

Because you have received a Single Family Mortgage Credit Certificate (an "MCC"), pursuant to Section 143(m) of the Internal Revenue Code of 1986 (the "Code"), you may, at the time you sell the residence for which you received an MCC, be subject to a special "recapture tax" for federal income tax purposes if you sell your house less than nine (9) years after its purchase and, thus, the issuance of the MCC. The following information is provided to assist you in determining whether you might owe a recapture tax on the sale of your home. However, you should consult your tax advisor at the time you sell the residence to determine the amount, if any, of such recapture tax you may owe.

Name of Mortgagor(s): ____

____

Date of Home Mortgage Closing: ____

Principal Amount of Mortgage at Closing: ____

ARE YOU SUBJECT TO RECAPTURE TAX?

You will be subject to a special recapture tax for the tax year during which you sell or transfer your home only if you meet all four of the following conditions:

1) You sell your home during the first nine (9) years, and
2) You sell or transfer the home at a gain (determined by the IRS form on gain on sale of a single-family residence, whether or not you decide to rollover the gain), and
3) The home is not:
    a. transferred as a result of death
    b. transferred to a former spouse as a result of divorce (in which case the former spouse is treated as if he or she has been the owner from the date of the mortgage closing), or
    c. rebuilt from casualty insurance proceeds within two years after its deduction, and
4) Your taxable household income for the year in which you sell your home exceeds the income threshold reflected in Table 1 below.

TABLE 1
INCOME THRESHOLD

If the sale of the home is:	Number of persons in mortgagor's household at time of resale: 1 or 2 persons	3 or more persons
1 year after mortgage closing:	$	$
1 or more years, but less than 2 years after mortgage closing:	$	$
2 or more years, but less than 3 years after mortgage closing:	$	$
3 or more years, but less than 4 years after mortgage closing:	$	$
4 or more years, but less than 5 years after mortgage closing:	$	$
5 or more years, but less than 6 years after mortgage closing:	$	$
6 or more years, but less than 7 years after mortgage closing:	$	$
7 or more years, but less than 8 years after mortgage closing:	$	$
8 or more years, but less than 9 years after mortgage closing:	$	$

Your taxable income is the "adjusted gross income" from your tax return for the year in which you sell your home plus any tax exempt bond interest income you may have. However, do not include any gain from the sale of the home itself in determining whether you are above the Income Threshold listed above.

HOW MUCH RECAPTURE TAX WOULD I OWE?

If you meet all four of the above conditions, then you will be subject to Recapture Tax.

The amount of the Recapture Tax is the lesser of:

A. the maximum potential Recapture Tax (calculated under Steps 1 and 2, below); or
B. one-half of your gain from the sale of the home (see, Gain on Sale of Home, below).

The Recapture Tax will never exceed .0625 (6¼ %) of the principal loan amount at origination. Several factors can significantly decrease that maximum, as illustrated in the steps below. These steps are based on the Recapture Tax Formula, below.

A. MAXIMUM POTENTIAL RECAPTURE TAX

The maximum potential recapture tax (MPRT) you will owe is calculated in two steps:

STEP 1 - Determining Amount of Recapture Tax

Locate the line on the left which best describes the date of transfer of the home. The corresponding values to the right reflect the percentage and dollar amount, respectively, of the applicable maximum potential recapture tax ("MPRT").

TABLE 2
Maximum Potential Recapture Tax (MPRT)

	Percentage of Original Mortgage	Dollar Amount Based on Original Mortgage of:
Date of Sale or Transfer of Home:		
1 year after Mortgage Closing:	1.25%	$
1 or more years, but less than 2 years after mortgage closing:	2.50%	$
2 or more years, but less than 3 years after mortgage closing:	3.75%	$
3 or more years, but less than 4 years after mortgage closing:	5.00%	$
4 or more years, but less than 5 years after mortgage closing:	6.25%	$
5 or more years, but less than 6 years after mortgage closing:	5.00%	$
6 or more years, but less than 7 years after mortgage closing:	3.75%	$
7 or more years, but less than 8 years after mortgage closing:	2.50%	$
8 or more years, but less than 9 years after mortgage closing:	1.25%	$

Example: If the home was sold between 1 and 2 years after mortgage closing, use 2.50% of the original mortgage. Thus, if the original mortgage was $100,000, the MPRT would be $2,500 ($100,000 x 2.50%).

STEP 2 – Possible Reduction of Recapture Tax

Determine whether your taxable income, in the year in which you sell the home, exceeds the Income Threshold shown in Table 1, and if it does, whether such excess is more or less than $5,000.

Example: A 2-person household at the time of sale has income is $53,000. The income threshold table for that timeframe is $50,000, leaving "excess income" of $3,000:

Actual Household Income	$53,000
- Income Limit	$50,000
Excess Income above Income Threshold	$3,000

If your income does not exceed the Income Threshold, you are not subject to any Recapture Tax at all.
If your income is less than $5,000 above the Income Threshold, your MPRT will be reduced pro rata, as shown below
If your income is more than $5,000 above the Income Threshold: There is no reduction in the MPRT calculated in Step 1.

Pro Rata Reduction of MPRT:

If your excess income is less than $5,000 above the Income Threshold, the revised MPRT would be:

$$\text{Revised MPRT} = \frac{\text{Excess Income (from Step 2)}}{\$5{,}000} \quad \text{x} \quad \text{MPRT (from Table 1)}$$

$$\text{Example: } \frac{\text{Actual Income – Income Threshold}}{\$5{,}000} = \frac{\$3{,}000}{\$5{,}000} = 60\% \text{ x } \$2{,}500 \text{ MPRT (from Table 1)}$$

Recapture Tax Part A = $1,500 Revised MPRT Amount

Thus, the MPRT of $2,500 determined in Step 1 would be reduced to $1,500 due to the calculation in Step 2.

B. GAIN ON SALE OF HOME

Your "gain" is generally defined by the IRS to be the resale price less: (i) sale costs, (ii) your original purchase price, and (iii) your cost of capital improvements. This is true whether or not, you rollover the gain.

Example:
Revised MPRT = $1,500

Gain from Sale of Home		
Sales Price	$150,000	
- Closing Costs	$8,000	
	$142,000	
- Basis in Home	$130,000	($120,000 initial price plus $10,000 cost of improvements)
Gain	$12,000	
X ½	$6,000	

Recapture Tax Part B = $6,000

Finally, the amount of Recapture Tax is the lessor of Part A ($1,500) or Part B ($6,000); therefore, $1,500 is the recapture tax under this example.

Other Factors Affecting the Recapture Tax:
All references to the "sale" or "transfer" of the home include any change in your interest in the home, whether by sale, exchange, gift, or some other disposition.

If any person other than you or your spouse is also a mortgagor, each person's potential recapture tax will be determined separately in accordance with his or her ownership interest in the home.

The Recapture Tax may also be somewhat reduced if you prepay the mortgage in whole (e.g. refinance) and do not sell your home until a subsequent year.

Recapture Tax Formula
The legislative formula the serves as the basis for the calculations described above is:

$$PRT = 6.25\% \times P \times H \times \frac{M - (IL \times 1.05\ Y)}{5000}$$

PRT = Potential Recapture Tax	M = Applicant's adjusted gross income at sale
P = original principal amount	IL = original income limit
H = holding period percentage	Y = number of complete years Applicant owned home

NOTE: If "M - (IL x 1.05 Y)" is greater than $5,000, that amount is treated as equal to $5,000.

The Recapture Notice is provided by the Issuer pursuant to Section 143(m)(7) of the Code.